Debit Card Danger:

Banks offer little warning and few choices as customers pay a high price for debit card overdrafts

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Center for Responsible Lending

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EXECUTIVE SUMMARY

Today, many banks\(^1\) and credit unions enroll customers by default in overdraft or “bounce protection” programs when they open a checking account. Under these programs, the fee a customer pays when the bank covers a withdrawal that exceeds their account balance is actually a finance charge for a loan. The overdraft loan is very short term—and often very expensive. The bank automatically recoups this loan, plus the fee, from the account holder’s next deposit.

Previous Center for Responsible Lending research has found that banks steer account holders into these programs, often without the customer’s knowledge, because the programs lead to more overdrafts—and fee income for the banks. Customers pay the price, and it is enormous. When overdraft fees are translated into an annual percentage rate (APR), the common measure used to express the cost of credit, the APR can run into quadruple digits and higher.

A 2005 research report published by CRL estimated that checking account holders pay more than $10.3 billion in overdraft loan fees each year.\(^2\) Subsequent research by CRL in 2006 found that nearly three quarters of that amount—$7.3 billion—is paid by chronic borrowers living on the margins of solvency.\(^3\) Once these financially-strapped households are knocked down into the red, it takes them longer to climb back up to a positive balance.

Our analysis of a large commercially-available database of personal checking account transactions shows that debit card purchases at point-of-sale (POS)\(^4\) machines are the leading cause of overdrafts, topping paper checks, ATM withdrawals and online bill payments. Furthermore, debit card overdraft loans are proportionally more expensive because they carry the same high flat-rate fee for what is generally a smaller value transaction.

Banks have the technology to warn customers or merchants at the time of a debit card POS purchase or ATM withdrawal that the customer’s account has insufficient funds—but most do not. They can also decline the transaction and save the customer the overdraft fee—but most do not. Yet in a survey of consumers, we found that most people would prefer that the bank deny their withdrawal or purchase when they don’t have the money to pay for it.

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**The fee a customer pays when the bank covers a withdrawal that exceeds their account balance is actually a finance charge for a loan. The overdraft loan is very short term—and often very expensive. The bank automatically recoups this loan, plus the fee, from the account holder’s next deposit.**

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For this report, CRL analyzed an independent database of personal banking account transactions documenting more than 8,500 overdrafts, and surveyed 2,400 checking account holders. We find that account holders have more overdrafts caused by a debit card purchase than by a written check, that debit card overdrafts are more costly, and that survey respondents would avoid the fees if given the choice. Specifically:

- Approximately 46 percent of all overdrafts are triggered by debit card (POS) transactions or ATM withdrawals, while paper checks trigger 27 percent of overdrafts.

- Debit card POS overdraft loans are more expensive than overdraft loans from any other source, including overdrafts by check. Debit card POS overdrafts cost people $2.17 in fees for every dollar borrowed, compared to check overdrafts, which cost $.86 per dollar borrowed.

- Most survey respondents—over 60 percent—would prefer that the bank deny a debit card purchase that overdraws their account, and nearly all would cancel their ATM withdrawal if warned they had insufficient funds.

We recommend that policymakers fix the systemic problems specific to debit card overdrafts by enacting the following reforms (a full list of overdraft policy recommendations is in the conclusion of this report):

- Require banks to warn customers whenever an ATM withdrawal or debit card POS transaction will overdraw their account, tell them what the loan will cost, and give them a choice of whether to proceed or to cancel the transaction.

- Allow banks to cover ATM and debit card POS overdrafts without warning only if the customer has consented in writing to participate in a lower-cost protection program that pays overdrafts from a linked bank account, line of credit, or credit card.
Debit Card Danger: Banks offer little warning and few choices as customers pay a high price for debit card overdrafts

**BACKGROUND**

**From Paper to Plastic: Evolving Habits**

Technological advances and federal policy have transformed consumer banking. Where once consumers wrote checks, made deposits and withdrawals at their local branches, and paid cash for purchases and payments, now they are increasingly using ATM’s, debit cards and electronic banking.

From 2000 to 2005, the number of check transactions declined by 10 percentage points. Debit card use almost tripled over the same period, according to The Nilson Report’s U.S. Consumer Payment Systems. In fact, debit card use for POS purchases has experienced explosive growth over the past decade, jumping 20 percent per year since 1996. Meanwhile, check use continues to shrink at about 3 percent annually. If the trend continues at this rate, debit card use will soon eclipse check use, and will be the dominant method of making non-cash payments by 2010. (See Figure 1.)

![Figure 1. Declining check use, rising debit card use from 2000 to 2005 and projections for 2006 to 2010](image)


**Overdraft Options**

1. Checking account linked to a savings account—does not require an overdraft loan.
2. Checking account linked to credit card—does not require an overdraft loan.
3. Checking account linked to a line-of-credit—does not require an overdraft loan.
4. Checking account not linked to another source of funds—DOES require an overdraft loan.
From Safety Net to High-Cost Credit: Another Shift

Historically, banks selectively honored checks that exceeded the account balance as an occasional courtesy to depositors. Customers who wanted and qualified for a formal back-up system were offered the option of transfers from a linked line of credit, savings account or credit card. Those customers who persistently overspent their bank accounts were counseled that future overdrafts would not be paid, checks that could not be covered with the money in the account would be returned to the presenter, a “not sufficient funds” (NSF) fee would be assessed, and/or their account would be closed.

