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Banks make billions more on overdrafts

By Kathy Chu, USA TODAY

Banks are making it increasingly easy for you to overdraw your bank account. And the money they're reaping from your mistakes has likely hit a record high.

So says a new report from the Center for Responsible Lending, a consumer advocacy group. Its research shows that customers are paying \$17.5 billion annually in fees for overdrawing their bank accounts, up 70% from the \$10.3 billion they paid in 2004, the first time the center collected this data. The fees — assessed when banks pay for, rather than deny, an overdraft — exceed the \$15.8 billion that consumers are overdrawing.

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"My assumption is these are record highs," says Eric Halperin, a director at the center. "Consumers have never paid this many overdraft fees before."

Banks have long allowed you, for a small fee, to transfer money from a credit line or savings account in case you mistakenly overdraw an account. But you have to sign up for this protection.

In the late 1990s, banks began automatically covering overdrawn transactions — even if you didn't sign up for such protection. But there was a catch: They charged you a fee for doing so. These fees now average \$34 per transaction, Halperin says, much steeper than the cost of the regular overdraft programs.

Banks adopted this policy because customers don't want their transactions to be denied, says Nessa Feddis of the American Bankers Association.

Does the policy provide "income to the banks? Clearly, it (does). But they're doing it to accommodate their customers," Feddis says.

Oliver Ireland of Morrison & Foerster, a law firm that consults with banks, said at a hearing Wednesday of the House Committee on Financial Services that banks allow, and charge for, these overdrafts because they don't know how "a failed transaction" will affect the customer. Still, he acknowledged that these fees can exceed "the value of the service."

Banks are making it easier for consumers to overdraw. Here's how:

- A growing number of banks are reversing their policies to deny debit card transactions when you don't have enough money in your account. Instead, they're approving these transactions and then charging you for each overdraft, the Center for Responsible Lending found. Nearly half of all overdrafts come from debit card transactions or ATM withdrawals, often for small amounts, the center says.
- Banks are increasingly clearing checks from highest to lowest dollar amount, causing consumers to overdraw more often — and to be hit with a higher total of fees, the consumer's group found.

If you have \$100 in your account, for example, and you write three checks, for \$15, \$20 and \$90, banks would clear the largest one first. You'd then be hit with two fees, rather than just the one you'd face if the bank had cleared checks from lowest to highest amount.

Rep. Carolyn Maloney, D-N.Y., has introduced a bill to require banks to get consumers' consent before covering overdrafts and to clearly disclose the fees for overdrafts.

Have you been hit by outrageous bank fees? Tell us your experiences. How do you think banks should handle overdrawn accounts?

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