

What are junk fees?

May 2024

Summary

The term “junk fees” has invaded the lexicon of the federal government as the executive branch attempts to place controls on a wide range of private businesses. The definition varies based on which federal authority is doing the defining. The [Consumer Financial Protection Bureau \(CFPB\)](#) sees junk fees as unnecessary or extravagant fees levied by financial institutions. The [Federal Trade Commission](#) and the [White House](#) attach the term to any and all purchase fees, most frequently charged by businesses in the service industry.

Who imposes junk fees?

Hotels, airlines, rideshare services, delivery services, utility companies, banks, mortgage companies, etc.



FINANCIAL INSTITUTIONS

EXAMPLES:
Credit card late fees
Overdraft fees



SERVICE INDUSTRY

EXAMPLES:
Airline seat fees
Hotel resort fees

Why is the government’s push to eliminate junk fees a problem?

The unintended consequences of overburdensome regulation frequently result in higher prices for everyone.



EXAMPLE: A woman purchases an airline ticket for a quick weekend getaway with friends. She is traveling alone and only packing for two nights, so she can sit anywhere on the plane and does not need to check a bag. She purchases a base-level ticket at the lowest available price. If so-called “junk fees” are forcibly removed, the cost of these services does not disappear; rather, it gets wrapped into the ticket cost. Suddenly, this same woman is spending more for a flight with add-ons she neither needed nor wanted.

Forcibly reducing revenues has serious downstream effects.



EXAMPLE: The CFPB’s [recent rule](#) capping credit card late fees may lead to a lack of access to credit for lower-income individuals who are more likely to not pay on time—and thus riskier to lend to without an appropriate fee structure as determined by the lender.

Some attempts to reduce or eliminate financial services fees, such as overdraft fees and credit card late fees, harm the consumer by disincentivizing good financial behavior.

Price transparency is reduced, as the fees are ultimately wrapped into the overall cost without line item pricing.

Individuals are forced into a “one-size-fits-all” approach instead of being able to pick and choose, resulting in higher average prices.

What can be done instead?

Mandates, regulations, and federal legislative efforts often fail to consider unintended consequences and the wide variety of needs among different businesses. Instead, public-private partnership is a more reasonable approach. By bringing together government officials and business leaders, reasonable discussions can reduce the burden on some consumers without unintentionally harming others in the process. Such efforts have [already seen some success](#), including ticket sale companies announcing fees will be shown upfront as opposed to being added at checkout.

Conclusion

“Junk fees” is a catch-all term for any and all fees deemed unnecessary or exorbitant by federal bureaucratic agencies. While the idea of banning these fees may sound appealing, more often than not the overburdensome regulation results in more harm to the consumer. Banning the fees does not make them disappear; instead, they are wrapped into the cost of the broader service, resulting in less price transparency and higher average prices.