



May 4, 2022

U.S. Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Financial Institutions and Consumer Protection
534 Dirksen Senate Office Building
Washington, D.C. 20510

Re: Examining Overdraft Fees and Their Effects on Working Families

Consumer Reports appreciates the Senate Committee on Banking, Housing, and Urban Affairs holding a hearing to examine overdraft fees. We write today to express our concern regarding overdraft fees, which penalize low and moderate income consumers with excessive charges for not having enough money in their accounts. **We urge the Committee to protect financially vulnerable consumers and rein-in overdraft fees by passing S.2677, the Stop Overdraft Profiteering Act.**

Overdraft services are effectively short-term lending programs with extremely high interest rates, as banks provide short-term liquidity for overdrawn transactions in exchange for a fee.¹ The Consumer Financial Protection Bureau has stated that “put in lending terms, if a consumer borrowed \$24 for three days and paid the median overdraft fee of \$34, such a loan would carry a 17,000 percent annual percentage rate (APR).”² Only eight percent of customers incur almost 75% of the revenue of all overdraft fees,³ and the vast majority of overdraft revenue comes from a relatively small percentage of consumers who struggle to keep positive checking account balances.⁴

More must be done to protect consumers from excessive overdraft penalties. A number of major banks have reduced or eliminated overdraft fees, and as research shows, a large majority of

¹ In 2014, the Consumer Financial Protection Bureau found that “in the case of debit card transactions, the median amount that leads to an overdraft fee is \$24 and the median amount of a transaction that leads to an overdraft fee for all types of debits is \$50. Most consumers who overdraft bring their accounts positive quickly, with more than half becoming positive within three days and 76 percent within one week.” Overdraft fees are typically a flat fee rarely charged in relation to the amount overdrawn, and the average fee is \$35. Consumer Financial Protection Bureau, *CFPB Finds Small Debit Purchases Lead to Expensive Overdraft Charges* 1 (2014) available at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finds-small-debit-purchases-lead-to-expensive-overdraft-charges/>

² Ibid.

³ Consumer Financial Protection Bureau, *Data Point: Frequent Overdrafters* 5 (2017) available at https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_frequent-overdrafters.pdf

⁴ Consumer Financial Protection Bureau, (2014)

consumers (68%) would prefer to have their overdrawn transaction denied at no expense to them, rather than pay a \$35 fee.⁵ Additionally the rise of online banks, many with fee-less deposit accounts, provide consumers with alternatives to traditional fee-based overdraft programs. Despite all of this, the average overdraft fee continues to increase year over year.⁶ For these reasons, banks that continue to charge overdraft fees are both behind industry trends and neglectful of consumer sentiment, and should eliminate overdraft fees altogether.

Consumer Reports strongly urges the Senate Committee on Banking, Housing, and Urban Affairs to pass S.2677, the Stop Overdraft Profiteering Act of 2021, which limits the number of overdraft fees that can be charged each month and year, requires banks to post transactions so that overdraft fees are minimized, and requires overdraft fees to be proportional to the cost of covering the overdrawn transaction. Furthermore, we applaud and support any effort to strengthen, not weaken, consumer protections against the abusive nature of overdraft programs.

Respectfully submitted,



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⁵ The Pew Charitable Trusts, *Overdrawn: Persistent Confusion About Bank Overdraft Practices*, (2014) 10, available at:

https://www.pewtrusts.org/-/media/assets/2014/06/26/safe_checking_overdraft_survey_report.pdf

⁶Bankrate, *Survey: Free checking accounts on the rise as total ATM fees fall*, (2021) available at <https://www.bankrate.com/banking/checking/checking-account-survey/#overdraft>