

CAAB's newsletter is designed to ensure that our IDA/MDA Savers are fully informed about relevant money management topics, effective savings strategies, financial education opportunities in the DC area, and upcoming CAAB events. Every month, we will feature a different article focusing on strategies or products that can help you plan for and achieve your savings goals.

Not So Courteous Protection: The High Cost of Overdraft Fees

By Matthew Peterson

According to the Center for Responsible Lending (CRL), banks and credit unions collect \$17.5 billion annually in overdraft loan fees. These fees are a major source of revenue for financial institutions and come at a high cost for consumers, particularly low- and middle-income Americans. With the increase in use of ATMs and debit cards, you may be surprised at just how easy it is for you to make an overdraft these days.

Overdrafts occur when you write a check, withdraw cash from an ATM, or make a debit purchase for more than the amount in your checking account. While we commonly think of an overdraft as a bounced check, CRL reports that 72% of overdrafts come from electronic transactions such as ATM withdrawals and debit card purchases. This is because many ATMs have begun to allow customers to withdraw more money than they have in their account without giving any warning that an overdraft is about to occur. Similarly, debit card transactions now account for almost half of all overdrafts by allowing purchases to go through even if there are insufficient funds in the checking account—making debit cards, which can seem to be a good alternative to a credit card to avoid overspending, in some ways as dangerous as credit cards for getting into debt.

To protect consumers in case of an overdraft, financial institutions can offer what is known as an “overdraft protection plan” or “bounce protection.” Under these plans the bank or credit union offers to cover the consumer’s overdrafts so that checks won’t be returned and ATM and debit card transactions will go through, even if there are insufficient funds in the account. A fee



(usually \$20-\$35) is charged for each overdraft. Overdraft fees amount to a type of short term loan with an extremely high interest rate. While these are often billed as “courtesy” plans, there is nothing courteous about how quickly and easily these fees can add up for the consumer. Overdraft 2 cents and you can be hit with a \$30 fee for the pennies you were “loaned”! Furthermore, financial institutions often automatically enroll customers in these plans, leaving customers unaware they have been signed up for this protection—protection that comes in the form of an unsolicited loan. They may also hold deposits and manipulate the

order in which checks and debits are cleared, clearing the largest deposits first which increases the number of times overdraft fees are triggered.

Let’s look an example of how an overdraft protection plan might work. First, on your way to work you withdraw \$40 in cash from the ATM, but only have \$35 in your checking account. Later that day you charge a \$5 sandwich to your debit card and write a check to pay a bill for \$20. You have now overdrawn your account by \$30. If you have overdraft protection and the financial institution decides to cover all three transactions, each one will trigger an overdraft fee. If that fee is \$30 per overdraft, you will owe \$90 in overdraft fees, plus the \$30 you spent that wasn’t in your account, for a total of \$120. That amounts to a 300% interest rate on the \$30 loan and one expensive sandwich!

So what you can do to prevent these costly overdraft fees? Ask your financial institution to link your savings account to your checking account. This way in case you overdraft from your checking account, your savings account will send over some money to cover the difference of the overdraft. There may be a small fee to transfer the money between the accounts, but it will be significantly less than the fee the financial institution will charge you for covering the difference.

CONGRATULATIONS!

The following savers made asset purchases in the month of January:

Education

Chalonda Arrington
Chyreece Bailey
Tanisha Bennett
Shanita Conley
Damien Goines
Hershell Hager
Jennie Huffman
Pamela Massaquoi
Amanuel Mekonnen
Selamwit Mekonnen
Deja Mitchell
Antorinette Payden
Jeovanny Paz
Sherry Richardson
Al’Lan Andrew Shepperson
Danielle Simmons
Tewelde Tesfagabir
Melissa West
Tierra Williams
Long Yang

Small Business

Akpkla Bienvenu

Most importantly, though, it is up to you to practice good financial management and always know the balance in your account so that overdrafts never occur. You can do this by keeping your checkbook register up-to-date and keeping tabs on your account balances online or over the phone. Also, remember to keep track of any automatic bill payments you make. These are easy to forget and often trigger overdraft fees. Websites like www.thebeehive.org, offer basic budgeting tips. For more information on ways to save, sign up to receive free monthly updates on local financial education resources and events at www.dcsaves.org. Resolve this year to practice good account management and you can make the high cost of overdraft fees a thing of the past.



SAVING MONEY IS NOW AS EASY AS PIE.

Keep some of the pie for yourself: Finally, savings made simple! Tell your tax preparer you want to use Form 8888 to save a portion of your refund. Spend some on expenses, invest some in your IDA account, and save some for emergency

The 5 things to know to use form 8888 to put part of your tax return in your IDA Account

1. Name of your financial institution: **Citibank**
2. Financial institution routing number: **254070116**
3. Account number: **See your account statement for your account number**
4. The type of account: **Citibusiness Escrow**
5. Is this account capable of receiving electronic direct deposit? **Yes**

A list of free tax preparation sites run by the DC EITC Campaign is included with this newsletter

IT'S YOUR MONEY.
CLAIM IT & KEEP IT!
DC SAVES
DCEITC.ORG

