

# Overdrawn

Persistent Confusion and Concern About Bank Overdraft Practices

# The Pew Charitable Trusts

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## For further information, please visit:

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## Overview

Nine out of 10 Americans have a checking account, making it the most widely used financial services product in the United States.<sup>1</sup> Overdraft programs at banks and credit unions allow checking account holders to spend or withdraw more money than they have in their accounts. In exchange, banks usually charge a fee for each transaction for which there are insufficient funds in an account.

Consumers generally have three choices when they do not have enough funds to cover a debit card purchase or ATM withdrawal:

- **Incur an overdraft penalty fee.** The bank makes a short-term advance to cover the transaction and charges a fee for the service (median fee: \$35).<sup>2</sup>
- **Incur an overdraft transfer fee.** The bank transfers funds from a linked source, such as a savings account, line of credit, or credit card, and charges a fee for the service (median fee: \$10).<sup>3</sup>
- **Have the transaction declined.** If the consumer did not opt in to one of the above options, the transaction is denied and no fee is charged.

According to the federal Consumer Financial Protection Bureau, these programs “evolved from a manual courtesy program to an automated feature that today generates a significant share of financial institutions’ revenue from deposit accounts.”<sup>4</sup> In fact, according to one estimate, financial institutions collected \$16.7 billion in overdraft fees for 2011, at least \$5.8 billion of which was triggered specifically by a debit card purchase or ATM withdrawal.<sup>5</sup> Another estimate projected \$32 billion in overdraft and insufficient funds revenue in 2012.<sup>6</sup>

Among other provisions, Regulation E, which implements the Electronic Fund Transfer Act and was revised in 2010, requires that financial institutions obtain affirmative consent (“opt in”) from consumers before enrolling them in an overdraft penalty plan that covers debit card transactions at the point of sale (whether at a cash register, online, or over the phone) or at an ATM. The CFPB is responsible for implementation of Regulation E and enforcement of the opt-in rule.<sup>7</sup>

To better understand the experience of consumers who overdraw using their debit card during 2013, The Pew Charitable Trusts commissioned a survey of checking account holders.<sup>8</sup> The study found that these consumers were often confused and unhappy.<sup>9</sup> These findings are similar to those in Pew’s 2012 issue brief “Overdraft America: Confusion and Concerns About Bank Practices.”<sup>10</sup>

This brief delves into the 2013 results and looks at how they relate to those from 2012 when comparisons are possible. Specifically, the key 2013 survey findings are:

- Younger, lower-income, and nonwhite account holders, as well as those who did not have a credit card, are among those who were more likely to pay an overdraft penalty.
- More than half of those who incurred a debit card overdraft penalty fee do not believe that they opted in to overdraft coverage.
- 10 percent of Americans paid at least one overdraft penalty fee in 2013, and another 5 percent paid an overdraft transfer fee.
- On average, people who paid an overdraft penalty also incurred additional fees, for a total of \$69 the last time their account was overdrawn.
- 13 percent of people who paid an overdraft penalty say they no longer have a checking account; 19 percent report responding to overdraft fees by discontinuing overdraft coverage; and 28 percent report closing a checking account in response to overdraft fees.

- More than three-quarters of the people who paid an overdraft penalty fee express concern about specific overdraft policies, including the high cost of a penalty and the practices of charging “extended” overdraft fees—additional charges for failing to repay a negative balance on time—and of reordering withdrawals from highest to lowest dollar amount, which have the effect of increasing overdraft fees.
- Large majorities of those who paid an overdraft penalty prefer that a transaction be declined rather than overdraw an account, and they support greater regulation of overdraft products.
- Four groups of consumers surveyed—“overdrafters,” “transferers,” “decliners,” and “never-negatives” (see “Survey Details” sidebar)—express similar concerns about overdraft policies, in spite of their differing experiences.

Pew urges the CFPB to require financial institutions to make overdraft programs safer and more transparent by ensuring that consumers understand their options for overdraft coverage. Although clear disclosure is important, the CFPB should also prohibit the practice of transaction reordering that maximizes overdraft fees and ensure that fees are reasonable and based on the actual cost to the bank of providing the service.

## Survey Details

In December 2013, Pew completed a nationally representative survey of American adults to ask about their experiences with debit card and ATM overdrafts and explore account holder knowledge, understanding, and attitudes about overdraft fees.\* A total of 1,804 consumers were interviewed.†

Using the survey data, Pew examined the most common characteristics of overdrafters, revealing the traits most associated with paying overdraft fees. The data also reveal several areas in which American consumers are confused, dissatisfied, and caught off guard by banks’ overdraft policies and practices.

This survey is a follow-up to a survey completed in April 2012 that was summarized in “Overdraft America.”‡ The second iteration of the survey collected much of the same information as in 2012 as well as answers to a handful of new questions. However, unlike the 2012 study, which completed interviews only with consumers who had experienced a recent overdraft, the 2013 survey interviewed three additional groups of respondents. Specifically, based on the survey results, Pew grouped respondents into four categories based on their overdraft status in 2013:

**Overdrafters:** Paid an overdraft penalty fee for a debit card transaction.§

**Transferers:** Paid an overdraft transfer fee for a debit card transaction.\*\*

**Decliners:** Had a debit card transaction declined instead of paying an overdraft fee.††

**Never-negatives:** Never completed a debit card transaction that would have resulted in a negative account balance or had a transaction declined for insufficient funds.‡‡

\* On behalf of Pew, Social Science Research Solutions, as part of a larger omnibus survey conducted Oct. 30, 2013, to Dec. 15, 2013, asked consumers about their experiences with overdraft programs.

† The margin of error is plus or minus 2.31 percentage points at the 95 percent confidence level.

‡ The Pew Charitable Trusts, “Overdraft America: Confusion and Concerns about Bank Practices” (May 2012), [http://www.pewtrusts.org/-/media/Imported-and-Legacy/uploadedfiles/pes\\_assets/2012/SCIBOverdraft20America1pdf.pdf](http://www.pewtrusts.org/-/media/Imported-and-Legacy/uploadedfiles/pes_assets/2012/SCIBOverdraft20America1pdf.pdf).

§ 671 overdrafters constitute 10 percent of the sample. The margin of error is plus or minus 3.78 percentage points at the 95 percent confidence level.

\*\* 319 transferers constitute 5 percent of the sample with a margin of error of plus or minus 5.49 percentage points at the 95 percent confidence level.

†† 203 decliners constitute 3 percent of the sample with a margin of error of plus or minus 6.88 percentage points at the 95 percent confidence level.

‡‡ 6,849 never-negatives constitute 83 percent of the sample. Of those, 611 were interviewed with a margin of error of plus or minus 3.96 percentage points at the 95 percent confidence level.

## Profiles of overdrafters

As a group, overdrafters differ from the broader U.S. population. Several traits are related to a higher probability of being an overdrafter. Figure 1 presents the most noteworthy relationships; the full list of significant relationships that we measured is presented in Appendix B. These results, however, should not be understood to imply that any characteristic causes overdrawing.

