



A NEW FUNCTION OF AN OLD SYSTEM

THE EFFECT OF OVERDRAFT PROTECTION PROGRAMS ON ECONOMIC SECURITY
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BANK

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THE ISSUE

National trends show that banks' overdraft fee revenue, as a share of total bank revenue, has increased in the past 30 years. In other words, bank revenue increasingly relies on revenue from fees paid by customers that have overdrawn their accounts. More alarmingly, overdraft protection programs are increasingly being used by customers as an alternative to a more formal line of short-term credit. In all, national surveys and trends point to overdraft protection programs as a contributing factor to marginalized communities being pushed out of the banking system—a traditional imperative to economic security. Despite the troubling national trends, we have limited and outdated data on the effect of overdraft protection programs on Connecticut communities. As such, we cannot ascertain if Connecticut falls in line with the troubling national trends we observe. This paper explores the detrimental impacts of overdraft protection programs on marginalized communities and makes policy recommendations so that residents and policymakers can better understand if Connecticut follows national trends.

WHY IT MATTERS

The economic systems in the United States, including financial institutions, have historically excluded marginalized communities; to this day, these systems create economic insecurity for such communities. In this context, we surmise that overdraft protection programs are a by-product of this system and function to push marginalized communities into further economic insecurity. The racial and ethnic disparities found in the impact of overdraft protection programs and their associated fees combined with the disproportionate effect of the COVID-19 pandemic on marginalized communities make this a critical time to analyze overdraft fees as one barrier to economic security.

KEY FINDINGS

We reviewed data and surveys compiled by national organizations and federal agencies and found the following trends:

- In the past three decades, banks have more than doubled their service charge revenue (which includes overdraft fees).¹
- Today, the average overdraft fee for each overdraft transaction is \$35 and is independent of the total amount of the transaction that overdraws the account.²
- Seventy percent of people who overdraw their accounts do not understand that they can avoid an overdraft transaction fee if the bank declines the transaction.³
- One in four heavy overdrafters pay the equivalent of one or more weeks of wages in overdraft fees per year.⁴
- People who incur large numbers of overdraft fees are more often low-income, single, and non-white.⁵
- Only 18 percent of account holders incur 91 percent of overdraft and non-sufficient funds (NSF) fees.⁶
- People who rent their homes are more likely to incur more than \$100 per year in overdraft and NSF fees.⁷
- The most up-to-date data on how much Connecticut banks (national- and state-chartered) earn on overdraft fees is from 2002 from a Federal Reserve report.

RECOMMENDATIONS

In order to mitigate the long-term economic consequences of the COVID-19 pandemic, we must look at all existing tools and systems that unnecessarily and disproportionately harm marginalized communities and hinder their ability to reach economic stability. This includes monitoring specific data to analyze if Connecticut follows the troubling national trends observed regarding overdraft protection programs and requiring state-chartered banks to stop charging fees for the remainder of the pandemic. The latter would likely provide much needed immediate relief to Connecticut's families. In terms of data, we urge the State of Connecticut to begin collecting and reporting the following data from state-chartered banks:

- The total amount of overdraft fees collected yearly
- The median amount of the overdraft fee charged by bank
- The range of total overdraft fees charged per account
- The bank's total cost of processing overdraft transactions
- The bank's posting order policies
- What percentage of the bank's total consumer checking accounts that are charged overdraft fees during the year
- Number of consumer checking accounts with overdraft fees charged categorized by zip code to which consumer account statements are mailed
- The percentage of accounts that overdrafted during the year that were opted-in to overdrafting on ATM and non-recurring debit card transactions
- The extent of training given to employees on the institution's overdraft and NSF policies, procedures, and products
- Disclosure of any personnel incentives tied to opt-in rates
- The dollar volume of consumer debit card transactions processed by the institution during the year
- Banks' use of deposit holds due to perceived account risk under Regulation CC

References

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