

## What You Need to Know

### What is an Overdraft?

A transaction that your bank pays when you have insufficient funds in your account to cover a payment. Big banks charge on average a \$35 fee each time you overdraft. If you buy three things with your debit card, and you don't have money in your account, you will be charged three separate fees, totally \$105!

Overdraft fees are triggered by not having enough money in your account for a:

- Cash withdrawal at an ATM
- A check
- A debit card purchase
- A preauthorized electronic payment

Some banks also charge a second overdraft fee if the overdraft and fee are not paid back in a few days. "Sustained" overdraft fees are either another flat fee or a fee per day.

If bankers had to tell you the real cost of their "overdraft loans," the annual percentage rate for a \$100 overdraft repaid in two weeks would be more than 900% APR.



## For More Information

### The Consumer Federation of America

<http://www.consumerfed.org/financial-services/credit-and-debt/overdraft-loans>

### The Center for Responsible Lending

<http://action.responsiblelending.org/overdraft>

### Consumers Union

[http://www.defendyourdollars.org/topic/bank\\_accounts/overdraft\\_loans/](http://www.defendyourdollars.org/topic/bank_accounts/overdraft_loans/)

### Consumer Action

<http://www.consumer-action.org/>

### The Federal Reserve

[http://www.federalreserve.gov/consumerinfo/wyntk\\_overdraft.htm](http://www.federalreserve.gov/consumerinfo/wyntk_overdraft.htm)

*Is Your Bank Asking You  
to Opt-In to Steep  
Overdraft Fees?  
Just Say No to Debit Card  
Overdrafts!*



*Get the Facts About  
Overdrafts and Fees*



The **Consumer Federation of America** is a non-profit association of over 280 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.



The Consumer Federation of America

# New Overdraft Rules and How They Affect You

## New Rules Issued by the Federal Reserve

The Federal Reserve issued new rules requiring banks to get consumers' consent or "opt-in" to pay overdraft fees for debit card single purchase and ATM overdrafts. Without opt-in, banks cannot charge these fees and it costs NOTHING to have transactions denied.

- Starting July 1<sup>st</sup>, new account holders MUST tell their banks (opt-in) if they agree to pay overdraft fees for single purchase debit card and ATM transactions covered by the bank.
- Banks must get consent from existing customers by August 15 to continue charging fees for single purchase debit and ATM overdrafts.
- Banks do NOT have to get consent to charge fees for checks, preauthorized payments, and recurring debit card transactions that overdraw your account.

## What Happens If I Don't Opt-in?

If you don't opt-in, your bank will deny transactions that overdraw your account at the ATM or when you use your debit card to make a purchase. You will not be able to spend more money than you have in your account. There is no fee for denied debits.

**Overdraft coverage for other payment methods (checks, electronic payments, etc.)** Most banks will permit customers to **opt out** of having checks, preauthorized payments and recurring debit card payments covered for a fee. Banks charge a bounced check or "non-sufficient funds" fee if these transactions are returned unpaid.

## What's the Real Deal on Overdrafts?

Overdrafts and fees are due immediately and must be repaid within a few days. You do not get an affordable repayment schedule if you opt in.

If you have not brought your account to positive, the bank will take payment out of the next deposit, such as a paycheck or Social Security to repay overdrafts and fees.

Even if you opt in to overdraft coverage, your bank does NOT guarantee that it will cover overdrafts up to a set amount.

Banks use tactics to charge the most fees possible, such as:

- Processing the largest payments first in a day, which can cause more overdraft incidents that trigger more fees.
- Charging additional fees per overdraft if you do not repay them right away. One \$6 lunch can cost you as much as \$93 if not repaid in ten days.
- Charging fees for multiple overdrafts on the same day. You will owe a bank that limits fees to four per day a total of \$140 if you make four transactions without sufficient funds in your account assuming you repay them immediately and do not incur additional sustained overdraft fees.



The Consumer Federation of America urges consumers to just say NO to bank overdraft fees. Do not opt in to overdraft fees for debit card single purchases and ATM withdrawals.

## Other Options

Keep a cushion of extra money in your checking account in case you forget you made a transaction, make a mistake, or have a deposit delayed. Keep track of the money you have available to spend. Sign up for email or text alerts from your bank to keep you updated on your balance, or check your account online.

Most banks offer better and cheaper options in case you overdraw your account. You can link your checking account with:

1. A savings account
2. A credit card
3. A line of credit

Each day that you need a transfer to cover overdrafts, the bank will automatically transfer money to your account. You may pay just one \$5 to \$10 fee to cover the transfer *–but you will not be hit with overdraft fees*. If you choose a credit card or a line of credit, you will be charged some interest on the advance until you pay it back.

Talk to your bank or credit union branch to find the options available to you. If you have already opted in, you have the right to opt out at any time.



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