



## Consumer Federation of America

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### **Fees for Unauthorized Overdraft Loans Keep Going Up at Largest Banks** *Consumers Need Better Protections to Safeguard Bank Accounts*

Washington, DC – A new survey of overdraft fees charged by the nation's largest banks reveals that bankers are hiking fees, adding new fees, and shortening time limits to trigger fees when banks pay overdrafts and extend credit to families struggling to make ends meet.

The Federal Reserve has failed to protect consumers from unauthorized bank overdraft loans and, as a result of this inaction, fees for these extremely expensive loans are escalating and multiplying, Consumer Federation of America told members of the Senate Banking and the House Financial Services committees this week. Testifying in support of President Obama's proposed Consumer Financial Protection Agency, CFA noted that regulatory inaction in just this one area is costing hard-pressed American consumers over \$17.5 billion during the worst economic downturn since the Depression.

In a typical overdraft loan program, banks unilaterally loan money to consumers without the consumer's knowledge or consent by paying or authorizing checks, debit card purchases, ATM withdrawals and preauthorized electronic payments when there is insufficient money in the account to cover the transaction. Banks charge a flat fee per overdraft, taking funds directly from the next deposit into a consumer's bank account to repay the overdraft and cover the fee. A growing number of large banks charge additional fees when consumers are unable to immediately repay the overdraft and fees within just a few days, diverting funds from consumers to their banks.

"For years, consumer advocates have complained about these anti-consumer practices and urged the Federal Reserve to force banks to comply with the Truth in Lending Act and get their customers' consent to use this extremely expensive form of credit, but the agency has turned a deaf ear to those requests," stated Jean Ann Fox, CFA's director of financial services. "Instead, the agency has continued to allow banks to collect billions of dollars in overdraft loan fees for credit extended without the customers' consent, and without providing either information on the cost to borrow or affordable repayment schedules."

CFA joins many consumer and community groups in supporting creation of the Consumer Financial Protection Agency to make consumer protection the top priority for an independent federal agency. CFA also supports Rep. Carolyn Maloney's bill (H.R. 1456) to give consumers control over overdraft loans, and Sen. Dick Durbin and Rep. Jackie Speier's bills (S. 500, H.R. 1608) to extend the 36 percent annual rate cap on credit set by Congress to protect Service members to all Americans.

## **CFA Survey of Sixteen Largest Banks' Overdraft Fees and Practices**

In July CFA updated its findings from a survey of the largest banks for comments to the Federal Reserve in March 2009. All of the largest banks unilaterally authorize payment of overdrafts at the bank's discretion and charge per-overdraft fees without advance consent or on-the-spot warning to customers. All of the largest banks also process withdrawals largest first, or retain the right to do so, a practice that optimizes the number of transactions that will trigger an overdraft fee when consumers live paycheck to paycheck – maximizing the cost to consumers and the income to banks.

