



Consumer Federation of America

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CFA Applauds Federal Reserve Board Overdraft Rules As Good First Step But More Protections Are Needed

CFA Calls On Congress to pass the Overdraft Protection Act of 2009 to limit these abusive fees.

Washington, DC --- Consumer Federation of America (CFA) applauds the final overdraft rule issued today by the Federal Reserve Board as an important first step toward protecting consumers from abusive overdraft lending. The Reg E rule requires banks to get affirmative consent from consumers before charging fees on debit card purchases and ATM withdrawals that overdraw consumers' bank accounts. The Board will require banks to get both new and existing customers' consent and require banks to provide information on overdraft options. Banks will not be permitted to discriminate against consumers who do not opt into fee-based overdraft services or be permitted to charge fees for overdrafts at the ATM or point of sale when consumers have not signed up for this form of overdraft coverage.

"Basic fairness requires that banks get their customers' consent to turn debit cards into credit instruments. Large banks charge \$35 for every small debit card purchase or ATM withdrawal that the bank covers despite insufficient funds in the account," stated Jean Ann Fox, CFA's director of financial services. "Banks and credit unions collected about \$24 billion in overdraft fees in 2008, with small debit transactions the most frequent cause. Instead of denying these transactions for no fee, banks have turned overdrafts into a major profit center."

The Federal Reserve's rule fails to provide essential protections for consumers. These protections are included in H. R. 3904, Representative Maloney's Overdraft Protection Act of 2009, recently heard by the House Financial Services Committee and in S. 1799, Senator Dodd's FAIR Overdraft Coverage Act, to be heard next week.

- Truth in Lending Act coverage for overdraft fees as finance charges
- Ban on bank manipulation of the order in which withdrawals are processed which can drive up the number of overdrafts when funds are low.
- Cap on the number of overdraft fees, limited to one per month and six per year, with banks required to offer lower-cost alternatives to keep covering overdrafts
- Federal Reserve authority to cap overdraft fees based on reasonable cost.
- Warning before a withdrawal at the ATM or with a teller overdraws the account, triggering a fee.

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“CFA urges Congress to go further than the Federal Reserve Board rule to provide comprehensive overdraft protections for Americans struggling to make ends meet,” concluded Fox.