



# How a Set of Small Banks Compares on Overdraft

An analysis of programs, fees, and terms at 45 financial institutions

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**The Pew Charitable Trusts** is driven by the power of knowledge to solve today's most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and invigorate civic life.

## Overview

Checking accounts play a critical role in the financial lives of American families: Nine in 10 households have one.<sup>1</sup> Despite this ubiquity, however, checking account ownership can involve significant costs, particularly those associated with overdrafts.

According to a survey commissioned by The Pew Charitable Trusts in 2013, 10 percent of account holders paid at least one overdraft penalty fee after using their debit card.<sup>2</sup> Further, the Consumer Financial Protection Bureau (CFPB) found that the median size of debit card transactions that led to an overdraft fee was \$24, and the median fee assessed was \$34; more than half of consumers repay the debt within three days.<sup>3</sup> As the bureau notes, “Such a loan would carry a 17,000 percent annual percentage rate.”<sup>4</sup>

The policies and procedures that banks use to process transactions, most notably whether overdraft penalty programs cover debit card or ATM activity, significantly affect how frequently customers overdraw, the fees they pay, and the consequences for their financial well-being. In particular, excessive overdrafts can cause consumers to lose or close their accounts, which forces them to rely on cash transactions and expensive alternative financial services, such as check cashers, and puts them at risk of theft or loss of funds.<sup>5</sup>

Since 2010, Pew has studied the account disclosures of the largest U.S. banks to evaluate and report on their checking account policies and practices.<sup>6</sup> This report builds on those studies by assessing the disclosed overdraft policies, as of 2015, of 45 small banks in 36 states that hold \$360 million to \$1 billion in deposits and generally have no more than 30 branches serving one or a small group of communities.

This study is not representative of all smaller banks but provides a snapshot of the policies that are disclosed by a selected group of institutions that are diverse geographically and in terms of deposit volume. A number of trends emerged across the banks, but policies also varied among individual institutions.

The analysis found that:

- Forty-two of the 45 banks studied, rather than declining an ATM or debit card transaction that would overdraw a consumer’s account, allow customers to opt in to overdraft service for ATM and debit card transactions; the median fee for each overdraft is \$32.
- All 45 of the banks allow customers to incur at least \$90 in fees each day for any overdrafts the banks service under their programs, including checks, electronic transfers, and debit, ATM, and bill payment transactions. Many permitted much higher daily totals.
- Only two banks disclose that they reorder transactions from high to low by dollar amount. The other 43 either do not disclose posting policies or say that they post transactions from low to high by dollar amount or in a neutral manner.
- Twenty of the banks disclose a limit on the amount of credit available per account to cover overdrafts and accompanying fees, with a median amount of \$500.
- Forty of the banks either do not disclose a monthly fee or disclose one of two policies: Either they do not charge a monthly checking account fee or they waive the fee if the customer agrees to receive electronic statements. Only five banks disclose charging a monthly fee that cannot be waived by electing electronic statements.

Taken together, several of these practices—particularly how rarely these banks charge monthly fees compared with their widespread offering of overdraft coverage for a fee, high daily fee limits, and the substantial amount

of credit provided for overdrafts—suggest that these programs have become a significant source of checking account revenue for many banks.<sup>7</sup>

The overdraft penalty programs of the small banks studied are similar to those at larger banks in some important respects but also differ in key ways. Banks, both large and small, generally charge fees ranging from \$28 to \$37 per overdraft, and most allow consumers to incur multiple fees per day. However, unlike the largest institutions, the 45 small banks studied tend to charge fees at the lower end of this range and to post transactions in chronological, check number, or low-to-high dollar amount order rather than high-to-low by dollar amount.<sup>8</sup>

These findings reinforce the need to end the practice by which financial institutions provide unsafe, high-cost credit through overdraft penalty programs. This can be achieved by limiting the size of overdraft fees; the frequency with which they can be incurred, such as up to six per calendar year as recommended by the Federal Deposit Insurance Corp. (FDIC) and some members of Congress; or their overall cost.<sup>9</sup> The CFPB and other federal regulators also can take steps to allow banks to offer safer, more transparent small-credit products—separately or in conjunction with checking accounts.

