



Consumers Want Informed Choice on Overdraft Fees and Banking Options

CRL Research Brief
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A new CRL survey of nearly 2,000 nationally representative checking account customers, conducted by Opinion Research Corporation, finds:

- **More consumers are enrolled in the most expensive overdraft option, and low-to-moderate-income consumers pay the bulk of the charges.**
- **Nearly nine of ten respondents want the option to choose whether their checking account will include a fee-based overdraft loan feature.**
- **Respondents overwhelmingly prefer that debit card purchases be declined at the checkout if these would otherwise result in an overdraft fee.**

BACKGROUND

Most major financial institutions automatically enroll customers in a fee-based overdraft loan program without their express consent when they first open a checking account. Under these systems, the bank or credit union generally pays the customer's checks, debit card transactions, and ATM withdrawals when the customer's account lacks sufficient funds. When the customer's next deposit is made, the financial institution debits the amount of the overdrafts, plus a fee averaging \$34 for each incident.¹

Overdrafts are increasingly triggered by small dollar debit card transactions; on average, the typical debit card transaction that spurs a \$34 overdraft fee is for a \$20 purchase.² Thus, when a consumer is overdrawn, their debit card functions as an extremely high-cost credit card. Overall, consumers pay \$17.5 billion in overdraft fees for \$15.8 billion extended to them in credit every year.³

These fee-based overdraft loan programs caught the attention of Congress in 2007, which held a hearing on abusive overdraft practices and introduced legislation (HR 946) to reform the most egregious of these practices. CRL is conducting a series of consumer surveys to help inform policy and regulatory changes on overdraft protection.⁴

This report details findings from the most recent survey conducted from January 3-6, 2008. Working with the Opinion Research Corporation's national CARAVAN telephone survey, CRL conducted a representative survey of 2,000 respondents. Of the 2,000 people contacted, 1,741 (87 percent) had a checking account at some point over the past year. These checking account customers were asked about their experiences with and preferences regarding overdraft practices.

KEY FINDINGS

1. More consumers are enrolled in the most expensive overdraft option. Nearly a third of respondents (31 percent) reported that they were enrolled in a fee-based overdraft loan program in which the bank automatically covers overdrafts in return for a \$34 fee. Respondents earning less than \$50,000 a year were more likely to be in a fee-based overdraft loan program compared to higher-income respondents.

Table 1: How overdrafts are handled

	All respondents	Respondents with income between \$25-34.9K	Respondents with income below \$50K
Fee-based overdraft loan program	31%	46%*	36%**
Linked savings account	23%	16%	19%
Linked line of credit/credit card	15%	11%	12%
Other	4%	1%	4%
Bank does not cover overdrafts	6%	8%	8%
Don't know/refused	22%	18%	22%

*Statistically significant at 95% confidence interval when compared to respondents with \$50K income and higher

**Statistically significant at 95% confidence interval when compared to respondents with \$75K income and higher

In contrast, nearly a quarter (23 percent) link to a savings account from which money can be transferred if they become overdrawn. Only 15 percent of checking account holders have a linked line of credit or credit card, which are generally far less expensive alternatives. Linked credit cards or lines of credit generally carry an APR of 18 to 30 percent. To borrow \$20 from a linked line of credit to cover an overdraft, a consumer would pay only about 30 cents,⁵ compared to the \$34 overdraft fee in a fee-based overdraft loan program.

2. A core group of consumers account for the majority of overdrafts. The current survey finds that a core group of accountholders have multiple recent overdraft incidents. In this case, just a quarter of all respondents report having at least one overdraft incident over the past six months. Respondents earning below \$50,000 annually reported the most overdraft incidents.

Table 2. Number of overdrafts incidents over a six-month period

	All respondents	Respondents with income less than \$25K	Respondents with income between \$25-34.9K	Respondents with income between \$35-49.9K	Respondents with income between \$50-74.9K	Respondents with income \$75K or more
None	75%	70%*	63%*	73%	73%	80%
One or two	15%	17%	23%**	15%	17%	14%
Three or more	7%	9%	13%**	10%**	7%	4%
Four or more	4%	7%***	6%	5%	3%	3%

*Statistically significant at 95% confidence interval when compared to respondents making \$75,000 or more

**Statistically significant at 95% confidence interval when compared to respondents making \$75,000 or more

***Statistically significant at 95% confidence interval when compared to respondents making \$50,000-75,000

Note: All overdrafts occurring within three consecutive days are recorded as one overdraft incident

