



**Testimony of
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**Director, Federal Policy and Washington Office
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**Before the
House Financial Services Committee**

**On
H.R. 3904, the “Overdraft Protection Act of 2009”**

October 30th, 2009

Consumers Union Testimony
regarding
H.R. 3904, the "Overdraft Protection Act of 2009"
House Financial Services Committee
October 30, 2009

Thank you, Chairman Frank, Ranking Member Bachus, Representative Maloney and other members of the Committee. Consumers Union, the non-profit, independent publisher of *Consumer Reports* magazine, strongly supports H.R. 3904, the "Overdraft Protection Act of 2009" and is pleased to cosign the testimony of Consumer Federation of America. We also appreciate the opportunity to offer the Committee our additional consumer perspective on the unfair and abusive practices used to trap consumers in fee-based overdraft programs without their affirmative consent.

First, we will share some of our polling results which underscore the confusion consumers have about overdraft loans and, how, when asked, they express a strong desire to have more decision-making control over these loans. Second, we would like to offer the Committee some real life examples of the problems people around the nation are enduring as a result of egregious overdraft programs.

In February of this year, *Consumer Reports* National Research Center conducted a nationally representative telephone poll about common bank policies involving overdraft fees. There were a few key findings:

Only half (52%) of those surveyed who used debit cards had a correct understanding that a bank typically allows the transaction to proceed, covers the shortage from the next deposit, and charges a fee for doing so. Consumers appear even more misinformed about ATM overdrafts. Only 31% correctly said that the bank will permit the transaction, subsequently dock the account and charge for the loan. Many consumers simply don't expect to be charged a fee when they overdraft their account. Therefore, consumers would be unlikely to opt out of a program of which they are unaware, and that is why CU strongly supports the opt-in language in H.R. 3904.

At the same time, when asked, consumers overwhelmingly want choice when it comes to their bank accounts. Two-thirds of consumers polled said they prefer to expressly authorize overdraft coverage, so that there would be no overdraft loan—or fee— unless and until they opted into the service. Similarly, two thirds of consumers said that banks should deny a debit card or ATM transaction if the checking account balance is low. A copy of our polling results is included with our written testimony as Appendix A.

Additionally, consumers from across the country have shared with us their frustrations with automatic overdraft programs. While we have attached as Appendix B a compilation of thirteen consumer stories regarding overdraft programs, I will highlight just three today.

Rachael from North Carolina explained to Consumers Union that her bank manipulates the order in which they clear transactions, to maximize the number of times she overdraws her account.

Rachael is a married mother of three, who finds it difficult to manage her household when overdraft fees pile up. At one point Rachael found 7 overdraft charges for debit card transactions. All of the purchases which caused Rachel's account to overdraft were for less than \$20 each, and at least half of these were under \$10. The smallest of these charges was for a \$1 beverage purchased at a gas station; however, each of these transactions were penalized for a \$35 fee.

In describing her bank's overdraft policy, Rachael explained, "they clear the largest amounts first because they want to charge the [\$35] fee on the \$1 purchase." The overdraft fees deducted from her account took away from the grocery money Rachael uses to feed her children – she describes: "When you're taking \$300 from us in two weeks, we get behind on other expenses. It literally took us two months to catch up."

Justin from New York told us why he believes it is important to place strong limits on the number of times an institution can charge a fee for covering an overdraft. Justin knows firsthand why it is important to put in place strong monthly and annual limits on such fees, and why it will be extremely helpful to allow consumers the choice to opt-in to overdraft coverage.

Justin told Consumers Union that he was charged \$385 for 11 overdrafts over a ten day period. Some of these transactions were for less than \$10 – all but two were worth less than \$50. Eventually, after multiple telephone calls to the bank, Justin was refunded \$100 of his \$385 total overdraft fees. Justin would rather have his debit card denied on transactions that would cause overdraft. He wishes that he could choose whether the bank should cover transactions which overdraw his account, and he feels that "to tack on fees and change policies to increase fee income is completely intolerable."

Don from Ohio shared with us his personal story about overdraft fees. He describes overdraft fees as, "a snowball effect, I couldn't get away from it –the more you put in the more they take out."

Don and his wife rely on a limited income—the paycheck from his part time job, and the social security payment she receives for disability. Don checks his account balances regularly, but has recently been hit with a flurry of overdraft fees because of his bank's overdraft policy.

In October 2008, Don used his debit card and overdrafted his checking account by 85 cents. Before the bank opened the next day, Don deposited \$30 at the ATM thinking that this would cover the 85 cents overdraft. A day later he discovered he had incurred two overdraft fees, one for the 85 cents and the other because the \$30 he had deposited did not cover the deficit caused by the first fee. The second overdraft triggered another overdraft fee and a \$5 per day fee for each was also added. After haggling with his bank, Don reached a compromise where he only had to pay one of the \$35 overdraft fees.

The Overdraft Protection Act will go long way to stop the abusive practices experienced by Rachael, Justin, Don and thousands of other consumers across the nation. The bill will require financial institutions to obtain consumers' affirmative consent before covering debit card, ATM and check-based transactions for a fee. Those offering

overdraft protection will be required to educate their customers sufficiently about these programs to get customers to affirmatively sign up. For those who do choose to enroll, the legislation will:

- limit the number of overdraft fees financial institutions can charge to six per year;
- require fees to be reasonable and proportional to the cost to the financial institution; and
- Prohibit banks from manipulating the clearing of transaction in a way which maximizes fees.