## **Overdraft history and implications**

When banks first started paying transactions that would cause overdrafts more than 20 years ago, it was done infrequently and on an ad hoc basis, and could appropriately be called a helpful courtesy.<sup>10</sup> In the decades since, however, as electronic transactions—debit card point of sale and ATM—have grown exponentially, these programs transformed into automated systems that provide multiple loans to cover payments at interest rates in the thousands.<sup>11</sup>

Although today's overdraft penalty plans typically still have names that convey the old model's benefits, such as courtesy pay, overdraft privilege, or bounce protection, research has shown that they harm account holders, dramatically increasing costs to some and driving many out of the banking system, leaving them dependent on check cashers and other expensive alternative financial services.<sup>12</sup> According to a previous Pew-commissioned survey, 10 percent of account holders—and disproportionately those who are young, low-income, and nonwhite—paid overdraft penalty fees in 2013 after using their debit cards to spend or withdraw more money than they had in their accounts.<sup>13</sup>

Contemporary programs that cover debit card and ATM transactions are so unlike their predecessors that in 2009, the Federal Reserve Board amended Regulation E of the Electronic Fund Transfer Act—rules that protect consumers who use electronic financial products and services—to require account holders to provide affirmative consent (to opt in) for overdraft service on ATM and nonrecurring point-of-sale debit card transactions before banks can charge fees for covering those transactions.<sup>14</sup>

Not all banks offer these programs, however, and the differences between those that do and do not, in terms of overdraft frequency and revenue, are stark. Banks that operate these programs generally charge fees that can accumulate rapidly and are assessed even on small transactions. A 2015 Pew study showed that banks with overdraft penalty programs for ATM and nonrecurring debit transactions realized 400 percent more overdraft revenue than those that did not have those programs.<sup>15</sup> And according to the CFPB, “Opted-in accounts are three times as likely to have more than 10 overdrafts per year as accounts that are not opted in ... [and] have seven times as many overdrafts that result in fees as accounts that are not opted in.”<sup>16</sup> In contrast, banks that did not offer overdraft service on debit card or ATM transactions simply declined the transaction when an account had insufficient funds—at no cost to the consumer.

And many banks with ATM and debit overdraft programs generate even greater fee revenue through related policies. Some choose to not limit the number of overdraft fees that can be charged per day, assess extended overdraft fees when balances are not repaid within a set number of days, or process the highest-dollar transactions first, depleting customer accounts more quickly and maximizing the number of overdraft fees.<sup>17</sup>

According to the CFPB's 2013 overdraft study, banks have earned less revenue through upfront monthly account fees than from overdraft charges.<sup>18</sup> This business model does not provide account holders with safe and transparent products, however, because while monthly account fees are charged upfront and on a regular schedule, overdraft and other back-end fees are largely obscured, unpredictable, and more expensive.<sup>19</sup>

## Small vs. large bank overdraft penalty programs

In 2016, Pew analyzed account agreements of 44 of the 50 largest U.S. banks. However, although those institutions make up almost two-thirds of domestic deposit volume, they are not necessarily representative of the policies of the more than 5,000 banks in the nation, most of which are much smaller than the largest banks.<sup>20</sup> To gain insights into other banks' overdraft policies, Pew contracted with Informa Research Services to collect small-bank checking account disclosures, primarily by having mystery shoppers ask banks, either in person or by phone, to provide them. (See the methodology.)

The 45 banks in this study employ overdraft penalty programs that are similar in some important respects to those offered by large banks, but they also differ in key ways.<sup>21</sup> Throughout this report, references to large banks and their policies are based on "Consumers Need Protection From Excessive Overdraft Costs," Pew's study of 44 of the 50 largest U.S. banks. Banks of all sizes charge fees for each transaction that creates an overdraft, although the fees charged by small banks are somewhat lower than those of the largest banks.<sup>22</sup> Many banks, large and small, also allow consumers to incur multiple fees of at least \$90 a day, and most large banks and almost all of the small banks studied offer debit card overdraft penalty plans. However, many of the banks in this analysis and some larger banks have instituted measures designed to reduce fees, such as including a threshold, or *de minimis*, amount that can protect customers from incurring a fee from a very small overdraft.

Almost all of the small banks studied here offer a basic account with no upfront monthly fee, and some require that consumers elect to receive e-statements to avoid the monthly fee. Most large banks, however, charge a monthly fee that can be waived if customers keep a minimum balance or regularly directly deposit at least a certain amount into their accounts.

In addition, almost none of the small banks studied disclose that they reorder transactions from high to low by dollar amount, a practice that maximizes overdraft fees and is common among larger banks. This finding is consistent with other evidence that small banks are more likely to process transactions either from low to high by dollar amount, by check number, or in the order they are received.<sup>23</sup> Similarly, according to their disclosures, small banks are less likely than larger banks to charge an extended overdraft fee if a customer's balance is not brought above zero within a certain number of days: one-third of the small banks compared with approximately half of the large banks studied.

