MOVEMENT BANK

PROUD PAST · ESTD 1919 · BOLD FUTURE

ELIMINATING OVERDRAFT FEES IS LONG PAST DUE AND BANKS KNOW IT

A WHITEPAPER FROM MOVEMENT BANK

For over half a century, the banking industry has embraced overdraft fees — also known as non-sufficient funds fees or NSF fees — as a reliable and profitable revenue stream. That may be changing soon as banks are starting to question the merits and fairness of those fees.

While still staggering, the $12.4 billion that U.S. consumers were charged for overdraft fees in 2020 is still less than the $17 billion reported in 2018.[1] You can probably chalk that up to less spending due to the pandemic, but now that consumers are working and spending more, many are concerned about what will happen to overdrawn accounts and NSF fees.

HOW DO OVERDRAFT FEES WORK?

Bank customers cause overdrafts when they write a check or make a debit card purchase for more than they have in their account balance. When this happens, the customer's bank has two choices. On the one hand, they can honor the banking relationship they have with the customer, fulfill the payment and extend credit to the account holder. Or, on the other hand, they can reject the payment due to insufficient funds and charge a fee.

A bank typically charges an NSF fee for each overdraft transaction — the industry average is $35. This fee is charged even when the account holder overdrafts by a minimal amount. Additionally, once overdrawn, some banks will hit customers with yet another fee if the negative balance isn't corrected within days. This is called an extended overdraft fee and is typically another $15. Add this to the original NSF fee and that's a $50 charge for one overdraft on a debit that is possibly only off by just a few dollars.

Moreover, this percentage disproportionately represents low income consumers and communities of color, vulnerable groups who have been historically excluded from the benefits of the banking mainstream and who tend to make less than the national median income of $54,000.[2] For these consumers, according to a study from the Pew Charitable Trusts, a public policy group that studies consumer banking, paying NSF fees over a year is comparable to losing a week of wages.

> **RETAIL BANK CUSTOMERS HAVE AN AVERAGE OF ABOUT TWO OVERDRAFTS PER YEAR, BUT IF YOU NARROW IT DOWN TO WHO ACCOUNTS FOR THE MOST OVERDRAFTS, IT'S ACTUALLY A SMALL NUMBER OF BANK CONSUMERS, JUST 18%.**

PREDATORY WAYS

In 2019, according to the Center for Responsible Lending (CRL), banks with assets of $1 billion or more collectively charged over $11.68 billion in NSF fees.[3] This total does not include fees collected by credit unions or smaller institutions with under $1 billion in assets.

Some of these charges are legitimate — if you agree with overdraft charges to begin with. But some are abusive and not at all transparent to the consumer.

> **$75 MILLION: BANK OF AMERICA SETTLEMENT FOR EXTRACTING OVERDRAFT FEES NOT LEGALLY EARNED BY CUSTOMERS**

In a similar case, TD Bank agreed to pay $41.5 million.[4]

Overdraft programs were not always this hard-fisted. As a courtesy, and in a time when bank tellers knew their customers by name, banks would often cover an account holder who wrote a check against an account that lacked sufficient funds. Only occasionally was a fee charged, and when it was, it was minimal.

Then, under the Truth In Lending Act (TILA) of 1968, the Federal Reserve exempted NSF fees from "finance charges" based on the premise that these fees were not routine extensions of credit but instead were inadvertent overdrafts. Overdrafts were no longer subject to credit regulations, and the fees continued pretty much unabated. This was illustrated by the $38 coffee example: $3 for a coffee and $35 for an overdraft fee.

Because of excessive fees, federal rules considered giving consumers the option to avoid overdraft fees on debit card transactions and ATM withdrawals by stopping banks from approving these transactions when you do not have enough money in your bank account.

As of 2010, banks had to have a customer's permission before charging a fee to cover an overdraft if there is not enough money available in the account to pay for the transaction. If a customer does not opt-in and doesn't have enough money in his/her account, the bank can have the merchant deny the transaction. To avoid the inconvenience of being stopped at a store or ATM, many consumers — especially the most vulnerable to overdrafts — opted in without totally understanding how the system worked.

MORE AND MORE FEES

To increase the number of fees they could legally collect on debit card transactions, some banks reordered a customer's daily transactions from largest to smallest, emptying an account faster. By doing this, each subsequent charge incurs another hefty overdraft fee.

But it doesn't end there. The money the bank advances and the fees must then be paid in a few days or another fee is applied. Any money that remains owed is generally automatically removed from the account — without the account holder knowing — as soon as the next deposit is made. You can see how a consumer can be totally in the dark about how much money they have access to at any time and how easy it is to spiral further into piling up the NSF fees.

> **WHEN CONSUMER RIGHTS GROUPS BALKED, SOME BANKS LIMITED FEES TO THREE OR FOUR PER DAY, BUT AT $35 A POP THAT CAN STILL ADD UP TO OVER $125 IN A SINGLE 24-HOUR PERIOD.**

Programs geared to help consumers avoid these fees, like linking accounts to credit cards or overdraft lines of credit, were then instated by certain financial institutions. Others recommend pairing a checking to a savings account to ensure that funds can be automatically transferred between the two to cover potential overdrafts.