We at Consumers Union wholeheartedly endorse this legislation as an important step in helping consumers avoid entering a cycle of debt because of unfair and abusive overdraft fees. We look forward to working with you as the bill moves forward.

Thank You

Appendix A



Final Report

Financial Regulation Poll

**For Public
Release**

February 13, 2009

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Consumer Reports National Research Center

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Methodology

- Telephone surveys were conducted among 1,001 random adults comprising 500 men and 501 women 18 years of age and older. Respondents were screened for possession of a checking account with either an ATM card or a debit card. The analysis is based on the 679 adults who reported having a checking account with ATM or debit card. Interviewing took place over February 5-8, 2009.
- The questionnaire was fielded via Opinion Research Corporation's Caravan twice-weekly national telephone omnibus survey. ORC used random digit dialing to achieve a nationally representative probability sample and weighted completed interviews by age, sex, geographic region and race.
- The results of this study are intended for external communications. Methodology statement for public release:

The Consumer Reports National Research Center conducted a telephone survey using a nationally representative probability sample of telephone households. 679 interviews were completed among adults aged 18+ who reported having a checking account with an ATM card or a debit card. Interviewing took place over February 5-8, 2009. The sampling error is +/- 3.8% at a 95% confidence level.



Implications

- This study was commissioned to investigate consumers' beliefs about current bank policies involving overdraft fees, and how consumers prefer that banks handle overdrafts.
- Only qualified respondents participated in this telephone survey. Around 7 in 10 (69%) satisfied the two screening criteria—have a checking account and an ATM card or debit card—and were allowed to proceed (page 5).
- Our analysis indicates that many consumers are misinformed about common bank overdraft policies. They also expressed strong preferences for policies that are more favorable toward bank customers.
- Only half (52%) of respondents with a debit card had the correct impression of how banks commonly treat debit card overdrafts—namely, the bank allows the transaction to proceed, covers the shortage from the next deposit and also charges a fee. More young consumers aged 18-34 years (68%) expressed accurate knowledge of bank policy. In contrast, more than one-quarter (28%) erroneously thought that the bank would block an overdraft debit purchase, and 11% thought the bank would allow it to proceed and recover the difference later without charging a fee. Those aged 55+ years demonstrated the poorest understanding (page 6).
- Consumers are even more misinformed about ATM overdrafts. Only 31% correctly said that the bank will permit the transaction, subsequently dock the account and charge for the loan. In contrast, nearly half (48%) incorrectly said the ATM card would not work at all if the account balance were too low. Although 1 in 10 understood the first two components of the policy—the transaction proceeds, is covered later—they were unaware of the fee (page 7).



Implications (cont.)

- The majority of consumers prefer bank overdraft policies that are more favorable to them. Two-thirds said they want an opt-in policy, where banks cannot cover overdrafts—and charge for the service—unless a customer expressly authorizes the service. Only 27% preferred an opt-out policy, which allows banks to provide overdraft loans for a fee until the customer instructs otherwise (page 8).
- Moreover, two-thirds (65%) of consumers said that banks should deny a debit card or ATM transaction outright if it would overdraw the account. Young consumers, those with household income under \$40,000 and women were most likely to express this viewpoint. Only one-third said the bank should permit the transaction, even if they incur a fee (page 9).
- Regardless of whether a bank follows an opt-in or opt-out policy for overdrafts, consumers don't want the notification buried in their regular bank statement. To the contrary, three-quarters (74%) said they should be notified in a separate letter (page 10).
- Consumers also don't want to be punished for declining the bank's overdraft service. Overall, 73% of respondents said they should receive the same type of bank account whether or not they agree to pay for an overdraft service. Young, female and low-income consumers had the strongest feelings about this (page 11).
- If the law were changed to require that banks follow an opt-in policy, overwhelmingly (90%) consumers want to receive notification before they incur additional fees (page 12).
- Overall, 14% of consumers recalled being assessed an ATM or debit card overdraft fee during the past six months (page 13).



Screening Criteria

- Consumers were screened to ensure that they have a checking account plus associated ATM card or debit card. Those who failed to satisfy these requirements were not qualified to participate.
- Overall, nearly 7 in 10 consumers (69%) contacted by telephone said they have both a checking account and ATM or debit card. These individuals (679 total) proceeded with the survey.
- Qualified consumers disproportionately were:
 - ✓ High-income (90% of those reporting household earnings of \$75,000 or more satisfied the screeners)
 - ✓ Middle-aged (75% of those 35-54 years old qualified)
 - ✓ Residents of the West (74%) or South (70%)

QD1A-C - Please tell me which of the following you have.

	TOTAL	Gender		Age			Household Income			Region			
		Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
	%	%	%	%	%	%	%	%	%	%	%	%	%
Checking account	84	83	85	73	87	92	70	91	98	84	83	85	85
<u>Checking account with ATM or debit card</u>	<u>69</u>	<u>69</u>	<u>68</u>	<u>68</u>	<u>75</u>	<u>62</u>	<u>52</u>	<u>76</u>	<u>90</u>	<u>66</u>	<u>63</u>	<u>70</u>	<u>74</u>
<u>(Net)</u>													
ATM card with checking account	65	66	64	62	72	58	50	72	84	65	57	65	71
Debit card with checking account	62	62	61	64	68	50	48	68	81	61	57	60	68
Don't know/Refused	2	1	3	2	1	3	1	1		1	3	3	1
NO ANSWER	14	16	13	25	13	6	29	8	2	15	14	13	15



Overdraft via Debit Card

Base: Checking With Debit Card

- Only half (52%) of respondents with a debit card correctly described banks' typical policy regarding debit card overdrafts—the bank permits the transaction, docks your next deposit and charges you for the loan. Young (68%) and low-income (57%) consumers were most likely to understand debit card policy.
- Nearly half of consumers are misinformed. Almost 3 in 10 (28%) of respondents said the bank would block the transaction, and an additional 1 in 9 (11%) expected the bank to allow the purchase and deduct the shortage later without imposing a fee.
- Overall, older consumers (aged 55+ years) were the least informed. At least 30% of respondents aged 35 years or more thought that the bank would deny a debit purchase if it would overdraw the account.

