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March 4, 2016

Honorable Richard Cordray  
Director  
Consumer Financial Protection Bureau  
1700 G Street NW  
Washington, D.C. 20552

RE: Credit Union Overdraft Programs

Dear Director Cordray:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally insured credit unions, I am writing to you to provide additional data on overdraft programs offered by credit unions. NAFCU strongly urges the Consumer Financial Protection Bureau (CFPB) to avoid any rulemaking that would unreasonably curtail overdraft programs and put the future of this popular product in jeopardy.

### **General Comments**

As member-owned not-for-profit cooperatives, credit unions consistently strive to provide their members with financial products and services designed to help each member achieve their individual financial needs and goals. To that end, credit unions have a vested interest in educating their member-owners on overdraft terms and conditions in addition to working closely with those members to resolve any disputes or concerns.

Credit unions are dedicated to ensuring their members financial health by providing responsible overdraft services. Therefore, NAFCU believes it is critical for the Bureau to avoid any rulemaking that unjustifiably restricts the ability of credit unions to continue to provide their members with the types of overdraft programs they overwhelmingly desire.

### **Opt-In Rates and Alternative Products**

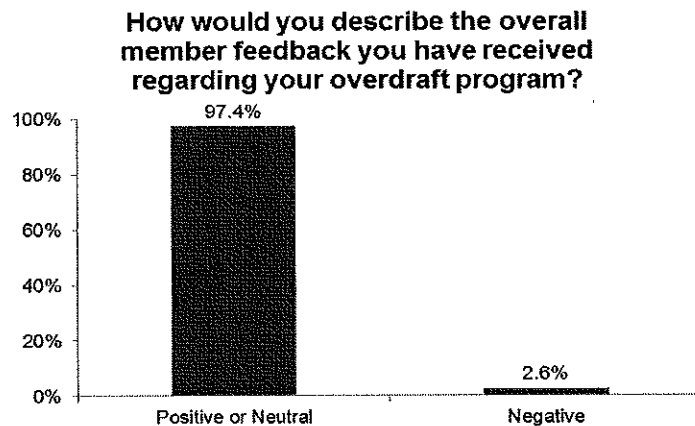
Overdraft programs have been subject to regulation in recent years, and could see a regulatory action in the near future. Nevertheless, consumers continue to favor the service for the convenience and peace of mind that it provides. In 2009, the Federal Reserve

required consumers to opt in to overdraft protection. Nevertheless, opt-in rates were generally high, with a Moebs survey estimating that among frequent users of overdraft, “almost all opted in.” Among all consumers in the survey, the opt-in rate was estimated at 60 to 80 percent. These results suggest that consumers prefer overdraft products to the alternatives. Respondents to NAFCU’s November/December 2015 *Economic & CU Monitor* survey indicated that credit unions act in good faith in administering their overdraft programs, and that their members value the service.

Survey respondents almost universally offer a wide array of products designed to protect their members in the event of an overdraft. In fact, for credit unions with an overdraft or courtesy pay program in place, 93.5 percent offer an alternative product. The most common offering is an overdraft line of credit (83.9 percent), followed by linked savings or money market accounts (61.3 percent), and short-term, small amount loans (22.6 percent).

### Consumer Satisfaction with Credit Union Overdraft Programs

NAFCU member feedback related to overdraft programs has been exceedingly positive. More than 97 percent of respondents indicated that the overall feedback from members was positive or neutral (see chart). Only 2.6 percent said that feedback was negative. Approximately 9 out of 10 respondents said that misunderstandings among their membership occur only rarely or occasionally, as compared to 10.5 percent that cited more common misunderstandings. Moreover, roughly two-thirds of survey participants (67.6 percent) said that they had received complaints from members because their card was declined at point of sale rather than receiving overdraft protection. On average, respondents received over 20 such complaints.



Source: NAFCU *Economic CU Monitor* survey

### Potential Negative Consequences of Limiting Overdraft

When asked how further regulation related to overdraft or courtesy pay might affect them and their members, survey respondents indicated that it would have a negative impact by and large. In particular, respondents cited the potential impact on reputation for both the

credit union and the member. The loss of a service that they have come to rely on would result in widespread dissatisfaction among members with the credit union, and the members themselves could suffer embarrassment and a decline in their credit rating when transactions are declined. Several respondents noted that many of their members rely on courtesy pay program to meet monthly obligations and to cope with emergency needs. A number of respondents also said that their members would likely seek out more expensive alternatives, such as payday loans, if overdraft was not available.

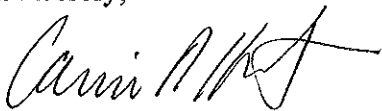
Finally, survey participants indicated that with shrinking margins, any loss of revenue could potentially force their credit unions to cease offering such staples as no- or low-cost checking, which is a product the Bureau recently encouraged more financial institutions to adopt. As NAFCU has stressed to the Bureau, credit unions already offered the types of accounts the CFPB promoted and remain the best choice for consumers seeking no- or low-cost checking.

### **Conclusion**

As the CFPB continues to study overdraft programs, NAFCU urges the CFPB to consider the data in this letter. Credit unions are unique and their track record as good actors within the financial services industry proves they should not be grouped together with entities that the Bureau seeks to restrict. Overregulation has already had a substantially negative impact on credit unions and their over 100 million members. Any additional unwarranted regulatory constraint is likely to encumber overdraft products and, ultimately, hurt the consumers that opt into these services for peace-of-mind.

NAFCU and our members hope to share additional insights on providing responsible overdraft products to credit union members. Should you have any questions or would like to discuss these issues further, please feel free to contact me, or Regulatory Affairs Counsel Alexander Monterrubio at [amonterrubio@nafcu.org](mailto:amonterrubio@nafcu.org) or (703) 842-2244.

Sincerely,



Carrie Hunt

Executive VP of Government Affairs and General Counsel