



Consumer Federation of America

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Overdraft Loan Fees Increase at Nation's Ten Largest Banks

Federal Reserve Proposal Fails to Protect Consumers from Unauthorized Loans

Washington, DC – In comments filed this week, Consumer Federation of America (CFA), U.S. PIRG and state consumer organizations told the Federal Reserve and other financial regulators that proposed FTC Act rules on bank overdraft “services” fail to protect cash-strapped families from high cost and unfair loans. The agencies proposed rules that require customers to opt-out of bank overdraft loans to avoid future fees.

Banks loan money to consumers by paying or authorizing checks, debit card purchases, ATM withdrawals and preauthorized electronic payments despite insufficient money in the account to cover the transaction. Banks charge a fee per overdraft and collect payment directly out of the next deposit into the account. Consumers pay at least \$17.5 billion a year for unauthorized overdraft loans, many triggered by small debit card purchases that in the past were denied for no fee.

“Banks should have to get their customers’ affirmative consent before signing them up for their most expensive loans,” stated Jean Ann Fox, CFA’s director of financial services. “It is unfair for banks to make overdraft loans without consumer consent, a firm contract to cover overdrafts, notice that a transaction will trigger an overdraft fee, and cost information on borrowing by overdraft.”

“Overdrafts are a type of credit, and they are one of the most costly types imaginable,” stated Chi Chi Wu, staff attorney at the National Consumer Law Center. “Yet the banks that make these loans don’t have to provide Truth in Lending disclosures, which would inform consumers how expensive this form of credit really is.”

Consumer groups called on the agencies to require banks to get affirmative consent before enrolling their current and prospective customers in fee-based overdraft loans to require banks to comply with Truth in Lending, and to prohibit banks from manipulating the order of processing withdrawals to drive up the number of fees that can be charged.

CFA Survey of Ten Largest Banks’ Overdraft Fees and Practices

CFA reported findings from a new survey of overdraft fees and practices at the ten largest banks, an update to a 2005 big bank fee report. All of the top ten banks unilaterally

authorize payment of overdrafts at the bank's discretion and charge per overdraft fees without advance consent from their customers.

Key findings from the survey of top ten banks' fee schedules and account contracts:

- The average highest fee charged for overdrafts is \$34.65, up 15 percent from the \$30.30 average highest fee charged by the same ten banks in 2005. The highest fee is \$37.50 per overdraft at U.S. Bank after four overdrafts in a year.
- Half of the largest banks use a tiered overdraft fee structure, charging escalating fees for more than one overdraft over a rolling thirteen month time period. For example, PNC Bank charges \$31 for the first three overdrafts in a year, \$34 for four to six loans, and \$36 for seven or more overdrafts in a year. Bank of America charges \$25 for the first overdraft, then \$35 each. In 2005 only three large banks used tiered overdraft fees (Bank of America, National City Bank, and U.S. Bank). See Chart 1 below.
- Sixty percent of the largest banks add a sustained overdraft fee if an overdraft is not repaid within a few days. These banks add \$6 to \$8 per day until the overdraft and fees are repaid or charge a flat fee. For example, Chase charges a flat \$12.50 if an overdraft is not repaid after five days while SunTrust adds an additional \$35 fee on the seventh day an overdraft is unpaid.
- The total cost of a single overdraft at the bank's highest fee that is unpaid after seven days ranges from \$70 at SunTrust to \$30 at CitiBank. U.S. Bank's combined fees total \$69.50. National City charges \$68 and Fifth Third Bank's combined fees total \$57. See Chart 2.
- Only thirty percent of the largest banks set a maximum number of transactions that can trigger an overdraft fee in a single day. Bank of America permits up to seven in one day, up from five last year, for a maximum of \$245 per day in fees. U.S. Bank limits customers to six paid overdrafts and six insufficient funds transactions in one day for a total of \$450 per day in fees. WaMu limits overdrafts at five per day or a maximum of \$170 per day in fees.
- The largest banks process withdrawals largest first (or disclose they pay withdrawals in any order the bank chooses), which results in additional fees when smaller subsequent transactions overdraw an account. See Chart 3.

“Bankers claim that paying the largest check first helps consumers make sure that the mortgage or rent gets paid, even if more transactions bounce or overdraw the account,” stated Ms. Fox. “Only 13 percent of consumers in a national poll agreed with bankers. Most consumers want their banks to pay transactions smallest first or in the order they arrive at the bank.”

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CFA is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy, research and education.

CFA FRB/OTS/NCUA comments and the big bank survey are available at http://www.consumerfed.org/pdfs/OD_FRB_comments.pdf

Chart 1: Overdraft Fees at Ten Largest Banks

Bank	OD Fee	Sustained OD Fee	Maximum Fees
Bank of America	\$25 first \$35	No	7 per day/\$245
Chase	\$25 first OD \$32 2 to 4 OD \$35 5 or more	\$12.50 after 5 days	No max
CitiBank	\$30	No	No max
Fifth Third Bank	\$33	\$6/day after 3 days	No max
National City Bank	\$30 to \$36	\$8/day after 3 days	No max
PNC Bank	\$31 1 to 3 OD \$34 4 to 6 OD \$36 7 or more	\$6/day after 4 days Max \$30 sustained	No max
SunTrust	\$35	\$35 on 7 th day	No max
U.S. Bank	\$19 first OD \$35 2 to 4 \$37.50 5 or more	\$8/day after 3 days	6 OD and 6 NSF up to \$450/day
Wachovia	\$22 first OD \$35	No	No max
WaMu	Free first OD \$34 up to 5/day	No	5 OD or \$170/day

Chart 2: Combined Overdraft and Sustained Overdraft Fees

The total cost of an overdraft if paid after seven days, combining the initial overdraft fee plus the sustained overdraft fee. Each bank's highest overdraft fee was used.

Bank	OD Fee	Sustained OD Fee	Total
Bank of America	\$35	0	\$35
Chase	\$35	\$12.50	\$47.50
CitiBank	\$30	0	\$30

Fifth Third	\$33	4x\$6=\$24	\$57
National City	\$36	4x\$8=\$32	\$68
PNC	\$36	3x\$6=\$18	\$54
SunTrust	\$35	\$35	\$70
U.S. Bank	\$37.50	4x\$8=\$32	\$69.50
Wachovia	\$35	0	\$35
WaMu	\$34	0	\$34

Chart 3: Bank Order of Processing Withdrawals

Bank account contracts include terms that describe how banks order withdrawals for purposes of imposing overdraft or NSF fees. Banks are permitted to use any order they choose as long as that is disclosed. All of the largest banks either say that they pay the largest transactions first or that the bank can use any order of processing that it chooses.

Bank	Pay High to Low	Pay Smallest First	Pay in Any Order
Bank of America	X		X
Chase	X		X
CitiBank	X	Texas only	
Fifth Third	X		X
National City	X (2005)		
PNC	X		
Sun Trust			X
U.S. Bank			X
Wachovia	X		X
WaMu			X