Most of today’s customers, however, are enrolled by default in an overdraft loan program, often without their explicit consent. These programs automatically use bank funds to pay a customer’s checks, debit card purchases, ATM withdrawals, and other electronic transactions when there isn’t enough money in the customer’s account. The bank then charges a fee for this “overdraft loan,” and sometimes an additional fee for each day the customer has a negative balance. The bank does not disclose the interest rate of the loan, so customers have no idea how much they are paying compared to other short-term credit alternatives.

Fee-based overdraft loan programs have proliferated over the past few years, and the revenue they generate for banks has grown dramatically. Adoption of a fee-based overdraft loan program is expected to boost a bank’s income from overdrafts by 200 to 400 percent.

But what is a boon to the industry has turned out to be bad news for consumers. The new system is siphoning off the earnings of depositors—sometimes to the point of causing financial distress. A 2005 research report published by CRL estimated that checking account holders pay more than $10.3 billion in overdraft loan fees each year. Research conducted by CRL in 2006 found that approximately three quarters of that amount—$7.3 billion—is paid by chronic borrowers living on the margins of solvency, rather than by one-time users.

These borrowers are generally low-wage earners who tend to have trouble making ends meet. They are more likely to be single, non-white and to rent rather than own their homes. They are in the most expensive short-term credit program the bank offers and paying astronomical fees for loans they did not expressly request.

Adoption of a fee-based overdraft loan program is expected to boost a bank’s income from overdrafts by 200 to 400 percent.

A decade of change in banking overdraft policies

Then:
- Before overdraft loans, banks occasionally covered overdrafts as a courtesy; or
- Customers linked their checking accounts to a savings account, credit card, or line of credit from which banks transferred funds to cover overdrafts for a small fee;
- Customers without this link who frequently overdrew their accounts were warned, their checks returned, or their accounts closed;
- ATM and debit card transactions that would overdraw an account were routinely denied.

Now:
- Enrollment in overdraft loan programs is automatic at most banks;
- Banks extend loans to cover overdrafts;
- Loans are small, averaging $17 to $50, and typically paid back in fewer than five days;
- Fees are high, averaging over $30, so often the fee is higher than the loan amount;
- Banks routinely allow debit card and ATM overdrafts;
- Loans can create a snowball effect—a series of small overdrafts incur a series of high fees, leading to more overdrafts, etc., quickly sinking customers deep into the red.
**FINDINGS**

In our effort to understand exactly how these systemic changes in bank overdraft practices are affecting typical consumers, we analyzed the checking accounts of over 5,000 customers with accounts at the 15 largest banks in the U.S. We also surveyed 2,400 account holders, asking them about their overdraft experiences and preferences.

**Finding 1: Debit Card Point-of-Sale Transactions and ATM Withdrawals Trigger Nearly Half of Overdraft Loans**

Banks and the companies that sell them fee-based overdraft loan programs often cite avoiding the expense of “bounced checks” as the major benefit of these programs for customers. What we found, however, was that debit card POS transactions—not checks—are the leading cause of overdrafts.

Using data from Lightspeed Research’s Ultimate Consumer Panel (see sidebar), CRL analyzed bank transactions spanning an 18-month period from accounts belonging to 5,681 households. Within these accounts, we identified 8,527 overdraft loan transactions. (See Appendix 1 for a more detailed explanation of our methodology.)

We were able to identify the specific transaction that resulted in an overdraft, or the “triggering event,” for 66 percent of cases, or 5,656 transactions. We were not able to identify the triggering event for 34 percent of overdrafts for a variety of reasons; in most cases, multiple transactions occurred on the same day and it was not clear which one caused the overdraft. We categorized these as “mixed” triggers.

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**About the Data**

For our analysis, CRL used data from a consumer panel tracked by Lightspeed Research Inc. This “Ultimate Consumer Panel” was originally developed by Forrester Research in 2004 and included data for 5,681 U.S. households whose transaction-level online and offline banking account activity was electronically captured. The dataset contained 18 months of data on 3,279,522 transactions. A majority of the households in this sample do not use online banking.

This national sample closely mirrors the U.S. consumer population by household income. Before we applied demographic weights, the panel slightly underrepresented older and less educated households, those earning less than $30,000 a year, and consumers at the very low end of the credit score distribution.

CRL also analyzed the results of an online survey of 2,409 members of the Ultimate Consumer Panel. Full results of the survey are in Appendix 3.
In analyzing those overdrafts for which we could identify a trigger, we found that 72 percent were caused by ATM withdrawals, debit card POS purchases, and other electronic transactions combined. Debit card POS purchases were the leading cause of overdrafts, accounting for 37.6 percent of the identified overdrafts, while checks were responsible for 26.6 percent. (See Figure 2.) Debit card POS and ATM-triggered overdrafts combined account for 46 percent, or nearly half, of overdraft loans today.

Figure 2: Identified Overdraft Fee Triggers

Note: For 6.8% of the transactions, we could determine that either an ATM withdrawal or a debit card POS transaction was the trigger, however we could not determine which of the two it was. The "electronic" trigger category comprises electronic transactions other than ATM or POS, for example, paying bills online or by telephone.
Finding 2: Debit Card POS Overdrafts Cost More Than Other Overdraft Loans

Overdraft loans resulting from debit card POS transactions are far more expensive for account holders than overdraft loans for other types of transactions. The median cost in fees for an average overdraft loan triggered by a debit card POS purchase is $2.17 for each dollar borrowed, while the median cost in fees for a check overdraft is $.86 per dollar borrowed. (See Figure 3.) This is because the typical loan size for a debit card POS overdraft is smaller than that for a check, while the fee is nearly the same. Debit card POS overdraft loans cost 152 percent more per dollar borrowed than overdraft loans triggered by paper checks.

