

Consumer Advocates Urge CFPB to Protect Consumers From “Junk Fees”

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WASHINGTON - In response to the Consumer Financial Protection Bureau’s (CFPB) call for public input on how to save Americans billions in junk fees charged by financial companies, leading consumer advocacy organizations **submitted an extensive comment letter** detailing junk fees across a wide range of consumer financial products and services. The letter was submitted by Americans for Financial Reform (AFR), the Center for Responsible Lending (CRL), Consumer Federation of America (CFA), and National Consumer Law Center (NCLC) (on behalf of its low-income clients).

It has become increasingly common for businesses to deceptively increase the cost of goods and services through hidden or obscured fees, often presented after the consumer has committed to a transaction. The cost of junk fees almost always exceeds the cost of the service or activity that triggers them. Using well-honed techniques and marketing research, companies obscure the fee, trick the consumer into accepting it, or force them into a position where they cannot say “no.” Junk fees can also lead to perverse incentives where banks and other companies push practices that are at odds with their customers’ financial health, setting them up to fail.

“Banks, credit card companies, and other vendors impose fees on consumers in a manner that is calculated to evade the influence of competition and price comparison shopping,” said Rachel Gittleman, financial services outreach manager at the Consumer Federation of America. “The provider knows that the consumer will overlook and accept the charge because it is well hidden, or because the consumer has no alternative.”

Lower-wage workers, consumers of color, and other consumers struggling economically pay a disproportionate share of these fees. These consumers are located in communities that bear a higher fee burden on average than do predominantly white communities. Sophisticated algorithmic models may steer consumers to high-cost, subprime products instead of a wide array of competitively priced credit options with low fees.

“Junk fees like overdraft fees can push consumers into becoming unbanked and losing access to mainstream financial products,” said Lauren Saunders, associate director at the National Consumer Law Center.

Junk fees can also lead to discriminatory practices involving car financing, with profits padded by expensive add-on products, such as service contracts, Guaranteed Asset Protection (GAP) insurance, and window etching. These add-on products significantly increase the cost of the car, and research has shown that Latino consumers are, on average, charged higher mark-ups on auto loan add-ons than non-Latino consumers.

“Fees that don’t help consumers, and are often hidden or unreasonable, are junk fees that should be tossed out by the CFPB,” said Nadine Chabrier, senior policy counsel at the Center for Responsible Lending. “Junk fees strip wealth from financially vulnerable families and disproportionately harm communities of color.”

“Junk fees are the antithesis of accumulated wealth for the most vulnerable consumers. They rob

families, especially Black and brown families, of operating funds that could be used for things that actually help households run efficiently,” said Elyse Hicks, Consumer Policy Counsel at Americans for Financial Reform. “In the midst of the pandemic, communities of color paid over \$4.5 billion in overdraft fees alone. Black families pay over \$800 million on fees for checking account maintenance, money orders and check cashing, while Hispanic families spent \$1.1 billion on those services in 2020. Junk fees make it very expensive to be poor or live on the margins.”

Eliminating junk fees advances the CFPB mission to ensure that markets for consumer financial products and services are fair, transparent, and competitive. The CFPB must rein in fees that:

- Inflate or mask the price of a product or evade disclosure requirements;
- Inhibit transparent price comparisons and competition;
- Are imposed in a manner that deceives people about the cost of a product or how it works;
- Incent practices that injure consumers in ways that are not reasonably avoidable; or
- Take unreasonable advantage of consumers.

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The Center for Responsible Lending (CRL) is a nonprofit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices.

The Consumer Federation of America is an association of more than 250 nonprofit consumer and cooperative groups that was founded in 1968 to advance the consumer interest through research, advocacy, and education.

Americans for Financial Reform (AFR) is a nonpartisan and nonprofit coalition of more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups. Formed in the wake of the 2008 crisis, we are working to lay the foundation for a strong, stable, and ethical financial system - one that serves the economy and the nation as a whole.

Since 1969, the nonprofit National Consumer Law Center® (NCLC®) has worked for consumer justice and economic security for low-income and other disadvantaged people in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training.