



## SAFE CHECKING IN THE ELECTRONIC AGE

### CONSUMERS NEED CLEAR DISCLOSURES TO UNDERSTAND THEIR OVERDRAFT OPTIONS

In April 2011, the Pew Health Group's Safe Checking in the Electronic Age Project released [\*Hidden Risks: The Case for Safe and Transparent Checking Accounts\*](#). This report examined the terms and conditions of over 250 distinct types of checking accounts offered online by the 10 largest banks in the United States as of October 2010. At that time, these banks held nearly 60 percent of all deposit volume nationwide.

**Pew's Finding:** Banks fail to provide accountholders with complete information about the respective costs of checking account overdraft options. These plans have significantly different features and fees; however, banks are not required to provide full information in a concise, easy-to-read format about all overdraft options available, including the price for lower-cost options.

**Pew's Policy Recommendation:** Policy makers should require depository institutions to provide accountholders with clear, comprehensive pricing information for all available overdraft options when a customer is considering opting in to a program. This practice will ensure that the customer can make the best choice among all overdraft options, which includes choosing not to opt in to any overdraft coverage.

For at least some transactions, all 10 of the banks in the study offered overdraft penalty plans in which the bank covers overdrafts for a set per-overdraft charge. Under such plans, when a customer's withdrawal or purchase exceeds the checking account balance, the bank has the discretion to allow the transaction and pay—for a fee—the overdraft via a short-term advance; however, the bank is not obligated to cover any overdrafts. If the bank covers the transaction, the customer must repay both the overdraft amount and the fee in a short period of time—usually less than a week—or incur another fee known as an extended overdraft fee.

Nine of the 10 banks in the study also offered overdraft transfer plans in which the bank transfers funds to cover overdrafts in a customer's checking account from the customer's savings account, credit card or line of credit.

## Overdraft Options

Excerpt from Pew's checking account disclosure box

Overdraft Options for Consumers with Debit Cards	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 Fee	\$ _____ per overdraft covered by transfer from linked savings account, line of credit, or credit card
	Option C: Overdraft Penalty	Overdraft Penalty Fee	\$ _____ per overdraft covered by bank advance
		Maximum Number of Overdraft Penalty Fees per Day	_____
	Extended Overdraft Penalty Fee	\$ _____	every Mth day the account is overdrawn, starting N days after the account is first overdrawn

Two of the banks included in the study, Bank of America and Citibank, have publicly indicated that they do not allow customers to overdraw their checking accounts with a point-of-sale debit card transaction.<sup>1</sup> Citibank also does not allow customers to overdraw their checking accounts at an ATM. In addition, as of August 15, 2010, the Federal Reserve has required financial institutions to obtain the affirmative consent (known as opt-in) of customers before enrolling them in an overdraft penalty plan that covers debit card transactions at points-of-sale and ATMs.<sup>2</sup> If a customer does not opt in, banks must either deny—at no cost to the customer—any debit card transactions that overdraw the account or they may allow such overdrafts if they do not charge the customer a fee.

To implement these new requirements, the Federal Reserve developed a model opt-in form for banks to provide to their customers.<sup>3</sup> However, the form lacks significant information. It describes overdraft penalty plans as the “standard overdraft” option and only briefly mentions possible alternatives. Although the model form includes a description of price and the circumstances under which the overdraft penalty fee will be assessed, it does not include the price of overdraft transfers. The Fed’s form also does not discuss the option not to opt in to any overdraft coverage, a choice that would allow customers to avoid incurring any overdraft-related fees at all.

According to a Pew-commissioned poll of U.S. checking account holders conducted in July 2011, when asked their opinion on requiring banks to provide a summary of information about the overdraft options offered, how they work and what the fees are<sup>4</sup>

- 83 percent of all American checking account holders say that this would be a positive change, while only 2 percent say this would be a negative change.
- 90 percent of Democrats, 78 percent of those who identify as independents, 81 percent of Republicans and 79 percent of those who identify with the Tea Party say this would be a positive change, while only 1 percent of Democrats, 2 percent of independents, 2 percent of Republicans and 2 percent of Tea Partiers say this would be a negative change.

- 82 percent of those who say they have a very good understanding of the terms, conditions and fees associated with their checking account say this would be a positive change, while only 2 percent say this would be a negative change.

## ENDNOTES

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1. Protecting Consumers from Abusive Overdraft Fees: The Fairness and Accountability in Receiving Overdraft Coverage Act Hearing, before the Senate Committee on Banking, Housing, and Urban Affairs, 111th Cong. (Nov. 17, 2009) (testimony of John P. Carey, Citigroup North America Consumer Banking, pg. 1), available at [www.banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStoreId=5fc3d6c8-2f17-4f94-a30f-37d28a69e6d0](http://www.banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStoreId=5fc3d6c8-2f17-4f94-a30f-37d28a69e6d0); Martin, Andrew. "Bank of America to End Debit Overdraft Fees," The New York Times, (Mar. 9, 2010), available at [www.nytimes.com/2010/03/10/your-money/credit-and-debit-cards/10overdraft.html](http://www.nytimes.com/2010/03/10/your-money/credit-and-debit-cards/10overdraft.html).
2. 12 C.F.R. § 205.17(b)(1), (c).
3. 12 C.F.R. § 205 App. A-9.
4. Polling data are from a Pew-commissioned national survey of 805 checking account holders conducted July 5–10, 2011, by Hart Research Associates (D) and McLaughlin & Associates (R).