

Bank overdraft

Just as there are now many different types of accounts available to the customer so there are many different types of borrowing facilities, or lending products as they tend to be called. Bank overdraft is one of the lending products provided by the banks in New Zealand. Not only register banks provide overdraft but also some non-bank organization. Therefore, overdraft is the most common source of short-term finance available.



* What is bank overdraft

Overdrafts are provided to both personal and commercial customers for what are known as working capital purposes and are attached to a cheque account.

Overdraft enables you:

1. Get cash at ATMs
2. Pay off accidents, sickness or unemployment
3. Avoiding late payment on your bills

Overdraft enables business:

1. Working capital funding
2. Seasonal fluctuations in business cash flow
3. Late payment by debtors

* Types of overdraft

-----Interest-free overdraft

-----Interest-bearing overdraft

* How bank overdraft currently operate

An overdraft facility permits the account holder to draw cheques in excess of his balance. For the majority of overdrafts, arrangements are made with the bank in advance and the purpose of the borrowing is stated and the length of the borrowing agreed. The bank will adopt its normal criteria in deciding whether or not to agree to the customer's request and its decision will be put in writing. Technically all overdrafts are repayable on demand though in reality they are allowed for the period agreed and would not be called in earlier unless there were exceptional circumstances

Some current accounts provide for an automatic overdraft facility up to a prescribed limit, which could possibly specify that interest will not be charged for borrowing up to a specified sum and beyond that a rate of interest and a fixed quarterly commission charge which is generally more favorable than that charged to customers who borrow without such an account. Some account even free interest for 3 months, such as student account in National Bank, you can apply for overdraft up to \$5,000 with 3 months-free-interest. In the following is an example of how to apply for Tertiary and Graduate Overdrafts in ASB Bank:

-----you need to have cheque account in the bank

-----you need to be 18 years of age to have an overdraft approved.

-----you need to be PR or resident of New Zealand

-----go to see your bank consultant and let them know you want to apply for overdraft facility

----- Simply complete an application form(please see the attached file)
you will need to provide:

Evidence of study such as a fees receipt or student ID

Evidence of income such as student loan or allowances confirmation, or a wages Slip or a letter from your employer.

In ASB Bank, Tertiary Cheque account holders in their first and second year of study are enable to apply for an interest free overdraft of up to \$1,000, and up to \$1,500 in their third consecutive year of study and over. You are entitled to your overdraft for as long as you have a Tertiary or Graduate account. Each year the overdraft will be reviewed and you may be asked to provide additional information such as evidence of study and income details.

*** Fee and charge**

ASB Bank

Tertiary Account (Student Account)

----*Establishment Fee*: None

----*Monthly Overdraft Facility Fee*: \$2.00(or 0.12% whichever is greater)

----*If you were to go over your overdraft limit*. You will be charged penalty interest. This is calculated daily and charged at the end of the month. In addition you will be charged an unarranged Overdraft Facility Fee of \$20.00

Everyday Account (such as Streamline or Omni)

----*Establishment Fee*: 1.00% (minimum charge \$25)

----*Monthly Overdraft Facility Fee*: 0.12% (minimum charge \$3)

(Arranged Overdrafts) of the limit

----*Monthly Unarranged* 0.12% (minimum charge\$20)

Overdraft Fee (Unarranged of the highest daily

Overdrafts exceeding \$20) overdrawn balance

*** The benefit of using bank overdrafts**

----You can get money when you need it-if you arranged in advance, it is also there to be used. It helps you out when you suddenly need a bit of extra cash. It provides the comfort of knowing you have an extra cash buffer on call to cover those unexpected bills.

---- It is a cheaper form of borrowing than the credit options.

---- You only pay for what you use.

---- No repayment time limited.

*** Tips for using bank overdrafts facility**

1. **Stay within your limits.** If you think that you are likely to go over your limit, you should contact the Bank to discuss. This way you may be able to avoid dishonors and penalty interest.
2. **Regular deposits.** It is important that your account has regular fluctuations, and you are required to make regular deposits.
3. **Keep in contact.** If you have any financial problems, you should go and talk to your bank consultant. Let them know your situation and help you to find the other options that more suitable to you.



References:

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4. Code of Banking Practice, the third Edition December 2002
5. <http://www.asbbank.co.nz/sotry550.asp>
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