While these services are not free, they're typically far less than the typical NSF fee, especially for those who find it hard to get out of the cycle of insufficient funds reduced further by fees for insufficient funds. Additionally, these overdraft protection services have typically only been available to bank customers with solid credit histories, high credit scores and ample savings. As a result, it's the most vulnerable who are the least protected.

FROM FINANCIALLY VULNERABLE TO UNBANKED

The Financial Health Network categorizes U.S. households as either "financially vulnerable," "coping," or "financially healthy." A 2021 report found that financially vulnerable households spent 13% of their income on bank fees and interest for everyday financial services, compared with 5% for coping households and just 1% for financially healthy households.

Of vulnerable households with checking accounts, more than 4 out of 10 experienced overdrafts in 2020, with nearly ten overdrafts per household, on average.[5]

In fact, according to a recent Forbes article, 95% of the overdraft fees consumers paid last year –

LAST YEAR, THAT EQUATED TO $255 BILLION PAID BY VULNERABLE AND COPING HOUSEHOLDS.

$11.8 billion – were charged to households that are defined by their struggle to spend, save, borrow and plan.[6]

None of this is news. For many banks, overdraft revenues account for more than half their net income. In some cases, banks that lost money on every other aspect of their business saw overdraft revenues outpace total net income.[7] This means that some banks are making significant money on overdraft fees and could be entirely reliant on overdraft fees for any profit.

As the world starts to return to a post-pandemic normal and people get back to shopping, overdraft fees collected by U.S. banks will increase dramatically. They currently constitute the largest component of service charges, clocking in at $2.32 billion in 2020's fourth quarter alone, up 64% from just six months prior.[8]

In 2018, U.S. Senator Cory Booker cited that "overdraft fees push low-income consumers away from banking products altogether." It's true, nearly 25% of low-income households in the U.S. are unbanked, and roughly one-third of unbanked households cite fees that are too high as a reason.[9] Involuntary account closures by banks, typically initiated because of excessive overdrafts, were also contributing factors. Yet, being unbanked is not the same as being free from fees. Whether cashing a paycheck, making a rent payment, paying for utilities or transferring money to family, the unbanked generally pay for services that banked households routinely receive at no charge.

There are many people who believe that limiting bank fees would improve financial inclusion. We agree.

ENDING THE POLICY AND REVERSINGTHE DAMAGE

With a purpose that is bigger than banking, Movement Bank is turning the tide on this predatory practice. We believe banks can and should do more to bridge the gap between those with resources and those working hard to build their financial lives. Penalizing customers in challenging circumstances certainly doesn't help – it just makes life events more difficult.

With this in mind, Movement Bank has decided to end the practice of charging NSF fees for insufficient funds — and introduce products and resources to empower our customers for long-term financial stability.

As a result, our customers will no longer experience $35 overdraft fees.

We will also help our customers avoid declined

BEGINNING JUNE 30, 2021, IF OUR BANKING CUSTOMERS DO NOT HAVE ENOUGH MONEY IN AN ACCOUNT TO COVER A TRANSACTION, WE WILL RETURN THAT TRANSACTION AND THE CUSTOMER WILL NOT BE CHARGED A FEE.

transactions by offering a $500 low-cost line of credit.*

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By ending the practice of charging NSF fees and shifting the favor back to the banking customer, Movement Bank can help prevent customer accounts from accumulating overdraft fees and going further into the negative.

For example, if a customer has $50 in their checking account and an automatic withdrawal for utilities is presented for $100, the transaction would be returned to the merchant. Movement Bank would not charge an insufficient funds fee and the checking account balance will remain at $50. However, the utility company may charge a returned item fee because the bill payment was returned unpaid.

TIPS ON PREVENTING ACCOUNT OVERDRAFTS

There are several steps that Movement Bank customers can take to prevent or limit the number of overdraft incidents they experience.

1. Set up Automatic Account Balance Alerts: In the Movement Bank app, customers can set up a daily text message alert for the account's current balance. Alerts can also be scheduled to ping the user only if a balance drops below a specific amount. To activate alerts, log into the app and select "Settings," then "Alerts" from the menu.

2. Keep a Check Register: Online balances do not take into account written checks that are still uncashed. To prevent transactions coming up against insufficient funds, we suggest recording all transactions in a checking account register to know exactly what is available to spend. Registers are available for free at any Movement Bank branch.

3. Enroll in Overdraft Protection from Savings: Movement Bank checking account holders can arrange to automatically have funds transferred from a linked Movement Bank savings or money market account to protect from accidental overdrafts. Enroll at any Movement Bank branch.

4. Apply for Overdraft Protection Line of Credit: Movement Bank can provide qualified customers with a line of credit tied to a personal checking account that will automatically cover overdrafts up to an approved limit. Customers are only charged interest on funds borrowed using this line of credit. This service is subject to credit approval. Apply at any Movement Bank branch.

5. Watch for Debit Card Holds: When using a debit card at certain locations, like pay at the pump gas, a hold is placed on a customer's funds. This can cause an unexpected overdraft.

CONTACT MOVEMENT BANK

To contact us with questions or interest in our educational resources, you can visit our branch locations in Danville, VA, or Fort Mill, SC. If you need to speak with someone on our team, please do not hesitate to call **434-792-0198** or email **service@movementbank.com**

SOURCES:

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*subject to credit approval