In addition, as noted above, consumers with incomes lower than \$50,000 not only reported more overdrafts, they were also far more likely to report being enrolled in a fee-based overdraft loan program, in comparison to higher-income respondents. A previous CRL survey found that just 16 percent of respondents enrolled in fee-based overdraft loan programs had two or more overdrafts over a six-month period, yet they paid 71 percent of total overdraft fees. These consumers with multiple overdrafts were more likely to be lower-income, non-white, single, and renters when compared to the general population. The current survey has nearly identical findings, with 16 percent of respondents again incurring multiple overdraft incidents over a six-month period, and paying 71 percent of overdraft fees.

Table 3. Percent of fees paid by repeat users enrolled in a fee-based overdraft loan program, over a six-month period

	Percent, among respondents in fee-based overdraft loan program	Percent of overdraft fees paid
Two or more incidents	16%	71%
Three or more	10%	53%
Four or more	5%	31%

Note: All overdrafts occurring within three consecutive days are recorded as one overdraft incident

3. Consumers want the option to choose whether an overdraft loan program is included with their account. Consumers overwhelmingly want to choose whether they are enrolled in an overdraft loan program when they open a checking account. Among those with a preference, 88 percent of overall respondents and 91 percent of respondents enrolled in a fee-based overdraft loan program want a choice. The preference is particularly strong among those who have overdrawn their account at least once in the preceding six-month period, 94 percent of whom would prefer to have a choice.

Table 4. Consumers wanting to choose whether a fee-based overdraft loan program is included with account, among those with a preference

All respondents	88%
Among consumers with at least one overdraft	94%*
Among consumers in fee-based overdraft loan program	91%

*Statistically significant at 95% confidence interval when compared to respondents who have not overdrawn their account.⁶

4. Consumers do not want their bank to cover small debit card purchases for a \$34 fee. Checking account holders were asked to imagine that they were completing a \$5 purchase at a checkout counter using their debit card. When asked if they would prefer to continue with their transaction if it would result in an overdraft (and an accompanying \$34 overdraft fee), the vast majority (80 percent) reported that they would prefer that the bank simply decline the transaction.

This question was asked again replacing the \$5 purchase with a \$20 or \$40 purchase (the average debit card transaction resulting in an overdraft is for a \$20 purchase). Again, respondents overwhelmingly preferred to have the transaction declined, rather than pay a \$34 fee, with 79

and 77 percent having this preference, respectively. Roughly three-quarters of consumers who have recently overdrawn their account also prefer that a debit card transaction be declined if it would otherwise result in an overdraft. Results for respondents enrolled in fee-based overdraft loan programs are similar to those for consumers overall.

These results refute claims from representatives of financial institutions, who say that consumers would rather their debit card transactions be approved—even when it would result in an overdraft fee being charged—than face the embarrassment of being declined at a checkout counter.⁷

Table 5. Consumers wanting their debit card to be declined if account overdrawn, among those with a preference

	\$5 Transaction	\$20 Transaction	\$40 Transaction
All respondents	80%	79%	77%
Among consumers with at least one overdraft	77%	75%	74%
Among consumers in fee-based overdraft loan program	80%	77%	73%

CONCLUSION

Overdraft protection has devolved from an occasional courtesy extended to customers who might otherwise bounce an important payment, to an automatic fee-based overdraft loan program allowing the smallest of debit card transactions to be approved for a hefty \$34 fee. Consumers are often automatically enrolled in this system when signing up for checking accounts rather than being offered lower-cost alternatives, such as a linked line of credit.

Findings from this and other CRL surveys consistently show that consumers want the ability to make an informed choice and have more control over how financial institutions handle possible overdrafts. Overwhelmingly, they do not want banks to approve the vast majority of overdrafts, in which the fee far outweighs the actual credit extended.

APPENDIX: Survey Instrument and Top-Line Responses

Methodology

This report presents Opinion Research Corporation’s CARAVAN telephone survey findings among a national probability sample of 2,023 adults in the continental United States. The survey was completed during the period January 3-7, 2008. CARAVAN utilizes an unrestricted random sampling procedure that controls the amount of serial bias found in systematic sample to generate its random-digit-dial sample. The sample is fully replicated and stratified by region. Only one interview is conducted per household. Completed interviews are weighted by four variables: age, sex, geographic region, and race, to ensure reliable and accurate representation of the total population, 18 years of age and older.

