



Senate Floor Alert

Date: April 15, 2024

To: All Members, California State Senate

From: The California Credit Union League

RE: Senate Bill 1075 (Bradford): Credit Unions: Overdraft and nonsufficient fund fees- OPPOSE

The California Credit Union League opposes SB 1075 as it creates a completely uneven playing field for state-chartered credit unions that wish to offer their members the services they desire.

SB 1075 limits courtesy overdraft and nonsufficient fund transactions at ONLY state-chartered credit unions to three a month and would require a lengthy five-day waiting period before a fee can be assessed on an overdraft transaction. The former will limit access to credit while the latter is akin to a five-day interest free loan which does not consider losses associated with these programs. These changes will unfortunately cause state-chartered credit unions to rethink offering courtesy overdraft to their members.

Credit unions, as not-for-profit member owned cooperatives, were established over 100 years ago to provide financial services to those overlooked by traditional lenders. Even today, credit unions specialize in serving the underserved, with nearly half of the state's credit unions categorized as low income designated and many as Community Development Financial Institutions (CDFIs). Overdraft services were introduced with this mission in mind, aiming to assist credit union members in accessing funds they lacked in their accounts. Overdraft protection is a service that ensures consumer transactions are covered if they do not have sufficient funds in a checking account so they can make their purchase as opposed to being declined at the register. Courtesy overdraft empowers consumers to manage their finances and meet their immediate financial needs. It's essential to highlight that consumers must **opt-in to** courtesy overdraft per federal Electronic Funds Transfer Act and Regulation E (12 CFR 1005.17). SB 1075 limits consumer choice and access to a financial tool that continues to be desired among credit union members.

Additionally, SB 1075's timing appears to be premature given that the Consumer Financial Protection Bureau (CFPB) issued a proposed rule in January of 2024 regarding courtesy overdraft that would provide two options for very large financial institutions: use a breakeven standard to establish the fee amount or charge a benchmark fee. The benchmark fee could range from \$3-\$14 and we are still awaiting the final dollar amount. While the CFPB's proposal applies primarily to institutions with assets over \$10 billion including credit unions, institutions not falling under this category may perceive the proposed rule as an industry standard, with some preemptively opting for a benchmark fee. This perceived standardization is driven by competitive forces and a desire to mitigate potential litigation risks. Thus, SB 1075 cannot be considered in isolation, and policymakers must carefully weigh its potential ramifications for both institutions and their consumers amidst this broader context.

For the reasons listed above, and more, the California Credit Union League urges a no vote on SB 1075. If you have any questions regarding the California Credit Union League's position, please contact Robert Wilson at (916) 325-1366 or Robertw@ccul.org.