



STATE OF COMPETITIVE OVERDRAFT

Checking Products

Presented by

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Presented to

VIRGINIA BANKERS
ASSOCIATION

OUR TAKE...

- The pace of major banks planning to eliminate or lower overdraft fees is increasing, with the top banks announcing plans to eliminate these fees, except Chase
- FinTech's are competing for market share by "eliminating" certain overdraft fees, however they do not disclose their pay ratios to consumers and the real costs of these policies
- The CFPB is expressing sentiment to tighten regulation and discourage banks overreliance on overdraft fees, as currently 80% of these fees are paid by 9% of consumers, however these policies tend to favor the largest market participants who can absorb the costs
- The CFPB fails to consider the potential unintended consequences, both to consumers and to the competitive landscape for smaller businesses and institutions

FALLING DOMINOES

Time of large FIs announcing elimination or reduction of overdraft fees.

June 2021	Ally
August 2021	Alliant Credit Union
December 2021	Capital One
January 2022	Bank of America
January 2022	Wells Fargo
January 2022	Truist

POLICIES ANALYZED

Regional/National Banks	Digital / FinTech Challenger Banks
<ul style="list-style-type: none">• Bank of America• Wells Fargo• Chase• Capital One• U.S. Bank• PNC• Truist• TD Bank• Fifth Third• BMO Harris	<ul style="list-style-type: none">• USAA• Ally• Axos• Varo• Sofi• Chime• Marcus

BANK DEBIT OVERDRAFT POLICY



Policy	Chase	BofA	Wells Fargo	Capital One	US Bank
Debit Overdraft	\$34	\$10	\$0	\$0	\$36
Maximum Daily OD Fees	3	N/A	3	4	4
De Minimis - Item	\$5	\$1	\$5	N/A	\$5
De Minimis - Balance	\$50	\$1	\$5	N/A	\$5
Overdraft Transfer Fee	\$0	\$0	\$0	\$0	\$12.50, \$7.50 w/ Gold Account
Checking product with no debit OD option	"Secure Checking"	"SafeBalance" for students	"Clear Access"		"Safe Debit"
Notes	\$50 overdraft cushion	BofA just changed from a \$36 fee*	Nixing NSF fees		Some fees waived for private bank clients

Based on January 2022 fee schedules*

BANK DEBIT OVERDRAFT POLICY



Policy	PNC	Truist	TD Bank	Fifth Third	BMO Harris
Debit Overdraft	\$36	\$0	\$35	\$37	\$36
Maximum Daily OD Fees	4, or 1 per day with any Virtual Wallet	6	3	3	3
De Minimis - Item		\$0	\$10	\$5	n/a
De Minimis - Balance		\$0	\$10	\$5	\$50
Overdraft Transfer Fee	\$10	\$0	\$3	\$12	\$10
Checking product with no debit OD option	"Foundation Checking"	"Prepaid Money Account"	""TD Essential"	Express Banking	Smart Money
Notes	"Low Cash Mode" lets you control which transactions to pay	Does not allow customers to overdraw but has \$100 buffer			

Based on January 2022 fee schedules

FINTECH DEBIT OVERDRAFT POLICY



Policy	USAA	Ally	Axos	Varo
Debit Overdraft	\$29 NSF fee	\$0	\$0	\$0
Maximum Daily OD Fees	3	N/A	N/A	N/A
De Minimis - Item	\$5	N/A	N/A	N/A
De Minimis - Balance	\$5	N//A	\$50	N/A
Overdraft Transfer Fee	\$0	\$0	\$0	\$0
Checking product with no debit OD option	N/A	N/A	N/A	N/A
Notes	Charges "only NSF" not Overdraft	Return to merchant or optional transfers		Varo Advance allows you to borrow money to avoid overdrafts & repay in 30 days

FINTECH DEBIT OVERDRAFT POLICY



Policy	Sofi	Chime	Marcus
Debit Overdraft	\$0	\$0	\$0
Maximum Daily OD Fees	N/A	N/A	N/A
De Minimis - Item	N/A	N/A	N/A
De Minimis - Balance	\$50	\$100	N/A
Overdraft Transfer Fee	N/A	N/A	\$0
Checking product with no debit OD option	Accounts with >\$1000 monthly deposits	Accounts with >\$500 monthly direct deposits	N/A
Notes	Must maintain \$1000 or more in total monthly direct deposits, or get no OD coverage	SpotMe - Pays up to \$200 with no overdraft fees on debit transactions. No debit, No ACH	Marketed as high interest savings with no minimum.

CFPB FUTURE OVERDRAFT GUIDANCE

Rohit Chopra at a press conference Dec 10th, 2021:

“Rather than competing on quality service and attractive interest rates, many banks have become **hooked on overdraft fees to feed their profit model**,” said CFPB Director Rohit Chopra. “We will be taking action **to restore meaningful competition to this market.**”

"Previous CFPB research has shown that overdraft presents serious risks to consumers, with under 9% of consumer accounts paying 10 or more overdrafts per year, accounting for close to 80% of all overdraft revenue"

“The market won’t solve this on its own,” Chopra said. “We have a clear market failure here,” he added."

