

# In the Red: Major banks change overdraft fee policies

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Kelly Carlos had deposited her payroll check two days earlier and planned to spend a little money on her day off from work.

Her first stop: a local doughnut shop. Carlos did not have any cash on her, so she used her debit card to buy her favorite treat. The Boston University College of Communication junior then went shopping and made two other purchases with her debit card.

When Carlos returned home from her day out, she checked her email and found messages from her bank informing her that her payroll check had bounced. The ensuing bounced check fee had put her checking account in the red. Carlos' purchases from the day, including the doughnut, each resulted in \$35 fees, resulting in overdraft charges of over \$100.

Carlos had signed up for email alerts to tell her when her balance was low, but she only received a notification from her bank after her account dropped into the negative.

"I was only alerted after I had made many transactions in the negative," Carlos said. "It was a horrible experience."

In response to numerous consumer stories like Carlos', Congress and the Federal Reserve are working on legislation and regulations to reform banks' overdraft policies in hopes of preventing more consumer nightmares.

A bill proposed by Senate Banking Committee Chairman Chris Dodd, D-Conn., would prevent banks from automatically enrolling new customers in overdraft programs, and instead require that customers "opt-in" to the service.

BANKS REACT

Some of the nation's largest banks have responded to the political debate and consumer pressure by revising their overdraft policies, with some changes going into effect later this month.

Last month, Bank of America announced that beginning Oct. 19, the country's largest bank will not charge an overdraft fee if an account is overdrawn by less than \$10. The bank also will now limit the number of times you can be charged an overdraft in one day from 10 to four. The initial overdraft fee will still be \$35.

Starting in June, Bank of America customers will have ask to have overdraft coverage, rather than overdrawing being the default setting. If you do not opt-in to the overdraft program, you will no longer be able to overdraw your account. Bank of America will also limit the number of times you can overdraw your account in a year with a debit card.

JP Morgan Chase will start requiring customers to opt into its overdraft program in the first quarter of 2010. Existing account holders will have to notify the bank if they still want to be able to overdraw their accounts. The maximum number of overdraft fees a customer can be charged a day will be reduced from six to three.

Wells Fargo and Co. will no longer charge for customers for overdrawing their accounts by less than \$5 and will enable customers to opt-out of their overdraft program.

Some consumer advocates say the banks new overdraft policies are just public relations moves to prevent new federal or state regulations of overdraft programs.

"The banks got nervous and concerned," Deirdre Cummings, the legislative director of MASSPIRG, a consumer protection non-profit in Massachusetts, said. "Our regulators need to look past their announcements."

Cummings said a combination of state and federal laws is needed to prevent banks from continuing to take advantage of customers through the use of exorbitant overdraft fees. Cummings said state regulations are important in addition to federal laws because consumers may face issues in Massachusetts that are much different than what consumers in another state face.

"With no legislative guidance on the federal or state level the banks have gone overboard on overdraft fees," Cummings said. "They have used them as a revenue generator by charging excessive fees."

American banks are set to make \$38.5 billion in overdraft fees year this year, a record windfall according to Moebs Services, an economic research company. For many banks, income from overdraft fees, which commonly exceed \$30, will eclipse their net income, reported Moebs.

A Bank of America spokesman said the bank's decision to revise their overdraft policies was not a result of political pressure and that only a tiny percentage of customers accumulate hefty overdraft fees.

"This is part of larger effort to provide more choice for our customers, which is especially important in these economic times," spokesman T.J. Crawford said. "A small percentage of customers have become dependent on [overdraft programs], which results in excessive fees for them."

Crawford said many of Bank of America's customers benefit from overdraft programs and will still request the service.

"Many customers understand and rely on the convenience of overdraft coverage," Crawford said. "That is why we want to ensure the overdraft coverage is available to those who choose it."

A spokesman for Chase also said the bank's change in policy was a result of consumers increasingly using debit cards to overdraw their accounts.

Consumer advocates question what benefits overdraft programs actually offer consumers. Linda Sherry, a spokeswoman for Consumer Action, a national consumer advocacy group, said overdraft programs are a "terrible product."

Sherry and Cummings said what troubles them most is banks' practice of processing the largest transaction in a day first, which often results in more overdraft fees for customers than if the bank had processed transactions in the order they were conducted.

Chase said that it will end this practice when it makes other changes to its policies in the first quarter of 2010.

## STUDENT IMPACT

Sherry said that overdraft programs enable banks to make profits off customers who can least afford to pay the fees, a group which includes college students. Young adults pay almost \$1 billion in overdraft fees each year, according to the Center for Responsible Lending.

"College students are a population that lives close to the bone with cash flow and they are the kind of people that get caught up in overdraft fees," Sherry said. "Richer people are more sophisticated and know how to avoid these things."

Sarah Halle, a College of General Studies sophomore, said she overdrew once because she forgot how much money she had in her checking account. Halle's mom paid the fee for her, but Halle said a warning

would have helped her avoid the miscue.

“I think any sort of warnings are good because life is so fast-paced and lot of people do not have time to check their balances,” Halle said.

Simon Mendes, a CGS freshman, said he has no problems with banks charging overdraft fees. Mendes said the fees should be lower to begin with, but then gradually increase if a customer keeps overdrafting.

“If fees go up if you keep overdrafting, you will be more aware and less likely to overdraw at all,” he said.

## NO MORE FREE ACCOUNTS

Banks would prefer an opt-out rather than opt-in requirement, but they are preparing for opt-in or changing their policies now before any action by Congress or the Federal Reserve, Nessa Feddis, vice president and senior counsel for the American Bankers Association, said. Feddis said the Fed is expected to release new rules about overdraft programs in December.

Consumer groups and banks both agree that a national opt-in requirement will result in fewer consumers signing up for overdraft programs, which will likely result in bank revenues taking quite a hit. Some experts believe the loss in revenue will lead to banks no longer offering free accounts to consumers.

“The marketing attraction of free accounts is very strong, so I do not think you will see a rush to go back to accounts that aren’t free,” Feddis said. “But at the end of the day income has to exceed expenses.”

Crawford said Bank of America will make changes to minimize the impact of lost overdraft fee revenue, but he said he did not know what the changes will be. Fusco said Chase has no plans to increase fees in other areas to recoup lost overdraft-fee revenues.

“Given the size and scope, we believe the impact will be manageable for the firm,” Fusco said. “We we believe lower fees will be offset consumer satisfaction and result in greater retention of our customers.”

Sherry said she supports any bill that would require consumers to opt-in to an overdraft program rather than opt-out.

“If someone needs something, they will find it and they will use it,” Sherry said. “There is no need shoving it down people’s throats.”

Mark Calabria, the director of financial regulation studies at the Cato Institute, a libertarian think tank based in D.C., said he has been surprised that overdraft fees have been getting so much attention from Congress. Calabria said the Senate Banking Committee and the House Financial Services Committee should be focusing all their energy on legislation to prevent another financial crisis from occurring.

“I don’t know of anyone who thinks overdraft fees got us into the financial crisis,” Calabria said. “Focusing on overdraft fees is nothing more than political pandering.”

For Kelly Carlos, overdraft fees led to her own personal financial crisis and deserve plenty of attention, she said. Carlos now carries more cash to try to prevent herself from racking up hefty fees again, and said she wishes that she did not have the ability to overdraw her account.

“If my transactions had been rejected, I would never have had to deal with such a mess,” she said.

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