



Debit Card Overdraft Fees On the Increase

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A few years ago, if you tried to use your debit card and had insufficient funds in your bank account, the transaction would be denied. Eventually, banks realized that allowing the transactions to go through and charging overdraft fees for the transactions could generate enormous fees. To increase such fees even more, banks typically put through the charges in decreasing order.

Ralph Tornes, who lives in Florida, is pursuing a lawsuit against Bank of America for charging him nearly \$500 in overdraft fees in 2008 after it rearranged his purchases from largest to smallest. In May 2008, for instance, Mr. Tornes had \$195 in his account when he made two debit purchases for \$8 and \$13; the bank also processed a bill payment of \$256. He claims that Bank of America took his purchases out of chronological order and ran the biggest one through first. So instead of paying \$35 for one overdraft fee, he was stuck with three, for a total of \$105.

As a result of increasing consumer protests about these practices, regulators are considering the implementation of rules to disallow overdraft fees unless consumers have given permission to allow charges to be run through when there is insufficient money in the account to cover them. In addition, banks would be required to run the charges through in increasing order, allowing smaller charges to be paid without overdrawing the account and resulting in fewer overdraft charges.

Michael Moebis, an economist who advises banks and credit unions, said such legislation would effectively kill overdraft services, causing an estimated 1,000 banks and 2,000 credit unions to fold within two years. That is because 45% of the nation's banks and credit unions collect more from overdraft services than they make in profits, he said.

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“Will they be able to replace it with another fee?” Mr. Moebs said. “Not immediately and not soon enough.” They will certainly try. For instance, some banks have said they might slap a monthly fee of between \$10 to \$20 on every free checking account. At the moment, people who pay overdraft fees help subsidize the free accounts of those who do not.

In all, \$27 billion in fee income flows from covering overdrafts from debit card purchases, ATM transactions, checks and automatic payments for bills like utilities; an additional \$11.5 billion arrives from bounced checks and other instances in which banks refuse to pay overdrafts, Mr. Moebs said.

Advocacy groups say banks are making a fortune because consumers are unaware of the exorbitant costs of overdraft services. And banks, they argue, have an incentive to keep it that way.

Rory Foster, a former branch manager in Illinois, said that Wells Fargo based its compensation for managers in part on overall branch profitability. Fee income, including that from overdrafts, is part of the calculation. A spokeswoman for Wells Fargo, Richele J. Messick, said the bank did not tie branch manager pay directly to fee collection.

Much of the information in this blog comes from an article in the [New York Times](#), where you can get further information on this topic.