

# US banks persisting with high overdraft fees could face watchdog's censure

## Article

**The news:** The Consumer Financial Protection Bureau (CFPB) is looking into how overdrafts affect consumers and plans to use the information to identify financial institutions (FIs) for further examination.

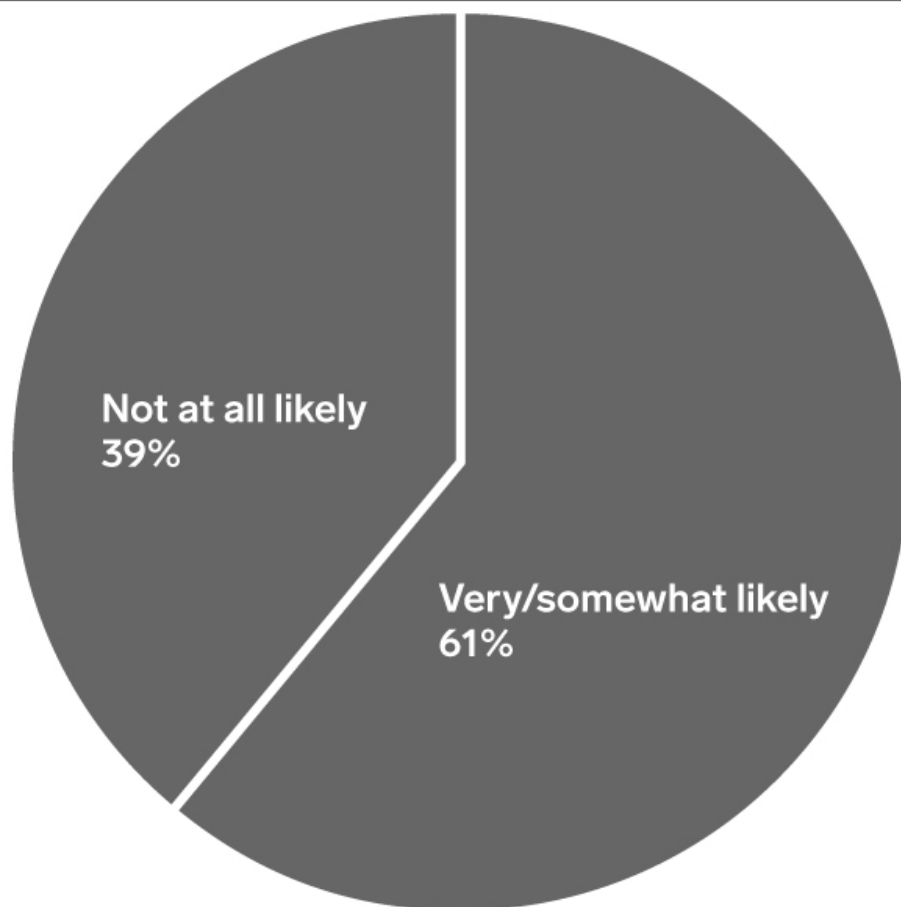
**Overdraft scrutiny:** The CFPB is [seeking information](#) on FIs' overdraft practices, including how they assess their fees, the length of their grace periods, the thresholds above which fees

are assessed, and their caps on the number of fees charged.

- The bureau's director Rohit Chopra has taken a harder stance on the issue, warning that banks with a higher share of frequent overdrafters or greater average fee burdens for overdrafts should expect to be monitored closely.
- The CFPB has described overdrafts as "often exploitative." A study it carried out showed about **80% of the money made from overdraft and NSF fees comes from just 9% of customers**, impacting the most vulnerable consumers comparatively more.

# Likelihood of US Adults Changing Their Primary Bank to Avoid Monthly Service, Overdraft, or Other Related Fees, Aug 2021

% of respondents



Note: n=3,072

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

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eMarketer | InsiderIntelligence.com

**The trend:** Although overdraft fees are highly unpopular with consumers, their total value is declining in the US. Overdraft-related service charges were **\$2.12 billion in Q1**, down 9% year over year (YoY), per S&P Global Market Intelligence data.

In response to the regulator's crackdown, a host of US banks, including KeyBank, Wells Fargo, and JPMorgan, have taken steps to eliminate non-sufficient fund fees and to cut

consumers' exposure to overdrafts.

**The big takeaway:** The CFPB's aggressive clampdown on overdraft fees is continuing, and banks that end or reduce these in anticipation of further regulation or to appeal to consumers will take a hit to their bottom lines.

- However, overdrafts can be beneficial for consumers who use them strategically. Some would argue the fees fairly compensate lenders for issuing what is essentially an unsecured loan.
- But banks that embrace consumer-friendly policies can win customers: FIs that have **cut the cost of overdrafts have increased account acquisition 40%** since 2017, per Curinos.

As inflation surges and US cost-of-living concerns deepen, overdraft fees will remain a contentious topic. Whatever action banks take, they must ensure that fees are transparent and manageable. At the same time, they should consider whether dropping the fees altogether could bring benefits, like attracting new customers, that outweigh the dent in their profits.