

## **Overview: Banking services specifically checking, debit cards and ATM's**

According to the nonprofit Center for Responsible Lending (CRL), Americans young and old pay \$17.5 billion per year in abusive overdraft lending fees. Debit card overdrafts are now the single largest source of overdraft fees. The CRL found millions of college students and other young adults aged 18 to 24 are paying dearly for purchases which are often small-purchase items such as a hamburger or coffee.

Students will find out more about banking services and the importance of keeping track of purchases so they don't find themselves deep in debt! Be sure they do the weekly activity so they can see how much simple purchases can end up costing them.

## **Don't go broke paying banking fees!**

### **Lenders avoid disclosing interest rates**

Because of a loophole in federal regulations, banks do not have to disclose the annual interest rate of an overdraft loan to their customers. This means that customers are denied the ability to comparison shop based on the true cost of credit.

Fast Facts about Overdraft Loans from the Center for Responsible Lending  
<http://www.responsiblelending.org/issues/overdraft/briefs/page.jsp?itemID=28012174>

- Overdraft and NSF fees have become the lead driver of service fee income for banks, accounting for more than 45 percent of service fee revenue for some banks, and steadily rising. In 2003, a majority of the 331 banks surveyed by the American Bankers Association named overdraft lending as their most profitable service after residential mortgages.
- It is becoming easier to overdraft than ever before, especially as more and more banks change their policy from rejecting debit card purchases that cause overdrafts to paying debit card overdrafts in order to generate fees. Debit card use has jumped 20 percent a year since 1996 while check use has plummeted. From 2001 to 2003, consumers made 42.5 billion debit card transactions. A CRL survey of 5,000 account holders found that debit purchases as the single largest cause of overdrafts.
- Traditionally, banks covered occasional overdrafts for some customers on a discretionary basis. Today, nine out of 10 banks use overdraft software packages that systematically pay overdrafts, with no assessment of their customers' ability to repay the loan. From 2003 to 2005, the number of financial institutions using vendor-based automated overdraft loan programs grew 80 percent, for a total of some 3,500 institutions.
- Banks that use typical guidelines for automated overdraft programs—account opened for at least 30 days, account holder not in default to the bank, regular deposit activity—are expected to increase the number of overdrafts by as much as

200 percent, with some overdraft software vendors promising as much as a 400 percent gain. The vendors get paid based on overdraft revenues.

- While automation has reduced the cost of overdraft lending, average overdraft fees rose 24 percent from 1998 to 2006.

*833% APR  
for 30-day overdraft loan  
1667% APR  
for 15-day overdraft loan  
3572% APR  
for 7-day overdraft loan*

Rep. Carolyn Maloney (D-NY) has sponsored "The Consumer Overdraft Protection Fair Practices Act" ([HR 946](#)), to curb abusive overdraft fees. If passed it could bring much needed relief especially for college students. Go to <http://www.govtrack.us/congress/bill.xpd?bill=h110-946> to find out the current status of this proposed legislation.

**Writing opportunity: Is banking more difficult since the advent of MAC or debit cards? Is it easier to just use cash? What are your concerns about banking fees? Are they fair?**  
Please email student writing and photos for consideration on the Friday financial “your space” so they can share their thoughts and get others involved in financial literacy.

*Each Friday except Friday 11/23, 12/28, 1/18, 3/21, and 4/18 you will receive newspapers from Erie Times-Newspaper in Education program paid for by our sponsors (see below)*

Friday newspaper includes weekly financial literacy topics and weekly activities, your space for student writing, a S<sup>3</sup> trivia bonus question and newspaper activities to help students make the connections to the real world by using the newspaper as their resource.

See below for this week and for more resources.

### **Activity of week:**

How much did you incur in NSF fees and how long will you need to work to pay them off?

### **Newspaper Activity :**

Look for the following ads that can help you answer the following: You may need to contact the bank or credit union for more information.