QD2 - If you had \$25 in your checking account and you tried to make a \$40 purchase with your debit card, what do you think would happen?

Base: Checking Account With Debit Card

	Gender		Age			Household Income			Region				
	TOTAL	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
	%	%	%	%	%	%	%	%	%	%	%	%	%
Your bank would allow the purchase and then deduct the shortage from your next deposit, and also charge you a fee	52	53	50	68	47	39	57	44	53	52	52	49	54
Your bank wouldn't allow you to make the purchase	28	28	29	22	32	30	29	30	30	31	36	25	25
Your bank would allow the purchase and then deduct the shortage from your next deposit	11	10	12	6	12	15	8	15	10	9	8	13	11
Don't know/Refused	9	9	9	4	8	17	7	10	6	8	4	12	10



Overdraft via ATM Card

Base: Checking With ATM or Debit Card

- Consumers evaluated a companion scenario about overdrafts at an ATM machine. Only 31% knew what the most-likely result would be—the bank permits the overdraft, docks the account later on and tacks on a fee. Young (42%) and low-income (39%) respondents revealed the highest awareness of actual bank policy.
- In contrast, nearly half (48%) of consumers incorrectly said the ATM card would not work if they attempted to overdraw. Another 10% said the bank would permit the withdrawal and cover the shortage with their next deposit.

QD3 - If you had \$25 in your checking account and you tried to take \$40 out of the ATM machine, what do you think would happen?

Base: Checking Account With ATM or Debit Card

Your ATM card wouldn't work
 Your bank would allow the withdrawal and then deduct the shortage from your next deposit and also charge you a fee
 Your bank would allow the withdrawal and then deduct the shortage from your next deposit
 Don't know/Refused

TOTAL	Gender		Age			Household Income			Region			
	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
%	%	%	%	%	%	%	%	%	%	%	%	%
48	50	47	44	56	43	43	49	49	47	47	52	45
31	30	33	42	27	27	39	27	34	34	36	25	36
10	11	10	7	10	15	8	11	10	11	15	9	8
10	9	10	7	8	15	9	13	7	7	2	14	12



Overdraft Fee Policy Preference

Base: Checking With ATM or Debit Card

- After the two questions about beliefs regarding bank overdraft policy, the telephone interviewer explained to respondents how banks usually treat debit and ATM overdrafts, and then asked them to indicate a preference for opt-in vs. opt-out.
- Two-thirds of consumers said they prefer to expressly authorize overdraft coverage, so that there would be no overdraft loan—or fee—until they opted into the service. More high-income and middle-aged consumers chose opt-in than others, along with Northeasterners.
- Only 27% of respondents preferred an opt-out policy, where the bank provides overdraft coverage and charges a fee until the customer requests otherwise.

QD4 - When you use your debit or ATM card and make a purchase or a withdrawal for more than you have in your account, your bank may charge you a fee to cover the overdraft. This is a fee-based overdraft loan service, which your bank may call overdraft protection. If your bank provides this service, which policy do you prefer?

Base: Checking Account With ATM or Debit Card

	TOTAL	Gender		Age			Household Income			Region			
		Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
	%	%	%	%	%	%	%	%	%	%	%	%	%
Your bank should be required to have you sign up before covering your overdrafts, if it wants to charge you for them. This means that you wouldn't pay the fee, and wouldn't get the overdraft loan, unless you asked for it	66	66	66	64	70	63	63	63	72	71	67	63	67
Your bank should be able to provide the overdraft loan for a fee until ask the bank to stop providing this service	27	26	27	30	26	24	31	30	22	23	29	27	26
Don't know/Refused	7	7	7	5	4	14	6	7	6	6	4	10	7



Deny vs. Cover Overdraft

Base: Checking With ATM or Debit Card

- This question focused on whether consumers want an overdraft transaction to proceed. Two-thirds (65%) said that banks should deny a debit card or ATM transaction if the checking account balance is too low. Young and low-income consumers, and women, were mostly likely to express this preference.
- One-third of respondents—disproportionately middle-aged and male—want the bank to cover the transaction, even if a fee is involved.

QD5 - If you don't have enough money in your account to cover a debit card or ATM transaction, what do you want your bank to do?

Base: Checking Account With ATM or Debit Card

Basic Checking Account With A Hint of Debit Card													
	Gender		Age			Household Income			Region				
	TOTAL	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
	%	%	%	%	%	%	%	%	%	%	%	%	%
Your bank should deny the transaction	65	63	68	73	63	62	70	66	63	67	64	65	66
Your bank should cover transaction, even if it costs you a fee	33	36	29	25	37	34	29	32	34	31	35	32	32
Don't know/Refused	2	2	2	2	1	4	1	2	2	2	1	2	2



Opt-in/Opt-out Notification Preference

Base: Checking With ATM or Debit Card

- A strong majority of respondents (74%) said they want to be notified about signing up for or canceling a fee-based overdraft loan service in a separate letter.
- In contrast, only 23% would like notification via the bank statement.