Figure 1

### Young and Lower-income Consumers Are Among Those Most Likely to Overdraw

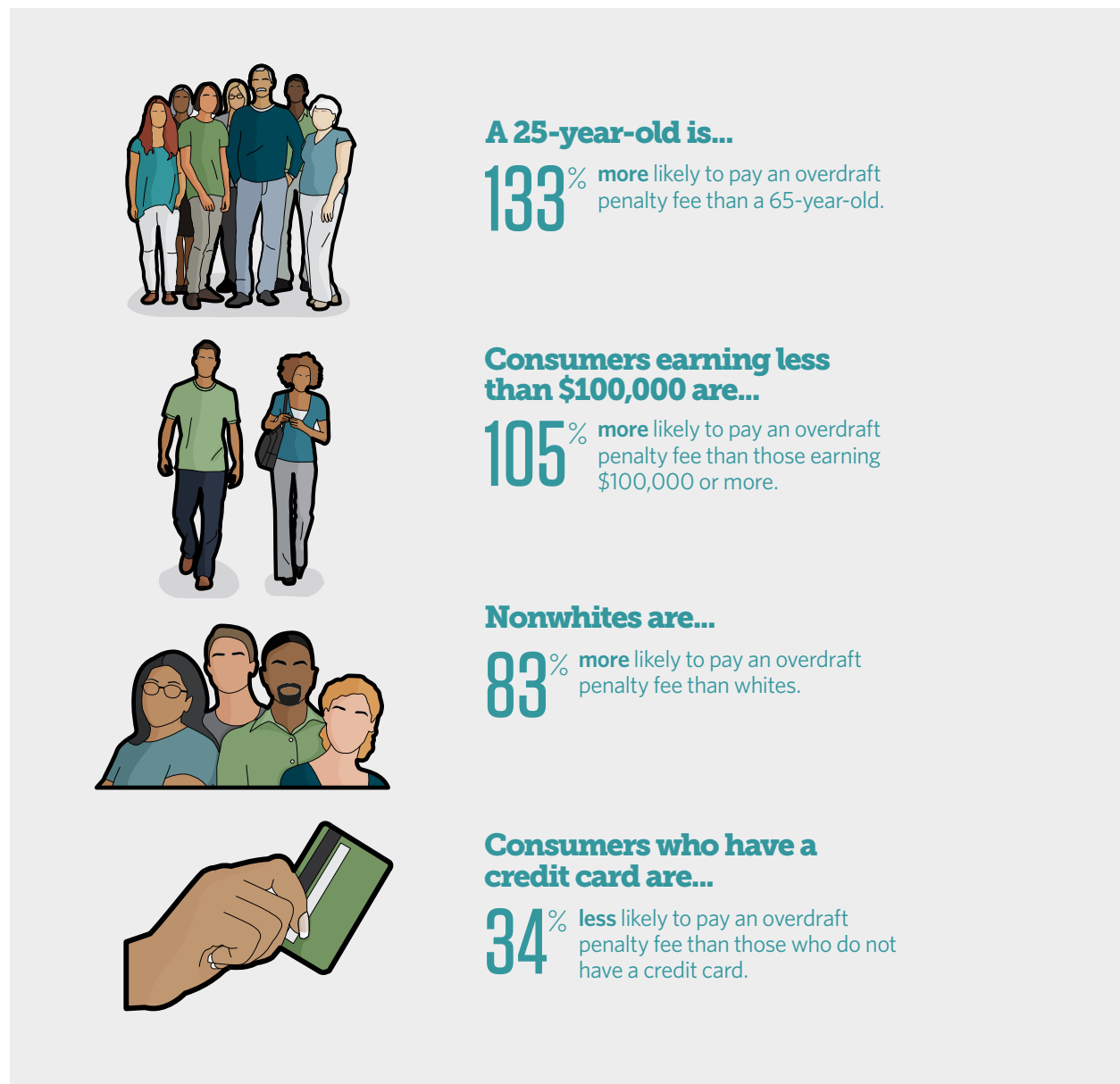


Table 1 presents the demographic characteristics of overdrafters as well as the U.S. population, without controlling for any variables.

Table 1  
Overdrafters vs. U.S. Population, by Demographic Characteristic (2013)

	% of overdrafters	% of U.S. population
Renters	54	36
Homeowners	44	62
Single	44	32
Married	39	49
Separated/divorced	14	12
Widowed	3	6
Employed	68	59
Full-time	50	45
Part-time	18	15
Unemployed	10	8
Disabled	4	4
Retired	7	19
Homemaker	5	6
Student	4	4
Income Less than \$15,000	17	14
\$15,000 to under \$25,000	15	11
\$25,000 to under \$30,000	11	8
\$30,000 to under \$40,000	11	8
\$40,000 to under \$50,000	9	8
\$50,000 to under \$75,000	14	13
\$75,000 to under \$100,000	7	10
\$100,000 +	7	13
Don't know/refused to answer/unspecified	9	16
White (non-Hispanic)	51	65
African-American (non-Hispanic)	18	11
Hispanic	19	13
Other race/ethnicity	8	7
Ages 18-29	31	21
Ages 30-49	42	33
Ages 50-64	18	24
Ages 65+	5	17
Parent	35	26
Not a parent	65	74
Less than high school	13	13
High school	30	30
Some college	34	26
College	13	19
Postgraduate	5	10
Technical	4	2
Male	48	49
Female	52	51
Active member of military in household	4	5
No active member of military in household	95	94
Northeast	20	18
South	37	37
North-central	19	21
West	23	23

Note: In some cases, percentages may not add up to 100 due to rounding or the exclusion of respondents who do not know or refuse to answer a question. All data are from the 2013 survey.

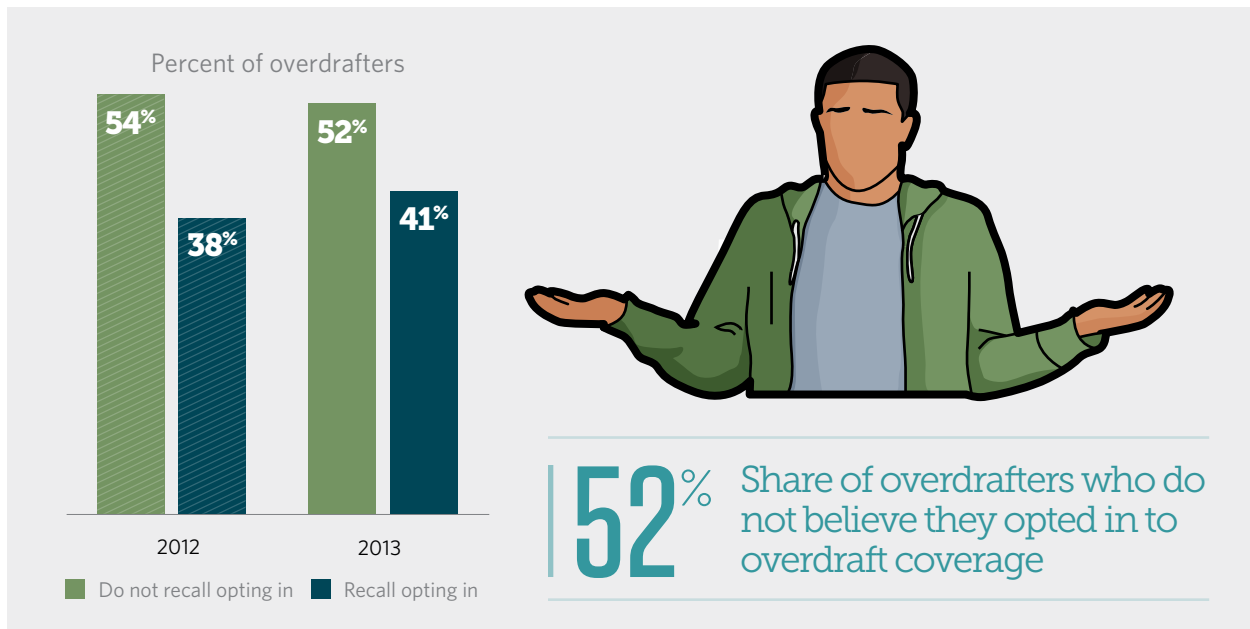
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## Awareness of overdraft

Pew's data continue to show that overdrafters do not fully understand the federal rule requiring that consumers affirmatively opt in to penalty coverage before being charged the fee. Many overdrafters express confusion and uncertainty with the product and the rules surrounding it. As in 2012, more than half do not recall agreeing to overdraft coverage despite having paid a penalty fee, which requires the account holder's consent.<sup>11</sup>

Figure 2

### More Than Half of Overdrafters Do Not Recall Opting In to Overdraft (2012-13)



Note: Respondents were asked, "As far as you know, did you choose to sign up for overdraft coverage, where you are charged a fee for each overdraft, or not?"

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In 2013, the majority of overdrafters (52 percent) say that they were either unaware that their bank offered overdraft coverage or discovered the cost of a penalty only after they had overdrawn their account.<sup>12</sup>

## The overdraft experience

Both the 2012 and 2013 surveys collected information on how many Americans overdrew using their debit cards and how often they do so. Year-over-year comparisons of responses to these questions reveal key trends and shifts. The 2013 survey, however, included a number of new questions, providing a more complete picture of consumers' experience with overdraft.

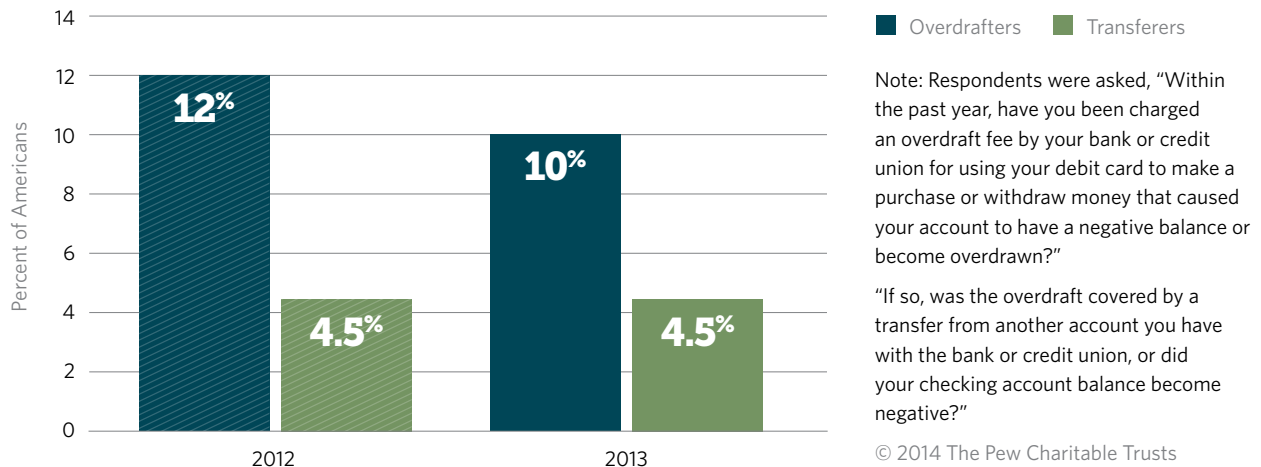
### How many Americans overdraw?