## Overdraft coverage and penalty fees

All 45 banks in this study disclose that they charge an overdraft fee for covering a check or automated clearinghouse (ACH) transaction when there are insufficient funds in the account.<sup>24</sup> In addition, like most of the

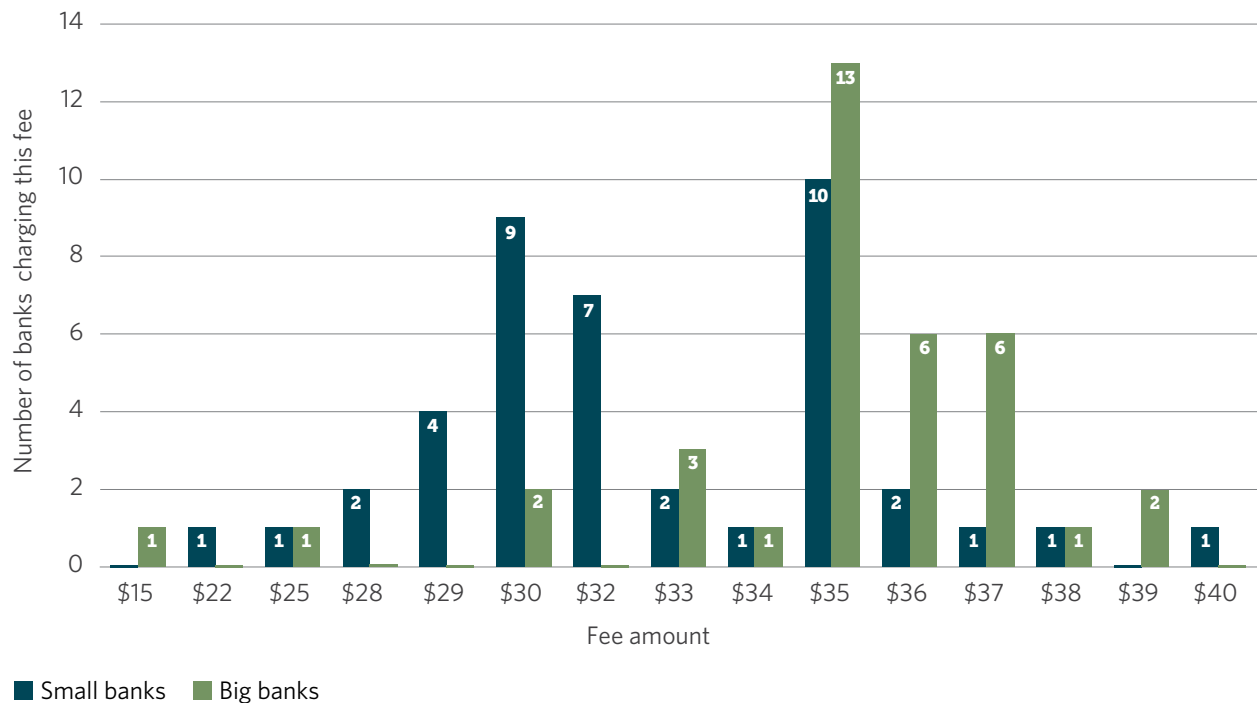
largest banks, 42 of the small banks studied disclose that they allow consumers to opt in to overdraft coverage plans for nonrecurring debit and ATM transactions.<sup>25</sup>

Overdraft penalty fees charged by the small banks studied here ranged from \$22 to \$40, with 88 percent charging between \$28 and \$36. The median fee was \$32. Among the large banks studied by Pew, the median is \$35, and 72 percent disclose charges between \$35 and \$38.<sup>26</sup> (See Figure 1.)

Figure 1

## Most Small Banks Studied Charge \$28-36 per Overdraft

Distribution of overdraft penalty fees by bank size



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## Extended overdraft fees

About one-third of the small banks studied—compared with about half of the large banks—disclose that they charge an additional fee if a customer does not repay the overdrawn balance, including the fee, within a specified number of days.<sup>27</sup> Sixteen of the small banks disclose a fee of \$5 to \$36, with a median of \$6. Most of these fees can be levied repeatedly for the same overdraft until the balance due is repaid. Among the largest banks, the median fee is \$20.

The median number of days after the account becomes overdrawn until these extended overdraft fees begin to be debited is nearly identical across all banks: five for the large banks and 5.5 for the smaller ones. Some small banks count only business days, while others count calendar days.

Additionally, some of the small banks studied here disclose that they charge only one extended fee per overdraft, while others say they may charge multiple fees until the amount owed is paid off. Generally, these banks disclose

that they charge this fee after a proscribed number of days following the initial overdraft and then at set intervals (such as every five days) until the account is positive.

## Limits on overdraft fees

Most of the banks in this study disclose a limit on the number of overdraft penalty fees a consumer can incur in one day. The large banks also generally limit the number of overdraft fees that a customer can incur in a single day:<sup>28</sup>

- Twenty-eight of the small banks (62 percent) disclose such a limit, with a range of three to eight fees, and a median of 5.5.
- Forty of the 44 large banks (91 percent) disclose a median daily limit of five fees, with a range of one to 10.<sup>29</sup>
- One small bank has the most restrictive policy, limiting overdraft penalty fees to three per day at \$30 each, capping the amount at \$90 in fees in a single day. Overall, caps for the other small banks that say they will charge multiple fees range from \$120 to \$280 a day.

