

these overdraft protection plans guarantee that your transaction will go through, you avoid the consequences of a returned check or declined payment, including merchant fees.

Be aware that the bank can only cover your overdrafts with transferred funds if there are sufficient funds available in the account. If there are not, your transaction could be declined or your check could bounce.

## Avoiding overdrafts

Even if you are enrolled in a less expensive “linked” overdraft protection plan, you should still make it a goal to avoid overdrafts entirely.

Start by using these tips to track your balance more accurately:

- Sign up for email or text alerts from your bank to warn you if your balance is running low.
- Check your account balance between statements by logging in online, calling your bank or doing a balance inquiry at the ATM. (To avoid fees, make sure you do this at one of your bank’s network ATMs, not a “foreign” ATM owned by another bank.)
- Be aware that checks and other transactions that haven’t cleared yet will not be reflected in the balance the bank provides. Only by maintaining an accurate check register—including automated payments, debit card transactions and all fees—can you be sure of the exact balance.
- Confirm that deposits have cleared before you write checks or make other transactions against the money. It can take up to nine business days for funds deposited by check to be available, depending on the size of the check, the age of your account and if you have a history of overdrafts. (Learn about allowable deposit hold times at <https://www.thebalance.com/funds-availability-315448>.)
- Maintain a cushion in your checking account in case you forget to record a transaction, make

a mathematical error or have a deposit delayed. For example, you might decide that you won’t go below a \$100 balance. (Some people adjust their check register so that it does not reflect the cushion and they aren’t tempted to spend it.)

If you find it difficult to make ends meet and maintain a positive checking account balance, a credit counselor may be able to help you. The National Foundation for Credit Counseling (NFCC) is a national network of non-profit credit counseling organizations. Search the Foundation’s website ([www.nfcc.org](http://www.nfcc.org)) or call 800-388-2227 to find a member agency. Services typically are free or low-cost.

## Information and assistance

If you feel you have been charged an overdraft fee in error, contact the bank directly to try to resolve the issue. If you aren’t satisfied with the outcome, you can file a complaint with the Consumer Financial Protection Bureau (CFPB) at [www.consumerfinance.gov/complaint/](http://www.consumerfinance.gov/complaint/) or 855-411-2372.

Many banks will reverse a first-time overdraft fee if you ask, and may even reverse subsequent ones if they happen very infrequently (for example, once a year or less) and you are a long-term customer. However, the bank is not obligated to reverse or lower a fee.

One of the best ways to avoid unreasonably high fees is to shop around for a checking account. NerdWallet’s “Best Checking Accounts” page (<https://www.nerdwallet.com/banking/best-checking-accounts>) is just one of the many online tools that make it possible for you to compare fees and choose the account that best meets your needs. Credit unions sometimes charge lower fees than banks because they are non-profit membership institutions. Visit aSmarterChoice.org ([www.asmarterchoice.org](http://www.asmarterchoice.org)) to find a credit union you may be eligible to join and learn about their fees.

# A wise choice

# The right overdraft protection plan



## About Consumer Action

[www.consumer-action.org](http://www.consumer-action.org)

Through multilingual consumer education materials, community outreach and issue-focused advocacy, Consumer Action empowers underrepresented consumers nationwide to assert their rights and financially prosper.

**Consumer advice and assistance:** Submit consumer complaints to: <https://complaints.consumer-action.org/forms/english-form> or 415-777-9635 (Chinese, English and Spanish spoken).

*This brochure was made possible through a grant from the Rose Foundation. Subsequent printings by Consumer Action’s Managing Money Project.*

©Consumer Action 2015  
Rev. 6/18

A Consumer Action Publication

**An overdraft occurs when you spend more money than is in your checking account. In some cases, your financial institution will advance you the money to cover the shortfall. If the bank or credit union allows your transaction to go through, you owe the shortfall plus an overdraft fee (or in some cases a transfer fee).**

You can overdraw your account via a check you wrote, a preauthorized electronic payment, an ATM withdrawal or a debit card purchase.

Understanding how to avoid—or at least manage—overdraft fees will help you enjoy all the benefits of a checking account without the potential costs.

## The cost of 'courtesy'

Banks typically provide “courtesy” overdraft coverage (also known as “standard” overdraft or “bounce protection”) automatically on checks you’ve written and on recurring debit card transactions and preauthorized bill payments, up to a specific limit. The bank does not need your permission to cover these types of transactions and charge you an overdraft (or “convenience”) fee for each one that pushes your account into—or further into—the negative (though some banks have a daily limit).

