Consumer Federation of America
1620 I Street, N.W., Suite 200 * Washington, DC 20006

For Immediate Release: December 3, 2008
For More Information Contact: Jean Ann Fox, 202-387-6121

Statement of Jean Ann Fox, CFA Director of Financial Services, on FDIC Study of Bank Overdraft Programs

Washington, DC – The FDIC yesterday issued a ground-breaking report on bank overdraft loan programs, fees and practices, based on a detailed study of 462 FDIC-supervised banks and data on overdraft transactions from 39 banks. (The FDIC Study of Bank Overdraft Programs is posted at www.fdic.gov.)

Bank overdraft loans are shockingly expensive. Small transactions at high fees for short repayment periods translate into interest rates that start at 1,000 percent APR.

The FDIC report exposes unfair banking practices, exorbitant rates for automated overdraft loans, and bank practices that maximize fee revenue from overdrawn consumers who are often struggling to make ends meet.

- Over three-fourths of large banks automatically pay overdrafts for a fee, ranging from $10 to $38 per overdraft. The median overdraft loan fee at FDIC banks was $27, compared to the median $35 overdraft fee at the largest banks surveyed by CFA, as noted in comments submitted earlier this year to the Federal Reserve.
- Seventy-five percent of FDIC-surveyed banks automatically enroll their customers in overdraft programs without their permission. A few of these banks do not even permit consumers to opt out of this high-cost form of credit.
- Almost ninety percent of banks do not tell consumers that a purchase they are about to make with a debit card will overdraw the account and trigger a fee. Seventy percent of banks don't tell customers that an ATM withdrawal will overdraw and trigger a fee. The FDIC found that a small number of banks did provide advance warning at the point of sale or withdrawal, permitting consumers to terminate the transaction to avoid fees.
- The majority of large FDIC-surveyed banks "batch process" the largest withdrawals before smaller ones, which can increase the incidence of overdrafts and trigger more fees. A CFA review of the largest banks found that all of them either process the largest withdrawal first or have account terms that permit them to do so.
- Overdraft and bounced check fees account for about three-quarters of bank service charge revenue on deposit accounts, according to 2006 FDIC Call Reports.
- Banks that permit overdrafts by debit card at the point of sale or ATM withdrawal have higher fee revenue, as do banks that process the largest withdrawals before smaller ones.

The FDIC also examined individual transaction information from 39 banks to provide a snapshot of customers who overdrew their accounts on 22.5 million transactions. While seventy-five percent of accounts had no insufficient fund transactions in the twelve months surveyed, nine percent of customers had ten or more insufficient fund transactions in one year. Consumers who overdrew ten to nineteen times in one year paid $451 in fees, while consumers who overdrew twenty times or more paid $1,610 in fees per year.

Consumers who live in low income areas pay the most in overdraft fees, and low income consumers are more likely to have recurrent overdrafts. Young people between 18 to 25 years-of-age are the age group that is most likely to have overdraft loan activity.

Bank overdraft loans are very expensive. Based on the average size of transactions that overdrew accounts, the FDIC calculated the annual percentage rate (APR) for a two week repayment period using the typical $27 fee. A $20 overdraft triggered by a debit card purchase at a store costs 3,520 percent APR. The typical $60 ATM withdrawal on insufficient funds costs 1,173 percent APR. The median size check that overdraws an account is $66, an APR of 1,067 percent. The banks that add sustained overdraft fees and require repayment in less than two weeks make these loans even more expensive.

We hope that Congress will closely examine the FDIC Study of Bank Overdraft Programs and enact legislation to protect consumers from unauthorized high cost loans. Representative Carolyn Maloney's H.R. 946 languished in the 109th Congress and should be a priority next session. The Federal Reserve's proposed rules should be strengthened to require affirmative consumer choice, Truth in Lending Act disclosures, and prohibit manipulation of the order of processing withdrawals.

Consumer Federation, USPIRG, and state consumer group comments to the Federal Reserve Board on overdraft lending practices, August 2008:
http://www.consumerfed.org/pdfs/OD_FRB_comments.pdf

Jean Ann Fox testimony on H.R. 946 before the House Financial Services Committee, July 2007:
http://www.consumerfed.org/pdfs/OD_Maloney_Overdraft_Loan_Testimony071107.pdf

# # #

The Consumer Federation of America (CFA) is a non-profit association of some 300 consumer groups with a combined membership of more than 50 million people. CFA was founded in 1968 to advance the consumer's interest through advocacy, research, and education.