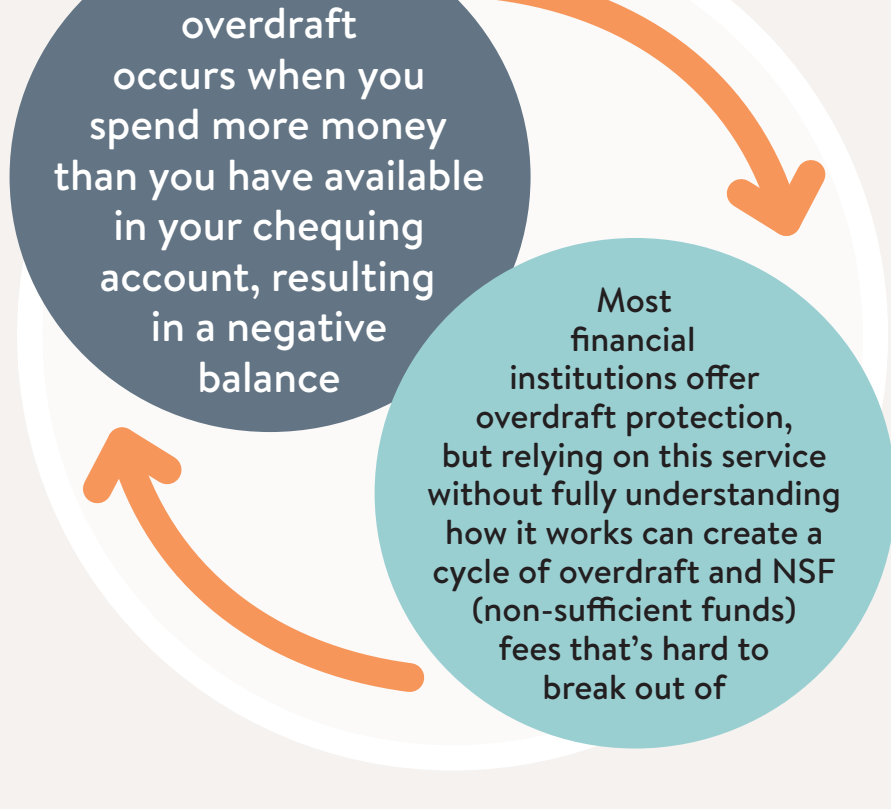


Understanding Overdraft



OVERDRAFT SCENARIOS



ACCOUNT BALANCE IGNORANCE

It's easy to overdraw your chequing account if you're unaware of your account balance. Be mindful by reading your monthly statements, by checking your account balance regularly, and by tracking your expenses with a chequebook register or with a budgeting app.



HOLD ON

When you make certain purchases like paying for gas at the pump, a hold can be placed on your debit card. This means that a larger portion of your available debit balance is "frozen" until the transaction goes through. If you're already close to overdrawing your account, a hold can trigger a negative account balance without your realizing it.



PROCESSING LIMITATIONS

Even if you're hyper-vigilant about your account balances and expenses, the time and order in which transactions are processed can sometimes wreak havoc on your account balance. Be aware of your financial institution's holding periods so that you don't end up spending money you don't have.

OPTING IN TO OVERDRAFT PROTECTION VS. GOING WITHOUT

Let's say that you're buying a brand-new gadget at the store. Your last paycheque hasn't cleared, so you're unaware that your current available balance is only \$150. The gadget costs \$160. You pull out your debit card and...



WITH OVERDRAFT PROTECTION

The transaction goes through

Depending on how your financial institution handles overdraft situations:

Funds are transferred from your savings account to cover the transaction

OR

Your account then becomes overdrawn, resulting in a negative balance

BENEFIT

You avoid the inconvenient situation of having your card declined

CONSIDER

You may be charged an overdraft fee

—

You may be charged an NSF (non-sufficient funds) fee for having a negative balance

—

You may also be charged a recurring fee until your balance is positive

—

If you frequently overdraw your account, you may be able to pay a monthly fee to reduce your total fee costs

WITHOUT OVERDRAFT PROTECTION

Your card gets declined and the transaction does not go through

BENEFIT

You avoid a negative balance and any potential NSF (non-sufficient funds) fees that go along with it

CONSIDER

Having your card declined can be inconvenient and embarrassing

—

In emergency situations, it can be extremely troubling

DID YOU KNOW?

In Canada, overdraft protection is covered under negative option billing regulations—it cannot be added without your consent

HOW TO STAY AHEAD OF THE FEES

Set up alerts

Most financial institutions will allow you to set up alerts that will inform you of your balance. You can receive a daily text message or email with your balance. In addition, you can usually set up an alert for a specific account balance. For example, you may want to receive a text message when your account balance reaches \$200, so that you receive sufficient notice to add more funds or curtail your spending.



Find a better way to borrow



Sometimes, you just need to borrow money until the next paycheque arrives.

Although the best advice is to build an emergency fund so that you are not dependent upon borrowing, this isn't always possible. In order to protect yourself from the high costs of short-term borrowing, consider taking out a credit card with a low interest rate for emergencies. Credit unions usually charge the lowest interest rates on credit cards. These products will not offer rewards, but they tend to offer lower interest rates that can be useful if you need a short-term loan. Keep in mind that having a credit card does not give you a licence to spend money you do not have—it should be used in an emergency situation for items that you need, not items that you want and cannot afford.

Balance your chequebook

Balancing your chequebook gives you power—the power of knowing exactly how much money is available to you. Whether you use a chequebook register, a spreadsheet on your computer or an app on your mobile device, balancing your chequebook is a good habit to form.



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