### **Key findings from the survey of the top sixteen banks' fee schedules and practices:**

- The median overdraft fee is \$35. The highest overdraft fee is \$39, charged by Citizens Bank for the third overdraft in a year. Fourteen of the sixteen largest banks charge \$35 or more per overdraft, either initially or after a few overdrafts in a year.
- Nine of the largest banks charge tiered overdraft fees, escalating the cost of more than one or two overdrafts over a year. For example, Regions Bank in Tennessee charges \$26 for the first overdraft, \$35 for the second, and \$37 each for three or more. Fifth Third Bank switched to tiered fees and now charges \$25 for the first, \$33 for the second to fourth, and \$37 for five or more overdrafts in a year. In February, Bank of America dropped its initial \$25 fee and now charges \$35 for every overdraft over \$5 total overdrawn in one day (those tiny less-than-\$5 total overdrafts still cost a \$10 fee).
- Over sixty percent of the largest banks charge "sustained overdraft" fees when consumers are unable to repay the overdraft and fee in a few days. As of August 1, BB&T will impose its \$30 extra fee after only five days, down from seven days. In June, Bank of America started charging a \$35 sustained overdraft fee when its customers are unable to repay within five business days. Citizens Bank charges two sustained overdraft fees if its customers are unable to repay the overdraft and fees within ten days.
- The total cost of a single overdraft at the banks' highest fee if unpaid after seven days ranges from \$74 at Citizens, \$72 at SunTrust, and \$70 at Bank of America to \$34 at CitiBank and WaMu, neither of which charges a sustained or tiered overdraft fee. If unpaid after ten days, Citizens Bank charges \$109 for a single overdraft. See Chart 1.
- Ten of the largest banks set no limits on the number of overdraft fees charged per day. And the banks that set limits provide little relief for cash strapped customers. This year Bank of America doubled its limit to ten overdraft fees per day, the same that Wells Fargo Bank sets. Both TD Bank and US Bank charge up to six overdraft and six insufficient funds fees per day. See Chart 1.
- In the last year, overdraft fees have gone up at half the surveyed banks. Citibank's fee jumped from \$30 to \$34. Fifth Third Bank dropped its flat \$33 fee and now charges tiered fees up to \$37. PNC increased its sustained overdraft fee by a dollar to \$7 per day and SunTrust upped its fees from \$35 to \$36 for both an initial and sustained overdraft.

Since March, Regions Bank added a dollar or two to each tiered fee while TD Bank added a \$20 sustained fee after an overdraft is unpaid nine days.

- The cost to borrow \$100 via overdraft for seven days, if computed as a closed-end one week payday loan, ranges from 1,768% APR at CitiBank and WaMu to 3,848% APR at Citizens Bank. A Bank of America \$100 overdraft repaid in one week costs \$70 or 3,640% APR. See Chart 2.

“Inaction by bank regulators to protect struggling consumers against astronomically expensive unauthorized overdraft loans illustrates why American consumers need the Consumer Financial Protection Agency to put consumer protection first,” Ms. Fox stated. “Even now, after banks that brought the global economy to the brink of collapse have received billions in taxpayer bailouts, bank regulators appear to care more about protecting bankers’ bottom lines than they do about protecting consumers’ checking accounts and family budgets.”

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*CFA is a nonprofit association of some 280 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers’ interest through advocacy, research and education.*

See Appendix 5: Testimony of Travis Plunkett before the Senate Banking Committee on the Proposed Creation of a Consumer Financial Protection Agency, 07/14/09

[http://www.consumerfed.org/pdfs/Travis\\_Plunkett\\_Testimony\\_CFPA\\_Senate\\_Banking\\_07-14-09.pdf](http://www.consumerfed.org/pdfs/Travis_Plunkett_Testimony_CFPA_Senate_Banking_07-14-09.pdf)