As detailed in the table below, the median fee is relatively constant across transaction type. The median loan for a debit card POS transaction, however, is $14.75, less than one-half the size of the median loan for a check transaction.

For loans that are this small, carry high fees, and are paid back in just a few days, the annual percentage rate of interest (APR, a measure commonly used to express the cost of credit) begins to skyrocket. If expressed as an APR, the median rate for a POS overdraft loan, for example, is over 20,000 percent.

By comparison, an overdraft program linked to a customer's line of credit usually carries an APR of less than 20 percent.

Median overdraft loan cost by trigger type

<table>
<thead>
<tr>
<th></th>
<th>Fee Amount</th>
<th>Transaction Amount</th>
<th>Overdraft Loan Amount</th>
<th>No. Days to Repay</th>
<th>Fee per Dollar Borrowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>POS</td>
<td>$34.00</td>
<td>$17.24*</td>
<td>$14.75*</td>
<td>4.5</td>
<td>$2.17*</td>
</tr>
<tr>
<td>ATM</td>
<td>$34.00</td>
<td>$40.00</td>
<td>$40.00</td>
<td>3.0</td>
<td>$0.76</td>
</tr>
<tr>
<td>ELEC</td>
<td>$33.50</td>
<td>$33.57</td>
<td>$28.55</td>
<td>5.0</td>
<td>$1.08</td>
</tr>
<tr>
<td>CHK</td>
<td>$31.00</td>
<td>$55.00</td>
<td>$31.00</td>
<td>2.0</td>
<td>$0.86</td>
</tr>
</tbody>
</table>

* Wilcoxon-Mann-Whitney Non-parametric Significance Test results show statistically significant (p<.05) differences between POS and each other OD trigger type for these variables. Differences among non-POS types are not significant for these variables.
The overdraft loan amount includes only the portion of the transaction that exceeds a customer's account balance. For example, if a customer has $10 in their account and makes a $15 purchase, the overdraft loan is $5.

The median transaction amount shows that the debit card POS transactions that lead to overdraft fees tend to be small-value purchases. For example, the median debit card POS overdraft was on a $17.24 purchase—or less than a third of the median $55.00 check transaction that led to an overdraft.

The median fee for a debit card POS overdraft is more than double the median overdraft loan itself.

**Finding 3: Account Holders Would Avoid Overdrafts Given the Choice**

In the Lightspeed survey commissioned by CRL, 60 percent of respondents who overdrafted thought at the time that they had enough money in their account to cover their purchase or ATM withdrawal. The survey also found that 75 percent of respondents wanted to be warned if they attempted to withdraw more money at an ATM than they had in their account. Only 2 percent of those surveyed said that, if warned and given the choice of continuing or canceling the withdrawal, they would complete the transaction despite the overdraft fee.

The survey also asked respondents what they would prefer to happen if they were at the checkout paying with a debit/ATM card and the purchase cost more than was in their checking account. Sixty-one (61) percent of those who expressed a preference said they would rather “have the bank automatically decline [their] debit card transaction to avoid the overdraft.” Just 29 percent chose this option: “Have the bank automatically cover your overdraft without letting you know you are overdrawn, and charge you a fee.” (See Appendix 2 for all survey questions and top-line responses.)

The survey demonstrated that most individuals would avoid overdraft fees if given a choice: they want to be warned of a potential overdraft when they attempt to withdraw cash, and they prefer that their debit card be declined for insufficient funds at the checkout rather than overdrawing and paying a fee.

**Impact of Overdraft Policies on Individuals: Case Studies**

The Lightspeed database provides a glimpse of the impact of overdraft loans on the financial situations of account holders. The following case studies are drawn from information in the account histories of three bank customers. The data was purged of identifying information to protect account holders’ privacy.

1. **Bank Customer A** brings home about $600 a week from his job installing and repairing refrigeration equipment. On Sept. 27, three days before payday, two checks and several debit card purchases totaling about $105.93, plus a $10 bank fee, puts him over his account balance. As a result, the bank charges him three overdraft fees of $31 each, for a total of $93. With his account now in the negative, on Sept. 28 Customer A makes several debit card purchases totaling $54.63, and is hit with...
another $31 fee. The following day, Sept. 29, he makes three more debit card purchases totaling $37.56, and a check comes due for $27. The bank responds on Sept. 30 by charging him two more overdraft fees, upping the rate to $34 each—but also lets Customer A withdraw $200 from its ATM and make a $5.38 convenience store purchase without warning him he is in the red.

Sept. 30 is also payday for Customer A, and a $633 salary payment is directly deposited into his account. But by this time, he’s been hit with so many charges that the paycheck leaves him with a positive balance of only $0.50. An $8.06 meal at a burger joint the following Monday—the only transaction made on the account since the previous Friday’s salary deposit—pulls him back down below zero and results in yet another $34 overdraft fee. Where does Customer A end up? In just six days, he has been allowed to overdraw his account $448.56 and has been charged $226 in overdraft fees. It takes him another week to climb out of the negative balance hole.

2. Bank Customer B makes two debit card transactions on July 15, one for $48.15 and another for $33.68. Although her account balance drops below zero, her bank allows the payments to go through. That gives her a negative balance of $6, for which her bank charges her a $31 overdraft fee. Now she’s overdrawn by $37. One week later, she makes a deposit, bringing her balance up above zero. This means Customer B paid more than five times the amount she “borrowed” for just a seven-day loan—or, in APR terms, nearly 27,000 percent.