QD6 - How do you want your bank to notify you about signing up for or canceling a fee-based overdraft loan service?

Base: Checking Account With ATM or Debit Card

In a separate letter from the bank
On your bank statement
Don't know/Refused

TOTAL	Gender		Age			Household Income			Region			
	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
%	%	%	%	%	%	%	%	%	%	%	%	%
74	74	75	72	76	76	69	74	76	68	75	76	76
23	23	22	26	23	18	27	25	22	29	23	21	20
3	3	3	2	1	6	3	1	2	4	2	3	4



Punitive Pricing

Base: Checking With ATM or Debit Card

- Nearly three-quarters (73%) said that a checking account should cost the same regardless of whether the customer declines the bank's overdraft service. Segments that were most adamant: age 18-34 years, women, low-income.
- One-quarter (24%) of respondents said the bank should be able to set its product offering and pricing.

QD7 - Should your bank be permitted to charge you more for basic banking if you decline the overdraft service?

Base: Checking Account With ATM or Debit Card

	Gender		Age			Household Income			Region			
	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
TOTAL												
%	%	%	%	%	%	%	%	%	%	%	%	%
No, you should receive the same type of bank account whether or not you agree to pay for an overdraft service	68	77	79	71	68	76	71	74	72	76	71	73
Yes, the bank should be able to decide what products to offer and at what price	24	19	18	27	26	20	26	24	23	20	27	24
Don't know/Refused	3	4	3	2	5	5	3	2	4	4	2	3



Notification After Regulatory Change

Base: Checking With ATM or Debit Card

- Overwhelmingly, respondents said that if an opt-in law is passed, banks should have to notify existing customers about their rights before they incur additional fees.
- Only 1 in 11 respondents felt that the bank should be able to charge an initial fee before notifying existing customers of their new rights.

QD8 - Suppose that a new law requires that the bank get your permission before assessing an overdraft fee.

When would you want to be notified of your new rights?

Base: Checking Account With ATM or Debit Card

	Gender		Age			Household Income			Region				
TOTAL	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West	
%	%	%	%	%	%	%	%	%	%	%	%	%	
Before being charged any additional fees	90	87	92	90	91	88	91	93	88	90	92	91	87
After being charged the first fee in order to avoid future fees	9	11	7	9	9	8	8	7	10	8	7	9	12
Don't know/Refused	1	1	1		3	1		1	2	1	1	1	



ATM-Debit Card Fees

Base: Checking With ATM or Debit Card

- Overall, 14% of consumers recalled being assessed a fee for an ATM or debit card overdraft during the past half-year. Respondents aged 18-34 years (26%) were most likely to be aware of a fee.

QD9 - In the PAST 6 MONTHS, have you been charged a fee by your bank for using your debit card to make a purchase or your ATM card for an ATM withdrawal that exceeded the balance in your account?

Base: Checking Account With ATM or Debit Card

	Gender		Age			Household Income			Region				
	TOTAL	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+	NE	NCntrl	South	West
	%	%	%	%	%	%	%	%	%	%	%	%	%
Yes	14	15	14	26	10	7	18	16	11	11	8	16	19
No	85	85	85	72	90	92	80	84	89	87	91	83	81
Don't know/Refused	1	0	1	2		1	2			1	1	0	0



Profile

- Women and men were equally represented in the poll, and the median age of respondents was 44 years.
- Overall, 43% of participants reported having at least a four-year college degree, but 30% had no education beyond high school.
- Median household income of interviewed consumers was about \$66,000, and 46% said they are employed full time.
- Most respondents (59%) said they are married, and around 8 in 10 identified themselves as Caucasian.

Profile

Base: Checking Account With ATM or Debit Card

	Gender			Age			Household Income		
	TOTAL	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+
	%	%	%	%	%	%	%	%	%
UNWEIGHTED BASE	679	346	333	104	256	318	155	183	245
<u>GENDER</u>									
Male	49	100		45	52	49	44	42	58
Female	51		100	55	48	51	56	58	42
<u>AGE</u>									
18-34	30	28	33	100			44	35	15
35-44	20	23	17		48		7	20	32
45-54	22	21	22		52		16	19	31
55-64	15	16	15			55	13	15	16
65+	13	12	14			45	20	11	6
Refused/Nr	0		0						
MEDIAN (Years)	43.9	43.8	45.0	26.0	45.3	63.2	43.4	41.6	45.9
<u>EDUCATION</u>									
Some HS or less	7	8	5	12	4	5	12	5	3
HS graduate	23	22	24	29	19	23	37	27	12
Some college	26	24	29	25	27	26	28	29	23
College grad+ [Net]	43	45	41	33	51	43	22	39	62
College grad	27	29	26	24	33	23	14	29	37
Postgrad degree	15	16	15	9	17	20	8	10	25
Refused/Nr	1	1	2	1	1	3		0	
<u>HOUSEHOLD INCOME</u>									
Under \$25,000	12	10	14	24	5	11	48		
\$25,000 but less than \$50,000	20	17	23	21	16	28	52	24	
\$50,000 but less than \$75,000	24	22	25	29	21	22		76	
\$75,000 but less than \$100,000	14	17	12	6	22	11			37
\$100,000 or more	25	29	20	14	34	21			63
Refused	5	5	5	6	2	8			
MEDIAN (000s)	\$65.8	\$73.2	\$59.6	\$52.0	\$83.5	\$58.2	\$26.0	\$58.6	\$121.0

Profile (cont.)

