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Prepared Remarks of CFPB Director Richard Cordray on the Overdraft Data Point Press Call

BY [RICHARD CORDRAY](#)

Thank you all for joining me today for the release of the Consumer Financial Protection Bureau's data point on checking account overdrafts. This is our second report on overdraft that raises concerns about how consumers are being affected by overdraft practices.

Today's study confirms that opting in for overdraft coverage for debit card and ATM transactions is an expensive way to manage a checking account. Consumers use their debit cards nearly three times as often as they write checks or pay bills online. As a result, consumers who opt in find that overdraft fees can pile up quickly on smaller debit card purchases, often for less than \$24, such as buying a quick meal or perhaps an impulse buy at the mall.

For as long as banks have been around, consumers have occasionally run into trouble in trying to spend more money than they have available in their accounts. For many years, banks and credit unions either covered the difference or they would return the transaction and generally charge a fee. With the advent of debit cards, consumers started using them rather than cash for more and more small or impulse purchases. And, as banks and credit unions covered more and more of the transactions, they have assessed higher fees for doing so. Accordingly, overdraft started to become a significant source of revenue from checking accounts. Today, more than half of consumer checking account income is from overdraft fees.

In 2010, a Federal Reserve rule took effect that said depository institutions cannot charge an overdraft fee for ATM withdrawals or most debit card transactions unless the consumer has affirmatively "opted in." Institutions can still charge overdraft fees on checks or automatic payments through the Automated Clearing House system, and on debit card transactions that are set up on a recurring basis, without requiring an "opt in" – because those fees are not covered by the rule. The banks themselves also took some steps to change their practices. Some stopped charging overdraft fees on transactions for less than \$5. Some capped the number of overdraft fees that a consumer could incur in a single day.

In the years since these changes, people have had varied views about whether consumers' experiences with overdraft are improving. But our study today shows that problems still persist.

The use of debit cards is an important element here. Consumers are now using their debit cards more than ever, about 17 times a month for purchases, our study says. And, according to a new Federal Reserve report, consumers are now twice as likely to use debit cards as credit cards to make purchases and payments.



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Overdraft fees should not be “gotchas” when people use their debit cards. But unfortunately, the wider use of debit cards means those who opt in for overdraft are likely to get charged more fees. Our study shows that more often than not, consumers who incur overdraft fees for using their debit card are doing so for small purchases of \$24 or less.

Moreover, our study found that the majority of consumers put money back into their bank accounts within three days of their overdraft transactions – maybe their paychecks got posted or a deposit finally cleared. In fact, more than 75 percent have positive account balances within a week.

The result is that some consumers are essentially paying \$34 – which is the typical overdraft fee – to have the bank spot them less than \$24 for just a few days. If a consumer were to get a loan on those terms, that would equate to an annual percentage rate of over 17,000 percent.

Our study also found that nearly one out of five consumers who opt in will likely overdraw their account more than ten times a year. Even if they are not assessed fees on all those transactions, they are likely getting stung by fees on many of them. Indeed, on average, opted-in accounts pay almost \$260 per year in overdraft and non-sufficient funds (or NSF) fees, compared to just over \$35 for non-opted in accounts. That means opted-in consumers are paying seven times more in overdraft and NSF fees per year.

Today’s study is based on data from a set of large banks supervised by the Bureau. We examined account-level and transaction-level data – which did not contain consumers’ directly identifying personal information – to better understand how overdraft practices affect consumers. The study reflects a significant portion of U.S. consumer checking accounts.

I want to take pains to note that nothing in this report implies that banks and credit unions should be precluded from offering overdraft coverage. But we need to determine whether current overdraft practices are causing the kind of consumer harm that the federal consumer protection laws are designed to prevent.

Last year, the Consumer Bureau came out with a study that raised concerns about the ability of consumers to anticipate and avoid overdraft costs. Today’s results compound our concerns. The Consumer Bureau will continue to look at the important issues here as we continue to figure out the best way to address these issues and protect consumers. Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.

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