On August 30, Customer B withdraws $50. That same day, a check she wrote earlier for $10 is processed and she makes an $8 debit card purchase. Because the bank’s policy is to process transactions in high-to-low order,21 the check is processed first, which overdraws her account by $1, after which the debit card purchase is processed, creating a second overdraft. Although she transfers $9 into her checking account the next day to cover the overage, the bank also charges her $31 the next day for each of the two overdrafts. It takes Customer B a week to catch up and establish a positive balance.

3. Bank Customer C has a Social Security income of $599 per month. On March 22, the bank approves his debit card purchase for $19.99, although he only has $3.84 in his account. The following day, the bank charges him a $33 fee for the loan. The pattern continues: on March 25, Customer C purchases stamps for $15.99, resulting in another $33 fee, and on March 29, he makes a $6.75 purchase at Wal-Mart and is assessed yet another $33 overdraft fee. Then the bank lets him withdraw $100 at the ATM. At this point, Customer C has overdrawn his account by $138.89, roughly 23 percent of his total monthly Social Security income. Added to that, he now owes another $99 in overdraft fees. That means that his April 1 Social Security check will have some $238 taken right off the top, leaving him with just $361 for the next month.

One Customer’s Own Words
(from an email complaint)

“We recently incurred 5 $33 bounce fees at once, while the $ to pay for the transactions in question was IN our account but ON HOLD. ...The bank debited six consecutive transactions from the account, in descending order according to value ... That was NOT the order in which the transactions were conducted—they were applied to the account out of chronological order, in a way that would ensure the most bounce fees possible to the bank. Only AFTER all six were debited did they credit the deposit that would have paid for them all, and charged us 5 $33 bounce fees for their trouble.”

—Robin, Falls Church, VA

Thanks to Consumers Union for referring overdraft borrower.
CONCLUSION AND RECOMMENDATIONS

The shift from paper checks to debit card transactions as the primary overdraft trigger has important implications for policymakers.

Prior to the advent of fee-based overdraft loan programs, banks routinely declined debit card ATM and POS transactions for amounts that exceeded a customer's account balance. Customers could still have overdrafts from these types of transactions covered, however, if they chose to obtain an overdraft line of credit, link to a credit card, or link to a savings account.

For all ATM withdrawals and for the vast majority of debit card POS transactions, a swipe of the card sends a balance inquiry over the network before the transaction is approved.22 All banks have the ability to deny transactions that would cause an overdraft, and some currently maintain a policy of rejecting ATM or debit card transactions that cause overdrafts for some or all customers.23 Because these transactions occur electronically, banks can identify a potential overdraft and alert a customer before it's too late. Some banks have already begun warning their account holders about potential overdrafts at their own ATMs.24 Banks do, however, have the ability to warn even at ATM machines they do not own.25

In the case of debit card POS transactions, the bank can similarly transmit a warning back over the same network to the cardholder, with an option to continue or cancel the transaction. Currently, the POS machines at some stores may not be able to display a warning screen to the customer, although the cashier could be notified. Where this is the case, the cashier would have to transmit the warning to the customer. But banks can still give customers a choice, even when they cannot alert them at the checkout, by only approving overdrafts for account holders who signed up to have their overdrafts covered from a linked account such as a line of credit, a credit card or savings account.

Not only do banks have the ability to warn, but the cost per dollar borrowed for debit card POS transactions is much higher than is the case with checks.

CRL's general policy recommendations on overdraft are discussed in more detail in our earlier reports. These recommendations include:

- Require a customer to sign up for overdraft loan coverage in order to be in the program;

- Require banks that provide overdraft loans to comply with the Truth in Lending Act by disclosing their cost in terms of annual percentage rate; and

- Limit the number of overdraft loans a bank can give a customer, to prevent the customer from falling into a cycle of debt.
Our policy recommendations for resolving the problems specific to ATM and debit card overdrafts are as follows:

- **Require banks to warn customers whenever an ATM withdrawal or debit card POS transaction will overdraw their account, tell them what the loan will cost, and give them a choice of whether to proceed or to cancel the transaction.**

- **Allow banks to cover ATM and debit card POS overdrafts without warning only if the customer has consented in writing to participate in a lower-cost protection program that pays overdrafts from a linked bank account, line of credit, or credit card.**

Banks should not place customers in their most expensive credit program without explicit consent. Banks must disclose the true cost of their products and should not engage in practices that drive financially struggling customers into debilitating debt.

The high cost of overdraft lending, especially for those who can least afford it, makes adoption of these policies both necessary and urgent.
APPENDIX 1: METHODOLOGY

CRL analyzed 18 months of bank account transactions from participants in Lightspeed Research’s Ultimate Consumer Panel. Each month’s data contained every transaction for each registered account, date-stamped but not time-stamped. Some panelists registered more than one account; some participated sporadically.

We selected panelists who participated in the panel for at least six consecutive months within the 18-month window, which was from January 2005 through June 2006. We chose only one checking account from each—the one that had the earliest logged transaction. To perform the analyses specific to this report, we selected only panelists who had at least one overdraft incident. Our final panel for these analyses contained 4,036 consumers.

Identifying fee-based overdraft loan charges

We analyzed accounts from the 15 largest banks in the nation; approximately 66 percent of all transactions in the dataset are associated with an account at one of these banks. Transaction descriptions are captured verbatim and are not consistent from one institution to another, therefore we began the process of identifying overdraft fee transactions by creating standard filters for transaction and balance information. In order to most accurately capture the fee-based overdraft charges we were interested in, we searched both electronically and manually for transaction lines containing certain “flag phrases” that identified a given transaction as an overdraft fee. We removed those overdraft fees that indicated an association with linked lines of credit, savings or credit card, and instances where multiple overdraft fees were assessed all at once, which made it impossible to determine which of several transactions sent the account balance below zero.