Almost half of the small banks (18) have threshold, or *de minimis*, policies that can protect customers from incurring a fee for a very small overdraft.<sup>30</sup> The amounts that trigger these exceptions range from \$3 to \$10, and the median is \$5. In comparison, 31 of the large banks (70 percent) disclose that they provide a threshold exemption, with a median of \$5 and a range of \$1 to \$10.<sup>31</sup>

## Posting order policies

The order in which banks post withdrawals can affect the number of overdraft fees that a consumer incurs. Some banks reorder transactions from high to low by dollar amount, depleting the funds in the account more quickly and maximizing fee revenue. Large banks frequently engage in this practice, although in recent years some have curtailed or eliminated reordering.<sup>32</sup>

In 2016, Pew rated 44 of the 50 largest banks based on a variety of banking policies, including disclosing such transaction reordering.<sup>33</sup> The report found that more than half of these large banks (59 percent) disclosed either that they do not reorder transactions from high to low or that they do not charge an overdraft fee, both of which Pew considers to be best practices.

Among the small banks in this study, 31 of the 45 disclose that they do not reorder transactions, but 14 fail to achieve Pew's best practice, with 12 of those falling short because their disclosures do not provide sufficient detail to enable consumers to discern their processing practices.<sup>34</sup> Two others fail to achieve the best practice because they reorder some transactions from high to low by dollar amount: One reorders all transactions first by transaction type and then from high to low, and another reorders only ACH transactions from high to low. The lack of transparent disclosure makes it unclear whether the 12 banks engage in high to low reordering, but despite this incomplete information, these data suggest that small banks engage in transaction reordering much less frequently than the large banks do.<sup>35</sup>

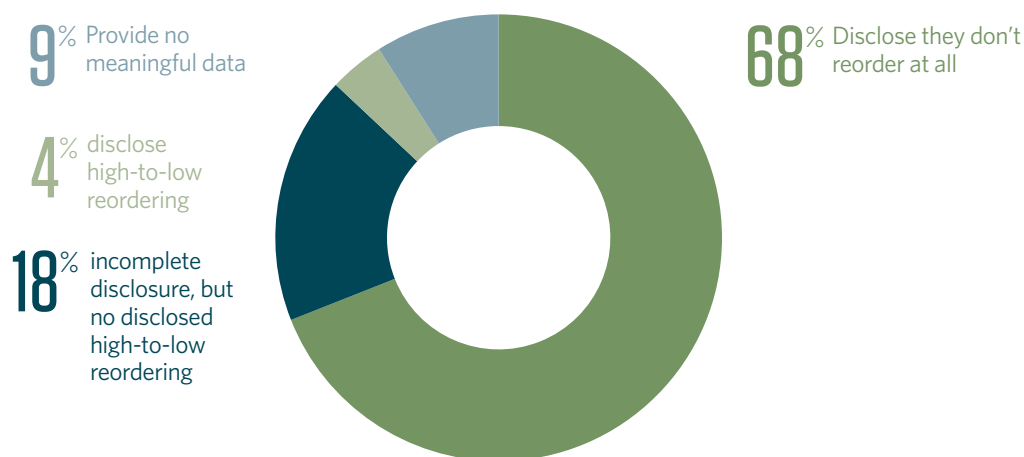
Among the small banks examined, posting information is usually contained within the account holder agreements, but the amount of detail provided is inconsistent. Some banks describe how each type of transaction is ordered, while others say only, "The bank reserves the right to order transactions in any order we choose." (See Figure 2.) This lack of clarity can prevent consumers from understanding their institutions' policies or choosing a bank or account that does not engage in harmful reordering.



Figure 2

## Only 4% of the Banks Studied Disclose Reordering Transactions From High to Low by Dollar Amount

Breakdown of posting practices



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### Overdraft transfer programs

Like most of the largest banks, most of the small banks studied offer an alternative to overdraft penalty programs, known as overdraft transfer service, in which consumers can have funds moved from a savings or other account to cover an overdraft, typically for a fee. The fees are almost always significantly lower than overdraft penalty fees.

Thirty-two of the 45 banks studied disclose a fee for this service, with a median of \$5 and a range of \$1.50 to \$30. Two other banks disclose that they offer overdraft transfers at no cost.<sup>36</sup> The CFPB's bank overdraft study found that "less than three-quarters of the smaller institutions monitored ... assess a transfer fee, and for these institutions, the median fee was comparatively less at \$5."<sup>37</sup> Pew research has shown that the median transfer fee among large banks is \$10, with a range of zero to \$16.<sup>38</sup>

Based on these data, overdraft transfer service, whether at a large or a small bank, represents a significant savings compared with overdraft penalty programs.