Base: Checking Account With ATM or Debit Card

	Gender			Age			Household Income		
	TOTAL	Men	Women	18-34	35-54	55+	<\$40K	\$40-74K	\$75K+
	%	%	%	%	%	%	%	%	%
UNWEIGHTED BASE	679	346	333	104	256	318	155	183	245
<u>EMPLOYMENT</u>									
Employed full time	46	54	38	38	65	26	27	48	62
Retired	17	16	18		4	54	23	15	11
Not currently employed	14	8	21	27	10	7	18	19	7
Self-employed	12	15	10	12	15	8	11	12	13
Employed part time	10	7	14	22	5	5	20	6	7
Refused/Nr	0		0		0		1		
<u>MARITAL STATUS</u>									
Married	59	62	56	44	70	58	30	67	77
Single and never been married	21	23	19	50	10	5	35	15	13
Divorced	9	7	10	1	10	14	18	9	3
Widowed	5	3	7		1	17	10	4	2
Living as married	3	3	3	3	3	2	4	2	3
Separated	2	2	3	1	4	0	3	3	2
Refused/Nr	1	1	2	1	1	3	0		0
<u>RACE*</u>									
White/Caucasian	79	79	80	68	81	89	74	75	86
Black/African-American	10	8	12	15	9	5	12	16	3
Asian/Asian-American	1	1	1	2	0	1	1	1	1
Some other race	11	13	9	15	10	7	15	9	10
Refused/Nr	1	1	1	1	2	0	1	0	0
*Multiple responses allowed									
<u>REGION</u>									
Northeast	18	16	20	19	20	15	18	16	20
North Central	20	21	20	21	24	15	26	19	21
South	37	39	36	41	34	38	31	40	34
West	24	24	24	19	23	32	25	25	25

Appendix B

Stories about Overdraft Loans

Rachel of Raleigh, NC

***"[The banks] clear the largest amounts first because they want to charge the [\$35] fee on the \$1 purchase."* —Rachel**

Rachel is a married mother of three, who finds it difficult to manage her household when overdraft fees pile up. Throughout 2008, she paid \$1000 in overdraft fees – and in October alone she paid almost \$500. By the end of the first week in October, when she realized she had overdrawn her account, Rachel found 7 overdraft charges for debit card transactions. Through the following week, Rachel also had overdrawn on five more debit card transactions because she needed to use her card and simply could not catch up on the overdraft fees.

All of the purchases which caused Rachel's account to overdraft were for less than \$20 each, and at least half of these were under \$10. The smallest of these charges was for a \$1 beverage purchased at a gas station; however, all of these transactions were penalized for a \$35 fee. In describing her bank's overdraft policy, Rachel explained, "They clear the largest amounts first because they want to charge the [\$35] fee on the \$1 purchase." After working with the Better Business Bureau, Rachel was able to get a few of her overdraft charges reversed but the bank refused to refund any more.

The overdraft fees deducted from her account took away from the grocery money Rachel uses to feed her children – she describes: "When you're taking \$300 from us in two weeks, we get behind on other expenses. It literally took us two months to catch up." Although she would rather be declined on small purchases, Rachel would like recurring payments, such as her car payments, to be processed even in the event of an overdraft – she explained, "They should give us an option – if it was something like a car payment I would probably want [the bank] to put the payment through, but not the little debit card purchases."

Vanessa of Columbus, OH

***"I got into this huge overdraft whirlpool that just pulled me under"* —Vanessa**

Vanessa is a small business owner in commercial interior design who has recently been struggling with unfair banking practices. In May 2008, the bank which she had done business with for ten years suddenly disabled her pre-existing overdraft program. Prior to this, Vanessa had a line of credit with a very reasonable interest rate connected to her account to be drawn upon in the event of an overdraft. Starting February 2008 this option was no longer offered but she was never notified of this change and incurred a number of overdrafts unknowingly. The bank eventually reversed these charges and linked a new credit card to her account; however, the account failed to draw upon the new credit card and again she was being charged overdraft fees.

After many frustrating encounters with her bank, Vanessa changed banks and was enrolled in another overdraft program. Because she has a business account, Vanessa is required to call or e-mail the bank to initiate money transfers. On two occasions, her bank has erred in processing these transactions, and she was charged overdraft fees. The fees are currently being disputed with the bank as Vanessa has documentation of completing the transfers. Vanessa is mostly distressed about the way banks charge overdrafts – she describes: "By the time I am notified about the overdraft, several checks have already processed, and the overdraft of under \$25 can become as much as \$200 or more. The total sum is mostly bank charges."

In her frustration, she notes: "Sometimes overdraft charges aren't posted until 3 days after the day of the overdraft, and then it takes at least 2 days to get to me. This allows a lot of time to pile up charges of \$37.50 per check, and \$7.00 a day for each overdraft." When Vanessa contacted the new bank in August and asked for an alternative overdraft solution, she was told that it would involve a line of credit for which she did not qualify. Almost five months later, Vanessa contacted the bank again and was now offered the option of opening a savings account which could be drawn upon in the event of an overdraft. Vanessa is fed up with the errors, overdraft fees, and misinformation from her bank. She plans to close her account as soon as the outstanding disputes are settled.

Richard of Elk Grove, CA

***"What actually happened was, my bank had not reversed any of the holds – even the original hold of \$100, and had subsequently placed \$762.00 in holds on funds in my account."* —Richard**

Richard and his wife were in the final stages of buying a home, and rented a U-Haul truck for the day that they were expecting to move. Unfortunately, they closed escrow five days later than originally planned, and ended up keeping the U-Haul truck during that time. The U-Haul rental center initially charged a \$100 hold to cover the cost of the rental agreement.