In 2013, 10 percent of American adults say they paid an overdraft penalty fee (categorized as overdrafters),



and another 5 percent say that they paid a transfer fee (transferers).<sup>13</sup> Compared with 2012, the percentage of transferers held steady, but the percentage of overdrafters declined.<sup>14</sup> (See Figure 3.)

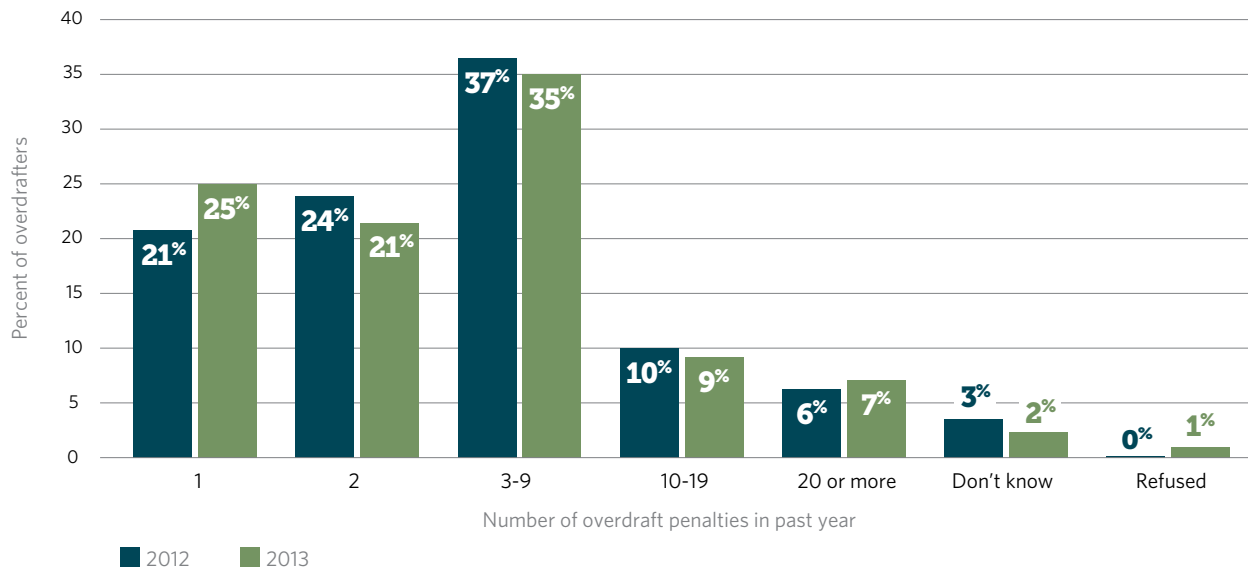
Figure 3  
Rate of Paying Overdraft Penalty Fees Fell (2012-13)



### How often do overdrafts happen?

The majority of overdrafters in both surveys said that they paid three or more penalty fees during the past year.<sup>15</sup>

Figure 4  
Most Overdrafters Paid 3 or More Penalty Fees (2012-13)



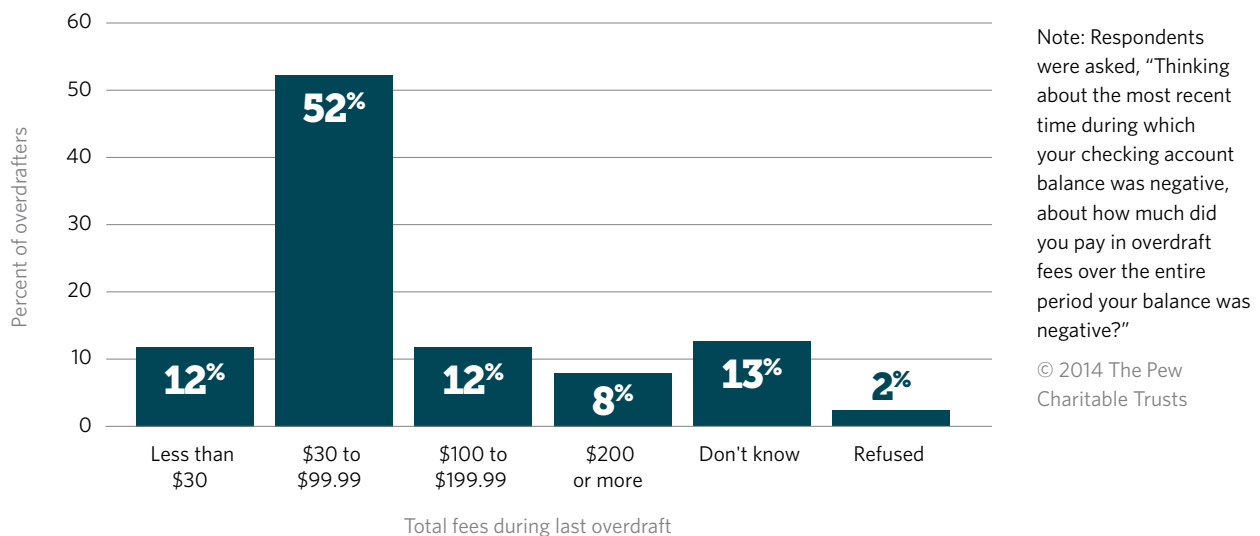
Note: Respondents were asked, "Just taking your best guess, how many times have you been charged an overdraft penalty fee in the last year?"

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## How much does overdraft cost a consumer?

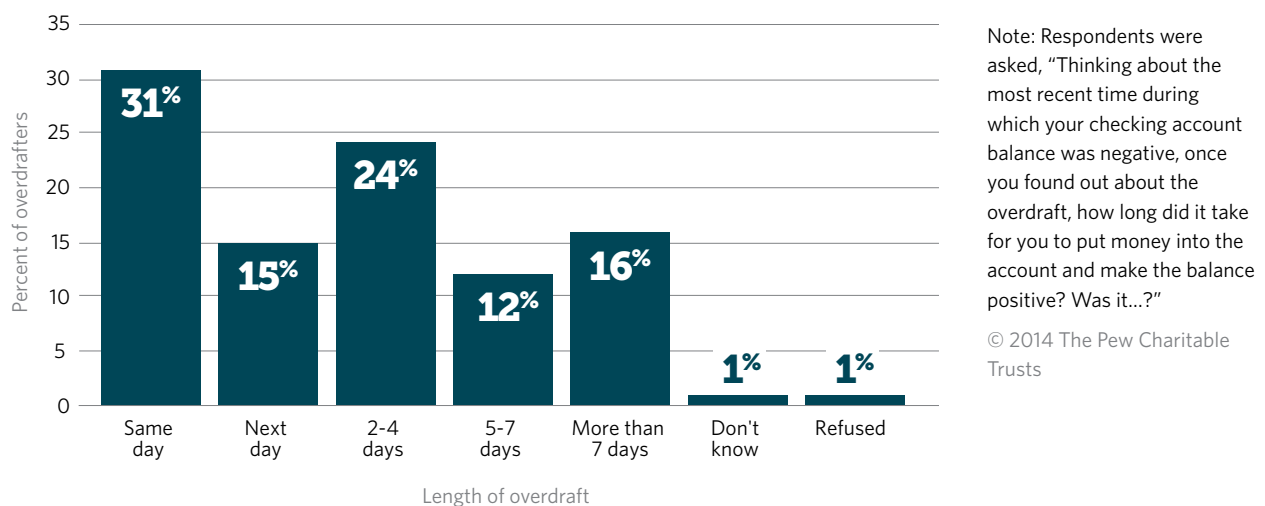
In 2013, overdrafters report paying total fees averaging \$69 during their most recent overdraft.<sup>16</sup> Although the median total reported was \$35, a quarter of overdrafters paid \$90 or more during their last overdraft.<sup>17</sup> For many overdrafters, having a balance drop below zero resulted in more than one penalty fee.

Figure 5  
Most Overdrafters Paid \$30-\$100 for Last Overdraft (2013)



The survey indicates that most overdrafters who paid a penalty fee did so for what amounts to a very short cash advance: Seventy percent of 2013 overdrafters report that after learning about their negative balance, they were overdrawn for four or fewer days, and nearly a third (31 percent) regained a positive balance the same day.

