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FEDERAL RESERVE BANK OVERDRAFT LOAN PROPOSALS FAIL TO PROTECT CONSUMERS

National Consumer Groups Call for Truth in Bounce Loans

Washington, DC -- Banks can continue making exorbitantly expensive overdraft loans without telling consumers their true cost under draft regulations proposed by the Federal Reserve Board, according to comments filed today by Consumer Federation of America, National Consumer Law Center, Consumers Union, National Association of Consumer Advocates and Woodstock Institute. The Fed's proposed Truth in Savings Act regulations permit banks to entice consumers to overdraw their bank accounts without a firm commitment to cover overdrafts and without clearly disclosing the cost of these loans---a requirement for all other lenders under the Truth in Lending Act.

"The Federal Reserve has failed to protect consumers from bank 'bounce' loans that force consumers to pay triple-digit interest rates," stated Jean Ann Fox, director of consumer protection for CFA. "Bank 'bounce' loans are payday loans without a contract or cost disclosures."

A growing number of banks and other financial institutions have adopted software and marketing programs to boost their overdraft fee profits by encouraging consumers to overdraw their bank accounts by check, and by allowing overdrafts at ATMs for cash withdrawals and purchases using debit cards. Banks charge high penalty fees for each overdraft, ranging from $20 to $35 per overdraft plus a per day fee of $2 to $5 at some banks until the account is brought to a positive balance. With "bounce loan" programs, banks pay themselves back the amount of the overdraft and fees out of the next deposit. Bounce loans are astronomically expensive. A $100 overdraft with a $20 fee has an APR of 520% if the overdraft lasts two weeks.

"The Federal Reserve Board and other banking regulators have explicitly admitted that bounce loans are credit, yet the Fed has failed to protect consumers by regulating these loans under the key federal law governing credit," stated Chi Chi Wu, Staff Attorney at the National Consumer Law Center.

Gail Hillebrand, Senior Attorney for Consumers Union, noted, "Payday lenders, pawnshops, and finance companies have to comply with Truth in Lending. Why don't banks? And how is a cash-strapped consumer supposed to tell what's more expensive when one of the highest cost cash products on the market doesn't come with an APR?"

A survey of fifty financial institution web sites by CFA found 41 institutions that advertise bounce loans, with over a third of the ads aggressively encouraging consumers to overdraw their accounts with statements such as "running a little thin right before payday?" and "do you find yourself with unforeseen expenses?" Some banks lead consumers to trust that the bank will always pay overdrafts with claims of "we've got you covered" or "peace of mind," while fine print disclosures give the bank the flexibility of deciding not to cover overdrafts. According to the CFA survey, bank ads and fine print leave consumers in the dark on the cost and terms of overdraft programs.

"Consumers believe that it is unfair for banks to allow them to overdraw their accounts without notice or consent," stated Jean Ann Fox, CFA.

For many consumers, overdraft charges on their ATM or debit accounts come as a complete surprise. A recent public opinion poll of 1,000 representative adults conducted for CFA by Opinion Research Corporation International reveals that 82% of consumers believe overdrafts without notice at the ATM are unfair, with 63% saying it was "very unfair." Twice as many consumers thought that banks permitting overdrafts without getting their consent was unfair (68%) rather than fair (29%).

CFA, NCLC and CU also pointed out that bounce loans made through ATM and debit cards transform them into extraordinarily high-priced credit cards. These loans are even more abusive, because consumers don't expect to be allowed to overdraw their accounts through ATM withdrawals and point-of-sale purchases. In addition, the excuse that bounce loans save retailer fees doesn't usually apply to ATM and debit card bounce loans.

NCLC, CFA, and the other organizations called on the Federal Reserve to require bank overdraft programs to comply with Truth in Lending open-end credit rules. If these recommendations are accepted, banks will no longer be permitted to provide "courtesy overdraft" without a contract with accountholders, without APR cost disclosures, and without recourse for consumers.

The comments to the Federal Reserve are posted at www.consumerfed.org and at www.consumerlaw.org.

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The Consumer Federation of America is a nonprofit association of 300 consumer groups, established in 1968 to advance the consumer interest through research, education, and advocacy.

National Consumer Law Center is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC works with thousands of legal services, government and private attorneys, as well as organizations, who represent low-income and elderly individuals on consumer issues. NCLC filed the comments on behalf of its low-income consumers

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