

The OCC's suggested overdraft overhaul would hit banks' bottom lines

Article

The news: The Office of the Comptroller of the Currency's (OCC) formal review of overdrafts at banks culminated with a list of suggested practices the institutions should adopt. Acting Comptroller Michael Hsu said the proposed changes "promote consumer financial well-being, as well as greater income and wealth equity":

- Providing a grace period before charging an overdraft fee

- Allowing negative balances without triggering fees
- Offering balance-related alerts
- Providing real-time balance information
- Linking checking checking accounts to other accounts as a means of offering overdraft protection
- Collecting fees from a customer's next deposit only after other items have been posted or cleared
- Not charging multiple overdraft fees for separate purchases in a single day

Many banks have previously made [changes](#) that align with some of the OCC's suggested reforms—earning due recognition from Hsu—but there is still a long way to go.

The problem: Overdraft fees have become a money machine for banks, largely at the expense of consumers.

- Past research conducted by the **Consumer Financial Protection Bureau (CFPB)** [showed](#) that **just 9%** of consumer accounts shouldered **almost 80%** of total overdraft revenue for banks.
- The [average](#) amount a customer must pay for overdrawing an account reached an **all-time high** of **\$33.58** in 2021. Metropolitan areas felt the burden particularly hard, with Philadelphia, Baltimore, and Houston all averaging fees **over \$35**.

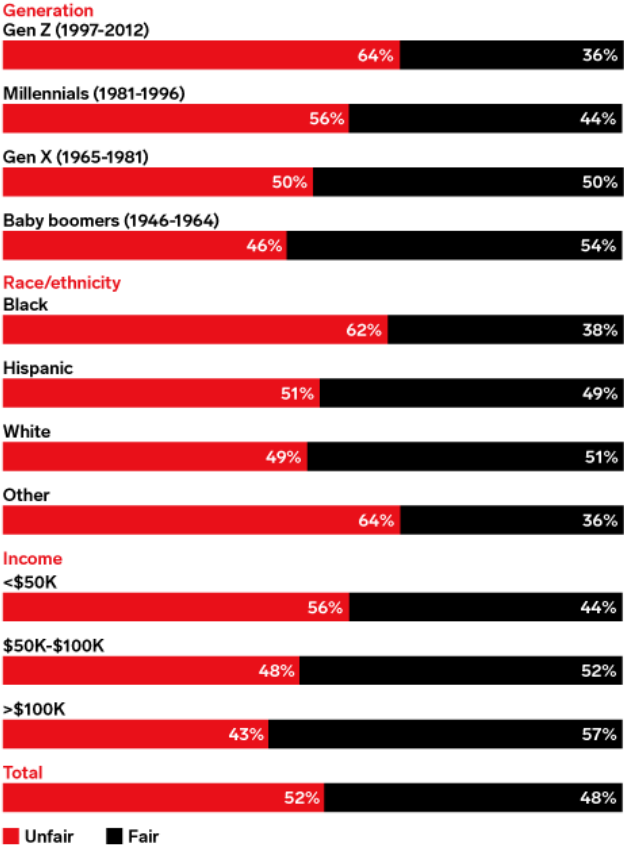
The road ahead: Incumbents and neobanks alike will soon find themselves at a crossroads as recent comments from financial regulators point toward a pro-consumer future.

- **Legacy banks will need to reckon with giving up a significant source of revenue.** If the CFPB [set](#) the nail with its pronouncement of planned “regulatory interventions” against the fees, the OCC's list of suggested practices hammered it home: Overdraft practices at banks may be long standing, but their days are numbered. Replacing lost revenue from these foregone fees will be no small undertaking. **Rebecca Borné**, senior policy counsel at the Center for Responsible Lending, [told](#) CBS that, “The fees have become somewhat of a cash cow [for banks] over the past 20 years.”
- **Neobanks will lose a potent weapon in the battle for new users.** Popular US challengers like **Chime** and **Current** seek to pick off [disillusioned](#) incumbent customers by [using](#) limited exposure to fees as a key selling point. For example, Current has likely [passed up](#) over **\$100 million** in overdraft charges, but has seen its user base [skyrocket](#) in recent years. Getting rid

of overdrafts would be a plus for consumers, but it would weaken one of the neobank industry's most effective value propositions.

Fairness of Overdraft Charges According to US Adults, June 2021

% of respondents



Note: n=2,200
Source: Morning Consult as cited in company blog, June 15, 2021

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