
Banks to cut overdraft, non-sufficient fund fees in response to market pressures

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Market Intelligence

Financial institutions including Wells Fargo & Co. and Bank of America Corp. are cutting overdraft and non-sufficient funds fees in 2022 as competitive pressure mounts from neobanks and regulators seek to increase their oversight of the issue.

Several other banks announced changes to their fees in January and February, including Truist Financial Corp., First Interstate BancSystem Inc. and First Citizens BancShares Inc. These alterations could carry a significant price tag.

The banks are responding to the popularity of neobanks, which have amassed large valuations and tout accounts without fees. Officials from Wells Fargo and several other financial institutions said they are willing to sacrifice millions of dollars in fees to keep their customers and address concerns raised by regulators, including the Consumer Financial Protection Bureau.

"This is a competitive marketplace," Wells Fargo President and CEO Charles Scharf said. "We continue to review our capabilities and pricing with the goal of providing value to our customers."

Price tag

The elimination of non-sufficient funds, or NSF, fees and the reworking of overdraft fees, among other changes to benefit customers, will cost Wells Fargo about \$700 million annually, according to CFO Michael Santomassimo.

While overdraft fees themselves will not be a thing of the past, help related to those fees is on the way, Scharf said.

The bank will make direct deposits available two days in advance. Wells Fargo also will provide customers an additional 24 hours after they otherwise would have been charged for an overdraft, the CEO said.

"So our overdraft fees will go down, but we're still going to be providing the overdraft product and we'll still be charging for it," he said.

However, Santomassimo said the revenue drop may be partially offset by other fees due to higher levels of activity as well as the expiration of various fee-related waivers that were in place in 2021.

Projected economic impact of fee reductions for select banks

Wells Fargo Co.

Change: Will eliminate non-sufficient fund fees and overdraft protection transfer fees; will make other changes

Economic impact: \$700 million annually

Bank of America Co.

Change: Will eliminate non-sufficient fund fees; reduce overdraft fees from \$35 to \$10 per occurrence; and eliminate transfer fees for overdraft protection

Economic impact: 75% drop in fees from the \$1 billion realized in 2021

Truist Financial Corp.

Change: Will create Truist One banking that eliminates overdraft fees for two new types of checking accounts; will eliminate fees for returned items, negative account balances, and overdraft protection transfer fees for all personal accounts

Economic impact: \$300 million (or almost 60% reduction) in overdraft-related fees by 2024

As of Feb. 9, 2022.

Sources: Company announcements

First Citizens BancShares Inc.

Change: Will eliminate \$36 non-sufficient funds fee and lower overdraft fees from \$36 to \$10

Economic impact: \$15 million to \$20 million in 2022, \$35 million to \$40 million on a full-year basis

First Interstate BancSystem Inc.

Change: Will eliminate non-sufficient fund fees; reduce overdraft fees from \$30 to \$10

Economic impact: \$5 million in 2022

U.S. Bancorp

Change: Eliminated certain fees for non-sufficient funds Jan. 3; will increase the amount that can be overdrawn before a fee is imposed from \$5 to \$50; account holders will get a full day to deposit funds to avoid a fee when the negative balance is more than \$50

Economic impact: \$160 million to \$170 million, with 75% realized in 2022

Bank of America also plans significant reductions that carry a big cost.

Among other "sweeping changes," the bank will eliminate NSF fees and drop the overdraft fee from \$35 to \$10, according to President & CEO Brian Moynihan.

While the new approach is "a big win for our clients," Moynihan said, he acknowledged the bank's income will take a hit. The fees accounted for about \$1 billion in revenue in 2021, and that figure is expected to drop by 75% "over the next year or so," he said.

Broad alterations are expected at Truist, which plans to create Truist One Banking with checking accounts that have no overdraft fees, among other help for clients.

In the meantime, the bank will discontinue certain fees for all existing accounts, including for overdraft protection, negative account balances, and returned items. In general, overdraft protection prevents transactions from causing the account's balance to fall below zero.

"Long-term, this is a win-win for all of our stakeholders as we'll increase client acquisition, particularly next-gen clients, enhance deposit growth and simply improve the overall client experience," said CEO William Rogers Jr.

At the same time, he said, overdraft-related revenue will drop by approximately \$300 million, or by about 60%, by 2024.

Regulatory scrutiny

In addition to competitive pressures, banks are facing enhanced efforts from the CFPB, which launched an initiative to examine these fees, seeking information from consumers, state banking officials, nonprofit organizations and others.

"We are certainly evaluating all of our offerings and ... keeping an eye on all of the changes in the regulatory environment," said Joseph Sutaris, CFO at Community Bank System Inc.. "If we modify practices going forward, for forward draft outcomes, we potentially could go backwards in terms of the revenue line item. But I think we have the ability to make up some of that in other areas of deposit service fees."

Looking ahead, several other banks said they are planning to implement changes to reduce overdraft and NSF fees.

"In the coming weeks, you'll also see an announcement from us on overdraft policy," said BankUnited Inc. President and CEO Rajinder Singh. "We look at our overdraft policies. They're already very, very customer-friendly ... That's not how we make a living. And we're basically just walking toward eliminating customer overdraft. It's a rounding error."

The banking landscape is a key factor for Huntington Bancshares Inc., according to CEO Stephen Steinour.

"Obviously, with what the industry is doing and [its] pivot in the last month or so, we're watching that closely, and we would expect to react to that, and we'll communicate that going forward," he said.

According to CFO Zachary Wasserman, the bank is considering changes that could reduce net fees by approximately \$16 million by the fourth quarter. He gave no specifics as to those changes.

"I would highlight that, notwithstanding that impact, we do expect to see continued growth on the overall fee line," Wasserman said.

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