

How To Protect Working Class and Latino Consumers From Junk Fees

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UnidosUS is a nonprofit, nonpartisan organization that serves as the nation’s largest Hispanic civil rights and advocacy organization. Since 1968, we have challenged the social, economic, and political barriers that affect Latinos through our unique combination of expert research, advocacy, programs, and an Affiliate Network of nearly 300 community-based organizations across the United States and Puerto Rico. We believe in an America where economic, political, and social progress is a reality for all Latinos, and we collaborate across communities to achieve it.

UnidosUS publishes reports, provides testimony, and advocates on policies that protect consumers, make financial services more inclusive, and improve the financial well-being of low-income people and the Latino community. For example, last year, we testified before the House’s Subcommittees on Consumer Protection and Financial Institutions in a hearing focused on overdraft fees to advocate for reducing unnecessary fees that impact working class people and Latinos. Our research and analysis include publications such as *Banking in Color: New Findings on Financial Access for Low- and Moderate-Income Communities* (2014); *The Future of Banking: Overcoming Barriers to Financial Inclusion for Communities of Color* (2019); and *Latinos Banking and Credit Survey: Arizona, California, Texas* (2022).

We are pleased to provide this testimony for the record on this important topic. So-called “junk fees” are defined as unfair or deceptive fees that are charged for goods or services that have little or no added value to the consumer.¹ Latinos and working class people are disproportionately impacted by such fees, which adversely impact consumers by causing some to lose their bank accounts or default on a loan, and by creating a barrier to obtaining financial products.

The top two largest such fees by volume are overdraft fees, which total some \$15 billion per year, and credit card late fees, which cost \$14 billion per year. Working class people and people of color are disproportionately impacted by overdraft fees. The Financial Health Network finds that low- to moderate-income households are nearly twice as likely to overdraft as higher income households.² The report finds that Black and Latino households are also about twice as likely to be charged overdraft fees than white households. When it comes to bank account product fees overall, Latinos pay, on average, \$14 per month for ATM, overdraft, and routine service charges on their checking accounts, while Black account holders pay \$12 a month. In contrast, whites pay an average of \$5 per month.³ Working class people and people of color are also disproportionately impacted by credit card late fees. A study by the Boston Federal Reserve finds that those making \$25,000 or less are 5% more likely to pay a late fee than those making more than \$100,000.⁴ Additionally, a Consumer Financial Protection Bureau (CFPB) report finds that consumers living in the poorest neighborhoods in the U.S. paid twice as many late fees as those living in the wealthiest areas.⁵ An UnidosUS study from 2022 underscored this finding, as 19% of Latinos paid a late fee on a loan or credit card in the last year.⁶

As we described in a comment to the Federal Trade Commission (FTC), higher fees and costs also impact Latino consumers in the car buying process.⁷ For example, Blacks and Latinos are sold multiple “add-ons” that generally do not increase the value of the vehicle almost twice as

often as are white consumers.⁸ Furthermore, an FTC study found reports of auto dealers making enticing claims to Limited English Proficiency (LEP) consumers in Spanish who later concealed additional material terms, such as fees, presenting them only in English.⁹

These types of “junk fees” also contribute to barriers to accessing bank accounts and loans for low-income people and Latinos. According to the Federal Deposit Insurance Corporation (FDIC), high costs and fees make up three of the top five reasons that unbanked people cannot access a bank account.¹⁰ Our 2022 survey similarly found that such costs and fees are two of the three leading reasons that Latinos cannot access a banking account.¹¹ The unbanked are disproportionately lower-income and Latino: more than 9% of those making less than \$30,000 are unbanked compared to 0.6% of those making more than \$75,000, and 9% of Latinos are unbanked compared to 2% of whites.¹²

These fees also have implications for access to credit for unbanked and marginalized populations. According to the Federal Deposit Insurance Corporation (FDIC), only 9% of the unbanked have a credit card or personal loan compared to 72% of the total population.¹³ The study also finds that only 49% of Black households and 60% of Latino households have a credit card, compared to 78% of White households. Further, the Morning Consult finds that 41% of people who do not have a credit card cited high fees as a reason for not obtaining credit.¹⁴

Latinos’ Lack of Access to Credit and Banking Provides an Important Opportunity to Reimagine Relationships with Consumers to Promote Customer Loyalty and Reduce Costs.