Linking overdraft fees to the transactions that triggered them

In order to link an overdraft fee to the transaction that triggered it, we examined several days of account activity surrounding each overdraft fee. Some banks noted the trigger date and trigger type in the overdraft fee transaction description, but most did not. Because of this, we had to manually identify and code the triggering event for each of the banks’ 8,527 overdraft fee transactions. From this we were able to identify the type of transaction (debit card POS, ATM, other electronic, etc.) that caused the overdraft fee.

Based on examination of the overdrafts, we determined that fees were almost uniformly assessed by the bank on the next business day following the triggering event. If no transaction that would have caused an overdraft appeared, we left the overdraft uncoded. If more than one transaction type could have been the trigger, we coded the overdraft as having a “mixed trigger.” For example, if a check, an ATM withdrawal and an online banking transaction all occurred on the same day and we did not have enough information to point to any of them as the trigger, we coded this as a “mixed-trigger” overdraft. Of the 8,527 overdraft fee transactions we coded, 5,656 had clearly identifiable triggers.

To calculate APR’s and fee-to-loan ratios, CRL randomly selected overdrafts from the 5,656 trigger-identified transactions. In cases where more than one transaction of a given trigger type occurred on the relevant day, we determined which one caused the overdraft. Because these analyses could not be automated, we took a random sample of 30 of each of the four most prevalent trigger types: debit card POS, ATM, other electronic, and checks.
For each of the overdrafts, we looked at the triggering transaction amount, overdraft fee amount, number of days to repayment, and overdraft loan amount (usually only a portion of the triggering transaction amount was borrowed, as in the case of a $10 purchase causing an overdraft of $5). In cases where the bank assessed “sustained” fees for days an account remained below a zero-balance, we split these fees among un-repaid overdrafts and added them to the total fee amounts for those overdrafts. Using this data, we calculated fee-to-loan ratios for each overdraft, then calculated the median ratio among overdrafts. Because of our limited sample size, and to account for the possibility of non-normal distribution in the relevant variables, we used median values for all our analyses. To test for statistical difference in the variables among trigger types, we used the Wilcoxon-Mann-Whitney Non-parametric Significance Test.
APPENDIX 2: CONSUMER PANEL SURVEY & TOP-LINE RESPONSES

Lightspeed Research conducted an online survey of 2,409 panelists in the Ultimate Consumer Panel, originally developed by Forrester Research.

1. Besides your checking account, what other accounts do you have at the same bank? (check all that apply)

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<thead>
<tr>
<th>Account Type</th>
<th>Number</th>
<th>Overall Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings Account</td>
<td>1411</td>
<td>63%</td>
</tr>
<tr>
<td>Money Market Account</td>
<td>283</td>
<td>13%</td>
</tr>
<tr>
<td>Certificate of Deposit</td>
<td>265</td>
<td>12%</td>
</tr>
<tr>
<td>Credit Card</td>
<td>733</td>
<td>33%</td>
</tr>
<tr>
<td>Not applicable, I do not have a checking account</td>
<td>16</td>
<td>1%</td>
</tr>
<tr>
<td>None</td>
<td>523</td>
<td>23%</td>
</tr>
<tr>
<td>Other (please explain)</td>
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<td>Other—Investment Account</td>
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<td>Other—Business Account</td>
<td>8</td>
<td>0%</td>
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<tr>
<td>Other—Mortgage</td>
<td>21</td>
<td>1%</td>
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<td>Other—Car Loan</td>
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<td>1%</td>
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<tr>
<td>Other—HELOC/Home Equity Loan</td>
<td>35</td>
<td>2%</td>
</tr>
<tr>
<td>Other—Line of Credit/Consumer Loan</td>
<td>25</td>
<td>1%</td>
</tr>
<tr>
<td>Other—Miscellaneous</td>
<td>12</td>
<td>1%</td>
</tr>
</tbody>
</table>
2. Overdraft protection can take several forms—some people have funds automatically transferred from a “linked” savings account, credit card, or a line of credit to cover the overdraft. Other customers may instead rely on their bank to cover any overdrafts. These customers are usually charged a fee (typically $25-30) for this service. Do you have overdraft protection for your checking account?

<table>
<thead>
<tr>
<th>Number</th>
<th>Overall Percent</th>
<th>Percent of those who chose “yes” or “no”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, through a line of credit</td>
<td>366</td>
<td>17%</td>
</tr>
<tr>
<td>Yes, through a linked credit card</td>
<td>125</td>
<td>6%</td>
</tr>
<tr>
<td>Yes, through a linked savings account</td>
<td>528</td>
<td>24%</td>
</tr>
<tr>
<td>No, but my bank will provide money to cover overdrafts</td>
<td>524</td>
<td>24%</td>
</tr>
<tr>
<td>No, I do not have overdraft protection and my bank will not cover overdrafts</td>
<td>412</td>
<td>19%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>213</td>
<td>10%</td>
</tr>
<tr>
<td>Other (please explain)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other—Miscellaneous</td>
<td>16</td>
<td>1%</td>
</tr>
</tbody>
</table>

3. Think back to when you most recently opened a checking account. What products, if any, were described that would cover transactions if you did not have enough money in your account? (check all that apply)

