REFORM HARMFUL OVERDRAFT FEES

STOP THE DEBT TRAP

Overdraft fees are paid the most by **those who can least afford them.**

These are high fees that bear no relationship to the costs bank incur in covering overdrafts, can be charged an unlimited amount of times, and can be near-impossible to avoid for people living **paycheck to paycheck.**

To protect consumers from harmful overdraft practices, members of Congress should cosponsor the **Overdraft Protection Act (H.R. 4277)** to stop abusive overdraft fees at all financial institutions and to prevent them from coming back

CFPB Director Rohit Chopra has said:

"Overdraft sounds simple but it's not. To correctly predict overdraft fees, customers would need to master the intricacies of a broken payments system. Believe it or not, many large banks today penalize their own customers based on things outside their control... It's complex - and differs from institution to institution. Banks think they can get away with hitting their customers with these kinds of junk fees because such back-end pricing stubbornly resists the normal dynamics of a competitive free market. Even a savvy customer trying to shop for the best checking account would have a hard time parsing it all because she'd have to know the unknowable."

Overdraft fees are a penalty for being poor or financially insecure:

✦ Around nine percent of accounts have frequent overdrafts and those same customers pay nearly 80 percent of overdraft fees. The median account balance of this group is less than $350.

✦ **These fees disproportionately burden consumers of color.** Black and Latino Americans with checking accounts are more likely than white Americans to incur overdraft fees.

✦ The high cost of banking for low-income people and people of color transfers money from these communities to the wealthiest businesses and people in our society. The bill would curb that dynamic and make the banking system more equitable overall.

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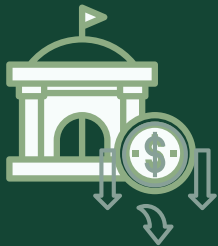
Some banks have recently changed their overdraft programs. While these steps have provided some relief to some consumers, only legally binding public policy can sufficiently protect all consumers from predatory overdraft practices.

Some large financial institutions have eliminated non-sufficient fund ("bounced check") fees. However, many of these institutions still charge three or more overdraft fees (of $34 or more) per day, which can cost low-income consumers more than $100 in a single day. Half measures and voluntary changes that are not broadly adopted are insufficient.

For more information, visit: StopTheDebtTrap.org

Overdraft fees are a prime example of profiteering. In 2019, banks charged **more than $15 billion** in overdraft and non-sufficient fund ("bounced check") fees.

Overdraft fees from debit card payments, which are the most common source of overdrafts, typically come from transactions of less than $24, repaid within three days. Put in lending terms, **a $34 fee for a $24 loan over three days equals a 17,000% APR.**

Overdraft fees are often cited as the reason a formerly-banked person no longer has a bank account. A single overdraft episode can explode into hundreds of dollars in fees, which can make it impossible for the consumer to recover so the bank will close the account.

Harmful overdraft practices remain a systemic problem that policymakers must address. Unless fair, legally binding rules for overdraft are established, abusive fees will continue to financially devastate families.

As described by bill sponsor Congresswoman Maloney (D-NY), the Overdraft Protection Act (H.R. 4277) would:

Require that fees be "reasonable and proportional" to the cost of processing these transactions and the amount of the overdraft.

Prevent institutions from re-ordering transactions to artificially increase their fees.

Limit the number of fees financial institutions can charge per month and per year.

Empower consumers by requiring that they proactively opt-in to overdraft programs in the first place – rather than automatically being enrolled.

Prohibit charging overdraft fees for "debit holds" that exceed actual transaction amounts.