

The Afterlife of Overdrafts

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FEDERAL RESERVE BANK OF BOSTON

Overdrafting to pay the dental bill

Fang cleaning bill: \$40.53



Edward

\$50.53

Fee to transfer
from savings



Bella

\$76.35

Bounced check
fee to bank
&
Late fee to
dentist



Jacob

\$40.73

Interest on line of
credit



Alice

\$41.35

Late fee to
dentist

Edward linked his savings account for overdraft coverage. He pays at the dentist's website using his bank account number. \$10 transfer fee: \$50.53.

Bella turned down overdraft coverage. Her check bounces. \$35 NSF (bounced check) fee to the bank, 2 percent late fee to the dentist: \$76.35.

Jacob has a linked line of credit. He pays using the bill-pay service at his bank's website. He pays interest on the loan but no fees (15 days, 12%): \$40.73.

Alice opted out of one-time overdraft coverage. She uses her debit card at the dentist's website, and payment is rejected. 2 percent late fee to the dentist: \$41.35.

Whether you get charged a lot or almost nothing for overdrafts depends on the arrangement you have with your bank and the bank's fine print.

Two views of overdraft protection:

1. Overdraft protection ensures that important bills are paid, no matter how much is in your bank account.
2. Overdraft protection could cost you a lot in fees.

Since 2010, banks and credit unions have been required to get consumers' permission before they provide overdraft coverage for debit card purchases and ATM withdrawals.

The regulation does not require that financial institutions get permission to cover payments by check, by automatic bill pay, or by using your bank account number—although some might ask your permission anyway.

In 2012, 70 percent of those with bank accounts reported on the Boston Fed's Survey of Consumer Payment Choice that they had some type of overdraft coverage.

Everyone should understand what his or her financial institution offers and what it costs. Otherwise overdrafts can come back to bite you.

Note: These hypothetical examples are based on typical pricing in winter and spring 2014. Other scenarios could result in different charges.