On the fourth day, U-Haul placed another \$400 hold on Richard's account, for which he began incurring \$30 overdraft fees as the money the bank was holding for U-Haul was no longer part of his available balance.

When Richard contacted his bank, he was told that the two holds would be reversed on the 30th of the month. However, when Richard returned the truck to U-Haul on the 26th, the agent told him that the two previous holds had been reversed, and he was only being charged the cost of the actual rental - \$262.00. Richard explains, "What actually happened was, my bank had not reversed any of the holds - even the original hold of \$100, and had subsequently placed \$762.00 (\$100.00+\$400.00+\$262.00) in holds on funds in my account." In total, Richard was assessed 8 overdraft fees (\$240) that his bank was not willing to reverse. If the bank had not processed the holds and the actual amount due at the same time, Richard would not have incurred any overdraft fees.

Joyce of Greensboro, NC

Joyce runs a small business out of North Carolina, and has very recently run into trouble with overdraft fees. In January 2009, Joyce overdrew her business checking account and Bank of America transferred \$155 from her personal account without notifying her, to cover the deficit. A week later, Joyce had also overdrawn her personal business account 7 times for \$35 each, because her bank's unauthorized money transfer left her personal checking account in the negative. One of the charges which caused an overdraft fee was for as little as \$5, while most of the others were for less than \$35.

With the current state of the economy, Joyce's business has not been doing very well. The money that she uses from her Social Security checks to support the minimal expenses of maintaining her business was being confiscated for the overdraft fees she owed Bank of America. Joyce contacted the bank and was given the run-around. When she finally spoke with the appropriate representative, she was offered a reverse on the overdraft fees if she could pay the amount she actually owed - but Joyce simply did not have the money at the moment. Because she could not pay immediately, the bank representative told her, "if you're not going to pay us right away we're not going to remove your overdrafts - we'll be turning your account over to collections."

Joyce was never given the option to opt-out of her overdraft protection, nor could she recall when her bank had adopted this policy. She couldn't believe how quickly and unexpectedly everything happened as she explained: "Thursday my money was there, and Friday it was gone. All of a sudden they take the money out and everything is overdrawn." Joyce chose to take her business elsewhere and no longer does business with Bank of America - she describes "I would not wish Bank of America on anybody."

Linda of Valley Village, CA

Linda is an independent contractor from California who does not usually have problems with overdrafts. However, in February 2005, Linda incurred over \$500 in overdraft fees because Wells Fargo had not notified her of the negative balance in her account, and continued to allow charges on her debit card. One week from the initial overdraft, Linda had unknowingly overdrawn her account 15 times - half of these transactions were debit charges under \$20, and only three of these purchases were for more than \$33.

Upon discovering that her account was charged \$33 for each of these overdrafts, Linda contacted the bank and asked for the fees to be reversed. Strangely enough, Linda describes: "I was told that a bank manager had been aware of the overages from the very first [overdraft], but because I was a longtime customer he let them go through." Linda objected to this explanation. She would have preferred that her purchases be denied so that she would become immediately aware that her account was in a negative balance. Eventually, the bank agreed to reduce the fees by \$166 and Linda still ended up paying \$331 for overdrafts that wouldn't have occurred had the initial overdraft purchase been declined. On her next statement, Linda was surprised to also find a \$2 fee for speaking to a bank representative over the telephone.

Linda was not given the option to opt-out of overdraft protection, nor was she aware that this was possible. After this incident, Linda has been careful not to overdraft but still remains wary of her bank's policies - she explains "If that was their way of rewarding a longtime, good customer, something is definitely wrong."

Justin of Clifton Park, NY

"To tack on fees and change policies to increase fee income is completely intolerable." —Justin

Since the beginning of 2008, Justin has incurred excessive overdrafts because of an arbitrary change in his bank's policy. Justin keeps two accounts separately - one for general spending, and the other for bills. He explains, "Previously, the bank would process credits prior to debits so if I went over in my spending account I could transfer money from my bills account and be covered with no overdraft charges. This has changed; now if I go over in my spending account, which I have, even if I transfer money the same day (which is immediately available), I receive an overdraft fee." Now, in addition to not being able to replenish his account immediately in order to avoid overdrafts, he is also being charged additional overdrafts as his bank chooses to debit the larger overdrafts before the smaller ones.

At one point, Justin was charged \$385 for 11 overdrafts over a ten day period. Some of these transactions were for less than \$10 – all but two were worth less than \$50. Eventually, after multiple telephone calls to the bank, Justin was refunded \$100 of his \$385 total overdraft fees. Justin would rather have his debit card denied on transactions that would cause overdrafts. He wishes that he could choose whether the bank should cover transactions which overdraw his accounts, and he feels that "to tack on fees and change policies to increase fee income is completely intolerable."

Catherine of Mentor, OH

"Some of the overdrafts were directly caused by the fees themselves." —Catherine

Catherine is a disabled single mother raising two disabled children, who has recently gone back to school for a nursing degree. She struggles to cover her family's expenses with the Social Security Disability checks that she receives, and sometimes there just isn't enough.

In August 2008, Catherine received about \$1200 in overdraft fees for overdrafts totaling less than \$300 without even realizing it. At least half of these \$39 overdraft fees were for \$1.75 coffees which she purchases between classes when she doesn't have time to eat. Catherine explains, "Some of the overdrafts were directly caused by the fees themselves." Prior to this, her bank had also held her deposits for a nine day processing period, leading to overdrafts when she paid bills before her money was available.

