

Overdraft fees exploding, up 35% in two years

Written by

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Banks and credit unions collected nearly \$24 billion in overdraft fees last year, an increase of 35 percent from just two years earlier, a new study by the Center for Responsible Lending shows. [See the full report at <http://www.responsiblelending.org/overdraft-loans/research-analysis/crl-overdraft-explosion.pdf> .]

The explosion in overdraft charges has drained the wallet of as many as 51 million Americans whose accounts become overdrawn annually. It is particularly harmful to financially vulnerable families already hit hard by the recession.

“Banks and credit unions have become so sophisticated in driving up overdrafts that Americans now pay more in overdraft fees every year than they do for books, cereal, or fresh vegetables,” said CRL senior researcher Leslie Parrish. “These billions of dollars drained from consumers each year represent lost opportunities for families to save for a rainy day or buy necessary goods and services that could help spark the economy.”

The most common trigger of overdraft fees are small debit card transactions that could easily be denied for no fee. This is how things used to work, and according to a 2008 nationally representative survey, it’s what the large majority of people prefer.

Thousands of bank and credit union customers have complained to federal regulators that overdraft policies are unfair. Customers typically haven’t explicitly agreed to these high-cost overdraft loan programs but are automatically enrolled by their bank. When consumers try to avoid these abusive fees, they often find themselves tripped up when, for example, institutions needlessly delay posting deposits or process purchases from largest to smallest to purposely generate multiple overdrafts. And because overdrawing an account by just a few dollars triggers a fee averaging \$34, cash-strapped households—particularly younger adults and seniors on fixed-incomes—often are thrust even further into debt by this overdraft “protection.”

The changes to their overdraft programs several banks announced last month do not address some of the most abusive features of the programs and can easily be reversed once the spotlight shifts. Reform of overdraft practices should be set into law—and soon. Policymakers should:

Require that institutions deny debit card purchases and ATM withdrawals, without charge, if the funds aren’t there. As a limited exception, an overdraft fee could be charged if the lender gives the customer a real-time warning and chance to decline.

- Require that overdraft fees bear some relationship to a lender’s cost of covering a shortfall.
- Limit the number of fees that can be charged to a customer during a year before the institution must enroll the customer in a reasonably priced overdraft product, such as a line of credit, if it wants to keep charging for overdrafts.
- Consolidate and streamline existing federal consumer protection authority by housing it in one organization: the proposed Consumer Financial Protection Agency, which would focus solely on what’s in the best interest of consumers.

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