

# Doron F. Eghbali Banking Law

## How Banks Charge Us Overdraft Fees

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Unfortunately, most of us at one time or another has experienced the dreaded overdraft fees. Banks used to charge consumers up to \$35 for \$1 overdrawn from a checking account. However, unless we understand how banks charge such exorbitant fees, we cannot protect ourselves.

### 1. REORDERING TRANSACTIONS

This is a common bank practice. The way it works is like this: Over the course of a day, large transactions are cleared first followed by smaller payments. This practice also increases overdrafts.

#### Example

For simplicity, let us assume you have \$110 in your checking account. You make one purchase for \$5, then another purchase for \$105 and then one for \$42. If banks clear your payments in the order they were made you would incur only *one* overdraft fee. However, banks first clear the largest one the \$105 purchase, then the \$42 and and at the end the \$5. As such, the consumer would incur *two* overdraft fees.

### 2. SUSTAINED OVERDRAFT

If we do not pay the overdraft fees and bring the account to zero, most banks even charge us even more, every 5 to 7 days. This is called "sustained overdraft" fees.

The sustained overdraft fees could range between \$12.50 to \$35 every five to seven days.

Thus, pay back the overdraft fees quickly to avoid being hit again and going further down in the red.

### 3. OVERDRAFT FEES STILL INCREASING

This is important to note that although the number of overdraft fees banks could daily charge a consumer have relatively declined due to congressional action, still the overdraft fees are increasing. In other words, the reasons for which banks could charge overdraft fees may have been reduced. Nonetheless, the fees have become more exorbitant.

In fact, most banks charge around \$35 for every overdraft fees. This fee has increased from \$30 in 2006 or so. Needless to say, overdraft fees represent a treasure trove for banks.

### 4. WATCH OUT FOR TRAPS

In fact, banks could tout various safeguards they have put into place to ensure a \$5 purchase would not cost consumer \$35. However, the reality is that most consumers go over their account balance more than \$10 or so. As such, this is extremely important:

- To Keep Track of Account Balance; And
- To Avoid a Purchase Unless There is Enough Money in Checking Account to Cover It.

## **ONE SOLUTION**

Ask your bank to link your savings account to your checking account. By doing so, you make sure the over-protection money comes from your money and the penalty you pay is relatively much smaller, around \$10, compared to \$35 for overdraft fees.

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