

Big banks mislead customers about overdraft charges, new report shows

Overdraft fees drive people out of banking system, product should be banned

July 31, 2014

Durham, NC —Confusing information provided by the nation’s biggest banks is making it difficult for consumers to understand the real costs of overdraft and make informed decisions, a mystery shopping investigation released today by four organizations from across the country found. The four organizations—California Reinvestment Coalition of Oakland, CA; New Economy Project of New York, NY; Reinvestment Partners of Durham, NC; and Woodstock Institute of Chicago, IL—are calling upon federal banking regulators and the Consumer Financial Protection Bureau (CFPB) to strengthen consumer protections for all overdraft products.

“Recent changes that require consumers to opt in to overdraft programs were a crucial step forward, but the results of our investigation show that there is clearly more work to be done to ensure that consumers can avoid a cycle of high fees,” said Dory Rand, President of Woodstock Institute.

"Overdraft protection is a misnomer for a service that is expensive and often marketed on inaccurate information," said Peter Skillern, Executive Director of Reinvestment Partners.

“Overdraft on ATM withdrawals and debit purchases is a debt trap that pushes lower income people out of the banking system. Regulators should ban this product,” said Josh Zinner, Co-Director of New Economy Project.

"The numerous conflicting and confusing messages given to the secret shoppers in more than 60 visits to bank branches should be great cause for concern for banks and for their regulators. These visits show that the \$35 cup of coffee (\$5 for coffee, \$30 for overdraft fee) is alive and well. Overdraft opt-in rules are clearly not enough to protect consumers from this expensive product,” said Paulina Gonzalez, executive director of the California Reinvestment Coalition.

The four organizations conducted 64 mystery shopping visits at 39 bank branches in Chicago, Durham, New York City, and Oakland. Four of the largest banks by deposit size in each location were selected. In Chicago, mystery shoppers visited Bank of America, BMO Harris, Chase, and Citi. At each bank, shoppers visited two branches in predominantly white communities and two branches in communities of color.

The results of the mystery shopping show:

- **In all four cities, banks’ explanations of overdraft programs were highly inconsistent, and often unclear and incorrect.** The inconsistent and erroneous information bank personnel provided to mystery shoppers raise concerns about banks’ training of staff and sales practices and suggest that banks may not be giving people the information they need to understand overdraft programs and make informed choices.
- **Bank employees often did not clearly or correctly explain how overdraft fees are triggered.** The misinformation made it difficult or impossible for shoppers to understand the real costs of overdraft and make informed decisions.
- **Bank employees frequently did not explain the opt-in requirement for ATM and debit courtesy overdraft,** and led people to believe that it was an automatic account feature, raising serious concerns about whether the large banks are complying with federal regulations.

- In two of the cities, **bank branches visited in predominantly non-white neighborhoods had limited staff availability and long wait times**, in stark contrast to well-staffed branches in predominantly white neighborhoods. The poor service clearly affected the quality of assistance provided to customers in non-white neighborhoods.

The four organizations urge federal banking regulators and the CFPB to:

- **Prohibit overdraft fees** on all ATM withdrawals and debit card transactions.
- **Limit the fees a bank may charge** for overdrafts to an amount commensurate with the actual cost of the transaction to the bank and proportional to the actual amount overdrawn.
- **Prohibit banks from reordering transactions** to maximize overdraft fees.
- **Prohibit banks from providing financial incentives** to branch or bank employees for the sale of overdraft products to customers.
- **Create a uniform standard** for how banks should verbally describe overdraft products and fees.
- **Require training of bank employees** on the verbal explanation of overdraft standards and conduct periodic reviews of training and compliance.
- **Limit the number of times a financial institutions may impose any type of overdraft charges** to once a month, or a maximum of six charges in a 12-month period, whichever comes first.

For more information, contact:

CALIFORNIA: Paulina Gonzalez, California Reinvestment Coalition, 415-864-3980,
pgonzalez@calreinvest.org

ILLINOIS: Katie Buitrago, Woodstock Institute: 312-368-0310, kbuitrago@woodstockinst.org

NEW YORK: Josh Zinner, New Economy Project, 212-680-5100, x208, josh@neweconomynyc.org

NORTH CAROLINA: Peter Skillern, Reinvestment Partners: 919-667-1000 x 22,
peter@reinvestmentpartners.org

About the collaboration

[California Reinvestment Coalition](#) advocates for fair and equal access to banking and other financial services for California's low-income communities and communities of color. CRC has a membership of over 300 nonprofit organizations and public agencies across the state of California. [New Economy Project \(formerly NEDAP\)](#) works with community groups in New York City to promote economic justice and to build a "new economy" based on principles of cooperation, democracy, equity, social and racial justice, and ecological sustainability. [Reinvestment Partners](#) advocates for economic justice and opportunity. [Woodstock Institute](#) is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform.