

**News & Observer, The (Raleigh, NC)**

February 2, 2007

Edition: Final

Section: Editorial/Opinion

Page: A13

Topics:

**Index Terms:**

BANK

FINANCE

COST

Column: Point of View

## **Banks' 'bounce' bonanza**

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RALEIGH--The recent revelation that American banks are making \$10 billion a year on so-called "bounce protection fees" -- half of which are fees for point of sale (POS) debit card transactions and automated teller machine (ATM) withdrawals -- is a shock and a disappointment.

I'm used to thinking of bankers as civic leaders -- folks who head up United Way campaigns and educational fundraisers. The dean of the business school at UNC-Chapel Hill, of which I am proud to be an alumnus, is a retired banker. The president of Wachovia is a former fellow scholarship student at UNC. Our own Bank of America is about the biggest bank in the country, and for some reason that gives me a sense that our state is successful and progressive. Bankers have helped transform North Carolina in positive ways, and it's hard for me to think of them as con artists.

But the facts show that banks are methodically extracting billions of dollars in fees that are charged only because customers don't know any better.

The Center For Responsible Lending, a respected think tank headquartered in Durham with a national reputation, has just published a study showing that:

- Banks make over \$10 billion per year in so-called "bounce protection" fees. Roughly half of these fees come from POS and ATM transactions.
- When a bank customer wants to use a debit card or make an ATM withdrawal that will exceed the available balance in her account, most banks process the charge (the "overdraft"), but then add a fee of around \$30 for "protecting" the depositor against this "overdraft."
- The bank could (if it wished), reject the POS charge or ATM withdrawal. Or it could let the customer know the situation electronically: the computer screen on which the customer inputs her access code could say "This will cause an overdraft and a fee of \$30 -- do you wish to proceed?" Instead, the bank just authorizes the POS or ATM charge and adds its \$30 fee. The bank then recovers the fee when the customer makes a new deposit to her account.

The study, with supporting data, is available on the organization's Web site at [www.responsiblelending.org](http://www.responsiblelending.org) .

These bounce protection fees for POS and ATM transactions are "sucker fees" because they are charges that an economically rational customer would not agree to pay.

According to the CRL study, POS transaction overdrafts cost customers, on average, \$2.17 in fees for every dollar of "overdraft protection" the customer receives. Put differently, that means that the average POS transaction overdraft for which a customer pays a \$30 overdraft protection fee is \$13.82.

These fees on POS transactions are, in substance, very short-term loans with astronomically high interest rates. Run the arithmetic on the this average POS fee, treating it as a loan for the amount of the overdraft for two weeks, and the annual percentage rate comes to 5,642 percent.

And the bank customers who incur these charges are the bank customers who can least afford them. Not the customers with overdraft protection tied to home equity lines of credit (for which there are no such fees), but the customers who are not homeowners, or who lack equity in their homes, or who are simply economically ignorant.

It's not always easy to keep track of balances in a bank account: sometimes a deposit clears in a day or two, and sometimes a deposit from the same source takes two weeks to clear. So it was a disappointment to hear the response of the president of the N.C. Bankers Association to the suggestion that banks should let their customers know when their POS and ATM transactions would trigger overdraft protection fee: "I would suggest we caution customers to balance their checkbooks..."

Sure we should. And we should floss after every meal, remember co-workers' birthdays and never sulk when our basketball team loses. But that's not the point. The point is that our banks are treating their customers like suckers, because doing so is profitable. According to the FDIC, banks enjoyed record profits during 2005. Bank profits for the first three quarters of 2006 were substantially improved over the 2005 record. Bank of America has announced bonuses for all of its employees because of its strong earnings. Banks enjoy special rights and protections under the law. However, there is no apparent justification for banks' failure to implement a simple correction: a screen that says "This transaction will cost you a \$30 overdraft fee -- do you wish to proceed?" No justification, that is, except for the enormous revenue that banks derive from millions of these \$30 charges.

(Jerry Hartzell is a Raleigh lawyer.)

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