After two weeks and \$1200 in overdraft fees, Catherine contacted her bank and asked about opening a line of credit through the bank to be drawn upon in the event of an overdraft. She was told by the bank representative that this option was not available, but that she could opt-out of the overdraft program. Catherine had never been informed that this was possible and enthusiastically chose to opt-out. She has had no overdraft problems since.

Vickie of West Virginia

"Banks are making a killing with overdraft fees – they rob people without a gun and get away with it." —Vickie

Vickie relies on Social Security checks as her only source of income and is having trouble with her bank's overdraft policy. Over the past eight years, Vickie has paid her bank over \$1,000 in overdraft fees alone. On one of these occasions, her account was overdrafted by only 2 pennies, and for this she incurred an overdraft fee of \$34. When she first opened her account in 2001, the fee for overdrafts was \$30 – and over the years it has increased to \$32 and now is \$34.

Vickie has also experienced overdraft fees triggering other overdrafts because her bank does not notify her when she has a negative balance. Often times, these overdraft fees are deducted from her social security check deposits which she finds particularly upsetting. She describes, "If you miss one little thing in [your account], it can set you way back."

In her frustration Vickie explains, "If [the overdraft] was just two dollars, they didn't care – if two dollars knocked you out of balance then [the effect] is like dominos, they just don't care." For now, Vickie nervously watches her account balances in fear of overdrafting again.

Mary of Tolland, CT

Mary has suffered greatly from excessive overdraft fees. As a freelance administrative assistant, she has many responsibilities that don't leave her much time to watch her bank account. On countless occasions, Mary has deposited checks thinking that the amounts would be available immediately – as the bank tellers assured the deposits would "go in right away". Unfortunately, Mary has overdrafted her account on numerous occasions because her bank sometimes put a hold on her deposits, triggering a \$25 fee each time.

In one instance, Mary was charged \$400 in overdraft fees resulting from a delayed deposit. These fees were later reversed after her bank acknowledged that she had not been at fault. Mary has also had trouble with restaurants and gas stations putting holds for "double or triple" the amounts of her purchases, leading to more overdrafts even though she had enough in her account to cover the actual transaction amount.

Mary estimates that she has incurred overdraft fees at least 50 times in situations over the past year where unfair banking policies have led her to overdraft – 80% of these overdrafts were for purchase amounts much less than \$25. If she could, Mary would prefer to be declined by retailers in the event that her debit transactions would cause an overdraft. After more than \$1250 in overdraft fees, Mary is tired of haggling with her bank.

Clifford of Spokane, WA

Clifford has been stung by high overdraft loan fees, like many Americans. After he lost his job in 2007, he got hit with multiple overdraft fees, even though he has tried to keep a close eye on his finances.

Over the past two years he estimates that he has overdrafted 70-80 times, and 80% of these transactions were for amounts much less than the \$35 fees which were debited from his checking account each time. He offered this example: "If I overdraft my account for a \$5.50 transaction and my bank charged me \$34, the interest rate for that mini-loan is quite large – 618.18%". Some of these fees were caused by holds on his deposits, as well as overdrafts induced by other overdrafts. He also points to the problem of having two debit cards connected to a joint account, and the inevitable difficulty that he and his wife experience in constantly tracking their balance. From his experiences, Clifford admits that he would rather be declined at a retailer and suffer the embarrassment than put himself another \$35 in the negative.

Not being allowed to opt-out of his bank's "overdraft protection" policy has hindered his financial situation significantly. On multiple occasions, he contacted his bank and was denied the ability to opt-out of the program. As an alternative, his bank suggested that he link his checking account to a second account. Clifford now pays a \$15 transfer fee every time he overdrafts his checking account, and the amount is borrowed from the secondary account. He admits that this is still less than the previous \$35 fee, but objects to the idea of paying the bank to borrow his own money.

Nancy of Tampa, FL

"I cannot accept as fair and reasonable, a \$35 fee for a \$2.79 cup of coffee!" —Nancy

Nancy is a divorced mother, raising two children without child-support – and with such a tight budget she sometimes overdrafts her checking account because the bank will allow an ATM purchase to go through, even though the funds are not available. She overdrafts her account about 3 – 4 times per year at \$35 per item each time. Sometimes there are as many as six \$35 overdraft fees assessed to her account at one time. Approximately 90% of the overdrafts are caused by transactions worth less than \$5. Most of these overdrafts occur during fast food or coffee purchases for \$2 – \$3, or charges at the gas station when she uses her debit card.

In February 2009, Nancy noticed that she had incurred multiple overdraft charges even though her online statement did not show any negative balances. After contacting her bank, Nancy explained: "The bank claims they are looking at a 'different screen' than the screen they provide me of my account online. They claim their screen is in 'real time' and the online screen provided for clients to view is not." Through providing documentation and by making numerous complaints, Nancy was eventually refunded \$87 out of the \$175 she was charged for the 5 overdrafts. An issue which she wasn't able to fix, however, was the fact that her bank pays larger debits before smaller debits causing her to incur more overdrafts than necessary. Her bank's policies affect Nancy greatly: "If you live week to week like most of us, you can't afford to be out \$175 in overdraft fees; particularly when your balance can cover most of the items, but the bank is choosing to pay the larger item – thus assessing numerous overdraft fees on the smaller items." Nancy feels that the bank should be required to "pay as many items as they can with the amount of money we have in our checking account, and only assess a fair and reasonable fee for the items the account does not have funds to cover." Nancy went on to state that "a \$35 overdraft fee is abusive on a \$3 fast food purchase – the bank should be required to charge a fair percentage of the actual charge as their fee." Nancy explains, "A smaller item would incur a smaller fee, while a larger item, such as a car payment or mortgage payment, would incur a larger fee. This would be a fair and reasonable practice by the very banks as a taxpayer I am bailing out!"

