

BANK ON PROVIDENCE

The “Opt In” Choice for Overdraft Service

A Consumer Guide for Bank on Providence Customers

One of the most important choices you will make when opening a new checking account is whether you want overdraft service.

Making the right choice – and understanding how to manage your checking account after making that decision – could make the difference between whether your new account helps you achieve your long-term goals or whether you find yourself losing money in fees and penalties.

What Is Overdraft Protection

An “overdraft” happens when your checking account does not have enough money to cover a withdrawal or a purchase you make from your account.

For a fee, your bank or credit union may – up to certain limits – allow you to make this withdrawal or purchase. This fee will be charged to you each time you overdraw, and the fees you will owe your bank can quickly reach hundreds of dollars. Essentially, your bank or credit union is allowing you to automatically borrow money to cover your transactions.

There are two basic kinds of overdraft services:

Standard Overdraft Services: You will be charged a standard fee each time you overdraw your account. Fees typically range between \$20-\$35.

Overdraft Protection Plans: Your bank or credit union will link your checking account to your savings account or a line of credit approved by your bank or credit union (which you will have to repay, with interest) to pay for your withdrawal or purchase. You will still be charged a fee each time you overdraw, but fees under these Plans are typically lower.

Your bank or credit union may offer you a choice between these two forms of overdraft protection. Be sure to ask what options are available to you and understand the different fees involved.

The New “Opt-In” Choice for Overdraft Services

Under new rules, banks and credit unions will be required to allow customers to choose if they want overdraft protection, or not. This is called the “Opt-In” Choice. “Opt-In” means you have chosen to have overdraft protection.

These new rules go into effect July 1, 2010, and starting August 15, 2010 banks and credit unions cannot charge a fee without customers choosing to have overdraft protection. Prior to these rules, many financial institutions automatically enrolled customers in overdraft services. Many customers ran up large fees without fully understanding why.

These rules – no automatic overdraft service and no automatic overdraft fees without your permission – only apply to ATM withdrawals and one-time debit card purchases. If you overdraw your checking account due to checks, wire transfers, or automatic bill payments, you will still be charged an overdraft service fee for those items. Be sure to discuss these differences with your bank or credit union so you are sure you understand the rules for your account.

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The Costs of Overdraft Protection Can Add Up - Quickly

In order to understand how expensive overdraft protection can be, picture the following:

You buy \$50 worth of food with your bank debit card. You only have \$40 in your account. You overdraw by \$10, and get charged a fee of \$25 (or more depending on your bank or credit union).

*Next, you stop and get a cup of coffee for \$3. Remember, your account has no money in it. (Actually, since you owe the bank \$25, your account has LESS than NO MONEY.) You get charged a \$25 overdraft fee for the coffee. **You just spent \$28 dollars for a single cup of coffee!***

*The final cost to you? **\$53 of groceries and coffee will cost you \$103.***

And you will keep getting charged overdraft fees until your account has money in it AND your bank has been paid the fees it has charged you.

And during all of this, you may not even know your account is overdrawn if you are not paying close attention to your account balance. You may not know you are losing \$25 each time you make a purchase.

You could spend a great deal of money and time recovering from the negative financial position you are in due to overdraft fees.

Pros and Cons of Opting In For Overdraft Protection

When deciding whether to accept, or opt in for, overdraft protection you should carefully consider the good and the bad about this service.

The Good: Your payment or purchases go through. You are able to pay for something you may *need*, and when buying something you *want* you are spared an awkward or embarrassing situation. If you choose to not “opt-in” for overdraft service, you may have purchases or withdrawals rejected.

The Bad: Fees can quickly add up. Simple purchases, like a \$3 cup of coffee, can turn into a \$28 or \$33 cup of coffee.

Living Without Overdraft Protection/ Preventing Overdraft Fees

When considering whether to “opt in” for overdraft services you need to consider the following:

- The risks of not having the ability to get money in an emergency.
- How often you are realistically going to need emergency money.
- The risk of running up fees for purchases you would not make if you knew you were going to be charged a fee.

Also, consider the fact there are things you can do to make sure – without overdraft protection – you are prepared for an emergency.

On the following page are some good rules to follow if you do decide to “opt in” for overdraft service from your bank or credit union. The rules can also help if you decide to **not** have overdraft service.

Rules for Protecting Yourself from Overdraft Fees

1. **Keep track of your spending.** Don't rely on the balance at the ATM. This may not be accurate. If you enroll in On-Line Banking, that can be a good source of information on your bank balance.
2. **Keep a cushion in your account** – aim for at least \$50 extra.
3. **Give time for deposits to be credited.** A check deposited in the morning, does not mean money is available to be spent that day.
4. If you really run into an emergency, that is the time to dip into your buffer or use a credit card. **Overdrawing is NOT the only option.**