

**Testimony of Jim Blaine, CEO of State Employees' Credit Union**  
**U.S. House of Representatives Committee on Financial Services**  
**"The Overdraft Protection Act of 2009"**

Good morning: My name is Jim Blaine, and I'm the president of the State Employees' Credit Union of North Carolina. Thank you for the opportunity to testify today in support of H.R. 3904, The Overdraft Protection Act of 2009. Our view of overdraft protection as currently offered to most consumers is that **enough is enough – it is past time for a switch to fairness.**

**State Employees' Credit Union (North Carolina)**

State Employees' Credit Union (SECU) is a member-owned, non-profit cooperative serving 1.5 million members in North Carolina. One out of six North Carolinians is a member-owner of SECU. The Credit Union was formed in 1937 with 17 members and \$437 in assets during extremely difficult financial times to serve the consumer financial needs of North Carolina state employees, teachers, and their families. SECU has grown into a statewide organization with over 225 branches, and a proprietary (*CashPoints*) no-surcharge ATM network with 1,000+ locations in all 100 North Carolina counties. Assets now exceed \$19 billion and we have approximately 800,000 checking accounts. SECU is well-capitalized, safe and sound.

**Overdraft Protection**

As currently and most frequently offered in the market place, **overdraft protection is neither a courtesy nor a privilege. It is a loan – a very, very expensive loan.** Despite claims by proponents to the contrary, overdraft protection is never the best nor the fairest choice for an accountholder – all other "choices" are, or can be, more beneficial and less expensive for the consumer. Credit unions, being member-owned cooperatives, are obligated by both philosophy and purpose to seek better financial solutions for their member-owners.

The following three fundamental changes in overdraft protection regulation proposed under HR 3904 will help ensure that credit union members and all consumers will make better choices when using an overdraft protection service:

- 1) Consumer "opt-in" to the overdraft service plan.
- 2) Limits on overdraft protection transactions and charges.
- 3) The requirement that fees be reasonable and proportional to the cost of handling overdraft protection.

SECU fully supports these consumer enhancements to overdraft protection services.

## **SECU's Approach to Overdraft Protection Services**

**SECU practices what it preaches.** Overdraft protection is a service we offer our members to help reduce the possibility of checks/debits being returned because sufficient funds are not available in the account. All members can sign up for this safe, affordable service on an opt-in basis. Approximately 80% of all checking account holders elect to have this overdraft protection. We do not charge overdraft fees.

Each checking account (protected account) can have up to two “protecting” accounts attached to it to provide protection. Attached accounts may be either other deposit or line of credit accounts. If an item is received on a protected checking account that does not have sufficient funds on deposit, then the overdraft protection program is activated to determine if the item will be paid or not. The member has pre-selected the order of accounts to be used for protection. Once the first account's available funds are transferred, then available funds in the second account will be used. Funds are transferred from the protecting account(s) to the checking account to provide sufficient funds in the checking account to pay the item. The fee for a transfer is 50¢. An average of 9,400 advances are made each day.

Available protecting accounts are:

- Another checking account
- Money Market Share Account (limited to 6 transfers per month)
- Regular share account (limited to 6 transfers per month)
- SECU issued VISA credit card
- SECU Open End Loan
- SECU Home Equity Loan

Transfer increments are \$50 or full available balance (whichever is smaller), except for home equity coverage which has a minimum transfer of \$500 or the available credit line (whichever is less). For credit card coverage accounts, we will transfer up to 110% of the approved credit line. When a member accesses their checking account via an ATM card or point of sale debit card, the transaction will be approved or denied based on the balance in the account plus the funds available in their protecting accounts.

If an item is presented for payment and the member does not have sufficient funds in the account or available through the overdraft protection system to transfer into the account, the item will be returned marked Non-Sufficient Funds. The NSF fee is \$12.00. We average 6,100 items being returned each day.

