

# Overdraft Service Best Practices During Coronavirus To Keep Customers for Life

Robert C. Giltner, Chairman  
RCGILTNER Services, Inc.

bgiltner@rcgiltner.com  
502-640-1989

*Community and regional banks* are driven by their mission to serve their communities and customers. During time of great economic stress as caused by the Coronavirus, how can we best serve our customers with overdraft services?

Many FIs have asked us for best practices for the overdraft services. Financial institutions want to assist customers with good financial best practices. Overdraft services are an expensive source of liquidity, as are many other options users have. Financial institutions encourage all customers to manage their finances prudently. However, for some customers overdraft liquidity services are an affordable part of their financial lifestyle, and for others an acceptable alternative for making payments during short-term cash flow issues.

The times of the Coronavirus presents unusual circumstances that deserve review of our overdraft practices. Many customers may face changes in payroll and deposits. Customers may face great short-term needs for cash. Others who always paid bills in the past may find themselves in overdrawn status that could quickly approach charge-off status. How should financial institution respond to these times in terms of pricing, overdraft limits and managing customers in overdrawn status?

Here are our best practice recommendations for this time:

1. Maintain your overdraft limits even if deposit activity changes.

Many financial institutions define overdraft limits dynamically using deposit information. Others may be tempted during these times to reduce overdraft limits. During the next several months, customers are going to need liquidity. If you use dynamic or managed limits, lock in the limits of today for 90 days without change. Or set limits by factors temporarily not using deposits such as age of account. The risk of loss to the bank is relatively low and it is the right time to extend ourselves for customers. Even customers who struggle to repay in the near time are highly likely to repay as our economy recovers in the coming months, which leads to our next key best practice.

2. Offer fresh start re-payment plans for customers in overdrawn status.

Many FIs today offer 6-month or 12-month repayment plans for customers unable to clear up their overdrawn accounts. 0% interest loans are provided for the negative balance in their account so they can keep and continue to use their accounts. In this way we save relationships that because of regulatory practices are charged-off in 60 days or less. During normal times, over half of all negative balance accounts clear up in six months, and we would expect this will be higher for recovery after these times pass. Of course, while their fresh start loan is in place their checking account is marked as return-all and pay no NSF.

3. Offer financial assistance and advice with ad hoc fee waivers.

Some may propose lowering overdraft fees or a moratorium on fees. This is not sound economics in our opinion, as it paints all with a broad brush. We recommend offering the first few overdrafts refundable with a change in our waiver policy for customers who are not frequent users with significant deposits. This could also be done by offering no fees for the first two or three items on an account in the past 12 months. These repricing strategies do not materially affect FI economics and revenues and can serve the largest number of customers who experience an NSF item.

4. Offer a no-overdraft fee ever account, even for return check charges, checking account with no-credit score loans equal to the overdraft limit.

Far too many customers opt out of Reg E but still face return check or ACH charges. The item is returned, but fees are still charged. Many customers are willing to pay a fee for a checking account that would guarantee them never to have the surprise of an unexpected NSF fee. Further, knowing all items on the account will be returned and no fee ever charged, you can prudently offer these customers their overdraft limit as a Reg Z loan as safe interest rates. No existing overdraft fees are cannibalized as such customers do not want a return-all account, but your liquidity services are expanded by offering options to new customer segments. Many banks fully automate this product strategy with products like [SafeLink](#).

5. Automate your overdraft line of credit to be set up in minutes from home.

Technology exists to provide all-digital, self-service loans from a customer without them leaving their home. Expedited implementation can have such technology as [MinuteLender®](#) on a smart device under your brand, underwriting and control live in as little as four weeks.

6. Empower your front-line team members.

Best practices in the past have centralized NSF decisions and placed strict controls on waivers. The Coronavirus presents very different times. During the next several months, allow and encourage your front line to respond to specific needs and waive fees where your guidelines might allow. It is a time for us to extend ourselves to serve our customers and communities and addressing customer needs on an ad hoc basis allows you to best match up to individual needs.

Robert C. Giltner brings 30 years of experience in overdraft services as a frequent speaker and publisher of industry articles on overdraft services.



## FEATURES

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### 10 Overdraft Protection: A Guide for Bankers

BY ROBERT C. GILTNER

There's no shortage of opinions about overdraft protection programs, but knowing how to approach this sticky subject can make the difference between a compliance violation and improved customer service. In this practical guide to handling overdraft protection, author Robert C. Giltner fleshes out best practices in a list of do's and don'ts.

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