

Overdraft Fees and Credit Card Rates Matter...Unfortunately

by Charles B. Wendel

During the past week big banks have been broadcasting their horror at the murder of George Floyd and their eagerness to contribute to various causes to demonstrate their commitment. At least one bank with a super-high operating expense number has done so while cutting staff. But, it is hard not to be cynical about the statements of some of these banks versus the way they exploit the poorest among us.

Here's one example of what a big bank, Citibank, had to say:

"I hope you know that Citi is an organization that champions equality, diversity and inclusion and is willing to stand up for those values when they are threatened. Our leaders have shared their thoughts on this very important issue which I wanted to share below:

"The tragic and unnecessary death of George Floyd in Minneapolis and the ensuing unrest are glaring reminders of the progress we need to make to have a truly equal and just society."

- Mike Corbat, Citi CEO

"We must use this painful time as the turning point to a better future that embraces our common good by listening, learning and being committed to taking action to create a more equal and just society."

- Jane Fraser, President of Citi & CEO, Global Consumer Banking

"These are extraordinarily difficult times. There is no simple solution. My sincere hope is that we will all work together toward a better future."

Nice words that sound great, but in fact banks can provide some simple solutions, if they dare. **Banks can impact positive change and create a more equal and just society by taking three actions: supporting minority small businesses, reducing overdraft fees, and reducing credit card interest rates.** Any bank that acted in one or more of these areas would be putting societal impact before their bottom line. Will they?

First, the small business dilemma. Last week, McKinsey & Co., one of the favorite consultants of big banks, published an article titled, *The COVID-19 crisis will disproportionately affect minority-owned small businesses*. They total over one million small businesses with over eight million employees. Two reasons for their problems: they tend to face underlying issues that make it harder to run and scale successfully, and they are more likely to be concentrated in the industries most immediately affected by the pandemic. McKinsey estimates the following: 27% of white-owned businesses are at risk or distressed versus 31% of Asian owned, 49% of Hispanic owned, and 57% of Black owned. All small businesses, but particularly those minority owned, need help.

These companies suffer from limited access to credit from banks. "Limited access to credit is a compounding factor that hurts the underlying health of minority-owned small businesses. Based on data from the 2018 Small Business Credit Survey, the Brookings Institution found that large banks approve around 60 percent of loans sought by white small-business owners, 50 percent of

those sought by Hispanic or Latinx small-business owners, and just 29 percent of those sought by black small-business owners.”

Simple Solution: They need PPP loans and improved cash flow. Yet, many of these same big banks that proclaim their interest in social equality put up hurdles to small business lending and lagged community banks in PPP lending.

Reduce Overdraft Fees. A New York Times article reported, “Large U.S. banks took \$11.68 billion in overdraft fees out of their customers’ accounts last year, even before the pandemic kicked off an economic crisis, according to research by the Center for Responsible Lending. The total does not include credit unions or smaller institutions with under \$1 billion in assets

CNBC reports: “The number of overdraft fees could “balloon exponentially” as a result of the coronavirus crisis, the report finds. The high levels of under- and unemployment Americans currently face — the Labor Department’s latest total shows 42 million people are unemployed — could cause financial strain and potentially lead to unprecedented volumes of overdrafts.”

CNBC continues: “As of mid-May, none of the 10 largest banks — Bank of America, JPMorgan Chase, Wells Fargo, Citibank, U.S. Bank, Truist (formerly BB&T and SunTrust banks), PNC Bank, Capital One, TD Bank and HSBC — had offered any sustained relief from overdraft fees during the crisis, CRL’s report found.”

Guess what? “Vulnerable people were by far the hardest hit: Nine percent of account holders paid 84 percent of the overdraft fees, according to the review, which focused on banks with assets of more than \$1 billion. Those customers tended to carry low balances, averaging less than \$350.”

Simple Solution: Dramatically lower fees to help the poorest.

Reduce Interest Rates on Consumer Loans. Tucker Carlson, a provocative commentator, points out what he views as a big bank hypocrisy that people across the political spectrum might agree with: “Citibank is happy to put Black Lives Matter logos on its Instagram page precisely so you won’t ask what interest rates they are charging black people. If you really cared about the poor, you wouldn’t crush them with debt they can’t afford.”

Simple Solution: In this historically low interest rate environment, lower interest costs to all consumers.

Banks face a tough year with an expected squeeze in net interest margins and a rise in loan losses. Many banks look to high consumer rates and fees as a necessity to replace gaps in other areas, exploiting the economically weakest. That’s wrong. If banks don’t take the lead in

changing how they serve their most needy and vulnerable customers, the November election may do it for them.

Banks can show leadership in the three areas mentioned here and address past exploitation of the poorest. Doing so would actually benefit the U.S. economy, minority customers, and is simply the right thing to do.