



The vast majority of people write good checks.

- Banks process more than 30 billion checks per year. Of those, half of one percent bounce. The number of bounced checks has declined at an annual rate of 6.4 percent since 2003.*
- The number of checks processed continues to decline each year as online or electronic payments become more popular. The number of checks paid in the United States has fallen from 42 billion in 2001, to 37 billion in 2003, and to 30 billion in 2006.*
- Fifty-nine percent of consumers check their account balance at least once a week. ***
- Checking your balance has never been easier. Today, you can check your balance by mail, in person, online, at an ATM, or even from your cell phone or PDA.

The industry works to preserve confidence in the checking system by keeping the number of bad checks to an absolute minimum.

- Unpaid overdrafts are a liability for banks. The most common type of check fraud is from overdrafts that bank customers never pay. **
- Banks charge penalties ranging from \$20 to \$35 to discourage customers from writing bad checks.
- Penalty fees for overdrawing an account are like parking tickets – they are meant to be a deterrent.

Banks use a variety of methods to process and post checks.

- Banks are authorized to process checks in any order that they deem most expedient. Each bank may have a different standard or policy regarding the order in which it posts checks and other checking account transactions.
- The stakes tend to be higher for consumers' larger check amounts, such as with mortgage or rent payments. That's why many banks use the high-to-low method of check processing, where each day the largest transactions are processed first and the smallest last.

Keeping accurate, personal records of transactions is the best way consumers can be certain of their account balance.

- Reconciling the account by keeping track of all transactions is the best way consumers can know their account balance.
- Not all transactions are processed in real time. Consumers should be aware that deposit transactions – checks, ATM, debit and credit card – may be presented to an account at different times.

To avoid overdraft fees, consumers should be certain they have the funds to cover the check.

- The increasingly automated nature of today's payment system will, over time, decrease the time it may take to clear a check.
- Just like a parking ticket, overdraft fees are meant to be a deterrent. If the price were too low, emergency vehicles would have a hard time reaching fire hydrants.
- Relying on "float" – the time it takes for a check to clear – is like playing Russian roulette with your bank account, and your good name.
- Don't write a check if you don't have the funds to cover it.

Consumers can avoid most overdraft fees with a few account management tips:

1. **Use direct deposit for your paycheck.** You will have access to your paycheck immediately.
2. **Keep track of your balance and transactions and don't forget about automatic payments.** Today, it is easier than ever to check balances and transactions online, by phone, or at the ATM, 24 hours a day. Some banks even offer mobile banking so you can check your balance on your cell phone. However, keep in mind that those balances will not reflect transactions you authorized that have not yet reached and been processed by your bank.
3. **Keep a "pad" or cushion of money in your checking account** just to be safe.
4. **Link your checking account to an overdraft line of credit, savings account, or credit card.** These are usually less expensive alternatives, but remember that for overdraft lines of credit and credit cards, you have to pay it back. The amounts are usually not automatically repaid from new deposits into your checking account.
5. **Find out if your bank will allow you to "opt-out" of overdraft protection.** However, ABA surveys show that most consumers prefer having the security of knowing their transactions will be covered even if there is a fee.
6. **Ask your bank for a small line of credit** that will cover you if you overdraw your account. Just be sure to pay it back as soon as you get the bill.
7. **See if your bank offers automatic notification when your balance drops** below a certain level. You may be able to get notified by text message or email.
8. **Change banks** if your bank doesn't offer the services you would like, or charges too much for overdrafts. There are literally thousands of banks competing for your business.

For the occasional accounting error, consumers like the reassurance of overdraft protection programs.

- Overdraft protection programs are there for an emergency, much like a spare tire. They should be used accordingly – no one would drive across country on a spare tire.
- Eighty-two percent of consumers paid no overdraft fees in the past year. Of those who did pay an overdraft fee, 96 percent said they were glad the payment was covered. ****
- No one likes to bounce a check. Overdraft protection programs give customers peace of mind for a fee.
- Paying an overdraft can save the customer additional fees imposed by the recipient of a bounced check, such as a merchant or creditor, as well as additional interest and late payment fees. Consumers also avoid the inconvenience and embarrassment of resolving a bad check.
- Banks use various programs and practices in handling overdrafts, but they charge a fee for the overdraft whether it is paid or not.

Once a courtesy that bankers extended to select customers, overdraft protection is available to most checking account holders.

- Overdraft protection was traditionally a manual process where bankers covered the overdrafts of their best customers. Through advances in technology, overdraft protection is now an automated process that is more uniformly applied.
- Like the traditional practice of paying overdrafts on a discretionary basis, automated overdraft protection programs are offered at the bank's discretion, and may be revoked if a customer overuses the program.
- Consumers have the option of linking their checking account to a savings account, or applying for a line of credit to cover overdrafts.

Background:

Banks assume that all transactions are drawn on sufficient funds. Consumers who are accustomed to "floating" the system may find themselves squeezed as technology gradually improves.

Banks use various programs and practices in handling overdrafts, but they charge a fee for the overdraft, whether it is paid or not. Many banks have automated the process of covering overdrafts, making it a more consistent and fair process for all customers.

Credit laws apply only when a bank extends credit to a consumer, such as with an overdraft line of credit. They do not apply to bank overdrafts. Most automated overdraft protection programs do not fall under the Truth in Lending Act. If covered by this law, banks would be compelled to bounce all overdrafts to the great cost and aggravation of customers.

Overdraft protection programs have grown in their complexity and popularity among consumers. In 2005, several Federal agencies developed guidelines for banks on the proper disclosure and administration of overdraft protection programs to address any consumer confusion.