<table>
<thead>
<tr>
<th>Number</th>
<th>Overall Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A linked savings account where money would be automatically transferred to your checking account to cover overdrafts</td>
<td>724</td>
</tr>
<tr>
<td>A linked credit card where money would be automatically transferred to your checking account to cover overdrafts</td>
<td>264</td>
</tr>
<tr>
<td>A line of credit where money would be automatically transferred to your checking account to cover overdrafts</td>
<td>484</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>510</td>
</tr>
<tr>
<td>None</td>
<td>521</td>
</tr>
<tr>
<td>Other (please explain)</td>
<td></td>
</tr>
<tr>
<td>Other—Bounce Protection</td>
<td>4</td>
</tr>
<tr>
<td>Other—Miscellaneous</td>
<td>4</td>
</tr>
</tbody>
</table>
4. In the past six months, about how many times have you overdrawn your checking account? (If you had multiple overdrafts during the same three-day period, count that as only one occurrence.)

N=2152

<table>
<thead>
<tr>
<th>Number</th>
<th>Overall Percent</th>
<th>Percent of those who did know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never in the past six months</td>
<td>1372</td>
<td>64%</td>
</tr>
<tr>
<td>Once in the past six months</td>
<td>340</td>
<td>16%</td>
</tr>
<tr>
<td>Twice in the past six months</td>
<td>166</td>
<td>8%</td>
</tr>
<tr>
<td>Three times in the past six months</td>
<td>90</td>
<td>4%</td>
</tr>
<tr>
<td>Four or more times in the past six months</td>
<td>143</td>
<td>7%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>40</td>
<td>2%</td>
</tr>
</tbody>
</table>

5. Why did you overdraw your checking account (select all that apply)

N=739

<table>
<thead>
<tr>
<th>Number</th>
<th>Overall Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I thought there was enough money in my account</td>
<td>440</td>
</tr>
<tr>
<td>The money I deposited was not yet available</td>
<td>220</td>
</tr>
<tr>
<td>I needed to make a purchase and knew that the bank or my overdraft protection would cover it</td>
<td>116</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>11</td>
</tr>
<tr>
<td>Other (please explain)</td>
<td></td>
</tr>
<tr>
<td>Other—Bank/3rd Party Error</td>
<td>18</td>
</tr>
<tr>
<td>Other—Accountholder Error</td>
<td>20</td>
</tr>
<tr>
<td>Other—Another Person Used Account</td>
<td>3</td>
</tr>
<tr>
<td>Other—Not Enough Money</td>
<td>2</td>
</tr>
<tr>
<td>Other—Miscellaneous</td>
<td>10</td>
</tr>
</tbody>
</table>
6. What types of purchases or payments have caused your overdrafts? (open-ended)

<table>
<thead>
<tr>
<th>Purchase/Payment Type</th>
<th>Number</th>
<th>Percent</th>
<th>Percent of those without “Various/Random” responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills</td>
<td>167</td>
<td>25.9%</td>
<td>31%</td>
</tr>
<tr>
<td>Credit Card</td>
<td>47</td>
<td>7.3%</td>
<td>9%</td>
</tr>
<tr>
<td>Insurance (general)</td>
<td>16</td>
<td>2.5%</td>
<td>3%</td>
</tr>
<tr>
<td>Taxes</td>
<td>3</td>
<td>0.5%</td>
<td>1%</td>
</tr>
<tr>
<td>Groceries</td>
<td>76</td>
<td>11.8%</td>
<td>14%</td>
</tr>
<tr>
<td>Medical Expenses</td>
<td>16</td>
<td>2.5%</td>
<td>3%</td>
</tr>
<tr>
<td>Housing-Related</td>
<td>65</td>
<td>10.1%</td>
<td>12%</td>
</tr>
<tr>
<td>Transportation-Related</td>
<td>82</td>
<td>12.7%</td>
<td>15%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>28</td>
<td>4.3%</td>
<td>5%</td>
</tr>
<tr>
<td>Small/Everyday Items</td>
<td>38</td>
<td>5.9%</td>
<td>7%</td>
</tr>
<tr>
<td>Various/Random Responses</td>
<td>108</td>
<td>16.7%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overdraft Method</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM/Debit</td>
<td>39</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>Automatic Payment</td>
<td>88</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>Check</td>
<td>39</td>
<td>23%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Errors/Fraud</td>
<td>16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit not Clearing/Timing Issue</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Don’t know/remember</td>
<td>42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refused to answer/not understandable</td>
<td>37</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7. Do you think that having overdraft protection makes you more or less likely to overdraw your account?

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Overall Percent</th>
<th>Percent of those who did know</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Likely</td>
<td>342</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Less Likely</td>
<td>148</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>No Difference</td>
<td>1547</td>
<td>72%</td>
<td>76%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>107</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

8. Have you ever had a checking account that was closed by you or your bank because of overdraft fees or a negative balance?