Rather than increasing fees, some financial institutions are instead offering tools that provide consumers with affordable and flexible credit terms in conjunction with lower fees. A 2022 study by Bankrate found that overdraft fees fell to their lowest level in 13 years with the average amount charged falling 11% to \$29.80.¹⁵ This drop comes after years of efforts by consumer advocates, policymakers, agencies, including the CFPB and FTC, and industry actors to understand the adverse consequences of high overdraft fees and find ways to reduce these.¹⁶ These changes are paying dividends for customers: the CFPB recently reported that overall overdraft revenue decreased by nearly 50% in 2022 compared to 2019.¹⁷

Since 2021, several financial institutions have lowered or eliminated their overdraft fees. Examples of these include:

- Fintechs such as Chime and Ally Bank, eliminated overdraft fees in 2021.
- Large banks such as Bank of America reduced their overdraft fee to \$10,¹⁸ Huntington National Bank and Manufacturers and Traders Trust Company lowered their fees to \$15 per overdraft, and Citi Bank eliminated their overdraft fees altogether.¹⁹

Some financial institutions are innovating even further by offering low-cost small dollar loans to meet consumer needs. Examples of these offerings are listed in the table below:²⁰

Table: Examples of Small Dollar Loan Offerings

Product name	Issuing bank	Loan size range	Speed of access to funds	Term to repay	Payment structure	Pricing
Balance Assist	Bank of America	\$100–\$500	Within minutes	3 months	Equal monthly payments	\$5
Standby Cash	Huntington Bank	\$100–\$500	Within minutes	3 months	Equal monthly payments	Free if autopay; 12% APR if not
Protection Line of Credit	Regions	\$50–\$500	Within minutes	No fixed term	Minimum 10% of balance (min. \$5)	12% APR
Cash Reserve	Truist	\$5–\$750	Within minutes	4 months	Equal monthly payments	18% APR
Simple Loan	U.S. Bank	\$100–\$1,000	Within minutes	3 months	Equal monthly payments	\$6 fee per \$100 borrowed
Flex Loan	Wells Fargo	\$250–\$500	Within minutes	4 months	Equal monthly payments	\$250 for \$12 flat fee or \$500 for \$20 flat fee

Many banks appear to recognize that some consumers who overdraw lack access to affordable credit and thus rely on overdraft to help make ends meet. Safe and affordable small dollar loans can help protect Latino consumers and offset the rise in junk fees. Such offerings also produce long-term benefits for both financial institutions and consumers. Lowering fees and offering products that meet the financial needs of low-income people and marginalized consumers can build trust and loyalty among those consumers. If they see that their financial institution is willing to be flexible and meet them where they are, they will in turn be more likely to remain loyal to the financial institution and will likely use more financial products as they improve stability and grow economically.

Recent research by Pew Trusts shows that consumers look at financial institutions more favorably if they reduce or eliminate overdraft fees. They also find that consumers would look at financial institutions more positively if they offered affordable small-dollar loans to people with low credit scores.²¹ Lower-income people, immigrants with Individual Taxpayer Identification Numbers (ITIN), and LEP consumers need access to lower-cost and high-quality financial products to help build their financial well-being.

At the same time, we must monitor how financial institutions adopt these approaches so as to not raise rates and fees in other product lines and for other consumers. Further, smaller

financial institutions and those with greater difficulty accessing capital, such as Community Development Financial Institutions (CDFI), low-income credit unions, and Minority Depository Institutions (MDI), need support to be able to adopt such a business practice. Many of these institutions already subscribe to this approach but could reach more consumers through programs like the CDFI Fund and other public or private investments. It would be ideal, from a consumer perspective, to see equitable growth across a range of financial institutions in such products and offerings, including banks and credit unions that may already be likely to connect with and support lower-income and marginalized consumers.