Banks used to be allowed to automatically cover and assess a fee on all debit card transactions when you didn’t have enough money in your account to cover them. But as of 2010, your financial institution must obtain your permission before it can charge you a fee for approving an ATM withdrawal or one-time debit card purchase that causes your account to be overdrawn.

Giving your permission is called “opting in.” If you don’t opt in, the bank will most likely decline the transaction, but you won’t be charged an overdraft fee. (Some banks may allow a fee-free overdraft, particularly for a small amount.)

Overdrawing your account can be costly. Courtesy overdraft fees average about \$30. Since banks

don’t vary their overdraft fees in proportion to the size of the overdraft, even a small transaction that pushes you into the negative could cost you a lot (though some banks won’t charge a fee if an item overdraws your account by \$5 or less).

If more than one transaction is presented for payment, you can be assessed multiple fees in a single day. And you might be charged additional fees in coming days—between when your account first becomes overdrawn and when it is brought back to a positive balance. This is because multiple transactions might “clear” before you are able to deposit the funds needed to achieve a positive balance.

A “sustained overdraft,” “extended overdraft” or “sustained negative balance” fee, charged by some banks, is a fee charged daily (say, \$5 every day), once after a certain period (say, \$25 after 10 days) or every few days (say, \$15 every five days) if you are not able to quickly deposit enough money to pay back both the overdrafts and the overdraft fees. When you finally do get money into your account, most banks will deduct the full amount you owe, potentially making it difficult to cover your living expenses without overdrawing your account again.

At some point, if the overdrafts and fees remain unpaid, the bank could close your account and send the debt to a collection agency. If that happens, the bank will most likely report you to ChexSystems, a company that provides consumer banking history reports to financial institutions. This will make it difficult or impossible for you to open another account in the next five years.

## To 'opt in' or out?

Financial institutions can’t charge you for overdrafts on debit card transactions—ATM withdrawals or one-time purchases—unless you have opted in (consented). By law, the bank must pro-

vide a notice outlining all its overdraft services and fees and allow you to make a choice.

Consumer Action recommends that you do not opt in to courtesy overdraft coverage for debit card transactions. This is because the consequences of having an ATM withdrawal or a point-of-sale purchase declined typically are not serious (no “bounced check” fees or late payment charges), and a relatively small purchase (lunch, for example) is generally not worth a hefty overdraft fee. (Statistics show that consumers who opt in pay significantly more in overdraft fees per year.) If you don’t opt in to debit card overdraft coverage, any debit card transactions that would cause your account to be overdrawn would simply be declined, and you would pay no fee to your bank.

Many consumers who incur overdraft fees on debit card transactions say later that they do not believe they opted in. If this happens to you, or if you intentionally opted in but change your mind, you have the right to opt out at any time. Simply notify your financial institution of your choice.

In addition to allowing you to opt in to courtesy debit card overdraft coverage, many banks will also allow you to opt out of courtesy overdraft coverage on checks, recurring debit card payments and preauthorized electronic payments. If you opt out, however, the bank would decline the transaction and charge you a non-sufficient funds (NSF), or “bounced check,” fee and the payee (recipient) may charge you a “returned check” fee.

The combined fees for a single incident could be as much as \$60. If the declined payment also makes you “past due” with the payee (a credi-



tor, utility company, landlord, etc.), you might also incur a late fee. It is not recommended to allow your checks and automated payments to “bounce,” but many banks offer better optional overdraft protection plans than courtesy overdraft coverage.

Note: Courtesy overdraft coverage is provided at the bank’s discretion. It is not obligated to cover any transactions that overdraw the account.

## Better options

Most financial institutions offer less expensive ways to deal with overdrafts than the bank’s courtesy overdraft coverage. Generally, these overdraft protection plans link your checking account to another source of funds at the same bank—a savings account, a credit card or a line of credit. If such a plan is available, it is probably not automatic—you have to sign up for it. There typically is no enrollment fee, but if you want to link to a credit source rather than a savings account, you must first be approved for a credit card or line of credit. Find out from your bank or credit union what your options are.

Under these optional overdraft protection plans, the bank transfers money from the linked account to cover your overdraft(s) as needed. Even though it’s common for there to be a transfer fee each time you use the service—maybe around

\$10—it’s much less than the fee for the bank’s courtesy overdraft coverage or a bounced check. If you link your account to a credit card or a line of credit, you will also accrue interest charges until you pay the money

back, and there could be a cash advance fee on the credit card or an annual fee on the line of credit. Even so, in most cases you’ll pay much less by avoiding overdraft fees. And because