

**Center for Responsible Lending**  
**Statement for the Record: Overdraft Fees Cause Financial Exclusion; Policymakers Must Act**

**Hearing on**  
**“Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System”**  
**Before the U.S. House Committee on Financial Services,**  
**Subcommittee on Consumer Protection and Financial Institutions**

**July 21, 2021**

The Center for Responsible Lending appreciates the opportunity to submit a statement for the record for today’s hearing.

**We write to highlight the profound barrier unreasonable overdraft fees present to financial inclusion efforts and will continue to pose absent meaningful intervention from policymakers** -- even despite any advances in other noble efforts to provide safe banking options.

For at least 20 years, the checking account market has been perverted by overdraft practices that prey upon those with the least. In recent typical years, banks and credit unions have drained approximately \$15 billion in overdraft fees annually. They engage in a number of practices that each contributes to the extremely punishing impact overdraft fees have on their account holders: unreasonably high fees per overdraft transaction, multiple fees per day and per month; opaque and often manipulative practices involving deposit clearing, debit holds, and transaction posting order; fees on debit card purchases and ATM withdrawals that used to simply be declined at no charge when the account lacked sufficient funds; and immediate repayment straight off the top of the customer’s next incoming deposit.

About 80% of the billions drained annually come from those whose daily account balances average about \$350.<sup>1</sup> And accounts where the bank charges overdraft fees on debit card overdrafts -- which tend to be far smaller than the size of the overdraft fee itself -- are 2.5 times as likely to be closed by the bank than when the account is spared such fees.<sup>2</sup>

There is no question that overdraft practices push people out of the banking system altogether. Of unbanked households, the FDIC found that half had previously had a bank account.<sup>3</sup> And of those previously banked, nearly 40% cite high or unpredictable fees or not having enough money as the primary reason they no longer have an account.<sup>4</sup> Overdraft fees likely dwarf other checking account fees for those no longer in the system, and they harshly penalize those with relatively small account balances. Moreover, of those who were previously banked, nearly half are “not at all interested” in having a bank account.<sup>5</sup>

Black and brown account holders pay far more than their representative share of these unreasonable overdraft fees.<sup>6</sup> This is not surprising in light of the dramatic wealth disparities between Black and brown communities and whites. But it means that a meaningful conversation about financial inclusion absolutely must confront this problem. By causing account closures and eroding trust in financial institutions, bank overdraft practices fuel financial *exclusion*.

It also means that as financial institutions claim to reexamine structural racism and their part in it, they must confront the affirmative harm they inflict daily through their overdraft practices. Banks that are

pledging millions or billions of dollars in investment in underserved communities while continuing to rake in hundreds of millions, or billions, of dollars annually in overdraft fees, are stripping wealth from the same communities they are claiming to support.

Banks, and their trade associations, are touting safe checking accounts more than they ever have before. We strongly support Bank On accounts and believe every financial institution should offer a low-cost, no-overdraft fee account. But we are under no illusion that these accounts will rid the need for policy intervention. Offering one safe account does not give a bank a free pass to continue to offer a predatory one, nor does offering a responsible small loan product permit banks to continue to drain checking accounts dry through their exploitative overdraft practices.

The CFPB clearly has the authority to address this problem, and addressing the unfair practices in the overdraft space falls squarely within its mission. The prudential regulators hold responsibility as well: Bank accounts should be fundamentally safe places for people to keep their money, and for too many low-income families, they are not. In addition, banks that generate a significant share of their revenue from overdraft fees are not operating in a safe and sound manner -- particularly if new regulations put an end to these predatory fees or competitive pressures reduce them. Congress must hold these regulators accountable while itself ensuring that all checking accounts are free from destructive overdraft practices.

Thank you for consideration of our input. If you would like to discuss our concerns further, please contact Rebecca Borné at [rebecca.borne@repsponsiblelending.org](mailto:rebecca.borne@repsponsiblelending.org).

---

<sup>1</sup> CFPB Data Point: Checking Account Overdraft at 12, Table 3 (2014) [https://files.consumerfinance.gov/f/201407\\_cfpb\\_report\\_data-point\\_overdrafts.pdf](https://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf); see also CFPB Data Point: Frequent Overdrafters at 16, Table 2 (2017), [https://files.consumerfinance.gov/f/documents/201708\\_cfpb\\_data-point\\_frequent-overdrafters.pdf](https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_frequent-overdrafters.pdf).

<sup>2</sup> CFPB Study of Overdraft Programs: A white paper of initial findings at 34 (2013), [https://files.consumerfinance.gov/f/201306\\_cfpb\\_whitepaper\\_overdraft-practices.pdf](https://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf).

<sup>3</sup> <https://www.fdic.gov/analysis/household-survey/2019execsum.pdf> at 2 (50.4 percent of those unbanked had previously had a bank account).

<sup>4</sup> <https://www.fdic.gov/analysis/household-survey/2019appendix.pdf> at 13, Table A.8.

<sup>5</sup> <https://www.fdic.gov/analysis/household-survey/2019execsum.pdf> at 3, Table ES.2 (48.2 percent of those previously banked are not at all interested in having a bank account).

<sup>6</sup> About 14 percent of Black and 12 percent of Latino households are unbanked, compared to 2.5 percent of white households. <https://www.fdic.gov/analysis/household-survey/2019execsum.pdf> at 2. Yet Pew found that African Americans and Hispanics each represented 19% of those who paid three or more overdraft-related fees in 2014, while representing only 12% and 17% of the U.S. population as a whole. The Pew Charitable Trusts, *Heavy Overdrafters* at 8 (April 2016), <https://www.pewtrusts.org/-/media/assets/2016/04/heavyoverdrafters.pdf>.