



**FOR IMMEDIATE RELEASE**

**JMFA Executive Explains Regulatory Impact on Overdraft Services**

**BAYTOWN, TX (February 18, 2009)** – CEOs of Knoxville, Tennessee area credit unions learned more than the ABCs of overdraft privilege programs today as Cheryl Lawson, executive vice president of John M. Floyd & Associates (JMFA) presented an update on recent regulatory changes.

Lawson gave attendees an overview of the history of federal regulations governing the implementation, disclosure, advertising practices and fees associated with overdraft services programs, and discussed recent actions by federal agencies to revise Regulation DD (12 CFR Part 230) and E (12 CFR Part 205). She stressed that all credit unions that provide any type of overdraft services must be aware of and respond to the changes that were announced in the January 29 issue of the *Federal Register*:

- Regulation DD (12 CFR Part 230) revisions will require all institutions to disclose overdraft and returned item fees incurred in each statement period and for the calendar year to date. In addition, the changes prohibit including overdraft amounts in account balances disclosed by automated systems, unless the balance without the overdraft amount is also disclosed. This rule will become effective on January 1, 2010.
- Regulation E (12 CFR Part 205) amendments were issued (with a 60-day comment period, set to expire on March 30). The changes, which are expected to be issued in mid-2009, will limit the assessment of overdraft fees for ATM and debit card transactions and will require credit unions to give their members the choice of opting out of overdraft services that assess a fee for paying overdrafts as a result of ATM withdrawals or one-time debit card transactions. As an alternative approach to addressing overdraft services, the Federal Reserve is requesting comment on whether consumers should be required to opt in to these services instead of opting out of them.

Ultimately, whichever option is issued will require an understanding by the consumer on how the overdraft program process will work. All financial institutions, regardless of the type of overdraft program they offer, will be required to provide consumer education on their processes, fees and account options.

“Clearly, these changes reflect an effort by regulators to protect consumers by ensuring financial institutions offer overdraft services that accurately reflect the financial impact of the program on

the consumer's account," Lawson commented. "For credit unions, this means sending details on periodic member statements and providing education to their members on how the plan works."

Lawson stressed that overdraft services, if managed correctly, provide a "win-win" for credit unions and their members. "By providing members with a safety net, in the event they are faced with a financial emergency, the credit union helps them to maintain financial stability in these difficult economic times," she said. "Plus, it strengthens member loyalty, improves account retention and enables the credit union to increase non-interest income without raising accountholder fees. By educating consumers about the alternatives available to overdraft coverage and their own responsibility to return their accounts to a positive balance, these programs provide significant consumer benefits while enhancing credit union revenues."

Whether a credit union has an established overdraft service program in place or is considering one as a way to boost the bottom line, Lawson warned of the pitfalls that can damage member relationships and put an institution in jeopardy of being out of compliance with regulators.

"Realistic overdraft limits, adequate staff training and member education, along with proper program management and monitoring are essential for a successful overdraft services program," she said.

Lawson recommended that credit unions with established programs should undergo a Compliance and Performance Review that evaluates existing programs in regards to regulatory concerns, risk and performance, and provides a graded assessment of safety and soundness, legal risk, best practices and social responsibility. For institutions that are considering an overdraft services program for the first time, she stressed the importance of using a vendor that guarantees 100 percent compliance and provides a fully integrated software program, staff training, member education and a performance-based fee structure.

Lawson, who has been with JMFA since 2001, has more than 30 years experience in global information technology and financial operations, consulting, communications, training and project management. She currently serves as compliance liaison for overdraft privilege and other profitability programs.

### **About JMFA**

John M. Floyd & Associates (JMFA) is a profitability and performance improvement consulting firm, serving more than 2,000 financial institutions in all 50 states and Central America. JMFA has been recognized for more than 30 years for the development and implementation of training, account acquisition, executive placement, fraud protection solutions and earnings enhancement programs, as well as product, service, pricing and technology improvement consulting. As a direct result of our programs, JMFA has helped thousands of clients dramatically improve their performance and their bottom line

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