"The CFPB will be enhancing its supervisory and enforcement scrutiny of banks that are heavily dependent on overdraft fees. In recent years, the CFPB ordered **TD Bank to pay \$122 million in penalties** and customer restitution and ordered **TCF Bank to pay \$30 million in penalties and restitution.**"

<https://www.consumerfinance.gov/about-us/newsroom/cfpb-research-shows-banks-deep-dependence-on-overdraft-fees/>

CFPB FUTURE OVERDRAFT GUIDANCE

On January 26, 2022, Rohit Chopra commented that recent changes by major banks was “not enough” “Many **financial institutions obscure the true price of their services** by luring customers with enticing offers and then charging excessive junk fees,” said Chopra. “By **promoting competition** and ridding the market of illegal practices, we hope to save Americans billions.”

Issued an RFI intending to crack down on “junk fees” and gain information from consumers, businesses, and organizations on “unfair” practices including:

- fees for things people believed were covered by the baseline price of a product or service;
- unexpected fees for a product or service;
- fees that seemed too high for the purported service; and
- fees where it was unclear why they were charged.

<https://www.nafcu.org/newsroom/cfpb-seeks-public-feedback-excessive-fees>

POTENTIAL “UNINTENDED CONSEQUENCES”

- Sadly CFPB has missed the boat on this one. They should make FIs disclose 1) NSF/OD per item fee, 2) max daily, 3) daily OD fee, 4) most importantly: pay ratio. Then articles would be written on “best checking accounts and include this regulator required info. Competition would lower the fees. **Pay Ratios would increase.**
- Instead, Chime says “we have your back” - - no they don’t - - in fact if they had to disclosed pay ratio, they’d likely set the industry low. Chime pays no ACH or check transactions which are mortgage, rent, utilities, car, credit card, and other loan payments.
- So what will happen?
 - Consumers will be harmed. Lower income consumers will be harmed most.
 - Insufficient item charges will not go away, they’ll **simply be moved to merchants charging return-item fees.**
 - Likely **a new product will be created for higher income consumers** – a Private Banking type offering – so they’ll be fine but lower income consumers will not have availability to such a product which doesn’t help the under-banked and unbanked.
 - Payments channel disruption with more returned items. Small businesses will have 3 choices: hire another person to handle more returned items, begin accepting more MC/Visa to have fewer returns, outsource payment processing. All 3 choices result in higher processing costs . . . so prices go up which disproportionately harms lower income consumers
 - **Less items paid, more items returned, lower pay ratio by FIs = more late pays for consumers = lower FICOs = higher credit costs = less disposable income = more returned items = more late pays for consumers = lower FICOs . . .**
 - This is another **advantage for the largest banks.** Yes they forgo a good amount of income - - but the smaller FIs are hit hardest, more small businesses fail, less mid & upper management jobs, more lower level jobs, more big bank acquisitions of smaller banks, less, to zero, de novos (new bank charters) (just like how free checking died after Dodd-Frank / Durbin Amendment & instead of addressing the “too-big to fail issue” the regulators got it wrong and “institutionalized too-big to fail”

WHAT CAN YOUR BANK DO?

CONSIDERATIONS FROM A COMPETITIVE PERSPECTIVE

How competing institutions differentiate from their peers



De minimus on dollars or items before a fee is charged? What amount?



Reconsider the maximum number of fees per day?



Eliminate or lower fees on internal transfers?



Charge different fees for paid and returned items? (NSF vs. OD)



Charge a lower fee overall?



Grace period for covering negative balances?

EVALUATING OPTIONS

Base Option

- Eliminate Transfer fees
- Eliminate NSF Fees
- Cap the daily number of OD fees at three
- Leave per OD fee amount unchanged (e.g., \$28)
- No fees on OD's if balance covered by end of day. For example - I go negative at noon through a purchase at a grocery store but make a deposit at 4:00 pm to cover – tie fees to end of day balance.

Expanded Option

- Increase De Minimis item to \$10
- Increase De Minimis Negative Balance to \$50
- Establish grace period if negative balance covered by close of next Business Day cut-off (no fees will be charged)

Fee Reduction Option

- Reduce OD fees from \$28 to \$10 or \$15 per item

Scenario	Negative fee implications		Yearly fee implications	Calculation
Current policy, unchanged		A	\$10,037,944	
Eliminate transfer fees	\$182,416	B	\$9,855,528	A-B
Eliminate NSF fees	\$1,172,388	C	\$8,865,556	A-C
\$10 Fee	-\$6,452,964	D	\$3,584,980	A-D
\$15 Fee	-\$4,660,474	E	\$5,377,470	A-E
Cap Daily Number of fees at 3				
Grace Period (24 Hours)				
De minimus item to \$10				
De Minimums negative balance to \$50				

OTHER OPTIONS

Ways to make up the ODF Gap

Market Debit Card
Products

Re-examine Credit
Card Portfolios
(especially niche
products)

Look at Business
Payment Services

[Overdraft and Offsetting the Gap - Gonzobanker](#)





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