Bank Fee Burdens ~ Fees for Bounced Checks

By Charlene Lavoie, Community Lawyer 11/3/94

The article in the BUYER'S ALERT series on the banking industry examines the fees assessed when customers overdraw their checking accounts.

The Consumer Federation of America (CFA) published a report entitled, "Bounced Checks: Billion Dollar Profits." Based on industry data provided to the American Bankers Association, the report compares the amount the banking industry collected in bounced check fees in 1992, $4.35 billion, to the amount it cost the banks to process these checks, including administrative costs and losses was $685 million. The conclusion - banks made $3.67 billion in profits from bounced checks.

The report summarizes that large banks mark up the cost of bounced checks by 971%, midsize banks 469%, and small banks mark up the bounced checks 315% over cost.

Banks are finding that bounced check fees are one of the best methods of generating profit and several publications for bankers encourage the use of this mechanism to boost profits. The Fee Income Report, for *Financial Institutions* and *American Banker* suggests ways to maximize income from fees on bounced checks.

A common scheme for increasing bounced check fee revenue involves changing the order in which checks are posted. Rather than paying checks as they come in, the bank processes the largest check, such as the mortgage or car payment, first. Clearing the largest check first depletes the customer's account quickest, permitting a bank to charge bounced check fees for all other checks processed that day.

The CFA report quotes the banker at the American Bankers Association National Fee Income Producing Conference as saying, "If someone has $200 in their account and writes checks for $5, $10, and $300, the largest one clears first and is treated as an overdraft. All three then become overdrafts and we charge for each."

Banks not only charge the party responsible for writing the overdraft check, they charge the person who deposits the check! This is the deposit item returned (DIR) charge. A recent study by the U.S. Public Interest Research Group (USPIRG) state that banks will earn over 1 billion in 1994 from the DIR charge. The number of banks charging the DIR fee increased from 35% in 1991 to 85% in 1994.

What can citizens do? Since banks do not wait to collect these fees, they simply deduct the amount from your account, many customers just forget about it or do not notice. Do not ignore these charges, review your bank statement and call or write the bank to protest and complain about this type of fee gouging. One local bank charges a customer $22 when they overdraw their account! This bank, however, does not charge the depositor of the overdraft - DIR fee. B Banks in Connecticut generally charge between $17 and $22 for an overdraft.

US PIRG recommends shopping around to find banks which do not charge these fees or join a credit union (a consumer cooperative form of banking). Questioning banks on the fee structure will alert the banking industry that consumers understand and will not tolerate the gouging practices.

In addition, Representative Joe Kennedy is chairman of the Subcommittee on Consumer Credit and Insurance and is investigating the issue of rising bank fees. You can send your complaints and copies of bank statements overcharging you to the Subcommittee on Consumer Credit, Room 604, O'Neil House Office Building, Washington, D.C. 20515.

You can also obtain a copy of the USPIRG May 1994 report *Outrageous Bank Fee Gouges Innocent Victims: A National Survey of Deposit Item Returned (DIR) and Bounced Check Fees*, for $10.00 at 215 Pennsylvania Avenue, SE, Washington, D.C. 20003.