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Overall Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, I have closed my checking account because of overdraft fees or a negative balance</td>
<td>82</td>
<td>4%</td>
</tr>
<tr>
<td>Yes, my bank has closed my checking account because of overdraft fees or a negative balance</td>
<td>80</td>
<td>4%</td>
</tr>
<tr>
<td>No, neither my bank nor I have closed my checking account because of overdraft fees or a negative balance</td>
<td>1963</td>
<td>91%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>29</td>
<td>1%</td>
</tr>
</tbody>
</table>

9. Once you or your bank closed this account, did you open another checking account?

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Overall Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, I opened or used an existing checking account at another bank</td>
<td>119</td>
<td>73%</td>
</tr>
<tr>
<td>No, I did not want to open another checking account</td>
<td>24</td>
<td>15%</td>
</tr>
<tr>
<td>No, I was not able to open another checking account</td>
<td>13</td>
<td>8%</td>
</tr>
<tr>
<td>Don't Know</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>Other (please explain)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other—Yes, I opened a new checking account at the same bank</td>
<td>4</td>
<td>0%</td>
</tr>
<tr>
<td>Other—Miscellaneous</td>
<td>1</td>
<td>0%</td>
</tr>
</tbody>
</table>

Center for Responsible Lending
10. Would you like to have a warning displayed on ATM screens that lets you know when you will be withdrawing more cash than you have in your account?

<table>
<thead>
<tr>
<th>Yes</th>
<th>1508</th>
<th>70%</th>
<th>75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>511</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>132</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

11. Overdraft fees generally range between $25-30. If you received a warning from an ATM that your withdrawal would cause an overdraft fee, would you continue with the transaction or decide to cancel it to avoid being overdrawn?

<table>
<thead>
<tr>
<th>Continue transaction</th>
<th>36</th>
<th>2%</th>
<th>2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancel transaction</td>
<td>1703</td>
<td>79%</td>
<td>84%</td>
</tr>
<tr>
<td>Depends on the withdrawal amount</td>
<td>291</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>119</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

12. You are at a checkout paying with your debit/ATM card. Your purchases cost more than you have in your checking account. Would you rather:

<table>
<thead>
<tr>
<th>Have the bank automatically cover your overdraft without letting you know you are overdrawn, and charge you a fee</th>
<th>469</th>
<th>22%</th>
<th>25%</th>
<th>29%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have the bank automatically decline your debit card transaction, to avoid the overdraft</td>
<td>1145</td>
<td>53%</td>
<td>61%</td>
<td>61%</td>
</tr>
<tr>
<td>I do not have a preference</td>
<td>278</td>
<td>13%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Don’t Know</td>
<td>255</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
13. Say you made a purchase and did not have enough in your checking account to cover it. Given the following choices, how would you want your bank to handle your overdraft?

<table>
<thead>
<tr>
<th>Choice</th>
<th>Number</th>
<th>Overall Percent</th>
<th>Percent of those who did know</th>
<th>Percent with Preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Give me an overdraft line of credit with a $5 transfer fee and a 19% annual interest rate (about $1.50 per month for a $100 overdraft)</td>
<td>820</td>
<td>38%</td>
<td>45%</td>
<td>54%</td>
</tr>
<tr>
<td>Put the overdraft on my credit card and charge me a $5 fee plus 25% annual interest (about $2 per month for a $100 overdraft)</td>
<td>101</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Pay the overdraft for me, charge me a $25 fee, and take the money I owe out of my next deposit</td>
<td>499</td>
<td>23%</td>
<td>27%</td>
<td>33%</td>
</tr>
<tr>
<td>Refuse to debit my account for more money than I have in it, return the check unpaid, and charge me a $25 insufficient funds fee</td>
<td>94</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>I do not have a preference</td>
<td>308</td>
<td>14%</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Don’t know</td>
<td>318</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. Do you or have you ever received benefits from a government source such as Social Security disability, retirement benefits, veterans' benefits, unemployment, workers compensation, or TANF (Temporary Assistance for Needy Families) cash assistance?

<table>
<thead>
<tr>
<th>Response</th>
<th>Number</th>
<th>Overall Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>814</td>
<td>38%</td>
</tr>
<tr>
<td>No</td>
<td>1306</td>
<td>61%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>18</td>
<td>1%</td>
</tr>
</tbody>
</table>

15. Has your bank ever deducted a portion of these benefits to pay your overdraft fees?

<table>
<thead>
<tr>
<th>Response</th>
<th>Number</th>
<th>Overall Percent</th>
<th>Percent Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>69</td>
<td>8%</td>
<td>13%</td>
</tr>
<tr>
<td>No</td>
<td>452</td>
<td>56%</td>
<td>87%</td>
</tr>
<tr>
<td>Not applicable, I was not charged any overdraft fees</td>
<td>256</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>Not applicable, I do not/did not have a bank account</td>
<td>13</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Don’t Know</td>
<td>24</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>
We use “bank” as a generic term throughout this document to refer to all types of depository institutions that offer checking accounts. The only instance where we make specific reference to banks, as opposed to, say, credit unions, is in our discussion of the data, which is derived from checking accounts held by the 15 largest national banks.


4 A debit card point-of-sale transaction is one that takes place in person, such as at a store, gas station or restaurant, where the card is swiped through a machine.


7 The average annual rate of decline in the number of checks paid is estimated to have been 3.3% between 1995 and 2000 and 4.3% between 2000 and 2004. See Geoffrey R. Gedes, Jack K. Walton II, May X. Liu & Darrel W. Parke, Trends in the Use of Payment Instruments in the United States, 182 Federal Reserve Bulletin at p180 (Spring 2005).


9 Ninety percent of depository institutions have implemented software packages that routinely pay overdrafts for designated blocks of customers – generally, those with accounts open for at least 30 days, have regular deposit activity and are not in default to the bank. See Fox et al, endnote 8 and Comment of the American Bankers Association on Proposed Amendments to Commentary to Reg. Z Truth in Lending Act, Jan. 27, 2003. Available at http://www.federalreserve.gov/SECRS/2005/March/20050331/R-1217/R-1217_181_1.pdf. See also John M. Floyd, Overdraft Program Well Worth the Effort, If Run Responsibly, American Banker at 7 (February 7, 2003).


