

Written Testimony for Jeremie Greer
Co-Founder and Co-Executive Director
Liberation in a Generation

U.S. House Financial Services Committee
Subcommittee on Consumer Protection and Financial Institutions

“The End of Overdraft Fees? Examining the Movement to Eliminate the Fees Costing Consumers Billions”

Mar 31, 2022

Thank you, Chairman Perlmutter, Ranking Member Luetkemeyer, and Members of the Subcommittee for holding this important hearing to examine the movement to eliminate overdraft fees—which are costing consumers billions of dollars—and for the opportunity to testify before you today. My name is Jeremie Greer and I am the Co-Founder and Co-Executive Director of Liberation in a Generation (LibGen).

I am here today on behalf of Liberation in a Generation. LibGen is a national movement organization and was founded in 2018 to build the power of people of color across the country to transform the economy—who controls it, how it works, and most importantly, for whom it works for. We bring together a stakeholder group of advocates, community organizers, economists, and other proven and emerging thought and movement leaders of color from across the country, to build a Liberation Economy, within one generation.

We believe that it is possible to create an economy where all Black, Indigenous, Latinx, Asian and Pacific Islander people can thrive. To accomplish this, we are fighting to dismantle what we call the *oppression economy*. Historically and even more prevalent today, elite institutions use racism and discrimination as a tool to expand their power and wealth, all while suppressing the economic power of communities of color and other marginalized groups. These elite institutions that control resources use that control to change the rules of our economy in their favor, which continues the cycle of profit.

Overdraft Fees Negatively Impact Consumers

Financial institutions across the country, large or small, have the ability and authority to unburden their customers with junk fees such as overdraft charges—the question is whether they have the will to do it. Each year, banks take in billions of dollars in revenue from overdraft fees. Not only are overdraft fees opaque and manipulative, they have a tremendous impact on customers from communities of color, rural, and low-wealth communities. This is money made off the backs of people who are already struggling to make ends meet.

With billions of dollars flowing from consumers to financial institutions under the guise of junk fees, consumers need protection now more than ever. In the fourth quarter of 2021, commercial banks and

savings institutions collected over \$72 billion or thirty six percent of their income from fees.¹ These fees—which include overdraft fees, nonsufficient funds (NSF) fees, multiple fees per day, and *extended* or *sustained* overdraft fees—have become core parts of the standard business model used by financial institutions. Typically, banks charge \$34 per overdraft or NSF transaction.² By law, banks are supposed to get a consumer's consent before charging them an overdraft or NSF fee. This places an undue burden on consumers to opt into overdraft protection. If a consumer has overdraft protection, the financial institution usually charges an overdraft fee while covering the transaction—even if it puts consumers in the negative. If a consumer lacks overdraft protection, financial institutions may not cover the transaction but still extract an NSF fee from consumers who choose to overdraw. Either way, banks will profit. What's even more concerning is that overdraft protection does not protect consumers from excessively high charges. As the Consumer Financial Protection Bureau (CFPB) reported, consumers who opted into protection paid seven times more in overdraft and NSF fees. Under the predatory business model of these financial institutions, consumers have no recourse. These fees are unreasonably high because financial institutions rely on them to entrench their wealth and that burden disproportionately falls on customers who cannot pay.

Overdraft and NSF fees are also used to prey on the consumers that need protection the most. About nine percent of consumers account for almost eighty percent of overdraft revenue and nearly half of all overdrafts are made by parents with children under the age of 18, which make up twenty seven percent of the adult population.^{3,4} In the midst of the pandemic, communities of color paid over \$4.5 billion in overdraft fees alone.⁵ Black families paid over \$800 million on fees for checking account maintenance, money orders and check cashing, while Hispanic families spent \$1.1 billion on those services in 2020. These payments came from the same communities that have higher cost burdens, rates of evictions, and unemployment.^{6,7,8} As millions of consumers “bounce out” of the financial system following the closure of their accounts due to excessive overdrafts, one-third of households without a bank account have identified high fees as a reason for remaining unbanked.^{9,10} This

¹ <https://www.fdic.gov/analysis/quarterly-banking-profile/qbp/2021dec/>

² <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finds-small-debit-purchases-lead-to-expensive-overdraft-charges/>

³ <https://www.consumerfinance.gov/about-us/newsroom/cfpb-finds-small-debit-purchases-lead-to-expensive-overdraft-charges/>

⁴ <https://morningconsult.com/2022/01/11/overdrafted-underbanked-and-looking-for-new-providers/>

⁵ <https://drive.google.com/file/d/1g3sapYWADiY6jcgV4lxDkM708gdYTZ6/view>

⁶ <https://www.jchs.harvard.edu/blog/black-and-hispanic-renters-face-greatest-threat-eviction-pandemic#:~:text=Figure%201%3A%20In%202019%2C%20Over.assumed%20to%20be%20without%20burdens>

⁷ [https://www.jchs.harvard.edu/blog/black-and-hispanic-renters-face-greatest-threat-eviction-pandemic#:~:text=A%20staggering%209.7%20percent%20of.\(3.7%20percent\)%20households%20reported](https://www.jchs.harvard.edu/blog/black-and-hispanic-renters-face-greatest-threat-eviction-pandemic#:~:text=A%20staggering%209.7%20percent%20of.(3.7%20percent)%20households%20reported)

⁸ <https://www.cnbc.com/2021/08/06/unemployment-rate-falls-but-is-higher-for-black-and-hispanic-workers.html#:~:text=Investing%20Club-.Unemployment%20rate%20falls%20for%20every%20group%20but.for%20Black%20and%20Hispanic%20workers&text=Black%20and%20Hispanic%20unemployment%20dropped.was%20the%20lowest%20at%204.8%25>

⁹ Campbell, Dennis, F. Asis Martinez-Jerez, and Peter Tufano, 2012, Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures, *Journal of Banking & Finance*, 36(4): 1224-1235.

