From: Steven J. Coker, CFP(R) [mailto:cokertax@prodigy.net]
Sent: Sunday, August 22, 2010 9:13 PM
To: Overdraft Comments
Subject: Public comment submission

Dear Sirs,

I would like to submit public comment regarding the FDIC's recent proposal on bank overdraft practices.

I'm a Certified Financial Planner who has been doing bookkeeping, accounting, business management and such financial services for clients for over 30 years. My clients are both individuals and businesses. Most of my clients rarely incur overdrafts, but a few have what you would call "excessive overdrafts". Thus, I feel I am both informed and experienced in this topic.

#1) <u>Banks practice of clearing the largest amount checks first is a gross disservice to their customers, and should be replaced with clearing on a chronological basis</u>. Though it may occasionally be true, the largest amount check is rarely the most important. Rent or mortage checks occur just once a month, and probably are the most important checks that clear that one day of the month. The other 29 or so days of the month, the "largest clears first" policy in unproven and simply makes the customer incur MORE overdraft charges, which can in turn make financial hardship WORSE. No bank that I know of has ever given their customers the CHOICE of which checks in a single day should clear first, largest or chronologically. That speaks volumes.

#2) <u>The largest number of overdrafts that I see are due in large part to poor communication on the part of the bank</u>. Banks have a financial disincentive to inform customers that their accounts are overdrawn. The longer it takes for a customer to cover an overdraft, the more in fees the banks collect. For years I use to say "why don't banks simply pick up a phone and call us when an account is overdrawn, so that we can handle it immediately?" Fortunately, I can say that the situation is much better today than it used to be. Some banks offer you to get online messages when an account is overdrawn or has a balance below a certain amount. I use the "below a certain amount" option, and it has prevented a substantial number of potential overdrafts.

#3) <u>Due to the issues discussed in #2, a daly limit on the number of overdraft charges is a fair and wise move</u>. Customers need reasonable time to learn about and cover the overdrafts. In addition, there should be efforts made to insure that a overdraft charge "cascade effect" does not occur, where the overdraft charge itself leads to more overdraft charges.

#4) <u>Existing overdraft options have fees almost as bad as the overdraft fees themselves</u>. Most of my individuals clients use debit cards now as a substitute for cash purchases. Thus, they have multiple small amount purchases each day. Say they do 5 $5 purchaes in a single day, they don't want 5 $5 overdraft transfers from their savings account. They also don't want to incur 5 overdraft coverage fee (@ $10 each as one bank (Chase) charges. They want one larger transfer. The bank charge should also be reasonable compared to the amount transferred, not a 200% fee as in this example.

#5) <u>Bank overdraft charges should better reflect the cost of the service</u>. I believe the average overdraft charge now is around $35, yet the cost of processing an overdraft is only about $10. <u>This "profit motive" for the banks should be eliminated</u>. In addition, the $35 fee is often MORE than the bank is covering. (As is said previously, most transaction these days are fairly small in amount.) If you charge a $35 fee for a $50 overdraft, and it's covered by the customer in 7 days, that's a 3600% return for the bank. That for an known, existing customer with an established relationship. That is obsene.

#6) <u>Temporary holds on deposits are one cause of overdrafts</u>. The situation is better than it was years ago, but I still see holds on deposits that were unreasonable , or not properly communicated to the customer. Mine own bank used to give immediate credit to the first $100 I deposited. They changed this policy without informing me, the only notice being the "amount available" shown on the ATM receipt.

#7) <u>Banks need to end their "hidden" ways to charge customers</u>. We all know about the "clean the largest check first" policy. Here's one I discovered accidentally about 2 years ago. (I've changed the amount slightly for ease of explanation).

A client went to a restaurant on a Wednesday and received a food bill for $60.
They knew they had $100 in their checking account, but also wrote a $65 check earlier in the day.
They figures they'd be OK, since both transactions (totalling $125) wouldn't clear immediately, and they
would deposit money the next day to cover the $25 shortage.

<u>What they didn't know was the the bank would submit their restaurant debit card purchase TWICE. At the moment they swiped the card, the bank "reserved" $60, creating a "phantom" balance of just $40</u>. (I call it a "phantom" balance because the money wasn't taken out of the account. That happeded two days later.)

The next day (Thursday) , the $65 check cleared, <u>the "phantom" balance was negative $25, and the bank charged</u>
<u>a $35 overdraft charge</u> (which posted the following day, Friday). The customer also deposited $50, thinking he would have a $25 balance after the two original charges cleared.

Well, the next day (Friday) the Thursday overdraft charge posted, the $60 restaurant charged cleared the account,
and the customer was charged a **second** overdraft charge, because the first overdraft charge gave him a negative balance.

It took a while to figure this out, because <u>the first overdraft was charged without any negative balance being shown</u>
<u>anywhere on any bank statement. That a bank should have a "phantom" balance on which they can charge overdrafts is wrong</u>.

Second, <u>a bank should either process a debit charge immediately or when it actually clears, not both</u>. By reserving the
funds on day, then credited it later, then gave themselves two chances to charge an overdraft charge on one
transaction.

Thank you for the opportunity to provide this comment.

Sincerely,

Steven J. Coker, CFP
10635 Santa Monica Blvd., Suite 175
Los Angeles, CA 90025
cokertax@prodigy.net
(310) 936-6120