In August 2010, the Federal Reserve Board directed banks to seek customer approval before enrolling them in high-cost overdraft coverage. Now, nearly a year later, a new survey by the Center for Responsible Lending finds there are still lingering consumer misperceptions as to what consumers believe they were actually signing up for.

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In August 2010, the Federal Reserve Board directed banks to seek customer approval before enrolling them in high-cost overdraft coverage. Now, nearly a year later, a new survey by the Center for Responsible Lending finds there are still lingering consumer misperceptions as to what consumers believe they were actually signing up for.

Among consumers who opted in to overdraft, 64 percent thought they were getting coverage to avoid bounced checks even though overdraft only affects debit card and ATM transactions. For other survey respondents, overdraft enrollment was chosen as a means to stop a barrage of solicitations in varying forms.

Comparing the difference between the numbers of bank customers choosing overdraft (33 percent) with those who declined it (67 percent), strongly suggests there is little customer interest in the product itself. Rather it is the marketing manipulations and aggressive sales tactics that together that are pressuring bank customers to accept overdraft.

CRL's new survey findings may suggest that given the banks' ability to manipulate current disclosure requirements, perhaps disclosure alone is not enough. A new or enhanced role for regulators might be the appropriate remedy.

Unfair overdraft fees, at an average of $34 per usage, are a boon for the banks totaling $24 billion each year. Debit card transactions are the most common trigger for overdrafts. By contrast, paper checks account each year for approximately one quarter of overdrafts. And, some banks pump up the number of fees they can charge by manipulating the order in which they subtract charges during the daily balance.

While banks push a questionable product on their customers, they fail to clearly convey the free and low-cost options to overdraft such as linking checking and savings accounts or low-cost lines of credit. Neither do banks consistently make clear to customers that overdraft fees are assessed for each transaction under these programs.

Sadly, for many customers, it is only when they review a bank statement that they realize how many overdraft fees have been charged within a billing cycle. Multiple fees totaling several

hundred dollars in a given month particularly affect consumers with low bank balances and those who live paycheck-to-paycheck.

Two major banks, Bank of America and Citibank do not approve overdrawn debit card transactions for a fee. These two lenders “at no cost to the consumer - decline transactions if funds are not available.”

If public monies could be used to rescue banks in financial crisis, it seems reasonable for banks to change their own operations in ways that won’t cause consumers unnecessary financial crises.

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