



# Capturing noninterest income

By John Floyd

► In today's competitive market, credit unions are taking a closer look at generating more noninterest income. Fees now represent almost 10% of total income for credit unions vs. just more than 5% a decade ago.

Debit card fees had represented an increasing percentage of fee income, but recent court rulings may limit credit unions' ability to grow revenue in this arena.

If your credit union isn't meeting its bottom-line

goals with its current level of noninterest income, how long will it be able to compete and grow? How does your credit union increase noninterest income and satisfy members at the same time?

Overdraft privilege programs are an excellent way to increase revenue and satisfy members. Nonsufficient funds (NSF)/overdraft fees consistently have made up about 40% of credit union fee income during the past decade. But we've found credit unions can increase noninterest income 50% or more and still meet their philosophical goals.

## HOW THE PROGRAMS WORK

A well-run overdraft privilege program not only increases revenue, it satisfies members and increases internal productivity. The biggest benefits to your members include:

- They won't have the inconvenience of dealing with a bounced share draft.
- They won't need to pay extra fees that retailers charge for bounced share drafts.
- They avoid the embarrassment of facing a local retailer (and being on that retailer's "bad check" list).
- They save money by not paying more onerous late-payment penalties on their mortgage, car, or student loan.

- They can avoid higher-interest alternatives, such as payday lenders.

Effectively marketing the program positions overdraft privilege as a member benefit. In addition, by automating overdraft-privilege tasks, your credit union can focus its resources where needed to better manage account balances, collections, and charge-offs.

## IMPLEMENTATION TIPS

If your credit union decides to implement an overdraft privilege program, consider following these steps to ensure the best results:

- Establish preset overdraft privilege limits.
  - Develop disclosures and recommend procedural changes to comply with applicable regulations.
  - Create a marketing program targeting both new and current members.
  - Conduct sales training for all employees who have contact with members.
  - Conduct training in compliance issues and operational procedures.
  - Develop an automated collection system that will interface with the core application processing system.
- "My advice to other credit unions is not to be afraid of overdraft privilege, because it's simple and it works well," says Steve Scott, controller for the



**With overdraft privilege, credit union members won't have the inconvenience of dealing with bounced share drafts.**

Abilene (Texas) Teachers Federal Credit Union. "For credit unions, there's a perceived risk involved because we want it to be a member service, and that's what it is. First and foremost, we're doing the members a favor. They're happy with the service, and we're happy with the fee income."

Engaging an expert to help you increase noninterest income can make a substantial difference in your credit union's future. Not only will members like it, outperforming your competition will make a definite impact on your bottom line. ■



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