### Caps on overdraft debt

Overdraft penalty plans are exempt from federal regulations on credit products developed under the Truth in Lending Act even though they are essentially short-term, small-dollar loans provided to consumers at very high interest rates.<sup>39</sup> As a result of this exclusion, financial institutions do not, for example, have to disclose the interest rates on or error resolution procedures for overdraft service.

However, most of the small banks studied disclose some information about the amount of overdraft credit they will extend. Twenty of the banks disclose such a cap, with a range of \$200 to \$700 and a median of \$500.<sup>40</sup> Every bank also maintains that availability of these funds is not guaranteed and that the bank may refuse to extend overdraft credit at any time. Though the funds are not guaranteed, these disclosures can provide clarity to

customers about how much a bank will cover if an account is overdrawn. Because disclosure is not required, the failure of 25 of the banks to provide information on overdraft loan caps does not necessarily mean they do not have such limits.<sup>41</sup>

Previous Pew reviews of large bank disclosures have found no references to similar caps.

## Disclosure of overdraft options

Like large banks, many of the small banks studied offer a number of options for overdraft coverage, but they do not always lay out the alternatives clearly enough for consumers to make informed choices. Pew has developed a model disclosure box that banks can adopt to provide this information, including all fees, clearly and concisely. (See Figure 3.)

Figure 3

## Disclosures Should Clearly and Completely Describe Overdraft Programs, Policies, Fees

Excerpt from Pew’s model disclosure box for checking accounts

<b>Overdraft Options for Consumers with Debit Cards</b>	Option A: (Default)	No Overdraft Service	If you choose not to opt in to any kind of overdraft service, transactions that would cause an overdraft will be declined at no cost to you.
	Option B: Overdraft Transfer Plan	Overdraft Transfer Fee	\$ per overdraft covered by a transfer from a linked savings account, line of credit, or credit card
		Overdraft Penalty Fee	\$ per overdraft covered by an advance from your financial institution
	Option C: Overdraft Penalty Plan	Maximum Number of Overdraft Penalty Fees per Day	You will only be charged this number of overdraft penalty fees per day, even if we elect to cover additional overdrafts.
		Minimum Amount Required to Trigger an Overdraft Penalty Fee	\$ If you are overdrawn by this amount or less, you will not incur an overdraft penalty fee.
		Extended Overdraft Penalty Fee	\$ charged every X day the account is overdrawn, starting Y days after the account is first overdrawn

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## Other important small-bank policies

### Monthly fees

As noted earlier, unlike the large banks Pew has studied, smaller banks rarely charge a monthly fee for their basic checking accounts.<sup>42</sup> (Large banks typically have minimum balance or deposit requirements for waiving monthly account fees.) Only five of the 45 small banks studied disclose a monthly fee, ranging from \$4 to \$10, with a median of \$6. The other 40 either disclose that they do not charge a fee or do not disclose either way.<sup>43</sup> Of the five banks that charge a monthly fee that cannot be waived by selecting to receive e-statements, four waive the fee for customers who maintain a certain balance or use direct deposit on a qualifying payment, practices that are similar to the large banks.

## Paper statements

Federal regulations require banks to provide customers with periodic account statements.<sup>44</sup> Seventeen of the banks studied charge fees for paper statements, including two that charge monthly fees. Although Pew has not collected data on paper statement fees at large banks, other research has found that some do assess this charge.<sup>45</sup> Paper statement fees at small banks range from \$1 to \$5 monthly, and the median is \$3. Some organizations have questioned the legality of these fees, but no federal regulators have brought actions regarding them.<sup>46</sup>

## Conclusion

When first offered, overdraft programs were designed as an occasional support for checking account holders, but banks of all sizes have transformed these services into an automated credit product that is very expensive and heavily used by financially vulnerable checking account holders. This study shows that, although they differ in key respects, the small-bank overdraft penalty programs studied here have some important similarities to those of large banks, which research has repeatedly shown harm consumers and put their participation in the financial system at risk.

Overdraft products, regardless of the size of the financial institution, should not be allowed to continue functioning as extremely expensive credit, particularly for the financially vulnerable consumers who use them repeatedly. Regulators could address this in a variety of ways, including by limiting the size, frequency, or overall cost of overdraft fees. In addition, to fill the need for small-dollar credit, the CFPB and banking regulators could promote bank programs that provide affordable and sustainable small-dollar credit.

The widespread use of overdraft among account holders, and particularly among certain demographic groups, demonstrates that market demand for small-dollar credit is strong. A program in which overdraft is offered only as an occasional service for a modest fee, and in which banks can provide alternative credit to their customers that is safe and transparent, would serve the public far better than the current system.

