

Who Treats the Cash-Strapped Worse Than Payday Lenders? Your Bank

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Payday lenders have well-deserved reputations for charging insanely high rates for the short-term loans. But you'll never guess who is gouging customers even worse: your bank.

Don't be fooled by the slick marketing materials, established names, and upstanding reputations: When a customer tries to tap more cash than they have available in their accounts, these banks charge overdraft fees on the money they're floating you, charging a pretty penny until you settle up.

According to a recent survey by the Consumer Federation of America, overdraft fees can be as high as \$37 per overdraft. While that may not sound so bad on a single item, it can add up quickly both if you have multiple amounts overdrawn and have not resolved an overdraft for a number of days, as well. That combination can make overdrafting an account an unbelievably expensive mistake.

Just how bad? Well, according to that survey, Fifth Third Bank can charge a person's account as much as \$370 per day in overdraft fees. And there's no limit to what HSBC can charge.

Imagine a situation where, all on the same day:

Your automatically debited mortgage payment went up by \$100 – to a total of \$1,100 – due to increased tax and insurance escrow.

Your niece cashed that \$20 birthday check from six months ago.

You took out \$40 in spending money from the ATM.

You whipped out your debit card to buy a \$10 lunch.

Say you had forgotten about the increased mortgage payment. Based on your old mortgage payment and your planned expenses for the day, you were expecting a \$1,080 account balance to cover your costs and leave you with \$10 in the account. Well, instead, you would likely find yourself with up to four separate overdraft charges for being \$90 overdrawn.

If you didn't find out about or fix that overdraft until your bank statement came two weeks later, you could see sustaining charges as well. Take those fees and add them together, and the costs can be ugly, indeed.

In every case, you're paying well over 100% of the total amount overdrawn in penalties and fees for a two-week overdraft. That's a rate that most payday lenders would love to charge.

Don't Just Sit There and Take It

Fortunately, overdraft fees are fairly easy to avoid if you're careful about how you're managing your cash flow. The tips below can help you keep those fees at bay: Keep good records of your spending and only swipe your debit card, use the ATM, or write a check if you're sure you've got enough cash in your account.

Never rely on "floating" a check in the hopes you can get a deposit into the account before the check clears.

Opt out of overdraft rather than letting your bank charge you for that borrowing privilege.

Consider signing up for your bank's "automatic overdraft transfer" service as a less expensive alternative to overdraft.

Use a credit card instead of a debit card to make purchases, to cut down on the risks of overdraft (but pay off that credit card balance every month). Regularly check your bank account balance online to assure you've got sufficient funds.

And of course, if you do find yourself with a truly one-time issue that results in an overdraft fee but are otherwise a strong customer for your bank, you can always ask for the charge to be reversed. Many banks will reverse the occasional such charge in order to keep their valuable customers from switching to their competitors.

Regardless of whether you're never paid an overdraft fee or you regularly get dinged for them, knowing how they're charged can help you avoid them in the future.

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