



## Modern overdraft services can solve the challenges of NSF debit denials

*by Hank Thompson, Executive Vice President, BSG Financial Group*

A large portion of the growing erosion of OD/NSF Fee revenue at financial institutions (FI) can be traced to attempted debit card transactions denied at point of sale or at an ATM due to “reasons of NSF.” Referred to as “NSF Debit Denials,” these attempted transactions do not post to the core system, do not create an NSF Fee, and disappoint (or even embarrass) customers simply trying to use their debit card. As the migration from checks to debit cards has accelerated, NSF Debit Denials have become an increasing problem for financial institutions, impacting interchange income and customer loyalty.

How many customers, upon suffering an NSF Debit Denial, will stop trying to use their debit card and opt instead for alternative cards? How many even understand, or take the time to figure out, why they were denied in the first place, rather than just blaming it on their bank or credit union? The rise in NSF Debit Denials creates many challenges for any FI.

An NSF Debit Denial is caused by one of two situations in any customer’s account:

1. The customer has not opted in to Reg. E, which covers one-time point of sale and ATM transactions.
2. Even if opted in, the desired transaction may put the account over its overdraft limit.

**Modern, “second generation” overdraft services offer solutions for both obstacles.**

When the amendment to Reg. E became effective in July 2010, many FIs approached customers for their decision to Opt In or Opt Out of extending overdraft service for one-time POS and ATM transactions. Since 2010, many FIs have tried to place emphasis on Reg. E during Account Opening. Results have varied widely, but each account falls into one of three ‘buckets’: Opted In / Opted Out / No Decision (No Response). Do you know the share of personal accounts within each bucket at your institution?

### **Communication**

At many FIs the third bucket exceeds 50% of the accounts! And this No Decision bucket represents huge opportunity for better customer service and increased fee revenue. A good overdraft management system will match NSF Debit Denials to the account, isolate the No Decision accounts, apply customized qualifying criteria, and create a list of customers for contact to explain what happened with their debit denial, while also asking for a decision on Reg. E -- all automatically. Institutions that have committed to contacting these very qualified customers have gained appreciation from customers and begun to replace vanishing revenue from NSF Fees.

### **Dynamic Limits**

But what if the account has opted in to Reg. E and still suffers an NSF Debit Denial? This happens often at FIs still using Fixed Overdraft Limits in which “one size fits all.” The opted-in account runs up against its





fixed limit and is denied. Establishing “Dynamic Overdraft Limits,” in which each account gets an overdraft limit that is proper for that account’s activity and the account holders “ability to repay” (as determined by each institution), expands limits for those that have the ability to repay and pulls back on limits for accounts where it appears the account holder may not have the ability to repay.

It should not surprise anyone that accounts with above average overdraft items, and that are opted in to Reg. E, often qualify for higher overdraft limits, since those accounts usually have more frequent and larger deposits than average accounts. These are convenience driven customers and are the very customers who are willing to pay (and can afford) the service. These customers benefit from the better service afforded by Dynamic Overdraft Limits, while the institution realizes more Overdraft revenue.

Dynamic Limits also address the directives from regulators to monitor the “credit worthiness” of accountholders and be able to adjust participation in an overdraft service when needed. Fixed Limit programs normally practice a “set it and forget it” modality in which accounts are qualified in the program and all get the same overdraft limit. The accountholder’s “ability to repay” is never reviewed, until the account is 30 days overdrawn and steps away from charge off. The vast majority of personal checking accounts in the USA (think Bank of America, Wells Fargo, etc.) have had Dynamic Limits for decades. It is only recently that the technology and systems became affordable for community based financial institutions.

Today a responsible institution can access technology, best practices and experience to combat the growing customer service, compliance and revenue issues caused by the growth of NSF Debit Denials.

*For more information about BSG Financial Group and any of these solutions, go to [www.BSGFinancial.com](http://www.BSGFinancial.com),  
The next generation of automated overdraft management systems has arrived.  
or call (866) 274-8900 toll-free.*