Notes

- ¹ UnidosUS, Comments in response to the ANPRM to Address Deceptive or Unfair Fees [Federal Register No. 2022-24326] (Washington, DC: UnidosUS, 2021) <https://unidosus.org/wp-content/uploads/2023/02/UnidosUS-Response-to-DeceptiveFees.pdf>
- ² Stephen Arves and Meghan Greene, "Amid Resurgence of Interest in Overdraft, New Data Reveal How Inequitable It Can Be," Financial Health Network blog, September 3, 2021, <https://finhealthnetwork.org/amid-resurgence-of-interest-in-overdraft-new-data-reveal-how-inequitable-it-can-be/>.
- ³ Michelle Fox, "Latinos, Blacks pay over twice as much in bank fees, survey finds," NBC News, January 13, 2021, <https://www.nbcnews.com/news/latino/latinos-blacks-pay-over-twice-much-bank-fees-survey-finds-n1254145>.
- ⁴ Federal Reserve Bank of Boston, "Who is Paying All These Fees? An Empirical Analysis of Bank Account and Credit Card Fees," Federal Reserve Bank of Boston, August 2022, <https://www.bostonfed.org/publications/research-department-working-paper/2022/who-is-paying-all-these-fees-an-empirical-analysis-of-bank-account-and-credit-card-fees.aspx>.
- ⁵ Consumer Financial Protection Bureau, "Credit Card Late Fees," Consumer Financial Protection Bureau, March 2022, https://files.consumerfinance.gov/f/documents/cfpb_credit-card-late-fees_report_2022-03.pdf.
- ⁶ UnidosUS, "Latinos Banking and Credit Survey: Arizona, California, Texas," UnidosUS, June 2022, https://unidosus.org/wp-content/uploads/2022/09/unidosus_oportun_latinosandcreditservicesurvey_azcatx_crosstabs.pdf.
- ⁷ UnidosUS, Comments in response to the ANPRM to Address Deceptive or Unfair Fees.
- ⁸ Center for Responsible Lending, "Non-Negotiable: Negotiation Doesn't Help African Americans or Latinos on Dealer-Financed Car Loans," Center for Responsible Lending, January 2014, <https://www.responsiblelending.org/other-consumer-loans/auto-financing/research-analysis/CRL-Auto-Non-Neg-Report.pdf>.
- ⁹ Federal Trade Commission, "Serving Communities of Color: A Staff Report on the Federal Trade Commission's Efforts to Address Fraud and Consumer Issues Affecting Communities of Color," Federal Trade Commission, October 2021, https://www.ftc.gov/system/files/documents/reports/serving-communities-color-staff-report-federal-trade-commissions-efforts-address-fraud-consumer/ftc-communities-color-report_oct_2021-508-v2.pdf.
- ¹⁰ Federal Deposit Insurance Corporation, "FDIC National Survey of Unbanked and Underbanked Households," 2021 FDIC Survey, October 2022, <https://www.fdic.gov/analysis/household-survey/2021report.pdf>.
- ¹¹ UnidosUS, "Latinos Banking and Credit Survey."
- ¹² Federal Deposit Insurance Corporation, "FDIC National Survey Unbanked and Underbanked Households."
- ¹³ Ibid.
- ¹⁴ Claire Williams, "Access to Cheap Money has a Racial Gap," Morning Consult, June 3, 2019, <https://morningconsult.com/2019/06/03/access-to-cheap-money-has-a-racial-gap/>.
- ¹⁵ Karen Bennett and Matthew Goldberg, "Overdraft Fees Tumble to 13-Year Low While ATM Fees are Back on the Rise," Bankrate, August 31, 2022, <https://www.bankrate.com/banking/checking/checking-account-survey/>.
- ¹⁶ UnidosUS, "Written Testimony of Santiago Sueiro, Senior Policy Analyst, UnidosUS," UnidosUS, March 30, 2023, <https://unidosus.org/wp-content/uploads/2022/03/UnidosUS-Santiago-Sueiro-Testimony-SCPFI-3.30.2236.pdf>.
- ¹⁷ Consumer Financial Protection Bureau, "Overdraft/NSF Revenue Down Nearly 50% Versus Pre-Pandemic Levels," Consumer Financial Protection Bureau, May 23, 2022, <https://www.consumerfinance.gov/data-research/research-reports/data-spotlight-overdraft-nsf-revenue-in-q4-2022-down-nearly-50-versus-pre-pandemic-levels/#:~:text=Overdraft%2FNSF%20revenue%20down%20nearly%2050>

[%25%20versus%20pre%20pandemic%20levels&text=Overdraft%20NSF%20revenue%20for%20the,over%20%245.5%20billion%20going%20forward.](#)

- ¹⁸ Bank of America, “Bank of America Announces Sweeping Changes to Overdraft Services in 2022, Including Eliminating Non-Sufficient Funds Fees and Reducing Overdraft Fees,” Bank of America Newsroom, January 11, 2022, <https://newsroom.bankofamerica.com/content/newsroom/press-releases/2022/01/bank-of-america-announces-sweeping-changes-to-overdraft-services.html>.
- ¹⁹ Consumer Financial Protection Bureau, “Overdraft/NSF Metrics for Top 20 Banks Based on Overdraft/NSF Revenue Reported During 2021,” Consumer Financial Protection Bureau, May 2022, https://files.consumerfinance.gov/f/documents/cfpb_overdraft-table_2023-05.pdf.
- ²⁰ Pew Trusts, “Affordable Credit Poised to Save Consumers Billions,” Pew Trusts, May 15, 2023, <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2023/05/affordable-credit-poised-to-save-consumers-billions>.
- ²¹ Alex Horowitz, Linlin Liang, and Gabe Kravitz, “Americans Support Affordable Small Loans in the Banking System,” Pew Trusts, June 6, 2023, <https://www.pewtrusts.org/en/research-and-analysis/articles/2023/06/06/americans-support-affordable-small-loans-in-the-banking-system>.