



## Consumer Federation of America

1620 I Street, N.W., Suite 200 \* Washington, DC 20006

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Contact: Jean Ann Fox, CFA, 928-772-0674

### **Consumers Warned Not to Opt In as Banks Market Expensive Debit Card Overdraft Fees**

Federal Reserve Rules Take Effect July 1 for New Accounts

Washington, DC --- The Consumer Federation of America (CFA) today released information to help consumers decide whether to opt-in to bank overdraft fees for debit card purchases and ATM withdrawals. CFA updated a survey of the largest fifteen banks' overdraft fees and limits, reviewed bank overdraft opt-in forms, and calculated the total cost to consumers of a single debit card overdraft.

New rules issued by the Federal Reserve require banks to get consumers' permission to charge overdraft fees for single debit card purchases and ATM withdrawals. These rules become effective July 1 for new accounts and August 15 for accountholders. Banks can continue to charge overdraft fees for checks, preauthorized electronic payments, and recurring debit card transactions without customer consent. As the deadlines near, banks that make \$23 billion a year in overdraft revenue are rolling out changes to overdraft programs as they vigorously market debit overdraft opt-in.

"Bankers are asking their customers to sign up for their most expensive form of overdraft coverage. Consumers should just say no to these astronomical fees," noted Jean Ann Fox, director of financial services for Consumer Federation of America.

#### Major Banks Opt Out of Opt In

A few major banks, such as Bank of America, Citibank and USAA, are not selling debit and ATM overdraft coverage. These banks deny ATM and single debit card transactions that exceed the funds in an account. These banks help consumers manage their money and avoid unexpected steep fees. Chase does not permit overdrafts at the ATM, but is aggressively marketing debit card purchase overdraft.

"Banks should not permit consumers to spend more than they have in their accounts," Fox stated. "Debit overdraft fees typically cost more than the amount overdrawn." The average debit card purchase overdraft is just \$20 while the typical big bank overdraft fee is \$35.

#### Banks Revamp Fees, Drop Lowest Fees

In order to encourage consumers to opt-in, banks are simplifying their complicated overdraft fee structure. Unfortunately, they are eliminating the lowest fees in the process. Since February, Chase, Citizens/RBS, Regions, and US Bank have eliminated or collapsed tiered fees. Chase now charges a flat \$34 overdraft fee instead of fees ranging from \$25 to \$35. Wells Fargo

dropped its initial \$25 fee and now charges \$35 for each overdraft. Fifth Third Bank retained its fee tiers, charging \$25 for the first overdraft, \$33 for two to four overdrafts, and \$37 for five or more overdrafts in a year.

The typical big bank overdraft still costs \$35, with the banks' top fees ranging from \$33 at US Bank to \$37 at Citizens/RBS and Fifth Third Bank. The only significant fee cut is by US Bank which dropped its fee for overdraft amounts of \$20 or less to \$10, with larger overdrafts costing \$33. Previously, US Bank charged tiered fees of \$19 to \$37.50 each.

### Banks Charge Twice for the Same Overdraft

Nine of the fifteen largest banks charge a second fee if consumers have not repaid the original overdraft and fee within a few days. These "sustained" overdraft fee ranges from a flat \$15 after five days at Chase to \$36 at SunTrust if an overdraft is not repaid in seven days. Other banks charging their customers twice for a single debit overdraft include BB&T (\$30 after seven days), US Bank (\$25 per week) and TD Bank (\$20 on the 10<sup>th</sup> day.) Three large banks charge per-day sustained overdraft fees. Citizens/RBS adds \$6.99 per day on the 4<sup>th</sup> through 13<sup>th</sup> day that an overdraft remains unpaid. Fifth Third adds \$8 per day after three days and PNC Bank charges \$7 per day after four days up to a maximum of \$98.

### Multiple Fees for A Single Overdraft Add Up

Consumers asked to opt in to debit overdraft fees may not realize the total amount they are agreeing to pay. The total cost of one \$10 overdraft paid in ten days adds up to \$85.93 at Citizens/RBS and \$93 at Fifth Third. The combination of original and sustained overdraft fees makes a single debit card overdraft cost \$78 at PNC, \$72 at SunTrust, and \$65 at BB&T. Due to US Bank's lower initial fee for small overdrafts, a \$10 ten-day overdraft costs \$35 while a \$21 ten-day overdraft costs \$58.

