Why Banks Should Waive Overdraft and NSF Fees to Support Covid-19 Jobless

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The war against COVID-19 is imposing profoundly unequal sacrifices. While some of us can continue to work and earn remotely, many in our vast service economy and in much of manufacturing are facing catastrophic earnings shocks. Other workers in essential services face new risks at work and new expenses at home to fill dependent care gaps left by school and elder care program closings.

While waiting for the expanded unemployment insurance and supplemental aid checks authorized by Congress to arrive – and even afterwards – millions of newly vulnerable households will be faced with the need to tap limited savings to pay for necessities and recurring bills. Large numbers will drain their remaining cash, first among them the 47% who, according to the 2019 U.S. Financial Health Pulse, do not have enough liquid savings to cover three months of living expenses. It's also inevitable that, despite checking their balances multiple times daily, many will overdraw their accounts or have checks and electronic payments returned for non-sufficient funds (NSF). **The sad result could be that banks and credit unions will be grabbing significant portions of the expected stimulus checks when they arrive to pay for overdraft and NSF fees incurred by the most vulnerable.**

Overdraft and NSF fees already tax the most financially vulnerable. Of the $15-$20 billion paid in overdraft and NSF fees last year, four-fifths came from just 10% of accounts – most of them held by households who were struggling financially. Even during our recent period of economic growth, many consumers living paycheck to paycheck repeatedly stumbled into overdraft because of losing track of bills they had authorized to be paid out of their checking accounts, in-transit payments, or optimistically gambling on the timing of their paychecks – and missing. The resulting charges are typically $35 per transaction, regardless of the amount a payment takes an account negative or for how long. The costs of a single "negative balance episode" can be multiples of that amount because account holders often don't learn they've taken their accounts into the red until they've made several transactions.

Many of the newly vulnerable will be unaccustomed to operating without cash cushions or having to navigate the uncertainties of payment and deposit clearing. They will be scrambling to replenish their accounts by borrowing from their 401(k)s, obtaining loans from friends, enrolling for unemployment payments, or waiting for emergency cash lifelines from the government, all while still trying to pay their bills on time. Amidst the chaos and desperation, timing missteps are sure to ensue.

State and federal regulators have urged banks and credit unions to consider suspending late fees and granting forbearance (where consistent with safety and soundness) on mortgages, auto loans, and credit card payments. Consumers who are able to reach forbearance agreements with their lenders may be able to avoid overdrafts on the suspended payments. Similar suspensions of late fees and shut-offs by utilities and telecom companies will further reduce the number of payments consumers feel they need to make as their checking balances approach zero.

Still, many affected by the crisis will try hard to keep up with their payments. As they do, **equity demands that across-the-board waivers on overdraft and NSF fees are in order for the duration of the crisis**. These should be granted without requiring consumers to ask for them after the fact. At the very least, banks should waive fees for NSFs or returned payment transactions, which pose no risk and do not provide any helpful extension of credit. NSFs can be expected to spike as many institutions cut back on overdraft limits (the amounts institutions allow accounts to go into the red) to lower default exposure among depositors who are suddenly without income.

Indeed, the state and federal regulators that have urged loan forbearance have also urged institutions to consider waiving certain fees, including those levied on overdraft and NSF transactions. Heeding this guidance would remove a needless hardship likely to be faced by those most devastated by the pandemic's economic fallout.

Institutions taking the long view will also do well to consider how their treatment of overdrafts and NSFs during the crisis affects their future reputations and relationships. Public reporting of deposit fee revenues will make it evident who has chosen to let the crisis generate a windfall of fees, and who has stepped up to ease the burdens it has imposed on their most affected customers.

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