- Which financial institution(s) offer free checking? interest on checking accounts?
- What charges and conditions apply? Is there a monthly or annual fee?
- Must the account contain a minimum balance to avoid charges and fees?
- Is there a charge for each check used?
- What is the charge for writing a check for more than you have in your account?
- Can you purchase overdraft protection?
- Can you manage your account online? If so, what, if any, charges apply?
- Can you use a check, or debit, card? How widely is it accepted? (When) do you have to pay to use it? What fees should you be aware of?

**Beware!** ATMs outside of the system generally charge a fee. Often your own financial institution also charges an out-of-system fee. Combined, you might spend \$4 or \$5—or more—to make a \$20 withdrawal.

Using a debit card in a store could result in charges. Be sure to check your bank statement.

**WEEKLY QUIZ Question:** Visit [www.cccr.psu.edu](http://www.cccr.psu.edu) to play the S<sup>3</sup> Online Game - Save•Spend•Succeed. Your students can use the online game to practice for the Live S<sup>3</sup> Game Show available from JA and Penn State Behrend. Two teams will compete for prizes at Penn State Behrend during the year. They will be treated to lunch and will be given a tour of the college. Stay tuned f

12/7/07

What is overdraft protection?

- A. A reminder you receive from your bank when your account balance is low.
- B. Insurance you buy in case you write a check for more money than you have in your account.
- C. When your bank honors a check but you do not have enough money in your account.
- D. A way to ensure that no one steals money out of your account.

Responses:

A: Incorrect. Overdraft protection is not a reminder. Banks do not remind you when your balance is low; this is something you need to keep track of on your own. Try again!

B: Incorrect. Overdraft protection is not insurance. Try again!

C. Correct! Overdraft protection is when your bank honors a check but you do not have enough money in your account. The bank then may charge you a fee and even interest on the amount of money used to cover your check.

D: Incorrect. Overdraft protection is not a way to protect you from theft. Try again!

## **PRESENT**

### **Partner WEBSITES for more information**

[www.erie.ja.org](http://www.erie.ja.org)

[www.cccr.psu.edu](http://www.cccr.psu.edu)

[www.eriefcu.org](http://www.eriefcu.org)

[www.unitedwayerie.org](http://www.unitedwayerie.org)

### **Financial Literacy Website Resources**

NEFE – National Endowment for Financial Education

<http://hsfpp.nefe.org/home/>

<http://www.nefe.org/pages/educational.html>

[www.smartaboutmoney.org](http://www.smartaboutmoney.org)

<http://www.smartaboutmoney.org/nefe/pages/content.asp?page=1730#Top>

<http://www.cooperativalatina.org/education/curriculum.htm>

NEFE – Teen Resource Bureau Website

<http://www.ntrbonline.org/>

The Jump Start Coalition for Personal Financial Literacy

<http://www.jumpstart.org/>

Money Instructor

<http://www.moneyinstructor.com/>

<http://www.moneyinstructor.com/checks.asp>

Financial Literacy in a Box

[http://www.mcul.org/Financial\\_Literacy\\_In\\_A\\_Box\\_658.html](http://www.mcul.org/Financial_Literacy_In_A_Box_658.html)

Pennsylvania Office of Financial Education – Pennsylvania Department of Banking

<http://www.moneysbestfriend.com/>

CUNA – Credit Union National Association

<http://www.creditunion.coop/>

<http://www.precision-info.com/quiz/quiz.cgi?c=1056147613&t=coop>

Thrive By Five - [http://www.creditunion.coop/pre\\_k/](http://www.creditunion.coop/pre_k/)

NCUA – National Credit Union Administration

<http://www.mymoney.gov/>

Money Matters

<http://www.smartcredittips.com/>

National Youth Involvement Board

<http://www.nyib.org>

[www.eriefcu.org](http://www.eriefcu.org)

Treasure Club Kid's Account - <http://www.eriefcu.org/savings/treasure-club/>

CU Succeed – For Teens 13 – 18 <http://www.eriefcu.org/savings/financial-literacy/>

Scholarships for college students - <http://www.eriefcu.org/loans/student-loans/>

“Guides to Independence” Online Interactive Educational Teen Program

<http://www.eriefcu.org/savings/financial-literacy/>