The chances are 95 in 100 that a CARAVAN survey result does not vary, plus or minus, by more than 2 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

Questions and Top Line Responses

1. Have you had a checking account at any time over the past year?

	Total	Percent
Yes	1741	87%
No	241	12%
Refused/No Answer	18	1%

2. Overdraft Protection can take several forms—some people have funds automatically transferred from a linked savings account, credit card, or line of credit. Other customers may instead rely on their bank to cover any overdrafts and are charged a fee of around \$34 for each transaction that puts their account below zero. How are your overdrafts handled? Would you say...

(respondents can select more than one response)

	Total	Percent
Your bank covers your overdraft and charges you a fee for each transaction	602	31%
Through a linked savings account	449	23%
Through a linked line of credit	173	9%
Through a linked credit card	108	6%
Other	80	4%
Your bank does not cover overdrafts	110	6%
You don't know how your bank handles overdrafts	258	13%
Refused/no answer	177	9%

	Under \$25k	\$25-34.9K	\$35-49.9K	\$50-74.9K	\$75K or more
Your bank covers your overdraft and charges you a fee for each transaction	61	71	113	129	157
Through a linked savings account	36	25	68	102	165
Through a linked line of credit	16	12	20	38	65
Through a linked credit card	13	5	18	20	39
Other	17	1	6	7	34
Your bank does not cover overdrafts	18	12	21	17	18
You don't know how your bank handles overdrafts	39	12	38	51	52
Refused/no answer	13	15	29	23	40

3. In the past six months, about how many times have you overdrawn your account? Please note that if you've had multiple overdrafts during the same three-day period, count that as only one occurrence.

	Total	Percent	Percent (among those who recall)
Never	1303	75%	78%
Once	187	11%	11%
Twice	74	4%	4%
Three times	51	3%	3%
Four or more times	66	4%	4%
Don't Know	61	4%	

	Under \$25k	\$25-34.9K	\$35-49.9K	\$50-74.9K	\$75K or more
Never	132	89	202	249	393
Once	25	23	27	43	45
Twice	8	10	15	14	23
Three times	3	10	15	15	6
Four or more times	13	8	13	9	16
Don't Know	7	1	5	11	9

	Enrolled in fee-based overdraft loan program (\$34 fee)	Linked savings account	Linked credit card	Linked line of credit
Never	380	327	67	123
Once	113	62	14	21
Twice	35	22	4	15
Three times	30	11	10	4
Four or more times	30	22	11	6
Don't Know	13	5	2	5

4. Most bank accounts automatically include a feature where the bank will cover a transaction through a debit/ATM card or check if it brings the account below zero. Typically, the bank will charge a fee of about \$34 for this service. Do you think the bank should give you the option to choose whether this service is included as part of your account?

	Total	Percent	Percent (among those with a preference)
Yes	1420	82%	88%
No	196	11%	12%
Don't Know/No Preference	125	7%	

	Among those with at least one overdraft incident in the past six months			Among those enrolled in fee-based overdraft loan program (\$34 fee)		
	Total	Percent	Percent (among those with a preference)	Total	Percent	Percent (among those with a preference)
Yes	344	91%	94%	525	87%	91%
No	23	6%	6%	54	9%	9%
Don't Know/No Preference	12	3%		23	4%	

5. Suppose you are at a checkout paying with your debit/ATM card. Your purchases total \$5, which is more than you have in your checking account. Would you rather...

	Total	Percent	Percent (among those with a preference)
Have the bank decline your transaction, with no fee being charged	1276	73%	80%
Have the bank automatically cover your \$5 overdraft for a \$34 fee	315	18%	20%
Don't know/No preference	150	9%	

	Among those with at least one overdraft incident in the past six months			Among those enrolled in fee-Based overdraft loan program (\$34 fee)		
	Total	Percent	Percent (among those with a preference)	Total	Percent	Percent (among those with a preference)
Have the bank decline your transaction, with no fee being charged	288	76%	77%	461	77%	80%
Have the bank automatically cover your \$5 overdraft for a \$34 fee	84	22%	23%	114	19%	20%
Don't know/No preference	7	2%		26	4%	

6. What if the transaction was for a larger amount, say \$20? Would you rather...

	Total	Percent	Percent (among those with a preference)
Have the bank decline your transaction, with no fee being charged	1279	73%	79%
Have the bank automatically cover your \$20 overdraft for a \$34 fee	344	20%	21%
Don't know/No preference	118	7%	

