

The 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 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. The rule:

- Reduces most deceptively-named “courtesy” overdraft fees from **\$35 to \$5**, while allowing safer, more transparent overdraft lines of credit with no price limit.¹
- Will save **\$5 billion in overdraft fees annually, averaging \$225 per household every year that pays overdraft fees.**²
- Addresses a major reason people - particularly people of color - avoid banks or lose their bank accounts and become **unbanked**. 12.2% of Native American, 10.6% of Black, and 9.5% of Latine households are unbanked, compared to only 1.9% of white households.³

The rule only covers very large financial institutions with more than \$10 billion in assets. Mid-sized and smaller institutions are completely exempt from the rule.

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.

Some banks such as Capital One, Citibank and Ally have already completely eliminated overdraft fees. Other very large financial institutions will still be able to charge a \$5 fee, or higher if justified by their costs, or offer overdraft lines of credit with transparent pricing, time to pay, and other requirements that apply to credit cards and other loans.

Most overdrafts are for less than \$26 and are repaid within 3 days, resulting in the equivalent of a 16,000% annual percentage rate (APR), often for transactions consumers would rather have denied.⁴ 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 exploitative practices while allowing banks to offer overdraft credit profitably in a more transparent and fairer manner.

¹ CFPB. [Press release]. “[CFPB closes overdraft loophole to save Americans billions in fees.](#)” December 12, 2024.

² Ibid.

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

⁴ 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.](#)”