Putting Money Where Your Corporate Mouth Is
By Charles B. Wendel

Over a decade ago I remember sitting in a banking conference listening to a "consultant" speak about his company's focus on helping banks capture and exploit overdraft fee income. The penalty charges were significant. Those fees took advantage of the inattention or, frankly, stupidity, of people. Consumers and business owners soon became a major profit area for many. In today's world siphoning dollars from the poorest or least aware seems more reprehensible than ever.

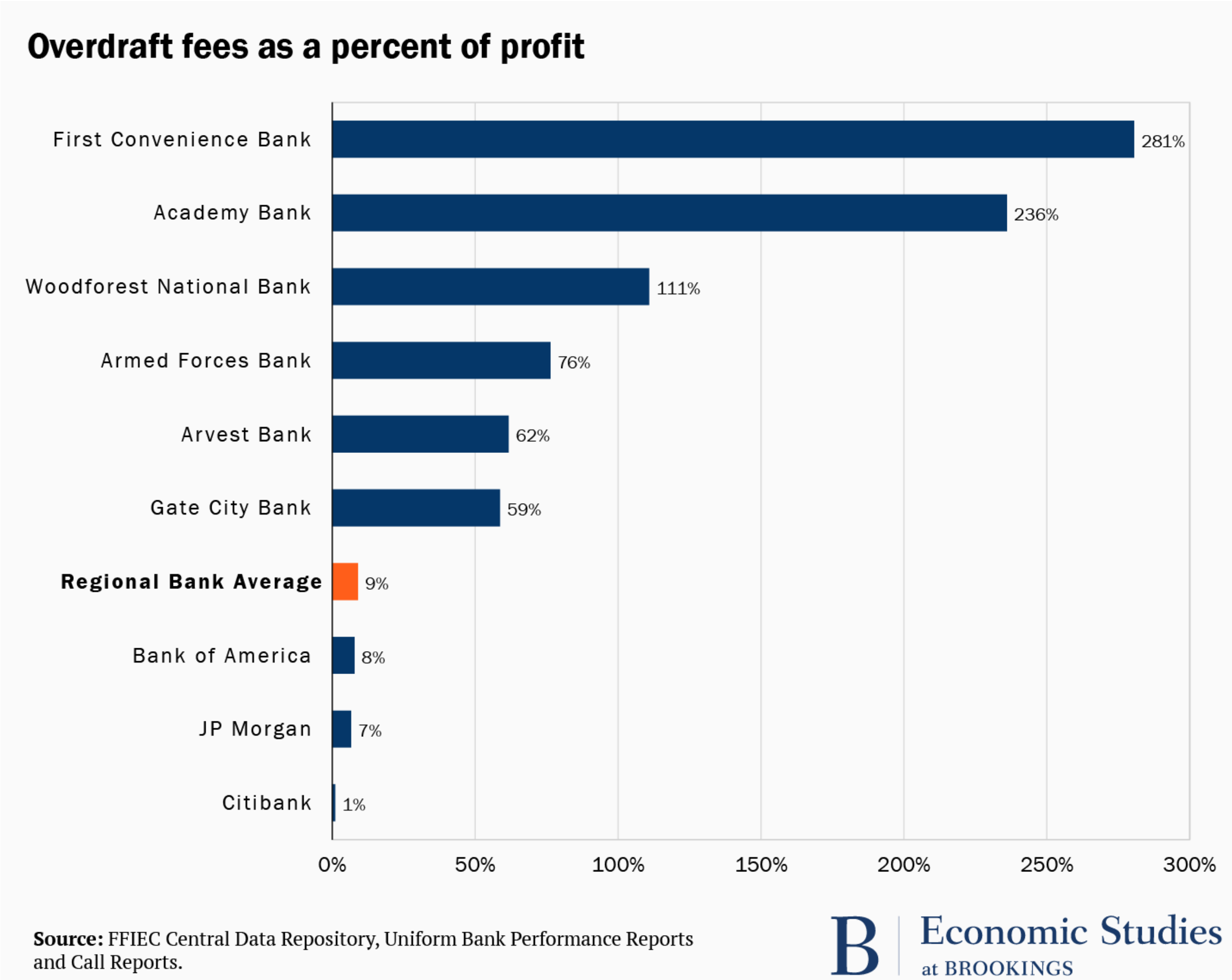
As politicians and regulators increasingly focus on this area, Tuesday's Ne*w York Times* features an inflammatory article on this topic. One statistic that the article highlights raises a major issue for banks charging these fees: "The Consumer Financial Protection Bureau found that frequent overdrafters — those with 10 or more annual occurrences — made up only 9 percent of all bank accounts but paid 79 percent of all overdraft and nonsufficient-fund fees, according to a 2017 analysis that studied data from several large banks." Going forward, this area is one that banks, small and large, need to address. If not, all their words about community support, inclusion, and diversity will ring hollow and despite untold lobbying dollars spent in DC, governmental restraints may come soon.

And of course, the big banks have become the natural targets of politicians and consumer advocates with Elizabeth Warren trying to roast Jamie Dimon at a recent Senate hearing. To quote the *Times*: "Ms. Warren called Jamie Dimon, the chief executive of JPMorgan Chase, 'star of the overdraft show,' noting that his bank collected nearly $1.5 billion in overdraft fees last year. (A JPMorgan spokeswoman said it waived more than $430 million in overdraft fees at customers' requests from January 2020 through March 2021.)" Today is probably a good day to ask for a fee waiver at Chase.

Senators all like to beat up big banks and place halos on smaller players. But the article mentions the following chart from a Brookings Institute report that highlights how some smaller banks may be even more dependent than the larger banks on these fees. Frankly, if I were an advisor to or a Board member of one of those six banks, I would be asking a lot of questions and getting prepared for a shift in the business model and/or a sale. What have these Boards been doing while this situation occurred?

The Brookings Report states: "First National Bank of Texas (doing business as First Convenience Bank) made over $100 million in overdraft fees yet posted an annual profit of just $36 million in 2020. Academy Bank and Woodforest National banks likewise made more money on overdraft revenues than profits in 2020. All three were entirely reliant on overdraft fees for any profit in 2019 as well. This is not a one-year blip; it is their business model. Armed Forces Bank, Arvest Bank, and Gate City Bank all rely on overdraft fees for more than half their profit."

FYI, if we are correct First Convenience Bank assets are $1.6B, Academy at $1B, Woodforest at $8B, Armed Forces Bank (aimed at serving our military) at $1.6B, Arvest at $24B, and Gate City at $2.8B. Each website proclaims their community focus, their relationship emphasis…Yadda, yadda, yadda.



The *Times* article mentions PNC, Ally, and others as leaders in the movement to reduce or eliminate overdraft fees, to help the neediest customers rather than ravage them. They can take this step in part because they have developed multiple revenue streams based upon client service rather than having to rely on snaking the customer.

If I were a bank analyst or investor, I would want to highlight overdraft dollars and similar penalty fee areas. These will be harder to sustain in the future. Customers and, yes, banking will be better for that.

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