## Methodology

Pew studied disclosures from 45 small U.S. banks. To achieve geographic diversity, the country was broken into five regions, and nine banks were selected from each. Because no consensus exists regarding what a small bank is in terms of deposit size, but to select banks in an unbiased manner, Pew and Informa developed a mechanism to provide a sample of small banks of different sizes, ranging from about \$360 million to \$1 billion in domestic deposits as tabulated in March 2015 by the FDIC. This produced a sample of banks that varied in size but was large enough that account agreements would probably be readily available for study. In each region, the three banks closest to but not exceeding domestic deposits of \$500 million, \$750 million, and \$1 billion were chosen. In total, these banks had domestic deposits of approximately \$31.7 billion with an average of slightly more than \$700 million.

At each bank, the most basic checking account that provided checks and debit cards—defined as the cheapest one available to all consumers (not a specialty account for students, seniors, or military members) that was not online-only—was chosen for analysis. When banks offered different accounts in different states, Pew examined accounts in the state where the bank held the plurality of its deposits by volume.

In June 2015, Pew examined the following disclosure documents from each financial institution:

- Fee schedule.
- Account agreement.
- Other disclosures related to overdraft and posting order.

Pew based its review on published account agreements and documents obtained in person or via email or fax from the bank. Researchers asked banks to provide fee schedules, account agreements, and information about overdraft policies. If a bank did not provide an account agreement, researchers asked for other documents that reflected the posting order of transactions. Emails or other informal communications from bank staff were not considered. This increases the likelihood that correct and complete information was collected and helps reduce the possibility of confusion.

The collected documents were those that prospective checking account customers would rely on when choosing among financial institutions. Using these methods, Pew was able to obtain all documentation for 45 banks. In 14 instances, banks did not make enough information available to be included in the study. The 45 banks that were studied and the 14 banks that were omitted are listed below.

<b>Banks studied</b>	<b>State</b>
<b>AloStar Bank of Commerce</b>	Alabama
<b>Anderson Brothers Bank</b>	South Carolina
<b>Arizona Bank &amp; Trust</b>	Arizona
<b>Artisans' Bank</b>	Delaware
<b>Axiom Bank</b>	Florida
<b>BankWest Inc.</b>	South Dakota
<b>Belmont Savings Bank</b>	Massachusetts
<b>The Cecilian Bank</b>	Kentucky
<b>Central Bank of Lake of the Ozarks</b>	Missouri
<b>Central Bank of St. Louis</b>	Missouri
<b>Century Bank</b>	New Mexico
<b>Citizens Bank</b>	Oregon
<b>The Dime Bank</b>	Pennsylvania
<b>D.L. Evans Bank</b>	Idaho
<b>Equity Bank</b>	Kansas
<b>Fidelity Bank &amp; Trust</b>	Iowa

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<b>Banks studied</b> <i>(continued)</i>	<b>State</b>
<b>First Bank</b>	Alaska
<b>First Community Bank</b>	Arkansas
<b>First Federal Savings and Loan Association of Port Angeles</b>	Washington
<b>First Federal Savings Bank of Twin Falls</b>	Idaho
<b>First Foundation Bank</b>	California
<b>First Northern Bank of Dixon</b>	California
<b>First Security Bank</b>	Montana
<b>First Texas Bank</b>	Texas
<b>First United Bank</b>	Texas
<b>First United Bank &amp; Trust</b>	Maryland
<b>Gorham Savings Bank</b>	Maine
<b>Guaranty Bank</b>	Wisconsin
<b>Harbor Community Bank</b>	Florida
<b>Hawaii National Bank</b>	Hawaii
<b>Home Bank</b>	Louisiana
<b>Home Federal Savings Bank</b>	Minnesota
<b>Home State Bank</b>	Colorado
<b>Independent Bank</b>	Tennessee
<b>Kitsap Bank</b>	Washington
<b>Libertyville Bank &amp; Trust Co.</b>	Illinois
<b>Mabrey Bank</b>	Oklahoma
<b>Meridian Bank</b>	Arizona
<b>Newtown Savings Bank</b>	Connecticut
<b>Peoples Bank</b>	North Carolina
<b>Security First Bank</b>	Nebraska
<b>Somerset Trust Co.</b>	Pennsylvania
<b>Vinton County National Bank</b>	Ohio
<b>VIST Bank</b>	Pennsylvania
<b>Watertown Savings Bank</b>	New York

Banks omitted for insufficient data	State
Converse County Bank	Wyoming
First Northern Bank	California
iAB Financial Bank	Indiana
Independence Bank	Montana
Macon Bank (now Entegra Bank)	North Carolina
Meadows Bank	Nevada
Middleburg Bank	Virginia
NebraskaLand National Bank	Nebraska
Oak Valley Community Bank	California
Pioneer Trust	Oregon
Progress Bank	Alabama
Queensborough National Bank & Trust Co.	Georgia
State Bank of Countryside	Wisconsin
Superior National Bank & Trust Co.	Michigan