Figure 6  
Most Overdrafters Had Negative Balances for 4 or Fewer Days During Last Overdraft (2013)



Many banks and credit unions, including a majority of large banks, charge extended overdraft fees, which are additional charges for failing to repay a negative balance on time.<sup>18</sup> Among the 50 largest banks that Pew studied in 2014, the median extended fee was \$8 and the median length of time triggering this fee was five days.<sup>19</sup> Eighteen percent of overdrafters surveyed in 2013 say they paid at least one extended fee.<sup>20</sup>

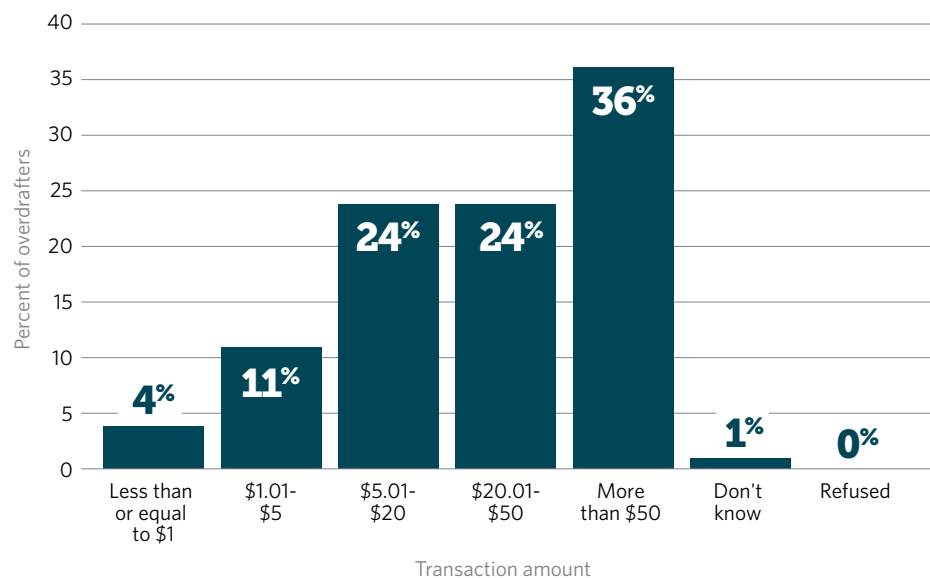
## 18% Share of overdrafters who have paid an extended overdraft fee

### What transactions result in overdrafts?

Several banks have instituted policies that give consumers a small negative balance cushion that prevents overdraft fees from being charged if their accounts drop only slightly below zero.<sup>21</sup> Nevertheless, 15 percent of overdrafters report that the transaction that caused their most recent overdraft was not more than \$5, and a majority (63 percent) report that it was \$50 or less.

Figure 7

### Most Transactions That Caused an Overdraft Were for \$50 or Less (2013)



Note: Respondents were asked, "Thinking about the most recent time during which your checking account balance was negative, about how much was the cost of the initial transaction that caused the overdraft?"

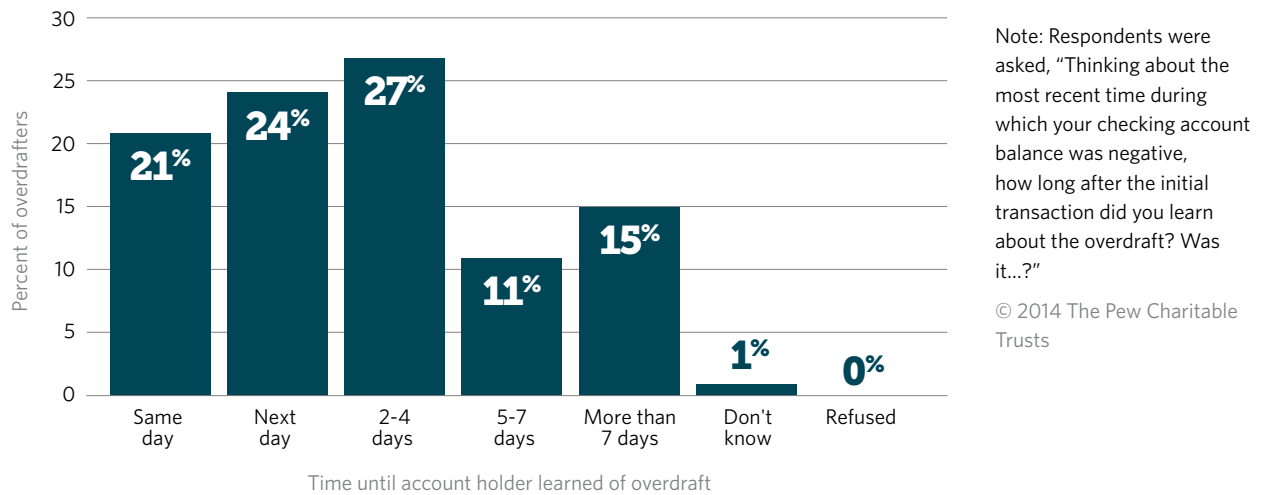
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### When and how are consumers informed about overdraft?

Simply being unaware of an overdraft for a few days can lead to an extended overdraft fee. More than one-quarter of overdrafters (26 percent) report that they learned about the overdraft five or more days after it occurred. Moreover, 84 percent say they were not warned by their bank or credit union, before completing the transaction, that it would overdraw their account, information that could be provided through a message screen at an ATM, for instance.<sup>22</sup>

Figure 8

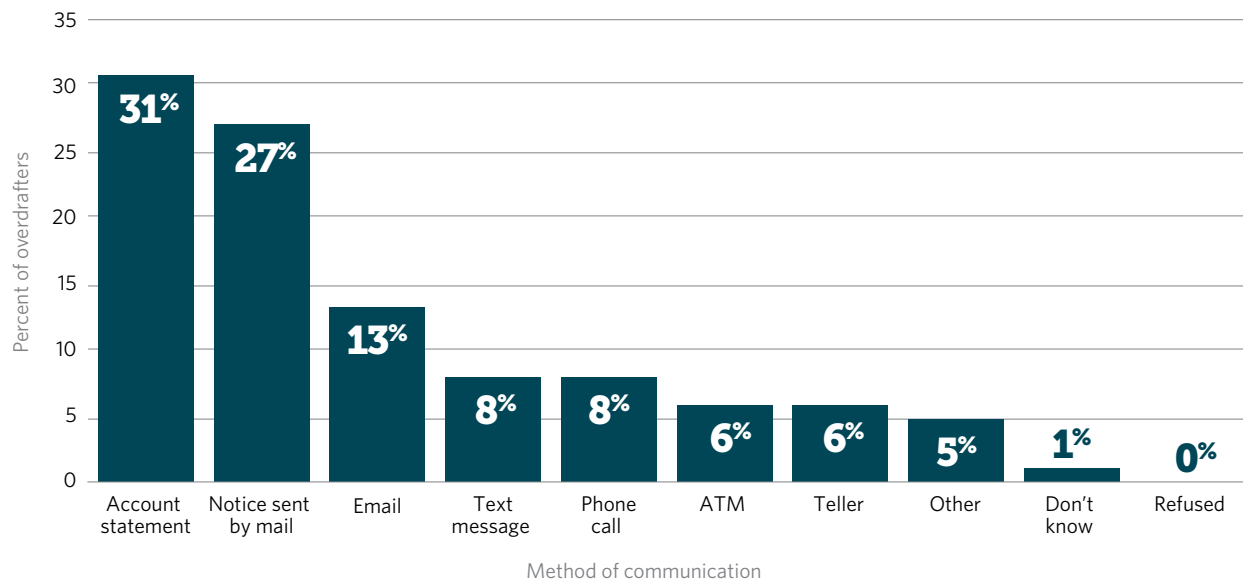
## Most Overdrafters Did Not Learn of Overdraft for 2 or More Days (2013)



A majority of overdrafters say they learned about their penalty through either an account statement or a notice sent by mail. Active notification methods, such as text message or email alerts, do not seem to be commonly offered by financial institutions or used by consumers.

Figure 9

## Overdrafters Most Often Learned of Overdraft From Account Statement (2013)



Note: Respondents were asked, "How did you find out that your checking account had a negative balance and that your bank or credit union was covering the overdraft and charging a fee? Choose all that apply."

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## How do overdrafts affect banking relationships?

More than one-quarter (28 percent) of overdrafters say that they closed a checking account in the past because of overdrafts, down from 34 percent when asked in 2012.<sup>23</sup> Nineteen percent say they had inquired about discontinuing overdraft service in response to fees.<sup>24</sup> Thirteen percent report that they currently do not have a checking account.<sup>25</sup>

Previous research found a relationship between incurring checking account overdraft fees and leaving the banking system.<sup>26</sup>

## Attitudes about overdraft

At least half of 2013 overdrafters express confusion or concern about overdraft in response to every question that probes such attitudes. Although some specific views shifted since the 2012 survey, the general findings remain consistent.

