

Why a Third of Americans Treat Checking Accounts Like Payday Loans

3 Comments By [Casey Bond](#) October 20, 2014



Would you pay an interest rate of 17,000% to borrow \$24? That might seem absurd, but you probably already have — and maybe more than once.

The average debit transaction that incurs an overdraft fee is \$24, according to a recent study by the [Consumer Financial Protection Bureau](#) (CFPB). The majority of these overdrafts are repaid in three days; in lending terms, the interest rate charged would be in the tens of thousands, according to the report.

Even worse, the CFPB found that just 8 percent of customers are responsible for a whopping 75 percent of all overdraft fees.

“Sure there are a few people who make an occasional mistake and get an overdraft once every blue moon, but most overdrafts are from the same people over and over again,” said Andy Prescott, a CPA with more than 14 years of experience working in the banking industry and founder of [Art of Being Cheap](#). “I worked in a bank’s customer service department for four years and talked with these folks on a daily basis. The problem is they just didn’t understand the [significance] of paying overdraft fees.”

Poll Finds One-Third of Americans Treat Their Checking Accounts Like Payday Loans

At such a ridiculous cost to essentially borrow money from a bank to cover a purchase, just one overdraft can be more financially devastating than the most predatory of payday loans. Even so, while the payday loan industry has come under scrutiny and subsequent regulation due to its dubious history, many Americans barely bat an eye at the thought of paying an overdraft fee.

To dig deeper into the phenomenon of overdrafting, GOBankingRates asked 1,000 people **why they overdraw their bank accounts**. The results were as follows:

- I never overdraft (70.45%)
- I don't know my account balance (14.85%)
- I absolutely need to make a purchase (6.84%)
- My bank's overdraft policy confuses me (4.67%)
- The fee is less than my purchase (3.19%)

Fortunately, the majority of respondents reported that they never overdraft. However, approximately 30 percent do — and according to the CFPB's data, many are repeat offenders who contribute to the bulk of overdraft fees paid to financial institutions each year — to the tune of \$30 billion annually.

Why Do Americans Keep Paying Overdraft Fees?

According to the poll results, there is no significant difference between men and women when it comes to overdraft habits. However, while not linear, there is a positive correlation between age and answering “I never overdraft.” Conversely, there is a negative correlation between age and not knowing one's account balance.

In fact, those age 18 to 24 were most likely to not know their account balances, least likely to respond with “I never overdraft” and most likely to be confused by their bank's overdraft policies.

the end of the year. “I’ll bring to their attention that over the last year they have paid, say, \$1,100 in overdraft fees to the bank. Their usual reaction is ‘no way, this must be a mistake.’”

Tracking your finances can help clue you in to the grim realities of your spending habits. A simple spreadsheet will do the trick, but you can also sign up for free software like Mint to get a more detailed picture of trends in your personal budget.

Be Proactive

Otis Buckley, author of “[Payday Proverbs: 31 Keys for Overcoming Paycheck to Paycheck Living](#),” recommended setting up text alerts to notify you when your account balance falls below a \$50 to \$100 threshold, which is usually a free service offered by financial institutions through their online and mobile banking platforms.

“For the person on the go, this will provide the convenience necessary to view recent account activity and make transfers” Buckley said.

Get Clear About Regulation

Understanding the laws surrounding overdraft protection will help you make a more informed decision about how you should allow your bank to handle insufficient funds. Buckley noted that banks must provide you with the option to participate in standard overdraft practices or not.

“If you opt-in, you perpetuate consumer habits from which banks benefit. If you opt-out and have an oversight in your bookkeeping or ledger, you run the risk of bouncing an important payment like mortgage, rent or insurance. Choose wisely,” Buckley said.

Related: [Everything You Need to Know About Overdraft Protection](#)

Slipping up and incurring an overdraft fee might not seem like a big deal, but those who do so habitually are throwing away money that could be put toward savings, paying down debt or splurging on a dream purchase. Don’t let banks profit off your inattention — taking a more active role in your daily finances will keep more money in your pocket rather than theirs.

Edward Stepanyants contributed to this report.

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