"Banks should be prohibited from piling on multiple fees," Fox noted. "Overdraft fees have no connection to the amount of credit extended or the bank's cost to cover transactions."

### Bank Limits on the Number of Overdraft Fees Provide Little Protection

Most large banks set a maximum number of overdraft fees that can be charged per day and some set a dollar threshold amount that triggers a fee. Even with these limits, banks can still pile on the overdraft fees in a single day. For example, Regions Bank starts charging fees if the total overdraft per day exceeds \$5, and limits to four the number of overdraft fees charged in a day. A consumer who opts in to Region's debit card overdraft program, therefore, agrees to pay up to \$140 in a single day for as little as \$5.01 total overdrawn in four debit card transactions. A consumer opting in at Fifth Third Bank could owe \$370 in just one day. HSBC sets no limit on the number of \$35 overdraft fees it charges per day.

"The Federal Reserve does not require banks to quote the total fees consumers can rack up per day," noted Fox. "Consumers who check the opt-in box are not likely to know how much they can owe their banks for a series of very small overdrafts."

## High Fees and Short Repayment Terms Make Overdrafts Pricey “Loans”

Banks use their funds to pay overdrafts and charge consumers for the use of the bank’s funds which should make these credit transactions. However the Federal Reserve does not require banks to comply with the Truth in Lending Act (TILA) or quote the APR for these overdraft “loans.” Banks use a process called “set-off” to take payment directly out of the next deposit to consumers’ accounts, making overdrafts the bank equivalent of a payday loan... an extremely expensive cash advance based on access to the borrower’s bank account and due in full on the next payday.

CFA calculated the APR for a \$100 debit overdraft using each bank’s top fee plus any sustained overdraft fees if repaid in two weeks. If computed as a closed-end payday loan, bank overdraft fees translate to APRs ranging from 910 percent at Capital One, HSBC, and Wells Fargo/Wachovia to 3,250 percent at Fifth Third.

“Consumers don’t get APR disclosures to help them compare the cost of an overdraft loan with other forms of credit,” Fox noted. “Without TILA protection, banks have first claim on their customers’ next deposited paychecks or Social Security benefits to repay overdrafts and fees.”

## Opting Into Overdrafts Doesn’t Guarantee Protection

Banks are selling debit card overdraft coverage as a way consumers can make sure single debit purchases and ATM withdrawals are honored, and to avoid the embarrassment of having a debit card purchase denied at check-out. But banks make no guarantee to consumers opting into debit card overdrafts that each transaction up to a set amount will be covered. Federal Reserve rules permit debit card overdraft coverage to be discretionary on the part of the bank. Bank opt-in forms make clear that banks can deny coverage of transactions and that consumers cannot count on having overdrafts paid.

## Lower Cost Overdraft Options Available

All of the largest banks provide much lower-priced overdraft options, including transfers from savings accounts and credit cards, as well as lines of credit. The Federal Reserve opt-in form requires banks to disclose their options, but not to present the cost of each option in an easy to compare format. Most large banks charge \$10 to transfer funds from savings to pay all overdrafts at the end of the day. Overdraft lines of credit typically cost 18 percent per year, not 910 percent for a two-week overdraft “loan.” Banks are not required to clearly disclose that the cost of not opting in to debit card overdraft coverage is **zero**.

“CFA advises consumers to pitch out their banks’ opt in forms for debit card overdraft coverage,” Fox said. “Keep a cushion in your account, sign up for text or email alerts, and link checking to your savings account to avoid paying \$35 for \$5 overdrafts,” Fox urged.

*The Consumer Federation of America is a non-profit association of more than 280 groups that, since 1068, has sought to advance the consumer interest through advocacy and education.*

Attachments: [CFA Survey of Big Bank Overdraft Fees and Terms](#)  
[CFA Bank Debit Card Overdraft Total Costs and APRs](#)  
[CFA Overdraft Advice for Consumers Brochure](#)