

Regions offers a case example of an overdraft-reliant bank weaning itself off fees

Article

The news: Regions is looking to make up revenue that it's forgoing due to reducing its customers' exposure to overdraft-related charges, per American Banker's interview with the

regional US bank's chief financial officer, David Turner.

What changes did it make? In September 2021, Regions [launched](#) a new checking account, called Regions Now Checking, which doesn't have overdraft and NSF fees. The newer account can be linked to other Regions accounts, and carries a \$5 per month charge.

This month, Regions also [announced](#) that it will lower its customers' exposure to overdraft fees. Measures that it will phase in this year include:

- **Dropping transfer fees**, which affect people who move funds from linked accounts to cover their overdrafts, by the end of Q1 2022.
- **Axing non-sufficient funds (NSF) charges**, which will be effective by the end of Q2 2022.
- **Capping the number of Paid Overdraft Item fees that customers can incur to three per day**, which is also slated to be effective by the end of Q2 2022.
- Offering **small-dollar credit lines of up to \$500** for people who meet their short-term financial needs, by the end of Q3 2022.
- Rolling out **early direct deposit access of up to two days**, also by the end of Q3 2022.

Impact on Regions' revenue, by the numbers:

- According to a transcript of the bank's Q4 2021 earnings call, Turner [stated](#) that the overdraft-related changes are expected to cause a **20% to 30% drop in service-charges revenue** compared to 2019, with an **estimated \$50 million to \$70 million decline this year**.
- Since 2011, the CFO also said, Regions has experienced about a 50% annual contribution drop from overdraft and NSF revenue.

What revenue will replace the lost fees? In the American Banker interview, Turner outlined how Regions is diversifying its revenue mix through income generated from the bank's three acquisitions, which [wrapped up](#) in Q4 2021.

- It closed its deal with **EnerBank**, a point-of-sale lender focused on home-improvement projects.
- It now owns **Clearsight Advisors**, which provides mergers and acquisitions (M&A) advice to technology companies.
- It added **Sabal Capital Partners**, an origination and servicing company for lending in commercial real estate.

Turner told the publication that Regions is exploring further deals in corporate banking, wealth management, and certain consumer products.

The bigger picture: Regions' move away from overdraft fees represents the new normal for prominent US banks. In just over the past month, measures to lower overdraft exposure have been unveiled by [Bank of America](#), [JPMorgan Chase](#), [Wells Fargo](#), [Truist](#), and [U.S. Bank](#).

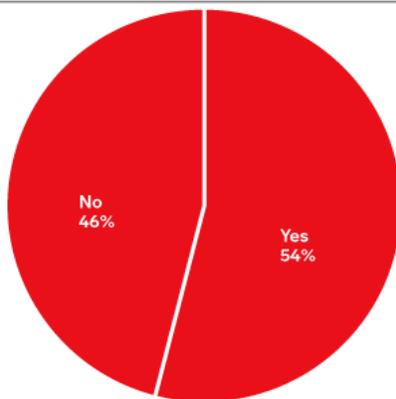
The big takeaway: Regions's adaptation to the loss of overdraft-related income is notable because of the company's [relative dependence](#) on fees:

- In 2019, it was seventh in the absolute amount, among 20 sampled banks for a Center for Responsible Lending study.
- However, it placed fifth when measured by overdraft and NSF fees as a proportion of net interest income, at 17.7%.

By aligning its policy with its competitors' and helping consumers tap into other sources of short-term liquidity—while also successfully using deals to diversify its revenue sources—Regions is pointing a potential way forward for other financial institutions that rely heavily on overdraft fees.

US Adults Who Have Been Charged an Overdraft Fee or Minimum Account Balance Fee by Their Primary Bank, Aug 2021

% of respondents



Note: n=4,314

Source: CivicScience as cited in company blog, Aug 17, 2021

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