A large majority (68 percent) continue to prefer that a transaction be declined rather than processed at the cost of a penalty of “\$35 or so,” down slightly from 75 percent in 2012.<sup>27</sup>

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**68%** Share of overdrafters who prefer that a transaction be declined rather than pay a \$35 overdraft fee, in a hypothetical situation

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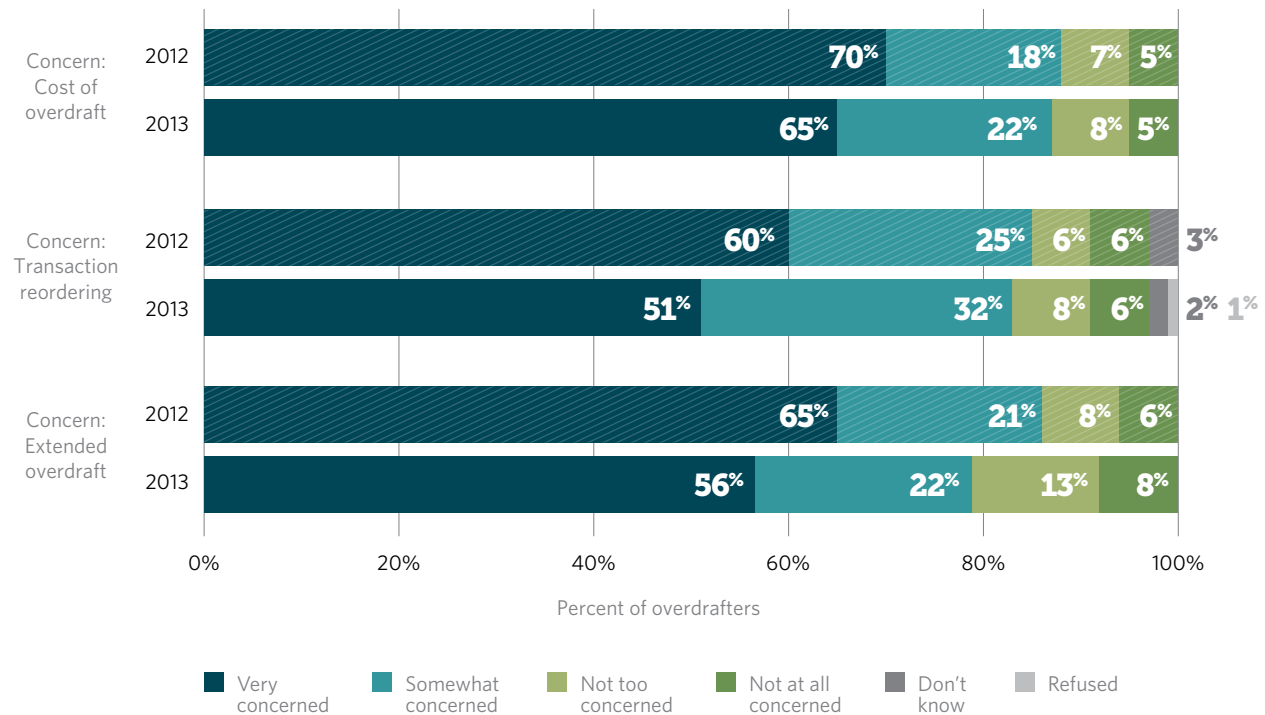
As in 2012, the vast majority of overdrafters have strong views about overdraft policies and practices. More than three-quarters of overdrafters express concern about specific overdraft policies: the high cost of a penalty fee, the fee associated with “extended” overdrafts, and the process of transaction reordering:

- 87 percent of consumers who overdrew their accounts are somewhat or very concerned about the “\$35 or so” penalty fee; previous Pew research showed that large banks charge a median of \$35 for this fee.<sup>28</sup>
- 83 percent of overdrafters are somewhat or very concerned about the practice by some banks of reordering withdrawals from highest to lowest dollar amount, which has the effect of increasing overdraft fees.<sup>29</sup>
- 78 percent are somewhat or very concerned about the policy of charging an extended overdraft penalty fee.

Responses to these questions are similar to those from 2012, except for concern about extended overdraft fee policies, which declined from 86 percent.

Figure 10

## Overdrafters Continue to Have Strong Concerns About Bank Overdraft Practices (2013)



Notes: The 2013 figures for “Extended overdraft” do not total to 100% due to rounding.

Respondents were asked, “Does that make you very concerned, somewhat concerned, not too concerned, or not at all concerned?” for each of these three bank overdraft practices:

- “Reordering your withdrawals in a way that makes you more likely to overdraft your account.”
- “Charging a fee of around \$35 for each overdraft.”
- “Charging an extended overdraft fee of around \$12.00 for not paying off the overdraft penalty on time, usually within 7 days.”

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Although down from 2012, 50 percent of 2013 overdrafters say overdraft penalty products on debit cards hurt consumers more than they help them. Conversely, only 41 percent say they help more than hurt.<sup>30</sup>

Among 2013 overdrafters, 80 percent say these products should be more closely regulated.<sup>31</sup>

**80%** Share of overdrafters who say overdraft practices and fees should be more closely regulated

## Overdraft opinions and behaviors by group

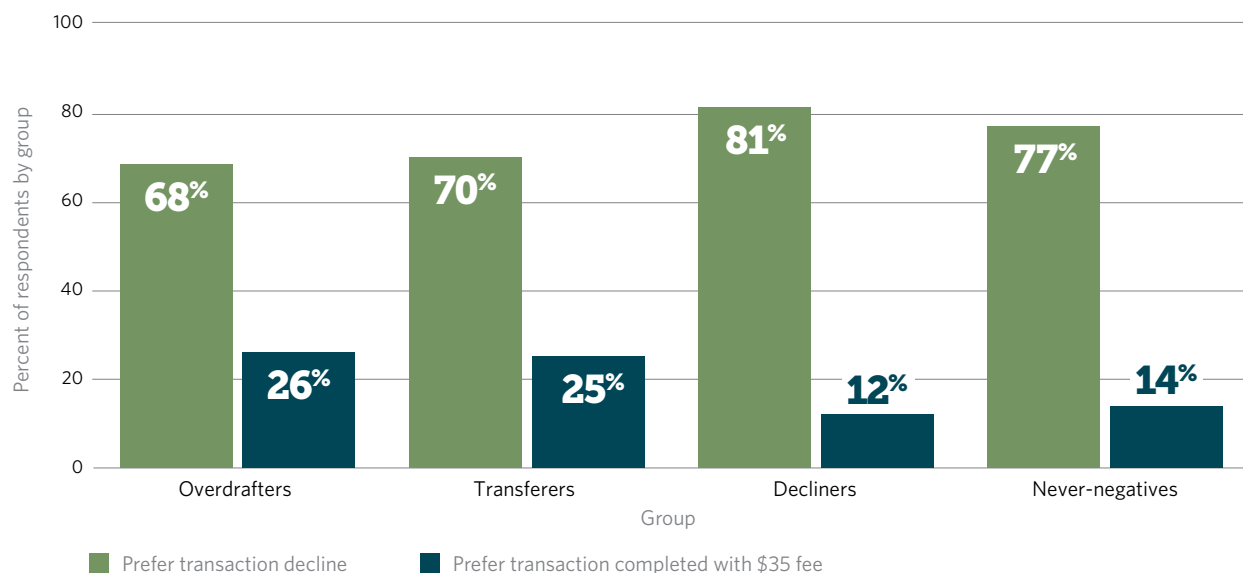
In the 2013 survey, Pew defined and interviewed four groups of consumers: overdrafters, transferers, decliners, and never-negatives.<sup>32</sup> Pew compared their financial behaviors and opinions about overdraft. While these groups differ in many ways, including their experiences with overdraft, there are notable similarities. In particular, at least half in each group say that overdraft hurts consumers more than it helps, prefer that a transaction be declined rather than completed at the cost of a penalty, and agree that overdraft products should be more closely regulated.

Under Regulation E, only consumers who opt in to overdraft penalty service should be charged a penalty fee for debit card transactions, but just 41 percent of overdrafters report opting in. This means nearly two-thirds of overdrafters either do not remember or incorrectly recall whether they had opted in, casting doubt on the clarity of current disclosures and raising questions about how the service is marketed. Further, 58 percent of transferers, 30 percent of decliners, and 21 percent of never-negatives say they opted in to overdraft coverage on their debit card.

In addition, large majorities of all groups are more likely, when presented with a hypothetical situation, to prefer that their transactions be declined rather than incurring an overdraft penalty fee: decliners, 81 percent; never-negatives, 77 percent; transferers, 70 percent; and overdrafters, 68 percent.

