

Banks make \$38bn from overdraft fees

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US banks stand to collect a record \$38.5bn in fees for customer overdrafts this year, with the bulk of the revenue coming from the most financially stretched consumers amid the deepest recession since the 1930s, according to research. The fees are nearly double those reported in 2000.

The finding is likely to increase public hostility towards the financial sector, which has been under political pressure to ease the burden on consumers by increasing credit availability and lending more fairly after being bailed out by taxpayers.

The Federal Reserve is working on rules on overdraft fees, and rules on customer charges could be a priority of the Obama administration's proposed Consumer Protection Agency if approved by Congress.

Data from Moebs Services, a research company, show that the crisis has prompted many banks to lift charges on overdrafts and credit cards in order to boost profits.

The median bank overdraft fee has this year rose from \$25 to \$26, according to Moebs, the first time it has gone up in a recession for more than 40 years.

"Banks are returning to a fee-driven model and overdraft fees are the mother lode," said Mike Moebs, the company's founder.

Overdraft fees accounted for more than three-quarters of service fees charged on customer deposits, he said.

The most cash-strapped customers are the hardest hit by such fees, with 90 per cent of overdraft revenues coming from 10 per cent of the 130m checking accounts in the US. Regular use of overdrafts is most common among consumers with low credit scores, Moebs discovered.

Banks say that the fees compensate for the risk they incur when they pay on behalf of customers who do not have enough money in their accounts. "Overdraft fees are there for a reason, we take on a lot of risk," a senior banker said. "It's a service to our customers, they want us to pay their overdrafts."

The highest overdraft fees were charged by the largest banks, said Mr Moebs. At banks with assets greater than \$50bn – a group including **Citigroup**, **Bank of America**, **JPMorgan Chase** and **Wells Fargo** – the median overdraft fee is set at \$33.

At BofA, a customer overdrawn by as little as \$6 could trigger a \$35 penalty. If the customer does not realize they have a negative balance and continue spending, they could incur that fee as many as 10 times in a single day, for a total of \$350. Failing to repay the overdraft within a few days' results in an additional \$35 penalty.

BofA said that the bank was “committed to ensuring that our fees are transparent and predictable. We have a range of tools and services to give customers more control over their accounts and to prevent these fees”.

Chase has tiered overdraft fees – the first overdraft within a 12-month period is charged at \$25, the second to fourth at \$32 and the fifth at \$35.

Chase declined to comment.

SunTrust Bank charges the highest overdraft fee for a single overdraft at \$36, according to the Consumer Federation of America while Citizens Bank levies a \$39 fee after three overdraft items and follows with two separate “sustained overdraft fees” for repeat offenders.

SunTrust said it offered waivers and discounts as well as overdraft protection services that made it easy for customers to avoid those fees.

Citizens declined to comment.

The survey by the Consumer Federation of America found that five of the ten largest banks have raised their overdraft fees in some way in the last year.

Nessa Feddis, general counsel at the American Bankers' Association said the higher fees are appropriate because big banks do not know their customers as well as small community banks, and need to be compensated for the higher risk.

Consumer advocacy groups point to very low loss rates on overdrafts for all banks and argue that overdrafts are the least risky form of credit, while being the most expensive for consumers.

Eric Halperin, director of the Center for Responsible Lending said: “The banks own your pay check before you do, so the only way you can default on your overdraft is if you choose to open another account and deposit your income elsewhere.”