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Subject: Regulation CC

Comments:

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Proposal: Regulation CC - Availability of Funds and Collection of Checks
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Comments:

The Dodd-Frank Act requires an increase in the amount of deposited funds from \$100 to \$200 for next business day availability effective July 21, 2011. We do not support this increase because we believe that it will result in increased fraud losses for financial institutions, as well as potential losses that our members may incur. In an environment where financial institutions are required to detect, prevent, and mitigate risk, this will increase our check fraud risk and additional steps will have to be put in place to help mitigate that risk. The proposal requires that a credit union or other depository institution (the first institution to which a check is transferred) would be entitled to an expeditious check return only if it agrees to receive returned checks electronically. Of course we would like to be entitled to expeditious check returns but in order to have that privilege, we will be forced to convert to electronic check processing, which we don't currently utilize. The Board's estimate of 80 hours and \$5,000.00 to convert to electronic returns is too low. Our credit union has \$119 million in assets. Our initial analysis of this estimate was at least 160 hours and \$10,000.00. The proposal would shorten the reasonable additional hold extension from 5 to 2 business days for most checks (total hold of 4 business days). With nonproprietary ATMs, the general hold would decrease from 5 to 4 business days, and the reasonable hold extension would decrease from 6 to 2 business days (total hold of 6 days). The current hold requirements are already insufficient, so shortening these time frames will result in more fraud losses for financial institutions. Currently, checks that are deposited at our credit union are taking up to 10 days or more to be returned to us as first time NSF, stop payment, closed account, etc. Ever since the check processing regions were consolidated into one, checks are taking longer to be returned. We investigated this and found the delay is with the Federal Reserve. It used to only take 3-5 days, so when

you consider the fact that the returns from the Fed are taking longer and now with these proposed changes we may have to shorten the hold periods, there is great potential for financial institutions to incur additional fraud losses. The only way to possibly avoid this would be to convert to electronic check processing, which again, will cost time and money. Being a non-profit organization, we are finding it more difficult to give back to our members (the consumers), when we continue to have to have to pay for additional compliance related costs. Check holds are intended to allow sufficient time for unpaid checks to be returned to the depository institution, before the money is withdrawn from the account. Not only is this to prevent fraud losses that the financial institution may incur, but it is also to protect our innocent members. Many individuals deposit checks that they truly believe are valid checks and if we don't catch it at our front-line level, the hold falls off, the member withdraws the money, and weeks later we get notification of a returned item. We then have to contact our member who has more than likely spent the money, tell them they have to pay it back, which can possibly result in a financial burden for someone that may already be experiencing financial hardship. These holds are to protect our members, not just for the benefit of the financial institution. Thank you for allowing us to comment on the proposed changes to Reg CC. Please consider the negative impacts these changes could make - not only on the financial institutions, but on our members and customers (the consumers) as well. Melissa Natte Compliance Officer Gerber Federal Credit Union