

# 2020 ended a decades-long trend for overdraft fees

## Article

Overdraft fee income at banks fell for the first time since 2014, as [reported](#) by the Wall Street Journal. In 2020, revenue generated from overdraft fees at US financial institutions declined nearly 10% to \$31.3 billion. Citing data from Moebs Services Inc., The Journal noted that overdraft transactions dropped below 1 billion for the first time in roughly 20 years.

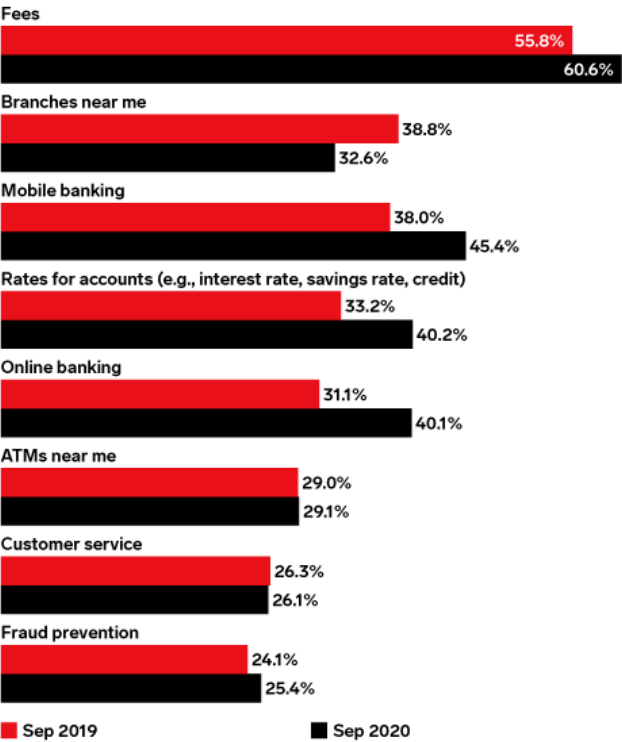
**Government stimulus checks and banks' leniency helped US consumers steer clear of pesky service charges.** During April 2020, the US savings rate spiked to a record 32.2% and remains elevated—hovering around 20%. In addition to spending less, over the past 15 months, American bank accounts were boosted by the distribution of several stimulus checks. Banks also stepped in to help—many temporarily suspending service charges on consumer deposit accounts, including overdraft fees.

**Banks must handle the truth: Fees aren't coming back to pre-pandemic levels.** Here's a closer look at how the change could affect each sector:

- **Large banks:** Because they are less dependent on income from service charges, larger banks could exploit this shift to encourage customers to engage with personal finance management (PFM) tools. Several banks already actively discourage overdraft fees and provide consumers with the more affordable alternative of small-dollar loan products: U.S. Bank started the transition 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. Banks that don't plan to return to their pre-pandemic norms could integrate their new overdraft avoidance initiatives into a broader PFM platform aimed at improving financial health, similar to PNC's recently announced Low Cash Mode.
- **Smaller banks:** Income from service charges like overdrafts is crucial to smaller banks' business models. This reliance makes it unlikely that these banks could have suspended overdraft fees like their bigger counterparts: A better-funded customer base likely drove the substantial drawdowns in their service charges. Regional banks that seek to move away from an overdraft-centric business model may be inspired by neobanks that offer liquidity management solutions. Current and Chime have introduced products like an early paycheck feature that undercut 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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