Figure 11

### Across Groups, More Than Two-thirds of Overdrafters Prefer a Declined Transaction Over the \$35 Fee (2013)



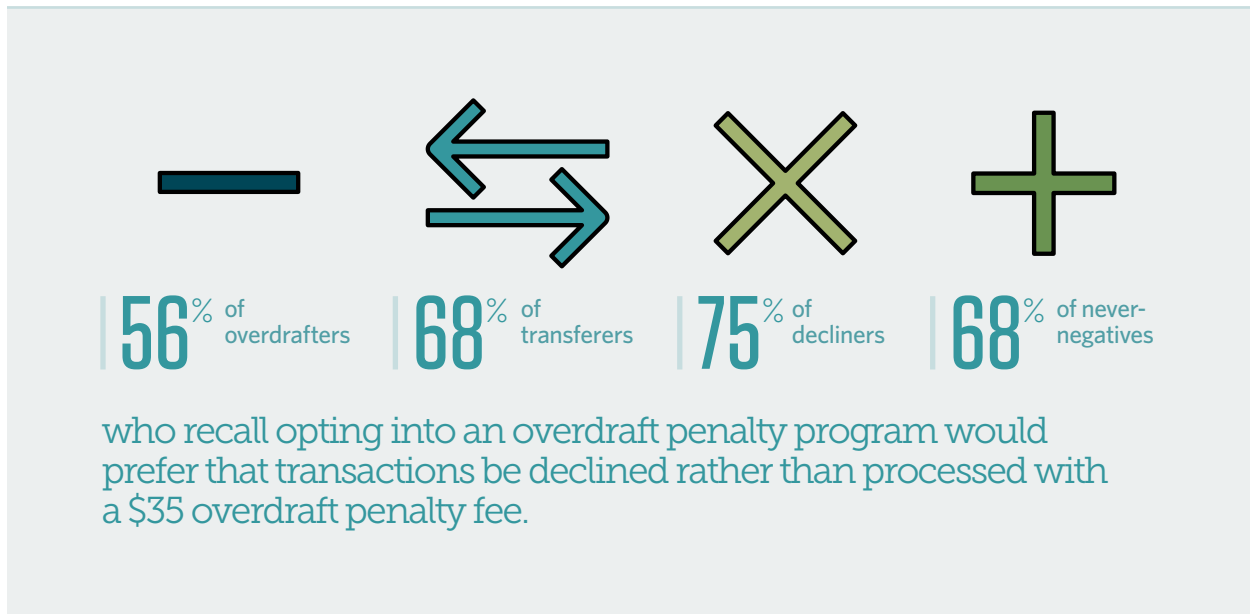
Note: Respondents were asked, "Pretend for a moment that you are at a store about to use your debit card to make a purchase and that you are unaware there is not enough money in your checking account to cover that purchase, would you rather..."

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Among consumers from all groups who opted in to an overdraft penalty program, most also say they would prefer that a transaction be declined rather than pay a penalty fee. Although preferences may change over time, this seems to indicate that consumers are confused about opt-in decisions, regardless of overdraft category.

Figure 12

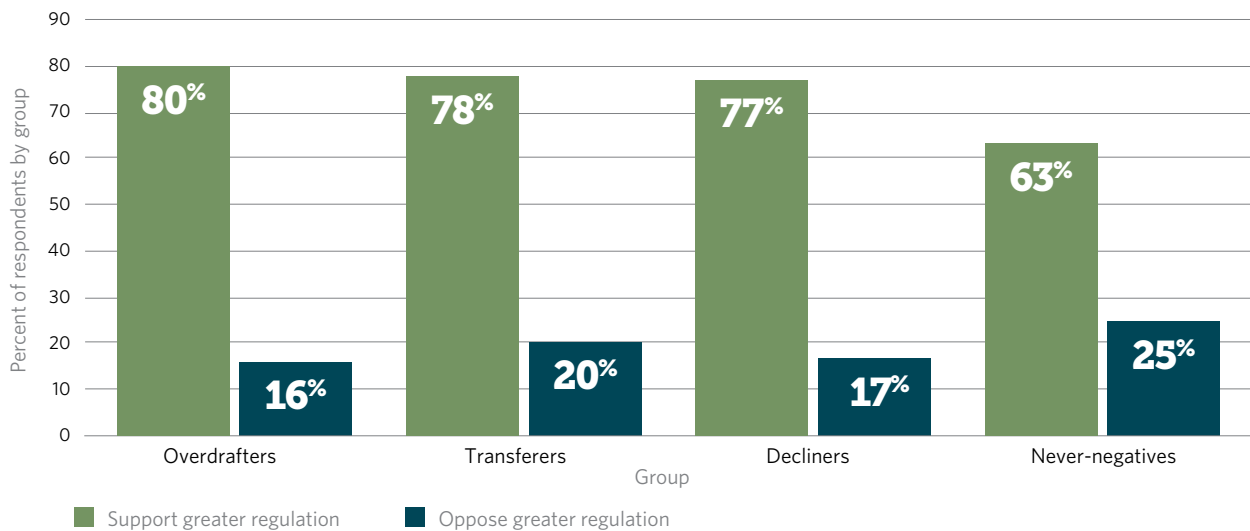
## Across Groups, Even Those Opting In Prefer Decline to Overdraft



By large margins, all groups agree that overdraft fees and practices should be more closely regulated: 80 percent of overdrafters, 78 percent of transferers, 77 percent of decliners, and 63 percent of never-negatives agree with this sentiment.

Figure 13

## Across Groups, Large Majorities Support More Overdraft Regulation (2013)



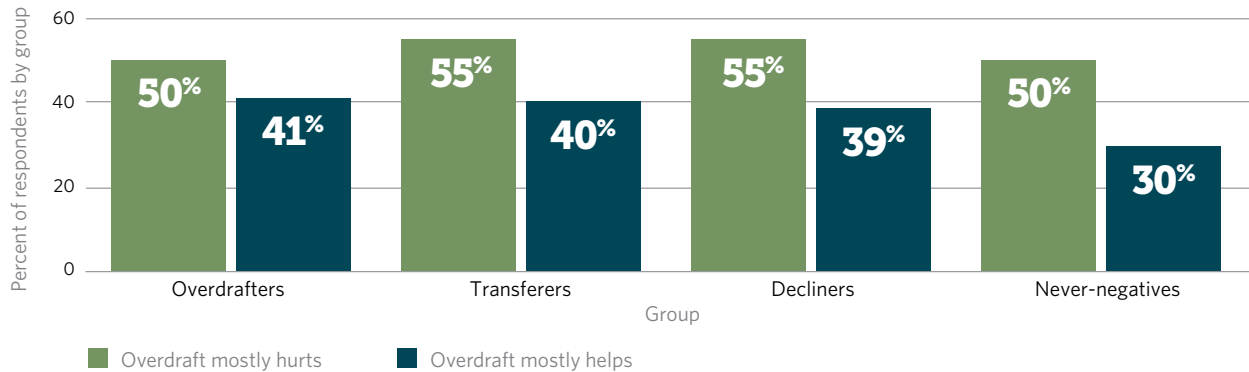
Note: Respondents were asked, "Do you think that bank and credit union overdraft practices and fees should be more closely regulated, or not?"

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At least half of respondents in all groups say overdraft service mostly hurts consumers—50 percent of overdrafters and never-negatives and 55 percent of transferers and decliners.

Figure 14  
**Across Groups, at Least Half Say Overdraft Coverage Mostly Hurts Consumers (2013)**

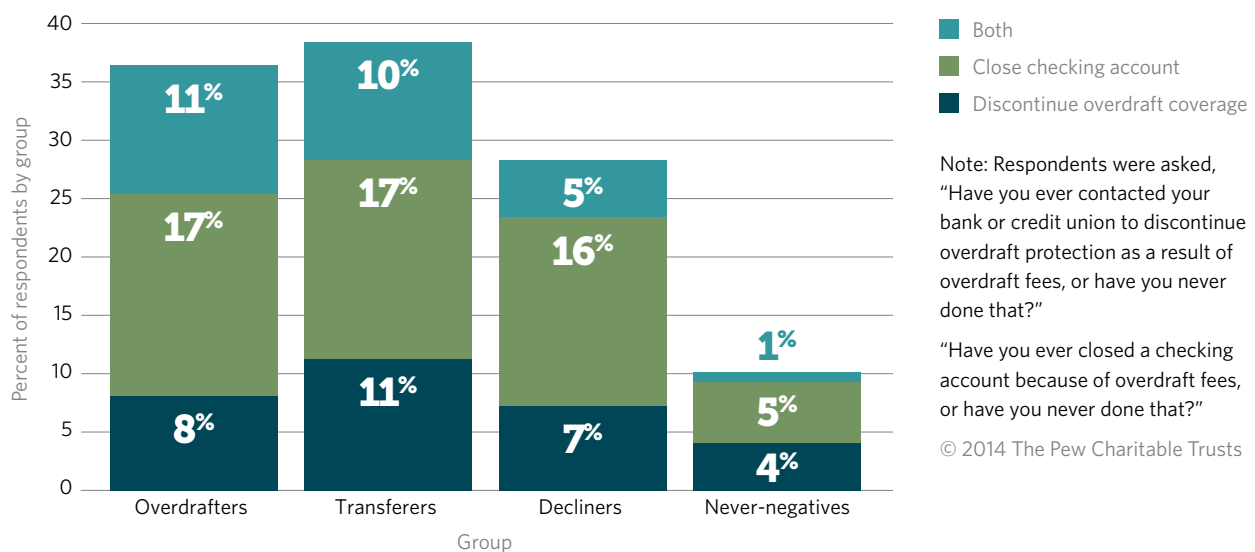


Note: Respondents were asked, “Overall do you think that overdraft coverage for a fee mostly helps consumers like you or, mostly hurts consumers like you?”

