

## **Banks see big profits from overdraft fees**

By MARTIN COHN

During these tough economic times, many of us are struggling with debt management. Despite belt tightening and expense reduction, one area that remains fairly unchecked is bank fees for overdrawn accounts.

Recently, Sen. Chris Dodd, D-Conn., chairman of the Senate Banking Committee, along with four other Democratic senators, introduced legislation, the Fairness and Accountability in Receiving (FAIR) Overdraft Coverage Act, aimed at protecting bank depositors who overdraw their checking accounts from having to pay excessively high fees.

Senator Dodd's bill would give people a choice in whether they want to participate in overdraft programs that charge fees for covering ATM withdrawals and debit card transactions.

During the unveiling of his legislation, Dodd cited estimates that banks stand to collect a record \$38.5 billion in fees for customer overdrafts this year. "At a time when many can afford it least, American consumers are being hit with hundreds of dollars in penalties for overdrawing on their account by just a few dollars," Dodd said, "Banks should not be trying to bolster their profits at the expense of their customers."

Dodd's bill would:

- \* Require banks to get customers' consent before enrolling them in an overdraft protection program for ATM and debit card transactions.
- \* Limit the number of overdraft fees banks can charge to one per month and six per year.
- \* Require that fees be proportional to the cost of processing the overdraft.
- \* Require customers be notified, by e-mail, text or traditional mail, when they overdraw their account.
- \* Require that customers be warned if an ATM or teller transaction will overdraw their account.

According to Bruce S. Rogow, an attorney who has filed a class action lawsuit against Bank of America, Wachovia, U.S. Bank, JPMorgan Chase and Citibank for their alleged overdraft fee policies, "The collection of excessive overdraft fees, usually around \$35 per transaction, impacts millions of Americans each year and has become a multibillion-dollar profit center for the banks."

"In many instances, these overdraft fees cost customers hundreds of dollars in a matter of days, or even hours, when they may be overdrawn by only a few dollars," Rogow explained.

When you open a checking account and receive a debit card, you may not be aware that you are automatically enrolled in an overdraft protection program in which you can spend more than you have in your account to cover a purchase.

Until recently, banks used to decline an ATM or point-of-sale transaction if there weren't sufficient funds.

However, published reports show that in 2007, banks collected more than \$17 billion in overdraft fees. That number nearly doubled in 2008. In 2009, banks are expected to bring in up to \$40 billion in overdraft. And, this amount is paid by only 10 percent of banking customers.

Another problem addressed by Senator Dodd's bill is that banks reorder the charges and purchases so that the largest charge or purchase is the first one paid by the bank. This practice has the tendency to create a domino effect, resulting in even more fees.

For example, if you deposit a check for \$1,000 at an ATM on a Saturday and make eight point-of-sale transactions on Sunday and Monday totaling \$750, you could incur not only a \$280 fee for accessing the money but also additional overdraft fees.

"If you buy your kids a \$15 meal at McDonalds on your debit card and your account was overdrawn, that lunch actually cost you \$50," added Sobol. "The bank won't decline the debit transaction, nor will the bank tell you that you have overdrawn your account and is about to turn your \$15 lunch into a \$50 expense."

Opponents of Senator Dodd's bill argue that eliminating overdraft protection to consumers could result in bounced checks, which is inconvenient and impractical.

Critics maintain that it's the responsibility of consumers to know how much money they have in their accounts, and that banks are providing them with a service by allowing them to use their cards in such situations.

Senator Dodd believes that banks should not be trying to bolster their profits at the expense of their customers and that his bill would shine "more light on these practices" while giving consumers greater control over their financial decisions. Rep. Carolyn Maloney, D-N.Y., has introduced similar legislation in the House of Representatives, increasing the chances of some form of law being passed.

So, what can you do to avoid excessive bank overdraft fees? First, do not overspend what you have in your account. Second, opt-out of your bank's automatic draft protection program. And, three, contact your senator to voice your support of the Fairness and Accountability in Receiving (FAIR) Overdraft Coverage Act.

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