**Chart 1: Bank Initial Overdraft and Sustained Overdraft Fees**

| <b>Bank</b>               | <b>OD Fee</b>                                                  | <b>Sustained OD Fee</b>                                     | <b>Maximum Daily Fees</b> |
|---------------------------|----------------------------------------------------------------|-------------------------------------------------------------|---------------------------|
| <b>Bank of America</b>    | \$35                                                           | \$35 after 5 business days                                  | Ten                       |
| <b>BB&amp;T</b>           | \$35                                                           | \$30 after 7 days                                           |                           |
| <b>Chase</b>              | \$25 first OD<br>\$32 2 to 4 OD<br>\$35 5 or more              | \$0 to \$25 per OD No max after 5 days                      |                           |
| <b>Citibank</b>           | \$34                                                           | No                                                          | 4 fees per day            |
| <b>Citizens Bank</b>      | \$25 first OD<br>\$37 2 <sup>nd</sup> OD day<br>\$39 3 or more | \$35 after 6 days<br>\$35 2 <sup>nd</sup> fee after 10 days |                           |
| <b>Fifth Third Bank</b>   | \$25 first OD<br>\$33 2 to 4 OD<br>\$37 5 or more              | \$8/day after 3 days                                        | No max                    |
| <b>HSBC</b>               | \$35                                                           | No                                                          | No max                    |
| <b>National City Bank</b> | \$30 to \$36                                                   | \$8/day after 3 days                                        | No max                    |
| <b>PNC Bank</b>           | \$31 1 to 3 OD<br>\$34 4 to 6 OD<br>\$36 7 or more             | \$7/day after 4 days<br>Max \$35 sustained                  | No max                    |
| <b>Regions Bank</b>       | \$26 first OD<br>\$35 2nd OD<br>\$37 3 or more                 | No                                                          | No max                    |
| <b>SunTrust</b>           | \$36                                                           | \$36 on 7 <sup>th</sup> day                                 | No max                    |
| <b>TD Bank</b>            | \$35                                                           | \$20 on 10 <sup>th</sup> day                                | 6 OD and 6 NSF            |
| <b>U.S. Bank</b>          | \$19 first OD<br>\$35 2 to 4<br>\$37.50 5 or more              | \$8/day after 3 days                                        | 6 OD and 6 NSF            |
| <b>Wachovia</b>           | \$22 first OD<br>\$35                                          | No                                                          | No max                    |
| <b>WaMu</b>               | 1 free OD<br>\$34                                              | No                                                          | 7 OD                      |
| <b>Wells Fargo</b>        | \$35                                                           | No                                                          | 10 OD                     |

**Chart 2: Total Cost of Bank Overdraft “Payday” Loans**

This chart illustrates what a \$100 overdraft would cost when the overdraft remains unpaid for seven days, using the bank’s maximum fee and the sustained overdraft fees that would be imposed over a seven-day time period. The APR is computed as if this were a closed end one week payday loan.

| <b>Bank</b>            | <b>Max OD Fee</b> | <b>Sustained OD Fee<br/>Times # of Days</b> | <b>Total</b> | <b>APR/7 days</b> |
|------------------------|-------------------|---------------------------------------------|--------------|-------------------|
| <b>Bank of America</b> | \$35              | \$35 <sup>1</sup>                           | \$70         | 3,640%            |
| <b>BB&amp;T</b>        | \$35              | \$30                                        | \$65         | 3,380%            |
| <b>Chase</b>           | \$35              | \$12.50 (AZ)                                | \$47.50      | 2,470%            |
| <b>Citibank</b>        | \$34              | 0                                           | \$34         | 1,768%            |
| <b>Citizens</b>        | \$39              | \$35                                        | \$74         | 3,848%            |
| <b>Fifth Third</b>     | \$37              | 4x\$8=\$32                                  | \$69         | 3,588%            |
| <b>HSBC</b>            | \$35              | 0                                           | \$35         | 1,820%            |
| <b>National City</b>   | \$36              | 4x\$8=\$32                                  | \$68         | 3,536%            |
| <b>PNC</b>             | \$36              | 3x\$7=\$21                                  | \$57         | 2,964%            |
| <b>Regions</b>         | \$37              | 0                                           | \$37         | 1.924%            |
| <b>SunTrust</b>        | \$36              | \$36                                        | \$72         | 3,744%            |
| <b>TD Bank</b>         | \$35              | \$20                                        | \$55         | 2,860%            |
| <b>U.S. Bank</b>       | \$37.50           | 4x\$8=\$32                                  | \$69.50      | 3,614%            |
| <b>Wachovia</b>        | \$35              | 0                                           | \$35         | 1,820%            |
| <b>WaMu</b>            | \$34              | 0                                           | \$34         | 1,768%            |
| <b>Wells Fargo</b>     | \$35              | 0                                           | \$35         | 1.820%            |

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<sup>1</sup> Bank of America limits its initial overdraft fee for \$10 for overdrafts that total \$5 or less in one day.