

The Federal Reserve issued rules in November 2009 related to bank overdraft practices. These rules are limited and do not address the fundamental problems with today's overdraft systems – namely, their high cost and the frequency with which fees are charged. Americans pay \$23.7 billion per year in overdraft fees, most commonly due to small debit card overdrafts that institutions could easily deny for no fee. These fees hit vulnerable consumers hardest, thrusting them into a cycle of debt and driving some from the banking system altogether.

Congresswoman Maloney and Senator Dodd have proposed legislation (HR 3904 and S 1799) that would comprehensively address the problems with today's overdraft programs. This chart illustrates how short the Fed's rules fall—and how meaningful the pending legislation would be:

Consumer Protection	Federal Reserve's Rule	Pending Legislation
Consumer's consent	Requires "opt-in" to a program that charges overdraft fees for debit card and ATM transactions, but requires no consent to fees on checks and electronic payments.	The House bill requires "opt-in" to overdraft coverage on <i>any</i> type of transaction, while the Senate bill would codify requiring "opt-in" for debit card and ATM transactions.
Limits on frequency	<i>None</i>	6 per year and 1 per month*
Limits on cost	<i>None</i>	Requires fee to be reasonable and proportional to the bank's cost
Real-time warning of overdrafts	<i>None</i>	Requires real-time warning of pending overdraft at all ATMs
Posting order of transactions	<i>Silent</i>	Prohibits institutions from continuing to post purchases in order from largest to smallest in order to maximize overdraft fees
Sustained overdraft fees	<i>Silent</i>	Effectively prohibits multiple overdraft fees for a single overdraft
Debit holds	<i>Silent</i>	Prohibits overdrafts fees caused solely by debit holds that exceed the actual transaction amount
Moratorium on fee increases	<i>Silent</i>	Imposes a 1-year moratorium on increasing overdraft and NSF fees until the law becomes effective

The pending legislation also requires cost of credit disclosures for overdraft fees consistent with the Truth in Lending Act, so that consumers can compare the cost of overdraft fees to other, less expensive forms of credit.

The Fed's rules fail to address substantive overdraft abuses. Congress should pass H.R. 3904, S. 1799 for real overdraft reform.

*Institutions could continue to cover overdrafts but would have to do so through a lower cost form of coverage, such as an overdraft line of credit.