

RISK Alert

ACTIONABLE INSIGHTS FOR BOND POLICYHOLDERS.



Alert Type

Awareness

Watch

Warning

CFPB Launches Initiative on Excessive Junk Fees

The Consumer Financial Protection Bureau (CFPB) recently announced an initiative to save households billions of dollars a year by reducing “exploitive junk fees,” such as overdraft/NSF fees, charged by financial institutions. The CFPB found several areas where back-end fees obscure the true cost of a product or service, which undermines a competitive market, and addresses these areas in their recently filed Request for Information Regarding Fees Imposed by Providers of Consumer Financial Products or Services (Request for Information).

Details

In its [January 26, 2022 press release](#), the CFPB indicated that it launched an initiative to save households billions of dollars a year by reducing “exploitive junk fees” charged by financial institutions.

“Many financial institutions obscure the true price of their services by luring customers with enticing offers and then charging excessive junk fees,” said CFPB Director Rohit Chopra. “By promoting competition and ridding the market of illegal practices, we hope to save Americans billions.”

The CFPB has grown increasingly concerned that exploitive junk fees charged by financial institutions have become widespread with the potential effect of obscuring the true cost of a product. The CFPB found several areas where back-end fees, such as overdraft and nonsufficient fund fees, were found to be excessive. The CFPB addresses these fees and more in their [Request for Information](#):

Deposit Accounts - The CFPB noted that in 2019, financial institution revenue from overdraft and nonsufficient fund fees exceeded \$15 billion. By comparison, financial institutions make approximately \$1 billion annually in account maintenance fees.

Credit Cards - The CFPB indicated card issuers charged \$23.6 billion in fees in 2019 of which \$14 billion represent late fees that are not subject to competitive pricing pressure.

Remittances and Payments - The CFPB acknowledged that financial institutions charge various types of convenience fees, including fees for payment transfers, returned items, stop payment, check images, online and telephone payment services, ACH transfers and wire transfers. The CFPB noted that it issued a [Compliance Bulletin](#) in 2017 on unfair, deceptive, and abusive acts or practices relating to fees for pay-by-phone services, however, the fees remain a concern.

Prepaid Accounts - The CFPB acknowledged that prepaid account products disclose applicable monthly rates; however, there is concern that “add-on” fees such

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Risk Category: Consumer Payments; Funds / Wire Transfer; Online / Mobile Banking; Lending; Compliance

States: All

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as transaction fees, cash reload fees, balance inquiry fees, inactivity fees, monthly service fees and card cancellation fees overshadow the quoted monthly charge.

Mortgages - The CFPB indicated that mortgage-related fees can act as a barrier to homeownership, strip wealth from homeowners accessing their equity through refinancing or home sales and deter some homeowners from refinancing to lower total housing costs. The CFPB cited several fee examples, including monthly property inspection fees, new title fees, legal fees, appraisal fees, broker price opinion fees, force-placed insurance, foreclosure fees and miscellaneous, unspecified “corporate advances that have the effect of pricing a consumer out of a home.

Other Loans - The CFPB is also reviewing loan origination and loan servicing fees on student loans, auto loans, installment loans, payday loans and other loan types. The CFPB, as an example, stated that some servicers charge fees to reschedule payment dates or make online or phone payments, and that originators often charge application fees.

It should be noted that the CFPB’s Request for Information does not impose restrictions on credit unions that charge fees related to the above products. The Request for Information seeks information from the public on how “junk fees” – exploitative, back-end, hidden, or excessive fees – have impacted consumers’ lives. The deadline for submitting comments is March 31, 2022.

Risk Mitigation

Credit unions should consider reviewing their fees for products and services to determine if any fees are considered “junk fees.” In the event the CFPB uses its rulemaking authority to limit fees, credit unions may want to be prepared to change their fee structure for the “junk fees” identified.

Risk Prevention Resources

Access CUNA Mutual Group’s [Protection Resource Center](#) for exclusive risk and compliance resources and RISK Alerts to assist with your loss control needs (User ID and Password required).

CFPB Resources:

- [Consumer Financial Protection Bureau Launches Initiative to Save Americans Billions in Junk Fees](#)
- [Prepared Remarks of CFPB Director Rohit Chopra on the Junk Fees RFI Press Call](#)
- [Request for Information Regarding Fees Imposed by Providers of Consumer Financial Products or Services](#)



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