11 See Duby et al, endnote 2.

12 See James et al, endnote 3.


14 See Overdraft Privilege Service, endnote 10. See also John M. Floyd website testimonials from credit unions: http://www.jmfa.com/%5cuploads%5Ccontent%5C318200594508.pdf.
15 Overdraft Fee Triggers: Check 18%, electronic 18%, ATM 1%, ATM/POS 4%, POS 25%, bank fee .4%, mixed 34%. There is no reason to believe that the distribution of non-identifiable overdraft triggers would follow a different pattern than those that could be identified.

16 Here “other electronic transactions” includes automatic or on-line bill-pay transactions and telephone or internet-based debit purchases.

17 We started with 5,656 overdraft incidents for which we could identify trigger types. We randomly selected 30 incidents for each of the following trigger types: ATM; POS; Check; and Electronic/ACH transaction. We traced these incidents to specific triggering transactions, and determined the overdraft loan amount, fees, and payback time for each. We discarded the three highest and three lowest numbers for each. Using these data, we calculated an average amount paid per dollar borrowed.

18 Citibank Checking Plus variable line of credit was 19.75% as of January 17, 2007. See https://web.daus.citibank.com/cgi-bin/citiff/scripts/prod_and_service/prod_serv_detail.jsp?BS_Id=CheckingPlus&BV_UseBVCookie=ve, last viewed January 18, 2007. Citibank’s Checking Plus product has a $5 annual fee, no transfer fees. Line-of-credit accounts ideally have no transfer fee associated, but some do. These fees, usually between $5 and $10, can add significantly to the cost of covering overdrafts through a line of credit, albeit at a much lower cost than an overdraft loan. See, e.g. Bank of America Personal Schedule of Fees at https://www2.bankofamerica.com/fulfillment/documents/89-11-3000ED.20061201.pdf, last viewed January 18, 2007.

19 On average, overdraft loans are repaid in less than a week. This is because customers tend to overdraft toward the end of a pay period when money is tight, and the financial institution automatically repays itself from the customer’s next deposit, which is often a paycheck.

20 Among respondents who expressed a preference, 75% wanted a warning. See Appendix 2 for the survey questions and responses.

21 “Here’s how high-to-low check processing works: Say you have $50 in the bank. And suppose three checks come in on the same day: for $20, $15 and $45. The bank would clear the $45 first. That way, it could charge you a fee, of up to $35, for each of the two checks bouncing. If it had cleared the lowest-amount check first, you’d incur only one bounced-check fee.” Kathy Chu, Banks clear big checks first; Overdraft fees tend to add up under typical processing, USA Today at pB1 (November 20, 2006).

22 See Borzekowsky et al, endnote 6 at p5.


24 The personal experience of some CRL employees and family members indicates that Wachovia and Bank of America warn their account holders of potential overdrafts at some of their ATMs. It appears, however, that these institutions do not provide the amount of the overdraft that would be charged, an essential piece of information if you expect consumers to make an informed choice.

25 Some older ATMs and machines that only dispense cash may not be able to accommodate a warning. The vast majority of machines, however, can provide a warning screen to customers.
CRL has revised the data weighting methodology used in our January 2007 *Debit Card Danger* report. Ultimate Consumer Panelists and their overdraft transactions are now weighted to match proportions of race, ethnicity, and household income of 2006 US checking account holders. Previously, panelists were weighted to match those proportions of 2006 US American households, and transactions were not weighted.

This weighting has a minor impact on both the breakdown of overdraft triggers among our entire sample of overdraft transactions, and the loan cost of each triggering transaction subgroup. The following are the revised figures and charts:

**Identified Overdraft Fee Triggers (amends Figure 2 on page 7 of the report)**

![Pie chart showing revised overdraft fee triggers]

- Debit/POS: 35%
- Electronic: 28%
- ATM/POS: 7%
- ATM: 2%
- Check: 27%
- Bank Fees: 1%
Fees paid per dollar borrowed for overdraft loans, by trigger type (amends Figure 3 and chart on p. 9)

Median Overdraft Loan Cost by Trigger Type

<table>
<thead>
<tr>
<th>Trigger</th>
<th>Fee Amount</th>
<th>Transaction Amount</th>
<th>Overdraft Loan Amount</th>
<th>No. of Days to Repay</th>
<th>Fee per Dollar Borrowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>POS</td>
<td>$34.00</td>
<td>$20.00</td>
<td>$16.46</td>
<td>5</td>
<td>$1.94*</td>
</tr>
<tr>
<td>ATM</td>
<td>$34.00</td>
<td>$40.00</td>
<td>$40.00</td>
<td>3</td>
<td>$0.78</td>
</tr>
<tr>
<td>ELEC</td>
<td>$34.00</td>
<td>$29.14</td>
<td>$27.95</td>
<td>4</td>
<td>$0.98</td>
</tr>
<tr>
<td>CHK</td>
<td>$34.00</td>
<td>$60.00</td>
<td>$41.38</td>
<td>2</td>
<td>$0.73</td>
</tr>
</tbody>
</table>

* Wilcoxon-Mann-Whitney Non-parametric Significance Test results show statistically significant (p<.05) differences between POS and each other OD trigger type for these variables. Differences among non-POS types are not significant for these variables.
About the Center for Responsible Lending

The Center for Responsible Lending is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with Self-Help, one of the nation’s largest community development financial institutions.

Visit our website at www.responsiblelending.org.