¹⁰ Federal Deposit Insurance Corporation (FDIC), 2020, *How America Banks: Household Use of Banking and Financial Services*, 2019 FDIC Survey.

affliction is particularly relevant for Black households, where nearly half—forty eight percent—are underbanked.¹¹ Over time, this disparity can cost these families nearly \$40,000 in fees.¹² It is unsustainable for these families to shoulder excessive fees on top of navigating their daily expenses and a banking system that works to exclude them.

Lastly, these fees operate like an abusive form of high-cost credit. Overdraft and NSF fees allow consumers to have a negative balance while incurring a large overdraft fee. The problem with this is that these fees are connected to debit transactions which are the primary way in which consumers make payments from their checking accounts. While these fees give consumers a way to borrow and cover expenses, in no way are these fees better than payday loans—which are largely regarded as deceptive and abusive. To put into perspective, a CFPB study found that the majority of overdraft fees were incurred on transactions of \$24 or less and were repaid within three days, meaning that if a \$34 overdraft fee were charged as a loan, it would have an annual percentage rate (APR) of 17,000 percent. By comparison, payday loans typically yield a six hundred percent APR.¹³ Overdraft and NSF fees go far beyond what should be accepted in a fair and inclusive financial market. Furthermore, almost seventy percent of all consumers who paid debit card overdraft fees were not aware that they could have their debit transactions declined at no cost.¹⁴ This lack of transparency underpins the need for reform. Financial institutions use these opaque and manipulative tactics to reinforce fees and take advantage of consumers.

Policy Solution and Recommendations

With consideration to everything I have mentioned in my testimony, it is important that I acknowledge that there is no one-size-fits-all solution or magic bullet when it comes to addressing the harms of overdraft and other associated bank fees. We must ensure that financial institutions are held accountable for the predatory ways they assess fees—especially as it pertains to members of communities that have historically been the targets of these fees.

It is the recommendation of Liberation in a Generation that Congress and the Biden-Harris administration:

- **Encourage financial institutions to cease targeting consumers with predatory fees like the ones associated with overdrafting an account—bringing an end to junk fees altogether.** We have seen some financial institutions take this crucial step but this has not been adopted by banks en masse. Without pressure from Congress and the administration, we are leaving it up to banks to self regulate and continue to bring large amounts of revenue on

¹¹<https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-banking-and-credit.htm>

¹² “2017 FDIC national survey of unbanked and underbanked households,” FDIC, October 2018, [fdic.gov](https://www.fdic.gov).

¹³<https://www.mic.com/impact/overdraft-fees-hurt-black-latinx-customers-the-most-this-bank-just-eliminated-them-81078805>

¹⁴<https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/12/overdraft-does-not-meet-the-needs-of-most-consumers>

the backs of predominantly low-wealth consumers. Just in March, we have seen one of largest banks in the country, Citigroup, announce that they will end their overdraft fees for customers—calling it a focus on financial inclusion.¹⁵ Citi’s announcement comes after Capital One announced it would eliminate their bank overdraft fees in 2022. This appears to be a step in the right direction but true progress can not be realized until both large and small financial institutions completely get rid of these junk fees that continue to earn them billions of dollars in revenue.

- **Work to pass federal legislation to enshrine protections for consumers against overdraft and junk fees.** Congress has a lot of power to stop the greed and enormous profits that financial institutions receive from preying on the most economically vulnerable people in the country. The gridlock in Congress cannot stop members from passing meaningful legislation that people across the country desperately need, especially in the midst of the pandemic and rapidly growing inflation.

In addition to completely ending overdraft fees and other junk fees associated with bank accounts, it is imperative that the dual financial system that we have in this country is addressed. Predatory practices, products, and services thrive because financial institutions have decided to exclude many consumers of color, rendering them without access to safe, secure, and affordable products and services. This can include things products and services such as: loans (e.g., vehicle, payday, rent-to-own, higher education, mortgage, etc.), account fees (e.g., overdraft, minimum deposit and balance), debt collection practices that exploit the financially vulnerable, prepaid cards, and discriminatory insurance practices. These services have exorbitantly high interest rates, fees, and terms that make repayment difficult. In order to end this dual financial system, Congress needs to work with the appropriate agencies to ban all predatory financial products and services. An example of this would be protecting the Consumer Financial Protection Bureau and expanding the agency's power to regulate in this regard.

Conclusion

We are at a crucial moment in the country’s financial history. For far too long, banks have relied on a revenue stream from overdraft fees that has come at the expense of the consumers they are entrusted to serve. It is critical that Congress and the Biden-Harris Administration work to ease the burden that consumers bear by being charged bank fees such as overdraft fees.

Chairman Perlmutter, Ranking Member Luetkemeyer, and Members of the Committee, I appreciate the opportunity to testify before this Committee to share my views and I am happy to answer any questions.

¹⁵https://www.citigroup.com/citi/news/2022/220224a.htm&sa=D&source=docs&ust=1648158270725467&usg=AOvVaw1rE1UxZ_yWicslN8YhdYO4