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More than one-third of transferers and overdrafters (38 and 36 percent, respectively) report either closing a checking account due to their experience with overdraft or contacting their financial institution about discontinuing an overdraft program. In addition, 28 percent of decliners and 10 percent of never-negatives say they had taken similar action.

Figure 15  
**More Than One-Third of Overdrafters and Transferers Closed an Account, Stopped Overdraft Coverage, or Both (2013)**



Note: Respondents were asked, “Have you ever contacted your bank or credit union to discontinue overdraft protection as a result of overdraft fees, or have you never done that?”

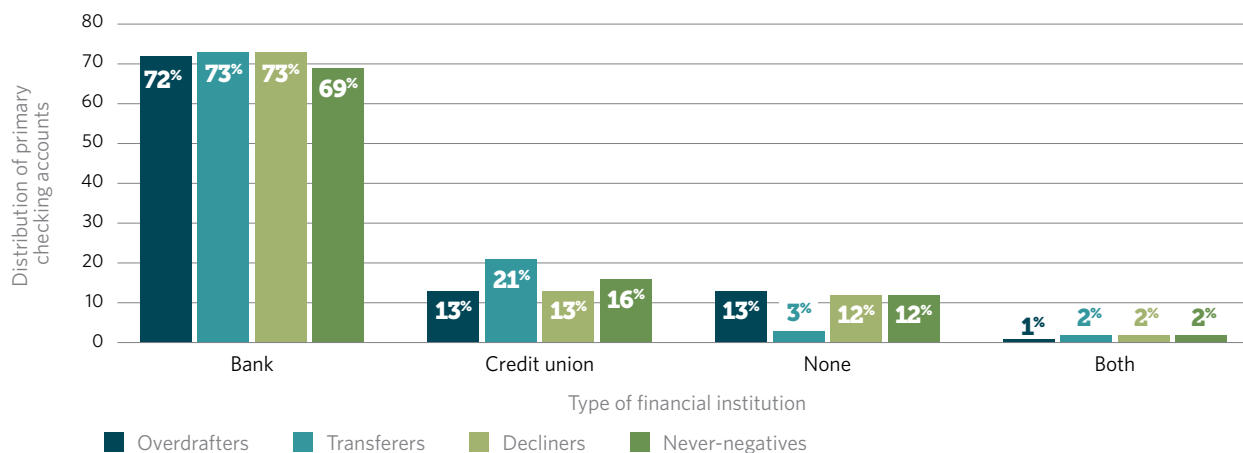
“Have you ever closed a checking account because of overdraft fees, or have you never done that?”

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Compared with the three other groups, transferers are more likely to say that they still maintain a checking account. This raises an important question about whether certain types of overdraft fees are more likely to drive consumers out of the traditional banking system. Transferers are also the group most likely to have their primary checking account with a credit union rather than a bank.

Figure 16

## Across Groups, More Than Two-Thirds Have Bank Checking Account (2013)



Note: Respondents were asked, “Thinking about the checking account that you use most frequently ... is it with a bank, is it with a credit union, or do you no longer have a checking account?”

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## Recommendations

Checking accounts are the most widely used financial services product in the United States, providing a way for consumers to make deposits and payments and often serving as the entry point to more sophisticated financial products, such as car loans and mortgages.

Overdraft penalty service, however, is an expensive add-on that often confuses and concerns customers, in spite of existing consumer protections. Further, the burdens of overdraft are not distributed evenly among Americans; overdraft penalty fees are more common among certain demographic groups. For example, nonwhites are more likely to overdraw, which is a troubling finding given that all ethnic minority groups except Asians are already underrepresented in the banking system.<sup>33</sup>

To prevent checking accounts from leading to financial distress because of hidden, unexpected, and costly fees such as overdrafts, Pew calls on the Consumer Financial Protection Bureau to require all financial institutions to:

- Provide account holders with clear, comprehensive, and uniform pricing information for all available overdraft options.
- Make overdraft penalty fees reasonable and proportional to the bank’s costs in covering the overdraft.
- Stop the practice of reordering transactions to maximize fees, and post deposits and withdrawals in a fully disclosed, objective, and neutral manner.

## Appendix A: Methodology

Pew commissioned Social Sciences Research Solutions to conduct a survey of consumers who, in the past year, paid overdraft penalty fees, paid overdraft transfer fees, had transactions declined at no cost, or never attempted to spend more money than was in their accounts. Interviews were conducted from Oct. 30 to Dec. 15, 2013, with a nationally representative sample of 8,042 respondents age 18 and older. The sample was a fully replicated, stratified, single-stage, random-digit-dialing sample of telephone households and randomly generated cellphones. Within each sampled household, a single respondent was randomly selected. Of the 8,042 respondents, 3,227 were reached on cellphones, and 129 were contacted in Spanish.

Of the 8,042 respondents, 1,804 interviews were completed before group-specific quotas were met. (See Table 2.)

Table 2

### Survey Respondents by Participation and Category (2013)

	Respondents who completed interviews	Respondents who did not complete interviews because the sample quota had been filled
<b>Overdrafters</b>	671	0
<b>Transferers</b>	319	0
<b>Decliners</b>	203	0
<b>Never-negatives</b>	611	6,238

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In analyses reflecting the whole population, the 611 never-negatives who completed full interviews were more heavily weighted to reflect the large proportion of the population that belongs to that group.

## Appendix B: Technical appendix

### Model design

A logistic regression model using 2013 survey data was run on an overdraft penalty dummy variable (whether a consumer had paid an overdraft penalty fee in the last 12 months). The model included a continuous independent variable for age and independent dummy variables for geographic region, race, sex, income, homeowner status, marital status, employment status, education status, military family status, overdraft opt-in choice, opinion on whether overdraft helps consumers, preference for a declined transaction over an overdraft fee, opinion of additional overdraft regulation, concern about reordering, concern about cost of overdraft, concern about extended overdraft, possession of a credit card, possession of a line of credit, possession of a payday loan, possession of a savings account at the same institution as one's checking account, and whether one's primary checking account was with a bank or credit union. Odds ratios shown are statistically significant at the 95 percent confidence level or higher.

### Model output

Eleven variables are correlated with overdraft penalty and are significant at the 95 percent confidence level. The following table presents the variable name, the odds ratio for that variable, and the standard error and significance level of the odds ratio.

Table 3

### Output for Logistic Regression Model of 2013 Respondents' Likelihood of Overdraft

Odds ratios for significant variables

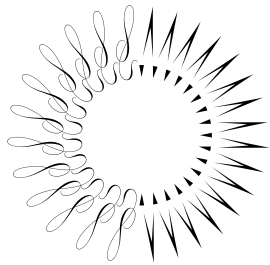
Variable	Odds ratio	Standard error	Significance
Is somewhat or very concerned about transaction reordering (as compared to being not too concerned or not at all concerned)	2.20	0.45	0.00
Has annual income less than \$100,000 (as compared to those earning more)	2.05	0.52	0.00
Nonwhite (as compared to white)	1.83	0.31	0.00
Recalls opting in to debit overdraft (as compared to does not recall opting in)	1.83	0.32	0.00
Age (in years)	0.98	0.01	0.00
Has a credit card (as compared to does not)	0.66	0.12	0.02
Prefers additional regulation of overdraft products (as compared to not preferring additional regulation)	0.64	0.13	0.03
Has a savings account at the same financial institution as one's primary checking account (as compared to does not)	0.63	0.12	0.01
Retired (as compared to full-time employed)	0.57	0.15	0.03
Prefers a hypothetical decline to a penalty (as compared to preferring an overdraft penalty)	0.54	0.11	0.00
Student (as compared to full-time employed)	0.33	0.15	0.01

An odds ratio quantifies the relative likelihood of being an overdrafter, where an odds ratio of 1.0 is neither more nor less likely to be an overdrafter. For example, an odds ratio of 2.20 for the variable regarding concern about transaction reordering means that a consumer who expresses this concern is 120 percent more likely to overdraw than someone who does not. And an odds ratio of 0.33 for a consumer who identifies his or her employment status as a student is 67 percent less likely to overdraw than someone who identifies as employed full time.

