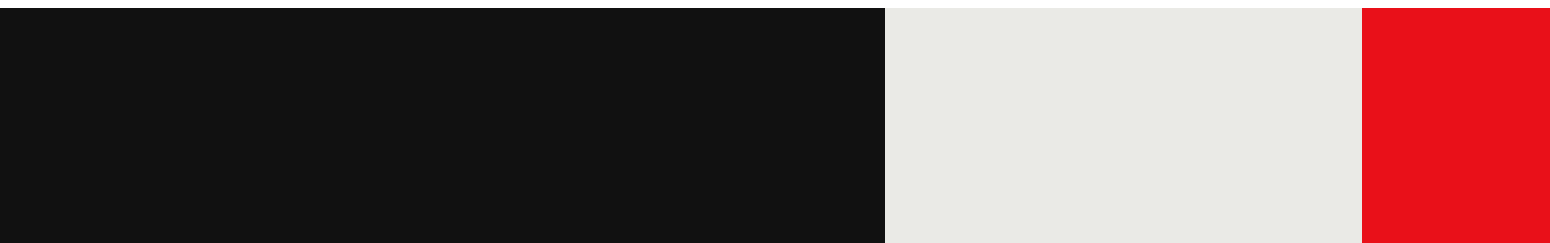



Overdraft fee income for banks closes out 2020 with a muted resilience

Article



Overdraft charges collected by US banks bounced back in the second half of 2020 after plummeting at the onset of the pandemic, as [reported](#) by S&P Global Market Intelligence. Accounting for 64% of all service charges on consumer deposits, they soared 64% from Q2 2020 lows to \$2.3 billion in Q4. This represents a significant improvement for banks, but total

overdraft fees remain 24% lower than where they stood in Q4 2019, and industry headwinds make it unclear if they will ever return to their pre-pandemic levels.

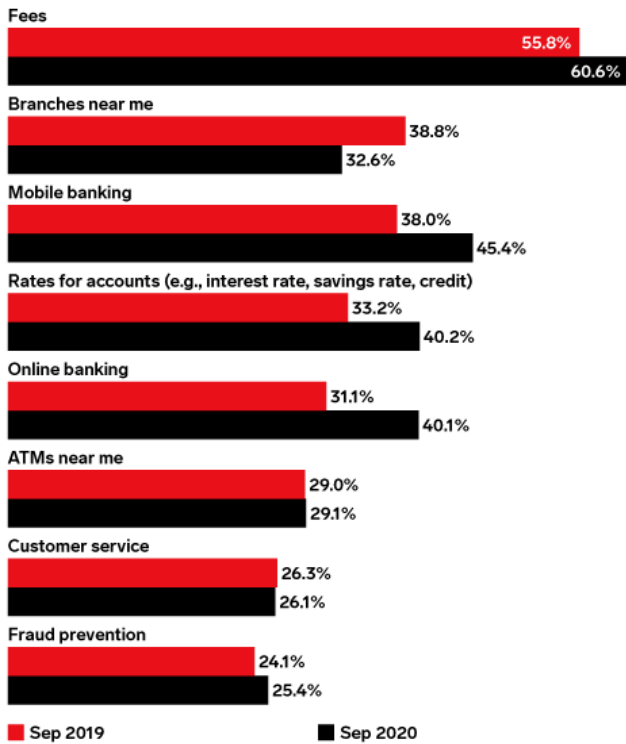
Many US banks suspended overdraft charges at the beginning of the pandemic, and stimulative government relief efforts exacerbated the loss of fee income across the industry. Among other relief initiatives, last spring banks temporarily [suspended](#) service charges on consumer deposit accounts, including overdraft fees. The government also stepped in to [help](#)—providing stimulus checks and putting a moratorium on evictions, forbearance, and utility payments. The cumulative effect of these relief efforts likely cushioned consumers' checking accounts and prevented them from overextending beyond their account balance. But it lost its potency as the pandemic continued to ebb and flow, banks [lifted](#) their temporary restrictions, and the impact of government interventions wore off—leading to the rebound in overdraft fees into the end of the year.

Large and small banks alike need to reckon with the fact that fees are unlikely to rebound to pre-pandemic levels. Here's a closer look at how each group will be affected by the change:

- **Large banks:** Larger banks are less dependent on income from service charges, and could use this shift as an opportunity to encourage customers to engage with their personal finance management (PFM) tools. Several banks already actively discourage overdraft fees and provide consumers with small-dollar loan products as a more affordable alternative: U.S. Bank started the transition back in 2018 with the [introduction](#) of its small-dollar loan product, and Bank of America is currently offering emergency cash to customers for a \$5 fee, as opposed to its [typical](#) \$35 overdraft fee. Instead of returning to their pre-pandemic norm, banks should integrate their new overdraft avoidance initiatives into a broader PFM platform aimed at improving financial health.
- **Smaller banks:** Income from service charges like overdrafts is [crucial](#) to smaller banks' business models. Given their reliance on the practice, it is unlikely that these banks would have been able to suspend overdraft fees like their bigger counterparts—meaning the substantial [drawdowns](#) in service charges may have been driven by a better-funded customer base. And the upcoming stimulus package, intended as a bridge to [recovery](#), could spell more pain for smaller banks so reliant on overdraft fees. To differentiate away from an overdraft-centric business model, regional banks could adopt liquidity management [solutions](#) similar to those being offered by neobanks. [Current](#) and [Chime](#) introduced products like an early paycheck feature that undercuts the prohibitive charges common at banks.

Leading Factors that US Mobile Banking Users Would Consider Before Choosing a New Bank, Sep 2019 & Sep 2020

% of respondents



Note: ages 18+; respondents selected their top 3 factors; responses of "other" not shown, <1% in each year
 Source: Insider Intelligence, "US Mobile Banking Competitive Edge Survey," Dec 2020

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