In her banking experience, Nancy has also had problems with restaurants placing holds on her debit card. She explains, "I had a \$20 meal - [the restaurant] swiped my card and I received a \$20 hold. After I added \$5 for the tip, they swiped another \$25. [The bank] was now applying two holds for a total of \$45 against my account. It took 3 days for the first hold of \$20 to drop off." These holds cause overdraft fees that cause even more overdraft fees because her account remains in the negative – even though she actually did have enough money in the account to pay for the meal initially.

Nancy wants to be able to choose the types of transactions to apply her overdraft protection to, but realizes this option is not realistic. She says, "if the bank requires all or nothing – I would choose nothing," and continues to explain, "if you don't have the money in your account, your ATM card should not let you make the purchase– but more often than not the banks let it go through because they know they can hit us with that \$35 fee per transaction." When she attempted to opt-out of overdraft protection with a bank representative, she was told that if a transaction came through and there wasn't enough money in her account to cover it, they would deny it but would still charge her \$35 for an "insufficient funds" fee. The bank representative further explained that "if we pay the item as a courtesy to you, you will be charged an overdraft protection fee of \$35, if you opt out of overdraft protection, we will still charge you a \$35 fee, which we call an insufficient funds fee for returning that item. Our bank has every right to charge the fees we assess." In closing, Nancy really feels that the dollar amount of the fee they charge is "abusive." Nancy reiterates that "the overdraft protection fee and insufficient funds fee need to be based on a percentage of the actual charge. It is absurd to charge a customer \$35 for a \$2 transaction! If the bank wanted to charge me a \$35 fee for paying my \$1,200 rent check, I could accept that as fair and reasonable. However, I cannot accept as fair and reasonable, a \$35 fee for a \$2.79 cup of coffee!"

Justin of Crestone, CO

" [the representative] said his hands were tied because the bank rules were the bank rules..." —Justin

Because Justin's business accepts credit cards, he is required to keep a merchant account connected to his Chase business account. This merchant feature accepts the full amount of a customer's payment and deposits the credit into the business account, and then automatically deducts a fee for the use of the merchant account.

In October 2008 Justin's credit card deducted \$250 from his checking account as part of his monthly auto-pay – he was unaware that he had less than \$250 in his account at the time. Justin was charged a \$35 fee for being overdrawn. Justin then used his business debit card to make a \$400 purchase causing another unintentional overdraft – he assumed that if there was not enough money in the account to cover the transaction it would be denied. Within three days, Justin had also accepted a credit card payment from a customer for \$150, and when the merchant account deducted its \$4.48 usage fee, Justin incurred another \$35 overdraft fee. Because Justin did not realize that his account was overdrawn, he was charged an extra \$27.50 fee for each of the two overdrafts that were left unresolved.

With \$160 total overdraft fees in just three days, Justin contacted his bank representative. Justin recalls, "[the representative] said his hands were tied because the bank rules were the bank rules – when I told him that I don't want overdrafts, and that if I have insufficient funds my charges should be denied, he told me that he could not turn off my overdraft service." Eventually, half of Justin's overdraft fees were reversed – but he explains, "With my business, it takes at least \$150 to make a \$70 profit." Although he was able to reduce his overdraft charges, Justin attributes his experience to Chase's "bad policy."

Don of Ohio

"It was a snowball effect, I couldn't get away from it –the more you put in the more they take out." —Don

Don and his wife rely on a limited income – the paycheck from his part time job, and the social security payment she receives for disability. Don checks his account balances regularly, but has recently been hit with a flurry of overdraft fees because of his bank's overdraft policy.

In October 2008, Don used his debit card and overdrafted his checking account by 85 cents. Before the bank opened the next day, Don deposited \$30 at the ATM thinking that this would cover the 85 cent overdraft – only to discover a day later that he had incurred two overdraft fees, one for the 85 cents and the other because the \$30 he had deposited did not cover the deficit caused by the first fee. The second overdraft triggered another overdraft fee and a \$5 per day fee for each was also added. Altogether Don got hit with \$120 in overdraft fees for an 85 cent overdraft. After haggling with this bank, Don reached a compromise where he only had to pay one of the \$35 overdraft fees.

A few months later, in February 2009, Don decided to make a car payment through his bank's online services, for the first time. When he placed this payment for \$399, the website stated that it would take 5 business days for the transfer to process. To his surprise, in a few days, Don checked his account and found \$468 in overdraft fees. Over two days, Don had used his debit card to make a number of small purchases, mostly under \$10, with the understanding that his car payment would be pending for 5 days. To the contrary – the bank had deducted the \$399 immediately even though the transaction was still processing, and left his account \$64 overdrawn. Each of the small purchases incurred the \$35 overdraft fee and he was also paying a \$5 per day fee for each overdraft. Luckily, Don was able to negotiate his \$468 overdraft fee down to \$66, which he thought was unfair. In retrospect, Don explains: "[sixty six dollars] was a hell of a lot more than a 42 cent stamp," which is what it would have cost him to make his car payment by mailing a paper check.

He would have preferred that the bank decline all of the transactions which caused overdrafts. . Don has resolved never to make an online payment through his bank again and is exasperated with all of the trouble he has gone through because of the bank's overdraft policy.