

The Value of Community Bank Overdraft Services

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing on overdraft programs.

Community Bank Overdraft Services

Community banks offer many deposit account services to address a variety of consumer needs in a highly competitive financial services marketplace. These services play a valuable role in bringing consumers into the banking system and offer them alternatives to payday loans and non-traditional loan products and the harmful consequences often associated with them.

Overdraft services are an important aspect of community banks' relationships with their customers. Examples include a variety of overdraft payment programs, in which the bank analyzes an overdrawn account for payment, and alternative services, in which customers can choose to transfer funds from a designated account or line of credit or to advance funds from a short-term, small-dollar loan to avoid an overdraft.

In addition to disclosures and notices, community banks offer safeguards to help prevent customers from overdrawing their accounts by alerting them by phone call, text message, or email in the event of low balances; large purchases; single transactions; large ATM withdrawals; unusual activity; debit card use; and other transaction activity. The goal of these services is to accommodate customers and help them avoid bounced payments as well as overdraft fees and to responsibly manage their finances. Community banks leverage their personal knowledge of their customers to determine the best way to educate them on the right program or service to suit their needs. Consumers should have the choice to retain access to overdraft services.

Overdraft and the Evolving Payments Landscape

In recent years, a variety of new e-commerce transactions have entered the market creating new overdraft risks, not only ATM and point of service (POS) debit transactions, but also online and mobile POS transactions generated by an ever-increasing number of merchants and service providers. As a result, community banks have continued to expand the features of overdraft payment programs they provide to consumers. When overdrafts occur, it is generally in the consumer's best interest for their bank to pay items/transactions rather than returning the items unpaid and triggering returned item and late or other payee fees levied by merchants, utilities, landlords, and other creditors, or even loss of service from those entities.

Pro-Consumer Characteristics of Community Bank Overdraft Services

ICBA's recent Overdraft Payment Services Study found that community banks manage overdrafts responsibly and in

the best interest of their customers. Notably, all community banks inform their customers about the details of their overdraft payment programs. Ninety percent of these local institutions offer customers alternatives to overdraft services—such as customer service alerts/communications to inform of account status, account transfers from designated accounts, small dollar loans, lines of credit, and deposit advances—and structure their services to minimize the potential for overdraft fees.

Community banks are distinguished from larger institutions in their direct knowledge of their customers and the long-term relationships they enjoy. The study found that most community banks use this knowledge to make informed overdraft payment decisions or by using hybrid programs that incorporate manual review with automated programs, which helps customers and manages risks to the bank. Regulation should continue to distinguish between ad hoc overdraft payment and automated overdraft payment programs to ensure that banks can continue to meet the varied financial needs of their customers. Finally, community banks structure posting orders to help customers minimize overdrawn accounts and incurring overdraft fees.

Community Bank Overdraft Fees Have Decreased Significantly and Are Frequently not Collected

ICBA polling also revealed community banks' determination to protect the financial position of their customers. Over 60 percent of community bank respondents did not collect a portion of overdraft fees that were assessed. Seventy-five percent of community bank respondents wrote-off or charged-off overdrafted accounts as uncollected. Over 50 percent forgave or did not assess overdraft fees as an accommodation. Two-thirds of respondents did not submit negative account balance or returned check information to any consumer agency. Half of respondents experienced a 20 percent to 50 percent reduction in overdraft income since 2020.

Do Not Adopt Laws or Regulations That Would Harm Customers or Exclude Services They Value

As you review financial institution overdraft practices, we urge Congress and the agencies not to adopt overdraft restrictions would force many community banks to stop offering overdraft services to their customers. Such restrictions would result in significantly more bounced checks and declined debit card transactions—leading to unnecessary credit rating harm, merchant late fees, or fees for returned items for these customers. Such restrictions would result in community banks impairing their customers by restricting access to existing services of convenience that meet their account needs.

Overdraft Restrictions Risk Harm to Financial Inclusion

Finally, ICBA appreciates the work of this committee in highlighting and promoting financial inclusion – an important goal that we share. Overdraft restrictions put financial inclusion at risk. They not only reduce access to services, generally, but could have a chilling impact on financial inclusion efforts, and force unbanked and

underbanked consumers to predatory options. Community banks want to continue to be part of the solution to the issue of the unbanked and therefore urge caution in your consideration of onerous overdraft restrictions.

Closing

Thank you for convening today's hearing. We welcome the opportunity to highlight community bank overdraft practices and the value they provide to consumers.