



# Consumer Federation of America

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## CFPB OVERDRAFT REPORT REITERATES ADVOCATES' CONCERNS, HIGHLIGHTS NEED TO EXPAND CONSUMER PROTECTIONS

### *High-Cost of Overdraft, Repeat Usage, Transaction Ordering Present Serious Consumer Protection Challenges*

Washington, D.C. – The Consumer Financial Protection Bureau, in its [report on overdraft fees and practices](#), reaffirmed consumer advocates' concerns about high and frequent overdraft charges and involuntary account closures. The study also raised important questions about how transactions are ordered, a process that has serious implications for the overdraft fees a consumer may incur if the transactions result in a negative balance.

“The CFPB’s thorough and data-driven analysis of financial institution’s overdraft practices raise important questions about how this product impacts a consumers’ ability to maintain a checking account and conduct transactions in a safe and sustainable manner,” said Tom Feltner, director of financial services at the Consumer Federation of America.

The study found that consumers who incurred one or more overdraft fees in 2011 paid an average of \$225 in total fees. The study also estimated that six percent of accounts that were open at the beginning of 2011 or were opened during the year were subject to involuntary closures, which in part could be due to sustained overdraft.

In an effort to better understand transaction ordering, or the order in which deposits and withdrawals are posted to an account, the CFPB study included a detailed analysis of processing procedures in place at financial institutions. The analysis found that posting orders differed widely from institution to institution – a variation that Consumer Federation of America believes makes it difficult for consumers to fully understand the risks they face when conducting important transactions like checking writing, debit purchases, and ATM withdrawals.

To address the issues raised in the report, CFA recommends expanding consumer protections for transaction accounts that include overdraft coverage. These additional protections include:

- Limiting overdraft fees to one fee per month and six fees per year.
- Requiring that overdraft fees be reasonable and proportional to the amount of the overdraft.
- Prohibiting the ordering of transactions from largest to smallest, or requiring a neutral transaction ordering policy.
- Requiring the disclosure of the cost of overdraft as an annual percentage rate to provide consumers with the information needed to compare overdraft to other forms of high-cost credit.

“Consumers, particularly those who frequently have low account balances, need to be able to pay bills, buy groceries and conduct everyday transactions without punitive, frequent and unfair fees,” said Feltner.

***Additional Resources:***

**[New Research Finds that Most Consumers will Have Difficulty Avoiding Rising Bank Checking Fees Unless they Directly Deposit Income Checks, 10/16/12. \(PDF\)](#)**

**[Overdraft Fees at the Largest Banks Inch Upwards, 06/07/12. \(PDF\)](#)**

*Consumer Federation of America is an association of nearly 280 non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, education and advocacy.*