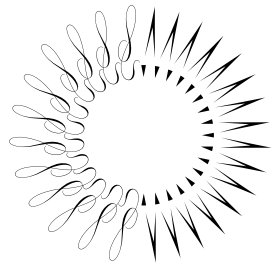
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- 7 Federal Deposit Insurance Corp., "Overdraft Payment Programs and Consumer Protection: Final Overdraft Payment Supervisory Guidance" (Nov. 24, 2010), <https://www.fdic.gov/news/news/financial/2010/fil10081.pdf>; and Representative Carolyn B. Maloney, "Maloney: CFPB Can and Should Do More to Stop Overdraft Abuses," news release, Sept. 10, 2014, <https://maloney.house.gov/media-center/press-releases/maloney-cfpb-can-and-should-do-more-to-stop-overdraft-abuses>.

- 8 This finding is consistent with a report from the Independent Community Bankers of America, *The ICBA Overdraft Payment Services Study* (June 2012), 22, <https://www.icba.org/files/ICBASites/PDFs/2012OverdraftStudyFinalReport.pdf>.
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- 10 Consumer Financial Protection Bureau, *CFPB Study of Overdraft Programs* (June 2013), 10–4, [http://files.consumerfinance.gov/f/201306\\_cfpb\\_whitepaper\\_overdraft-practices.pdf](http://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf).
- 11 Pew found that the interest rate for overdraft loans at large banks was over 5,000 percent based on the median size of an overdraft transaction as determined by the FDIC (\$36), the \$35 fee that is the median overdraft penalty fee at large banks, and the seven days that customers have to pay back the loan before an extended overdraft fee is charged. Using the same \$36 transaction size, but inserting the median fee at the small banks in this study (\$32) and the median number of days before an extended overdraft fee is charged (5.5 days), the interest rate would be almost 6,000 percent. See The Pew Charitable Trusts, *Still Risky*, 23.
- 12 The Pew Charitable Trusts, "Overdraft Facts" (October 2015), [http://www.pewtrusts.org/-/media/assets/2015/10/fdic-call-report-fact-sheet\\_artfinal.pdf](http://www.pewtrusts.org/-/media/assets/2015/10/fdic-call-report-fact-sheet_artfinal.pdf); The Pew Charitable Trusts, "Overdrawn"; and The Pew Charitable Trusts, *Unbanked by Choice* (July 2010), [http://www.pewtrusts.org/-/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/safe\\_banking\\_opportunities\\_project/pew20unbanked20reportfinalpdf.pdf](http://www.pewtrusts.org/-/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/safe_banking_opportunities_project/pew20unbanked20reportfinalpdf.pdf).
- 13 The Pew Charitable Trusts, "Overdrawn."
- 14 Consumer Financial Protection Bureau, "Regulation E: Requirements for Overdraft Services," 12 C.F.R. § 1005.17(b), <http://www.consumerfinance.gov/eregulations/1005-17/2014-20681#1005-17>.
- 15 The Pew Charitable Trusts, "Overdraft Facts."
- 16 Consumer Financial Protection Bureau, "Data Point," 5.
- 17 The Pew Charitable Trusts, "Consumers Need Protection."
- 18 Consumer Financial Protection Bureau, *CFPB Study of Overdraft Programs*, 15–6.
- 19 Consumer Financial Protection Bureau, "Regulation Z," 12 C.F.R. § 1026.2(a)(15)(ii)(B) (2015), <http://www.consumerfinance.gov/eregulations/1026-2/2015-18239#1026-2-a-16>; and Consumer Financial Protection Bureau, "Data Point," 8.
- 20 Federal Reserve Bank of St. Louis, "Commercial Banks in the U.S." (fourth quarter of 2015), <https://research.stlouisfed.org/fred2/series/USNUM>.
- 21 Independent Community Bankers of America (ICBA) found that most small banks use ad hoc measures to decide whether to allow overdraft transactions. However, the data are from 2012, and approximately 66 percent of the banks in the study had less than \$250 million in assets. Independent Community Bankers of America, *The ICBA Overdraft Payment Services Study*, 35.
- 22 The median overdraft fee for small banks is \$32 and for large banks is \$35.
- 23 This finding is consistent with Independent Community Bankers of America, *The ICBA Overdraft Payment Services Study*, 22.
- 24 All but one bank also disclosed that a nonsufficient funds (NSF) fee is charged when an item is returned unpaid. In every instance, this fee is the same as the overdraft fee charged by that bank.
- 25 The ICBA found that only 59 percent of banks offered overdraft penalty plans, and approximately 66 percent of the banks in the 2012 study had less than \$250 million in assets. Independent Community Bankers of America, *The ICBA Overdraft Payment Services Study*, 35.
- 26 The Pew Charitable Trusts, "Consumers Need Protection," 6. Analysis excludes banks that reported no overdraft fee. Thirty-six large banks and 42 small banks reported a fee.
- 27 *Ibid.*, 9.
- 28 Banks impose NSF fees if a check has been presented for processing but the amount exceeds the available balance in the account. If the bank processes the check, it is considered an overdraft. If the bank declines the transaction, it is considered NSF.
- 29 The Pew Charitable Trusts, "Consumers Need Protection," 12. The median and range were collected but not reported in this issue brief.
- 30 Usually this policy refers to the daily final balance—ending balances that are only a small amount below zero are not charged fees—but some banks also do not charge fees for small-dollar transactions that would cause an account to become negative.
- 31 The Pew Charitable Trusts, "Consumers Need Protection," 12. The median and range were collected but not reported in this issue brief.
- 32 Russell Grantham, "Banks Ease Overdraft Rules Amid Scrutiny," *Atlanta Journal-Constitution*, June 26, 2015, <http://www.myajc.com/business/banks-ease-overdraft-rules-amid-scrutiny/YLhIMr7RtSBcyZ2U0qhr4J/>.
- 33 The Pew Charitable Trusts, "Consumers Need Protection," 12.
- 34 Pew's best practice for the ordering of transactions is to not reorder any transaction types from high to low dollar amount. *Ibid.*, 9.

