



Consumer Federation of America

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Despite FRB Opt-In Rules, Big Banks Still Charge Steep Fees for Overdrafts

Consumers Can Tell the Comptroller of the Currency To Improve Protections

Washington, DC ---One year after the Federal Reserve required banks to get customers' permission to charge overdraft fees on debit card transactions, fees charged by banks have not dropped for what amounts to short-term loans. While some banks have modified the order in which they process payments from accounts, most banks continue to pay the largest transactions first, which can drive up overdraft revenue at the expense of struggling families.

The Consumer Federation of America (CFA) today released its updated survey (see link below) of the fourteen largest banks' overdraft fees and practices and urged consumers to tell the Comptroller of the Currency to strengthen proposed guidelines for bank overdrafts.

“Bank overdraft fees at the largest banks remain steep, ranging from \$33 to \$37, and far exceed the typical \$20 debit card overdraft,” stated Jean Ann Fox, director of financial services for CFA. “Some banks have hiked the number of overdraft fees consumers can rack up in a single day to as many as ten, costing consumers as much as \$370 in just one day.”

In the last year, BB&T doubled the number of overdraft fees it charges per day, capping fees at 8 per day, and Regions Bank raised its daily limit from four to six per day. Only TD Bank reduced the number of fees per day from six to five.

The CFA survey found two-thirds of the largest banks pile on second and multiple fees if consumers do not repay overdrafts in just a few days. SunTrust charges a second \$36 fee after seven days while JP Morgan Chase adds \$15 after each five-day period an overdraft remains unpaid.

Overdrafts and fees must be repaid immediately to avoid extra fees or as soon as the next paycheck or benefit check hits the customer's account. Banks repay themselves directly out of the consumer's funds, making overdrafts balloon payment loans and the top priority for scarce family funds.

Most large banks solicit their customers to opt in to paying overdraft fees for debit card purchases and ATM withdrawals that could be denied for no fee. Notable exceptions are

Citibank, which never charged overdraft fees for debit card and ATM transactions, and HSBC which no longer permits overdrafts by debit card at the cash register or ATM. Bank of America does not permit debit card overdrafts for single purchases, but in the last year resumed permitting consumers to overdraw at the ATM at a cost of \$35 per transaction.

Manipulating the order of processing payments from accounts results in more fees for consumers who struggle to make ends meet. In 2010 almost all major banks processed payments largest to smallest or reserved the right to do so. In the last year, three banks improved the order in which they process payments from accounts. Citibank now processes checks smallest to largest and will begin processing ACH payments smallest first in October. Fifth Third and Wells Fargo made changes in the order in which some transactions are paid which should lessen the number of overdraft fees triggered. But most banks haven't improved their posting process.

“Banks extend credit when they pay overdrafts with the bank’s money,” Fox noted. “If the cost is computed as for a payday loan, banks are charging triple and quadruple-digit rates to borrow money when all the fees are added up.”

The highest cost of a \$100 overdraft loan repaid in two weeks, if computed as a closed-end payday loan, is 3,259% APR at Fifth Third Bank, 2,799% APR at RBS Citizens, and 2,574% APR at PNC Bank. There is no legal limit to the size of overdraft fees, the number of fees banks can charge, or the length of time consumers have to repay these loans.

“Consumers need stronger protection from abusive overdraft fees and practices,” Fox noted. “Regulators should prohibit banks from manipulating payment processing order to drive up overdraft fees and should require banks to offer consumers the lowest cost overdraft coverage for which they qualify. Banks should be prohibited from charging for overdrafts triggered by debit cards that can be denied at no cost to consumers,” she urged.

The Comptroller of the Currency is accepting comments through August 8 on proposed guidelines for bank overdraft practices and other loans based on bank accounts.

<http://www.federalregister.gov/articles/2011/06/08/2011-14093/guidance-on-deposit-related-consumer-credit-products>

Consumers can use an easy comment form provided by the Center for Responsible Lending to tell the OCC about needed overdraft reforms.

<https://secure3.convio.net/crl/site/Advocacy?pagename=homepage&page=UserAction&id=340>

Full link to report: www.consumerfed.org/pdfs/OD-14BankSurvey-ChartAugust2011.pdf

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The Consumer Federation of America is an association of nearly 300 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy and education.