Overdraft Fees: Farewell?

by Charles B. Wendel

By the end of last week, you could almost hear the collective sigh of relief from bankers realizing that a Progressive tsunami was not about to engulf their industry. Yes, we will have a Democrat President (unless the Donald can manage a miracle), but the Senate is likely to remain Republican and many House Democrats feel chastised by the election with one Congressperson telling her colleagues never to mention the phrase “socialism” again.

And despite Biden being portrayed by some as way left of center, CNBC reported: “People in the financial industry have largely favored Biden, spending more than $50 million to back his candidacy, according to the nonpartisan Center for Responsive Politics, compared with more than $10 million for Trump.” Bankers, at least from big banks, and Wall Street invested in Joe. And, just maybe, Elizabeth Warren will not be selected for Secretary of the Treasury, as she supposedly wants.

Many of the bad ideas promoted in recent months are likely dead in the water, for example, creating a national bank with the Post Office serving in effect as branches, extending its abysmal customer service to another area. But:

- CPFB is likely to have more power and input, increasing the costs for banks in consumer-related and maybe small business lending
- Federal CRA initiatives will be re-energized with more rules, costs, and lower margin lending in the offing for banks

And, a big one, appropriately, expect overdraft fees to be under attack. This is a major deal for an industry that collects $11Billion+ in fees each year (based only on banks with assets $1Billion+). Forbes reported that these fees increased $130mm from the prior year. Here are other disturbing stats courtesy of Forbes and the Center for Responsible Lending, an advocacy group:

- “84 percent of the fees were paid by only nine percent of account holders. These individuals tend to carry low balances and have low monthly deposits; the average balance for this group was less than $350.

- CPL found that some of the hardest hit consumers paid a median of 37 overdraft fees each year, which equated to almost $1,300.”

A recent American Banker podcast featured comments from a policy analyst from the Center for Responsible Lending suggesting the need for more Federal action related to overdrafts and NSF fees. “The current overdraft system is a pretty clear example of where we need across-the- board regulation. Okay? This problem can be fixed by financial institutions, shifting their pricing away from back-end overdraft fees, and toward upfront checking account monthly checking account fees. But most banks don't want to do that on their own, because then they are the bank that's now charging, you know, $10 a month for a checking account. And that they view as a competitive … competitive challenge, you know? And so it's where we need across-the-board regulation. We need a rule from the CFPB. They were heading in that direction before leadership changed. We need a CFPB with the will to address this latent abuse of practice pervasive in the industry. And we need a rule that calls this practice what it is, which is credit, and it should have the protections of other credit products and banks should be able to — should be required to — ensure that consumers have the ability to repay the credit that they extend it, and they should have to extend the credit on fair terms.”

Basically, this writer suggests that banks should consider eliminating no fee checking but do not want to for competitive reasons, instead soaking the poorest. In her view the government can play a “helpful” role in guiding them in the right direction. The government is here to help.

Closing Thoughts

1. Banks are not out of the Progressive woods yet, but no industry killing initiatives are likely
2. More CRA initiatives and enforcement
3. More CFPB activity
4. My guess: no Elizabeth Warren in Treasury
5. Right and left can agree on the soul sucking nature of overdraft fees. Banks need to find a replacement. Selling solutions that customers want rather than penalizing the poorest (and in some cases maybe the dumbest) needs to become a priority at many banks.
6. Remember there are still people out there with pitchforks looking for bankers.