

CFPB report finds overdraft, NSF services are used as a type of credit

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Consumers with subprime credit scores are particularly burdened by hefty overdraft fees. Despite the high cost, many are using overdraft services intentionally as a form of credit, the Consumer Financial Protection Bureau said in a report on Tuesday.

Two years after many large banks eliminated or dropped overdraft and nonsufficient fund fees, the CFPB issued a report that paints a broad financial profile of consumers' experiences with such fees. The report comes ahead of CFPB proposals expected in January aimed at cracking down on both overdraft and NSF fees.

One finding that banks are likely to highlight is that frequent overdrafters — households that pay more than 10 overdraft fees a year — use overdraft services as a form of credit, even though more than half have access to a lower-cost credit card.

"Some consumers appear to use overdrafts often and intentionally as a source of credit, even with their high cost," the report stated.

Low-income households are hit hardest by overdraft and NSF fees and about half do not have access to credit or a lower-cost option. Just 10% of households making \$175,000 a year were charged either fee, the report found, while 34% of households making less than \$65,000 paid a fee. The average credit score of frequent overdraft and NSF fee consumers is 637 compared with 744 for those who never get assessed the fees.

The CFPB characterized consumers charged overdraft and NSF fees as "more likely to struggle to meet their financial obligations," and "more likely to be economically disadvantaged — those with lower incomes, who have limited education or who are non-white."

Though both fees kick in when a consumer overdraws their bank account, the CFPB characterizes both overdraft and NSF fees as "unexpected" charges. The words "surprise," or "surprised," appear 63 times in the report. Overdrafts occur when a consumer overdraws their account and the bank covers the transaction — by extending credit to the consumer for a fee — while NSFs occur when a financial institution does not cover a transaction.

"Our research finds that American families are paying fees they do not expect, even when they have access to cheaper forms of credit," CFPB Director Rohit Chopra said in a press release.

The 90-page report, half of it graphs and charts, was based on responses to the CFPB's "Making Ends Meet" survey combined with a sample of credit reports and credit score data from late 2022 to early 2023. The report has six sections including one that describes the "financial strain and well-being," of consumers charged overdraft and NSF fees.

"We find lower levels of financial well-being among consumers charged more overdraft and NSF fees in the past year," the report states, unsurprisingly.