

## CFPB's overdraft fee rule closes a decades-old paper-check era loophole that will put billions back into the pockets of consumers

The Consumer Financial Protection Bureau's (CFPB) new overdraft fee rule<sup>1</sup> closes a paper-check era loophole that has promoted abusive practices and allowed the biggest banks to earn billions in profits off of the most vulnerable families. The rule will help everyone, but especially families that are struggling with high prices and making ends meet.

Decades ago, overdraft loans were exempted from the Truth in Lending Act (TILA) because banks charged overdraft fees only occasionally as a convenience to prevent paper checks from bouncing. As banks became more automated, they exploited the paper-check era loophole to routinely extend high-cost credit without complying with TILA, turning an occasional courtesy into a lucrative back-end junk fee.

- **The rule lowers overdraft fees from \$35 to \$5, a move that will save households \$5 billion annually:** The overdraft fee rule reduces most deceptively named “courtesy” overdraft fees to \$5, while allowing safer, more transparent overdraft lines of credit with no price limit.<sup>2</sup> Households that pay overdraft fees spend an average of \$225 on these fees every year, and expected savings from this rule addresses a major reason people — particularly lower income households and people of color — avoid banks or lose their bank accounts and become unbanked. 12.2 percent of Native American, 10.6 percent of Black, and 9.5 percent of Latine households, and 11.2 percent of working age households with a disability, are unbanked, compared to only 1.9 percent of white households.<sup>3</sup>
- **The rule will help reduce exploitive practices and increase fairness and transparency:** Most debit card overdrafts are for less than \$26 — far below the typical fee — and are repaid within 3 days, resulting in the equivalent of a 16,000 percent annual percentage rate (APR) loan, often for transactions consumers would rather have denied.<sup>4</sup> Banks have also charged overdraft fees when the account had sufficient funds, manipulated the order of transactions, and engaged in other abuses. The rule will eliminate the incentive for these exploitive practices while allowing banks to offer overdraft credit profitably in a more transparent and fair manner.
- **The rule is limited to large financial institutions, many of which have already adopted similar protections:** The rule only covers large financial institutions with more than \$10 billion in assets. Mid-sized and smaller institutions are completely exempt from the rule. Capital One, Citibank and Ally already have eliminated overdraft fees. Other big banks will be able to charge a \$5 or higher fee to cover their costs or, if they wish to make a profit, to offer overdraft lines of credit with transparent pricing, time to pay, and other requirements that apply to credit cards and other loans.

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<sup>1</sup> CFPB. [Overdraft Lending: Very Large Financial Institutions](#). 89 Fed. Reg. 249. December 30, 2024 at 106768.

<sup>2</sup> CFPB. [Press release]. “[CFPB closes overdraft loophole to save Americans billions in fees.](#)” December 12, 2024.

<sup>3</sup> Federal Deposit Insurance Corporation. “[2023 FDIC National Survey of Unbanked and Underbanked Households.](#)” November 2023 at 24.

<sup>4</sup> CFPB. [Fact sheet]. “[The CFPB's proposed rule to curb excessive fees on overdraft loans by very large banks and close a decades old loophole.](#)” 2024.