CFPB's Overdraft Final Rule Harms Consumers

In the final days of his tenure, CFPB Director Rohit Chopra issued a final rule that would effectively bring an end to overdraft services for millions of consumers who – following receipt of a consumer-tested disclosure – choose to use the product to cover emergency expenses and other liquidity shortfalls, all to advance the prior administration's political campaign against "junk fees." Without access to overdraft, consumers will be driven to payday and other nonbank lenders to meet their liquidity needs. A recent Federal Reserve study also shows that overdraft fee caps, like Director Chopra's final rule, lead banks to reduce overdraft coverage and the supply of deposit accounts, causing more returned checks and a decline in account ownership among low-income households.

Consumers Value Overdraft

Consumers receive significant value from overdraft and appreciate the liquidity that overdraft provides to cover emergency and other unexpected expenses. Studies have found that the average transaction that overdraws the customer's account is significantly higher than the putative $35 cup of coffee:

- An analysis of transaction data from 11 banks found the median size of items paid into overdraft is $370 (p. 18).
- An analysis of data from 14 financial institutions found the average size of items paid into overdraft was $198.
- One midsize ABA member bank reported that the average dollar amount of an item paid into overdraft where a fee was charged was $312 in 2023.

These studies demonstrate that many consumers use overdraft strategically to ensure that important expenses – such as rent, utilities, and medical bills – are paid when the consumer experiences a shortfall in funds.

Survey after survey show that consumers appreciate and value their bank's overdraft program and are glad that their bank covered their overdraft payment, rather than returned or declined the payment.

Consumers Will Lose a Valued Source of Small Dollar Liquidity

The evidence shows that in response to the final rule, banks will reduce, if not eliminate, access to overdraft for the vast majority of their customers:

- November 2024 survey of 21 banks found that a $3 or $7 price cap on overdraft fees would lead the surveyed banks to reduce overdraft liquidity by 76 to 100%.
- March 2024 survey found that 67% of frequent users of overdraft report they had been denied a credit card in the past, indicating that overdraft users have few other options to cover emergency or unexpected expenses.

Customers who lose access to overdraft will be driven to payday and other nonbank lenders to meet their liquidity needs.

Overdraft Final Rule Hinders Financial Inclusion

"[O]verdraft fee caps hinder financial inclusion," according to a 2021 Federal Reserve Bank of New York staff report. "When constrained by fee caps, banks reduce overdraft coverage and deposit supply, causing more returned checks and a decline in account ownership among low-income households." In addition, the rule – when coupled with other regulatory changes that may reduce fee income – will put pressure on banks to impose higher minimum balance requirements and to limit the availability of low-cost, full-service deposit accounts. Customers who lose access to their deposit account will be forced to turn to check cashers.

Thus, a final rule with the professed goal of improving the financial health of consumers would achieve the opposite result. Fewer consumers will have access to low-cost, full-service deposit accounts, and those that do will be required to meet higher minimum balance requirements. Some consumers will lose access to their account and ultimately the banking system. This result is directly at odds with the goal of regulators and financial institutions to promote financial inclusion and reduce the number of unbanked and underbanked individuals.