Using Overdrafts As Credit

Many banks and other financial institutions permit you to deliberately overdraw your account. The bank will honor a check, debit card payment, or ATM withdrawal even if you do not have sufficient money in the account. This is often an incredibly expensive way to pay your obligations.

Banks charge high fees for each overdraft, up to $35 per transaction. Some banks also charge a fee of up to $5 every day or $30 every few days until you repay the overdraft. Banks pay themselves back the amount of the overdraft and fees out of your next deposit, before you can use the money for other essential bills like your mortgage or utility payment. A $100 overdraft with a $30 fee has an interest rate of 780% if the overdraft lasts two weeks.

For ATM or one-time debt card transactions, the bank can only honor the payment and charge you a high fee if you affirmatively consent or “opt in” to this arrangement. Do not do so and revoke your consent if the bank already has gotten you to opt in.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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