- 35 The ICBA's overdraft report included a similar finding: "Only 8.8 percent of the surveyed community banks post check items in the order of high-to-low dollar amounts." Independent Community Bankers of America, *The ICBA Overdraft Payment Services Study*, 42.
- 36 According to the ICBA, "Most community banks offer transfer from another account (80.5 percent) and a majority offer transfer from a line of credit (65 percent)." Independent Community Bankers of America, *The ICBA Overdraft Payment Services Study*, 24.
- 37 Consumer Financial Protection Bureau, *CFPB Study of Overdraft Programs*, 55.
- 38 Data were collected for The Pew Charitable Trusts' "Consumers Need Protection" but were not reported in that issue brief.
- 39 Consumer Financial Protection Bureau, "Regulation Z"; Consumer Financial Protection Bureau, "Data Point."
- 40 The ICBA overdraft study found that "[m]ore than one-third (35.6 percent) of community banks deploying automated and hybrid programs set a single standard limit for all accounts eligible for overdraft coverage, with an average limit of \$523." Independent Community Bankers of America, *The ICBA Overdraft Payment Services Study*, 30.
- 41 Consumer Financial Protection Bureau, "Regulation Z," 12 C.F.R. § 1026.2(14)-(15). <http://www.consumerfinance.gov/eregulations/1026-2/2013-07066#1026-2-a-13>.
- 42 Because some banks offer to waive a monthly fee if customers select to receive e-statements and others list a fee for selecting paper statements, this research assumed that the consumer had opted out of receiving paper statements.
- 43 Banks often call accounts without a disclosed monthly fee "free checking" and may assume customers do not need additional disclosure to know that a monthly fee does not apply. The Truth in Savings Act prohibits labeling accounts as free if there are fees or minimum balances or maximum numbers of transactions. Truth in Savings Act, "Disclosure of Interest Rates and Terms of Accounts," 12 U.S.C. § 4302(d), <http://codes.lp.findlaw.com/uscode/12/44/4302>.
- 44 Federal Deposit Insurance Corp., "Regulation E: Receipts at Electronic Terminals; Periodic Statements," 12 C.F.R. § 1005.9, (2015), <http://www.consumerfinance.gov/eregulations/1005-9/2013-19503>; and Federal Deposit Insurance Corp., "Regulation DD: Periodic Statement Disclosures," 12 C.F.R. § 1030.6, (2015), <https://www.fdic.gov/regulations/laws/rules/6500-3900.html#fdic65001030.6>. Regulation E requires periodic statements for accounts accessible by electronic fund transfers, which include virtually all consumer accounts. The statements can be delivered in any form. Regulation DD does not require periodic statements and mandates that certain content be included only if a periodic statement is provided. Neither regulation requires paper statements.
- 45 Consumer Reports, "Bank Accounts: More Fees Are Coming. How to Fight Back—or Flee" (February 2012), <http://www.consumerreports.org/cro/magazine/2012/02/bank-accounts/index.htm>.
- 46 National Consumer Law Center, regulatory comments on the Consumer Financial Protection Bureau's Request for Information Regarding the Credit Card Market (May 18, 2015), 12, [http://www.nclc.org/images/pdf/credit\\_cards/first-set-card-act-comments-2015.pdf](http://www.nclc.org/images/pdf/credit_cards/first-set-card-act-comments-2015.pdf).





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