	Among those with at least one overdraft incident in the past six months			Among those enrolled in fee-based overdraft loan program (\$34 fee)		
	Total	Percent	Percent (among those with a preference)	Total	Percent	Percent (among those with a preference)
Have the bank decline your transaction, with no fee being charged	280	74%	75%	450	75%	77%
Have the bank automatically cover your \$20 overdraft for a \$34 fee	92	24%	25%	133	22%	23%
Don't know/No preference	7	2%		18	3%	

7. What if the transaction was even larger, say \$40? Would you rather...

	Total	Percent	Percent (among those with a preference)
Have the bank decline your transaction, with no fee being charged	1246	72%	77%
Have the bank automatically cover your \$40 overdraft for a \$34 fee	372	21%	23%
Don't know/No preference	123	7%	

	Among those with at least one overdraft incident in the past six months			Among those enrolled in fee-based overdraft loan program (\$34 fee)		
	Total	Percent	Percent (among those with a preference)	Total	Percent	Percent (among those with a preference)
Have the bank decline your transaction, with no fee being charged	275	72%	74%	427	71%	73%
Have the bank automatically cover your \$40 overdraft for a \$34 fee	99	26%	26%	156	26%	27%
Don't know/No preference	6	2%		19	3%	

¹ CRL conducted an analysis of the checking account activity for more than 5,000 households which participate in the Ultimate Consumer Panel from Lightspeed Research. An examination of overdraft fees charged by a variety of banks and credit unions revealed an average fee of \$34 charged each time a consumer's account balance went below zero. For more details, see Eric Halperin, Lisa James, and Peter Smith. *Debit Card Danger: Banks offer little warning and few choices as customers pay a high price for debit card overdrafts*, Center for Responsible Lending (January 2007). Available at <http://www.responsiblelending.org/pdfs/Debit-Card-Danger-report.pdf>.

² Eric Halperin, Lisa James, and Peter Smith. *Debit Card Danger: Banks offer little warning and few choices as customers pay a high price for debit card overdrafts*, Center for Responsible Lending (January 2007). Available at <http://www.responsiblelending.org/pdfs/Debit-Card-Danger-report.pdf>

³ For a discussion of these estimates and how they were calculated see Eric Halperin and Peter Smith. *Out of Balance: Consumers pay \$17.5 billion per year in fees for abusive overdraft loans*, Center for Responsible Lending (July 11, 2007). Available at <http://www.responsiblelending.org/pdfs/out-of-balance-report-7-10-final.pdf>.

⁴ CRL has conducted two consumer surveys on the usage of and preferences regarding overdraft protection. A telephone survey of 3,310 respondents was conducted through Opinion Research Corporation's CARAVAN survey from October 2005 to January 2006. For detailed results from this survey, see Lisa James and Peter Smith. *Overdraft Loans: Survey Finds Growing Problem for Consumers*, Center for Responsible Lending (April 24, 2006). Available at http://www.responsiblelending.org/pdfs/ip013-Overdraft_Survey-0406.pdf. An online survey of 2,409 Ultimate Consumer Panel members was conducted in Fall 2007 by Lightspeed Research. For detailed results, see Eric Halperin, Lisa James, and Peter Smith. *Debit Card Danger: Banks offer little warning and few choices as customers pay a high price for debit card overdrafts*, Center for Responsible Lending (January 2007). Available at <http://www.responsiblelending.org/pdfs/Debit-Card-Danger-report.pdf>

⁵ Assumes \$20 is borrowed at 18% APR with repayment in 30 days.

⁶ Respondents who reported overdrawing their account once, twice, or four or more times had a stronger preference for overdraft protection choice than those who did not overdraw their account at a statistically significant level. The number of respondents reporting three overdrafts was too small for significance testing. See question 4 in the appendix for more details.

⁷ In her July 11, 2007 testimony before the House of Representative Committee on Financial Services' Subcommittee on Financial Institutions and Consumer Credit, Nessa Feddis of the American Banker's Association notes "Consumers value banks' practice of paying overdrafts. Indeed, they expect it. They value the ability to avoid the embarrassment, hassle, costs and other adverse consequences of having a check bounce or transaction denied." Testimony available at <http://www.aba.com/NR/rdonlyres/222CE044-577A-11D5-AB84-00508B95258D/48244/OverdraftsNessaFeddisJuly112007.pdf>.