



SAFE CHECKING IN THE ELECTRONIC AGE

THE NEED TO ADDRESS EXCESSIVE BANK OVERDRAFT FEES

In April 2011, the Pew Health Group's Safe Checking in the Electronic Age Project released [*Hidden Risks: The Case for Safe and Transparent Checking Accounts*](#). This report examined the terms and conditions of over 250 distinct types of checking accounts offered online by the 10 largest banks in the United States as of October 2010. At that time, these banks held nearly 60 percent of all deposit volume nationwide.

Pew's Finding: Overdraft fees and practices cost consumers billions of dollars each year and put many at risk for loss of their checking accounts. The median overdraft penalty fee was \$35, with a range of \$10 to \$36. If this \$35 fee is applied to the median overdraft amount of \$36 with a repayment period of seven days, the annual percentage rate on the typical overdraft would be over 5000 percent—a costly way for customers to address their credit needs.¹ Nine of 10 banks studied also offered overdraft transfer plans. In these plans, if a customer makes a transaction that overdraws his or her checking account, the bank transfers money into that account from the customer's linked savings account, credit card or line of credit. The median overdraft transfer fee was \$10.

Pew's Policy Recommendation: Policy makers should require overdraft penalty fees to be reasonable and proportional to the bank's costs in providing the overdraft loan. Regulators also need to monitor overdraft transfer fees and impose similar reasonable and proportional requirements if it appears that they are becoming so disproportionate as to suggest that they have become penalty fees as well.

Nine of the 10 banks studied put a limit on the number of overdraft penalty fees charged to a customer on a given day. Under this system, median overdraft penalty fees of \$35 make it possible for a customer to be charged \$140 or more per day.²

If a customer's account remains overdrawn for a specified number of days, banks will charge an extended overdraft fee for every given number of days that the account remains overdrawn. The median extended overdraft penalty fee was \$25, with the fee varying among accounts from \$7 to \$36. The median number of days that an account must be overdrawn in order to begin incurring these fees was seven days.

Overdraft transfer plans generally are better products for consumers than overdraft penalty programs since these plans cut off the potential for contributing to a cycle of debt. However, should overdraft transfer fees increase, this would disincentivize savings and may push

customers into overdraft penalty plans. Regulating only overdraft penalty fees and not transfer fees as well may exacerbate the situation. Transfer fees are already high: \$10 can be considered an excessive charge for a consumer to access his or her own money.

Overdraft penalty fees far exceed the incremental cost to the bank of providing this service because these transactions, designed to be paid back with the customer's next deposit, pose minimal credit risk. Yet banks maintain that overdraft penalty fees are just that—penalties—and are meant to deter customers from overdrafting.³ If the point is to deter customers from exceeding their account balance, the most direct way to do this is to simply deny the overdraft itself.

According to a Pew-commissioned poll of U.S. checking accountholders conducted in July 2011, when asked their opinion on requiring a limit on overdraft fees based on how much it costs the bank to provide the overdraft⁴

- 69 percent of all American checking accountholders say that this would be a positive change, while only 11 percent say this would be a negative change.
- 74 percent of Democrats, 65 percent of those who identify as independents, 67 percent of Republicans and 64 percent of those who identify with the Tea Party say this would be a positive change, while only 8 percent of Democrats, 14 percent of independents, 14 percent of Republicans and 15 percent of Tea Partiers say this would be a negative change.
- 79 percent of those who have opted-in to overdraft coverage for their debit card and 67 percent of those who have not opted-in to overdraft coverage for their debit card say this would be a positive change, while only 9 percent and 12 percent, respectively, say this would be a negative change.

ENDNOTES

1. Federal Deposit Insurance Corporation, *Study of Bank Overdraft Programs* (Nov. 2008), available at www.fdic.gov/bank/analytical/overdraft/FDIC138_Report_Final_v508.pdf. Seven days is the median length of time before a second fee—an extended overdraft penalty fee—is assessed for an unpaid overdraft and overdraft penalty fee.
2. The median cap on the number of overdraft penalty fees per day was four. Multiplied by the median overdraft penalty fee of \$35, this means it is possible for a customer to be charged up to \$140 per day in overdraft penalty fees.
3. The Overdraft Protection Act of 2009 Hearing, before the House Committee on Financial Services, 111th Cong. (Oct. 30, 2009) (statement of Nessa Feddis, VP and Senior Counsel, American Bankers Association, pg. 6), available at financialservices.house.gov/media/file/hearings/111/feddis_-_aba.pdf.
4. Polling data are from a Pew-commissioned national survey of 805 checking accountholders conducted July 5–10, 2011, by Hart Research Associates (D) and McLaughlin & Associates (R).