If a member has had 6 or more NSF's in a 45 day period, the account holder automatically receives a letter (sent centrally) requesting the member visit a local branch to discuss any financial problems they may be experiencing and the proper handling of their checking account. It is never in the best interest of a member to continue to pay excessive fees for checking account services. Once the member receives the first letter, the branch receives notification to begin

working with the member on proper management of the checking account. The account continues in an “alert” status for the branch to work with the member until problems are resolved or until the branch decides it is in the member’s best interest to close the account. The branch will work with the member to transfer to a “cash” basis using their base share (savings) account as their primary operating account (payroll direct deposit, etc.). If the member continues to have excessive NSF’s, two additional letters of warning are sent. After the third letter, the account is placed in a closed status. We contact approximately 2,000 checking account holders each month and have closed 328 accounts to date in 2009.

### **SECU 2010 – Coming Enhancements**

SECU has plans for three new services in 2010 to further help our members manage their checking accounts.

- 1- **NSF FREE DAYS** –If the member has exhausted all available funds from their account (including the overdraft protection program) and items will be returned unpaid on the account, SECU will NOT charge any NSF fee for those returned items (regardless of number of items) up to two days during the calendar year. Although the item(s) will still be returned, the expense of the NSF fee(s) will not further decrease the member’s account balance. There will be no fee for this service. There is no enrollment - all accounts are automatically enrolled. This program will begin January 1st.
- 2- **ANOTHER CHANCE PROGRAM** – If a member registers to receive text message notifications from SECU for this particular program, SECU will advise them early in the morning of potential NSF items. SECU will allow the member that full business day to make a deposit sufficient to pay the items instead of SECU automatically returning the items because of non-sufficient funds. This gives members “another chance” to cover the check/debit before SECU has to return the item and charge the NSF fee. There will be no fee for this service but members do have to register for it through our secure Member Access web service (which is also free). This program should be available by second quarter.
- 3- **CASHPOINTS GLOBAL** – This new program will be a controlled spending account that will be especially beneficial for our members who have had difficulty in managing checking accounts. No paper checks or ACH debits will be allowed on the account so there will be no NSF fees and no overdraft protection. The member will receive a VISA check card for point of sale purchases and ATM access. Electronic deposits (direct deposits, payroll deduction deposits, wire transfers and funds transfers) will be allowed as well as over-the-counter deposits. The member will be able to use the SECU BillPay service for paying bills electronically or by having SECU mail a cashier’s check for the member. No interest will be paid on the account. E-statements will be required. The monthly fee for this account will be the same as our other checking account program - \$1.00 (which 99% of our existing members donate to the SECU Foundation). This account will allow those members who cannot handle a checking account the convenience of a checking account without the possibility of mismanagement. All debit transactions will be pre-approved through the VISA

check card or ATM networks or through our BillPay service. This account should also be ready by second quarter 2010.

### **Credit Unions: There is a Difference**

**Credit unions are different.** No banks are non-profit by choice. Banks are not created to find new ways to leave more money in their customers' pockets. Banks are not challenged by philosophy, structure and purpose to put "people ahead of profits". The expectations of both Congress and the public should be higher for credit unions. Credit unions should set the standard, the benchmarks, the bar for socially conscious and socially responsible consumer financial services. Credit unions should wear "white hats" that are clean, brilliant and very, very apparent – in all credit union services and products.

For this reason, we do not support H.R. 3904's exclusion of overdraft fees from the interest rate cap applicable to federal credit unions. We believe all credit extended by credit unions should be subject to an interest rate cap.

### **While We're At It...**

As Congress wrestles with alternatives to improve consumer financial services, SECU would ask consideration of the following issues:

- 1) Require that federally insured financial institutions honor, without fee or hold, all checks drawn on the institution. Employees should not have to pay to convert their wages from a check into cash.
- 2) Prohibit fixed rate mortgages with terms of greater than 15 years. The United States is the only modern economy which continues to permit – actually encourage – long-term, fixed rate mortgage lending. Such problems as subprime securitization, Fannie and Freddie, will cease to exist if long-term fixed-rate mortgages no longer are permitted in the market place.
- 3) Reinstitute a usury limit on all federally insured institutions. Credit unions, alone among federally insured institutions, continue to be subject to an 18% usury limit, and they remain a safe haven, safe harbor for consumer financial services.

### **Conclusion**

**The mission statement of SECU is: "Do the Right Thing!"** We hope that Congress, through passage of HR 3904, The Overdraft Protection Act of 2009, will join us in that mission.

Thank you for the opportunity to testify today. I welcome your questions.