

SUPPORT THE CFPB'S PROPOSED OVERDRAFT RULE



Virtual
Consumer
Advocacy Week
2024



The Consumer Financial Protection Bureau's new plan to regulate overdraft fees would **rein in junk fees** and **spur competition**. Current overdraft fee practices obscure the true cost of a checking account, undermining the transparency that allows effective competition. And, **abusive overdraft fees unfairly burden consumers**, particularly historically vulnerable communities, while widening the [racial wealth gap](#). Historically, banks covered a customer's paper check as an occasional courtesy. But **this courtesy has long since evolved into a disguised, deceptive, and abusive form of credit— a fully automated, fee-generating, profit-driven operation that costs consumers about \$9 billion annually.**

HOW BAD ARE OVERDRAFT FEES?

- Big banks charge an **average of \$35 for each overdraft**, far above their costs.
- Transactions that lead to overdrafts are often relatively small. For debit card transactions, the **median amount that leads to an overdraft fee is \$24**.
- Banks have engaged in a number of practices to increase overdraft fees, **working against their customers' financial health**.
- **Overdraft fees can quickly snowball into costing consumers hundreds of dollars**, exploiting financially vulnerable families just trying to make ends meet. [According to a CFPB report](#), consumers facing overdraft fees more than ten times a year have an average end-of-day balance of less than \$350.
- Overdraft fees **exacerbate wealth disparities** to the detriment of [Black](#), [Latino](#), and low-income bank customers.
- High overdraft fees are a [leading reason](#) people experience involuntary bank account closures and don't reenter the banking system. **11.3% of Black households and 9% of Latino households are unbanked, compared to only 2.1% of white households.**



Abusive overdraft fee practices exploit families living paycheck to paycheck.

The option of low courtesy fees or reasonably priced lines of credit would be a lower-cost alternative to predatory products. This could help bridge [financial gaps](#).

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Reforms to overdraft fees would ease the way for more affordable and transparent forms of credit.

Banks that wish to charge more than their costs would have to provide transparent APR disclosures, assess ability to repay, give consumers time to repay, and comply with other protections that apply to credit cards. The CFPB would set a “breakeven” fee between \$3 to \$14, and banks could charge more if costs are higher. **These clear guideposts offer safety and reassurance seeking to meet their banking needs.**

The CFPB [proposal](#) gives banks flexibility to charge a modest overdraft fee (about \$3 to \$14) that covers the bank’s costs or to offer an overdraft line of credit, requiring disclosures and other credit protections under the Truth In Lending Act. The CFPB’s proposed rule would apply only to very large financial institutions with assets of \$10 billion or more, covering the 175 largest banks and credit unions, which are responsible for over two-thirds of total market-wide overdraft fee revenue. The CFPB estimates **the overdraft rule will save consumers who pay overdraft fees an average of \$150 a year, a total of [\\$3.5 billion overall](#)**, due to big banks reforming their overdraft and junk fee policies.

The plan would shield consumers from the current predatory nature of overdraft fees while still allowing banks options for how to provide emergency liquidity for consumers.



The proposal would promote fair competition and financial inclusion by:

- Requiring credit to be offered transparently and requiring APR disclosures, **the proposal removes hidden obstacles impeding consumers’ ability to evaluate the true cost of banking services.** This change will allow consumers to decide which form of overdraft protection is best for them and would force banks to compete better for customers.
- Limiting “courtesy” overdraft fees to banks’ costs will reduce incentives for banks to push consumers into overdrafting. Banks that do not engage in those practices will be able to compete on a **fair playing field.**
- Banks could also continue offering the choice of overdraft protection through links to saving accounts or credit cards.
- Reducing high “gotcha” fees will **help restore trust in banks among low-income consumers and consumers of color**, increasing the number of “fully banked” households.