## Endnotes

- 1 Federal Deposit Insurance Corp., *2011 FDIC National Survey of Unbanked and Underbanked Households* (September 2012), 4, [http://www.fdic.gov/householdsurvey/2012\\_unbankedreport.pdf](http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf). The FDIC estimates that in 2012, 10 percent of U.S. households did not have a checking account.
- 2 For discussion of median overdraft penalty fees, see The Pew Charitable Trusts, *Checks and Balances: 2014 Update* (April 2014), <http://www.pewtrusts.org/-/media/Assets/2014/04/09/ChecksandBalancesReport2014.pdf>.
- 3 For discussion of median overdraft transfer fees, see The Pew Charitable Trusts, *Checks and Balances: 2014 Update* (April 2014), <http://www.pewtrusts.org/-/media/Assets/2014/04/09/ChecksandBalancesReport2014.pdf>.
- 4 Consumer Financial Protection Bureau, "CFPB Study of Overdraft Programs" (June 2013), 10, [http://files.consumerfinance.gov/f/201306\\_cfpb\\_whitepaper\\_overdraft-practices.pdf](http://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf).
- 5 Center for Responsible Lending, "High-Cost Overdraft Practices: The State of Lending in America & Its Impact on U.S. Households" (July 2013), 5, 14, <http://www.responsiblelending.org/state-of-lending/reports/8-Overdrafts.pdf>.
- 6 Moeb's Services, "2012 the Year of Overdraft Coming Back" (March 2013), <http://www.moeb's.com/Portals/0/pdf/Press%20Releases/2012%20The%20Year%20of%20the%20Overdraft%20is%20Coming%20Back.pdf>. Moeb's Services' estimate of total overdraft revenue includes revenue from check overdrafts and nonsufficient-funds fees that are not examined in this report, which focuses on debit card and ATM overdrafts.
- 7 12 CFR § 1005.17(b) (effective Feb. 7, 2013), <http://www.gpo.gov/fdsys/pkg/CFR-2012-title12-vol8/pdf/CFR-2012-title12-vol8-sec1005-17.pdf>. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, authority over Regulation E transferred to the Consumer Financial Protection Bureau from the Federal Reserve. This regulation is published under 12 CFR § 205.17(b) (<http://www.gpo.gov/fdsys/pkg/CFR-2014-title12-vol2/pdf/CFR-2014-title12-vol2-sec205-17.pdf>).
- 8 Both surveys described in this report asked consumers only about overdrafts caused by debit card transactions. These debit card transactions were at the point of sale—at the cash register, online, or over the phone—or at an ATM.
- 9 For the remainder of this paper, 2012 survey respondents are those whose transactions occurred in the year prior to the fielding of the 2012 survey, and 2013 survey respondents are those whose transactions occurred in the year before the fielding of the 2013 survey; it is possible that a 2012 survey respondent's overdraft occurred in 2011 and that a 2013 survey respondent's overdraft occurred in 2012.
- 10 The Pew Charitable Trusts, "Overdraft America: Confusion and Concerns About Bank Practices" (May 2012), [http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Fact\\_Sheets/Safe\\_Checking/Overdraft\\_America\\_Final.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Fact_Sheets/Safe_Checking/Overdraft_America_Final.pdf).
- 11 In 2012 this statistic was 54 percent, and in 2013 it was 52 percent, but the difference is not statistically significant at the 95 percent confidence level. Unless otherwise stated, throughout this report, all 2012 statistics have been recalculated and do not necessarily reflect the 2012 statistics reported in "Overdraft America."
- 12 Respondents were asked, "Before you overdrafted, did you know that your bank or credit union offered overdraft coverage?" and "When you were charged your first overdraft penalty fee, did you know how much the fee would be?" In 2012, 58 percent expressed surprise for one or both of these reasons, but the difference was not statistically significant at the 95 percent confidence level.
- 13 In 2013, this combined rate of overdraft penalty and overdraft transfer was 15 percent, compared to 17 percent in 2012. "Overdraft America" reported this rate as 18 percent for 2012. This included respondents who said that they had paid an overdraft penalty in the past year but, when asked how many fees they had paid during that period, said they had paid none. All calculations of overdrafters in this paper exclude respondents who said they paid zero penalty fees in the past year.
- 14 The transfer rate was 4.5 percent for both 2012 and 2013. The 2012 penalty rate was 12 percent, and the 2013 penalty rate was 10 percent. The difference between the transfer rates is not statistically significant at the 95 percent confidence level, but the difference between the overdraft penalty rates was.
- 15 The figures were 52 percent in 2012 and 51 percent in 2013.
- 16 This number excludes outliers, defined as overdrafters who say they paid \$500 or more in fees during their last overdraft.

- 17 This number does not exclude outliers.
- 18 Fifty-seven percent of large banks studied charged extended overdraft fees. The Pew Charitable Trusts, *Checks and Balances: 2014 Update*.
- 19 The Pew Charitable Trusts, *Checks and Balances: 2014 Update*.
- 20 Respondents were asked, "Have you ever been charged an extended overdraft fee for not paying off the overdraft penalty fee on time, usually within 7 days? If you're not sure, just say so." In 2012, this statistic was 20 percent, but this difference was not statistically significant at the 95 percent confidence level.
- 21 Sixty-eight percent of studied banks allowed a negative balance cushion in 2014, or overdraft threshold. See: *Checks and Balances: 2014 Update*.
- 22 Respondents were asked, "Were you warned by your bank or credit union, before your transaction was completed, that you would overdraw your account?"
- 23 Respondents were asked, "Have you ever closed a checking account because of overdraft fees, or have you never done that?"
- 24 Respondents were asked, "Have you ever contacted your bank or credit union to discontinue overdraft protection as a result of overdraft fees?" In 2012, this statistic was calculated as 22 percent but was not included in "Overdraft America;" the difference was not statistically significant at the 95 percent confidence level.
- 25 Respondents were asked, "Thinking about the checking account that you use most frequently ... is it with a bank, is it with a credit union, or do you no longer have a checking account?" In 2012, this statistic was 10 percent, but the difference was not statistically significant at the 95 percent confidence level.
- 26 For evidence of the relationship between overdraft and insufficient funds fees and involuntary bank account closure, see: Campbell, et al., "Bouncing Out of the Banking System: An Empirical Analysis of Involuntary Bank Account Closures" (April 2012), [http://www.bostonfed.org/economic/cprc/conferences/2008/payment-choice/papers/campbell\\_jerez\\_tufano.pdf](http://www.bostonfed.org/economic/cprc/conferences/2008/payment-choice/papers/campbell_jerez_tufano.pdf); Overdraft fees and other unexpected fees may drive some low-income consumers from the banking system. The Pew Charitable Trusts, *Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream* (October 2011), [http://www.pewtrusts.org/-/media/Imported-and-Legacy/uploadedfiles/wwwpewtrustsorg/reports/safe\\_banking\\_opportunities\\_project/Slipping20Behindpdf.pdf](http://www.pewtrusts.org/-/media/Imported-and-Legacy/uploadedfiles/wwwpewtrustsorg/reports/safe_banking_opportunities_project/Slipping20Behindpdf.pdf).
- 27 Respondents were asked, "Pretend for a moment that you are at a store about to use your debit card to make a purchase and that you are unaware there is not enough money in your checking account to cover that purchase. Would you rather:
  - 1) Have your purchase denied, or
  - 2) Have your purchase go through for an overdraft fee of \$35 or so?"
- 28 *Checks and Balances: 2014 Update*, 17. In 2012, this statistic was 88 percent, but the difference was not statistically significant at the 95 percent confidence level.
- 29 In 2012, this statistic was 85 percent, but the difference was not statistically significant at the 95 percent confidence level.
- 30 Respondents were asked, "Overall, do you think that overdraft coverage for a fee mostly helps consumers like you or, mostly hurts consumers like you?" In 2012, 63 percent of overdrafters said overdraft mostly hurts consumers and 31 percent said it mostly helps consumers.
- 31 Respondents were asked, "Do you think that bank and credit union overdraft practices and fees should be more closely regulated, or not?"
- 32 Overdrafters are those who paid an overdraft penalty fee in the past year; transferers paid to have funds transferred from another account during the past year to avoid a penalty; decliners had a transaction declined rather than pay a fee in the past year; and never-negatives never spent more than their balance using a debit card over the past year.
- 33 Federal Deposit Insurance Corp., *2011 FDIC National Survey of Unbanked and Underbanked Households*. The FDIC observes that non-Asian minorities are more likely than the national average to be both unbanked and underbanked.



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