

Consumer Alert: Overdraft Protection

By the Division of Banks
Commonwealth of Massachusetts

Sometimes, circumstances may occur causing consumers to unintentionally overdraw a bank account or fall a little short. The Division of Banks wants consumers to be aware of the options available to avoid paying high overdraft costs.

For example, if you wrote two \$100 checks (\$200 total) but did not have enough money in your account to pay them, your depository institution might charge you an overdraft fee (\$20-\$35) for each item. The company that you gave the check to may also charge you a fee for a returned check (\$25-\$35) and possibly a late fee. Fees may total more than \$80 for those two checks.

However, there are alternative products you may be able to choose from:

- Overdraft Line of Credit with the depository institution
 - A loan attached to your Checking Account which is accessible if your account becomes overdrawn.
- Link your Checking Account to your Savings Account
 - Linking will automatically transfer funds from your Savings to your Checking Account when necessary.
- Cash Advance using a Credit Card
 - Borrow funds through a cash advance and deposit the funds into your Checking Account.

Below are the fees typically associated with each option:

Product	Fees / Interest Rate *	Total Cost **	APR
Overdraft Line of Credit	12% APR	\$0.92	12%
Linking Savings & Checking Accounts	\$5 Transfer Fee per Transfer	\$10.00	130%
Cash Advance using a Credit Card	3% Cash-Advance Fee / 18% APR	\$7.38	96%

*These costs are only examples based on common bank fees and nominal interest rates.

**Cost of specified transaction only; \$200 outstanding for 14 days. Other fees may be associated with the account.

Important Tips to Remember:

- Vigilant account management will save you the most money.
- Inquire about the overdraft protection offered at your depository institution. Review the options and determine which will best suit your needs.
- Depository institutions require you to “opt-in” to overdraft protection programs for ATM and Debit Card transactions or those transactions will not automatically be covered.

Additional Resources:

- Massachusetts Division of Banks: Save Money! Bank On It brochure
- Federal Reserve Board (FRB): Consumer Alert Overdraft & Bounced Checks
- Consumer Financial Protection Bureau (CFPB): What is an Overdraft?

