<u>Overdraft Fee Reform</u>
<u>Talking Points – July 2022</u>
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<u>Elevator Pitch</u>

1. Overdraft fees are paid the most by those who can least afford them. The fees disproportionately harm low-income consumers and people of color with bank accounts.

2. These are high fees that:
   - bear no relationship to the costs bank incur in covering overdrafts;
   - can cause a single overdraft to explode into hundreds of dollars in fees; and,
   - can be near-impossible for people living paycheck to paycheck to avoid.

3. Although we acknowledge and applaud that some banks have made significant changes to their overdraft programs, these measures alone are insufficient to make systemic change.

4. We are asking Members of Congress to take action to protect consumers from harmful overdraft practices by cosponsoring Congresswoman Carolyn Maloney's Overdraft Protection Act, H.R. 4277.

<u>Key Points:</u>

5. 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 (source: CFPB, 2021). This money is made off the backs of some of America's most financially vulnerable families, including communities of color

6. Some banks have changed their overdraft programs, with some nixing all overdraft fees, others getting rid of non-sufficient ("bounced check") fees, and some making more modest changes like 24 hour grace periods. While these steps in the right direction should be encouraged and have provided some relief to some consumers, they are insufficient. Many Americans are repeatedly hammered with fees. Only legally binding public policy can adequately protect consumers from predatory overdraft practices.

7. For example, some large institutions have eliminated non-sufficient fund (NSF) fees, saving consumers roughly $1 billion annually; however, many of those same institutions still charge three or more overdraft fees of $34 or more per day, often costing consumers more than $100 in a single day. (Source: CFPB, 2022). **Congress needs to take decisive action to stop abusive overdraft fees at all financial institutions and to prevent them from coming back.**

8. It is wrong for struggling consumers to get hit with exorbitant fees that bear no relationship to a bank's costs for covering overdrafts. A typical debit card overdraft fee, the most common overdraft source, comes from a transaction of less than $24, repaid within three days. Put in lending terms, a $34 overdraft fee for a $24 loan of three days equals a 17,000% APR.

9. Overdraft fees are a **penalty for being <u>poor</u> or <u>financially insecure</u>**. Nearly 80 percent of overdraft fee revenue comes from 9 percent of accounts. The median account balance of this group is less than $350. (Source: CFPB, 2017). Low- to moderate-income households are nearly twice as likely to overdraft than higher-income households (Source: Financial Health Network).

10. These fees disproportionately burden consumers of color, as **Black and Latino Americans** with checking accounts **are more likely than white Americans** to incur overdraft fees. (Source: Financial Health Network)

11. Unexpected and high fees like overdraft are often cited as a reason for a formerly-banked person to no longer have a bank account. Those consumers who opted into overdraft programs were 2.5 times as likely to have an involuntary account closure as opposed to those who did not. (Source: CFPB, 2013). Some consumers cannot recover from a negative account balance from repeated overdraft fees, which will result in the bank closing the account.

12. It can be challenging for people with low balances to avoid being hit with an overdraft fee. The timing of when debits and credits are posted to a checking account is opaque, complicated, and out of the consumers' control. In the past some banks have changed the order of transactions, so they debit from largest to smallest to increase the number of overdraft fees triggered. There is no law preventing this.

13. Financial institutions that rely heavily on overdraft fees for revenue create a greater degree of risk to their business model than institutions that diversify their offerings and rely on a wide set of products and services. As Congress, regulators, and the market more broadly move to reduce overdraft fees, financial institutions that continue to rely on overdraft fees will be left behind.

14. Overdraft fees should not be used as a high-cost form of credit. They should be eliminated or returned as an occasional courtesy for covering a check or preauthorized electronic payment. After six overdraft fees a year, banks should offer an affordable overdraft line of credit or other options for preventing or covering overdrafts.

15. Reforming abusive overdraft practices does not mean ending overdraft coverage. Instead, financial institutions can follow the lead of Capital One to eliminate fees and cover overdrafts at no charge. Financial institutions can recover the overdrafted amount with an incoming deposit. Overdrafts can also be covered with a reasonably priced overdraft line of credit or link to a savings or credit card account.

16. Harmful overdraft practices remain a systemic problem that policymakers should address. Unless fair, legally binding rules for overdraft are established, abusive fees will remain.

17. We ask that Members of Congress cosponsor the Overdraft Protection Act (H.R. 4277). This bill would cap the number of fees per month and year; limit each fee to an amount that is "reasonable and proportional" to financial institutions' costs in the overdraft coverage; and establish additional consumer protections, such as prohibiting the reordering of transactions to maximize overdraft fees.