

First-of-Its-Kind FDIC Study Looks at Fees and Customer Usage of Bank Overdraft Programs

FDIC's *Study of Bank Overdraft Programs* analyzes the types, characteristics and use of overdraft programs offered by FDIC-supervised banks. The study looks at these programs, their features, the fees imposed, and consumer usage patterns, including the characteristics of customer accounts that tend to incur the highest volume of overdraft fees.

Full results of the study available online at <http://www.fdic.gov/bank/analytical/overdraft/>.

Noted in the analysis of micro-level data from 39 banks:

➤ **Overdraft fees have APRs ranging from 1067% to 3520%**

“Assuming a \$27 overdraft fee (the survey median), a customer repaying a \$20 POS (point of sale)/debit overdraft in two weeks would incur an APR of 3,520%; a customer repaying a \$60 ATM overdraft in two weeks would incur an APR of 1,173%; and a customer repaying a \$66 check overdraft in two weeks would incur an APR of 1,067%... rapid repayment of the overdraft amount results in higher APRs, and slower repayment results in lower APRs.”

➤ **22.6 million NSF transactions were incurred, with a median transaction of \$36**

“The median dollar amount of all 22.5 million transactions processed by the micro-data banks with automated overdraft programs was \$36. POS/debit NSF transactions were not only the most frequent, but also the smallest, with a median dollar value of \$20. The median transaction size of an ATM withdrawal and a check that resulted in an NSF transaction were \$60 and \$66, respectively.”

“Almost half (48.8%) of all reported NSF transactions took place at POS/debit (41%) and ATM (7.85%) terminals. Checks accounted for 30.2% of the reported NSF transactions.”

➤ **Customers with 5 or more NSF transactions accrued 93.4 percent of the total NSF fees reported**

“Customers with 5 or more NSF transactions accrued 93.4% of the total NSF fees reported for the 12-month period. Customers with 10 or more NSF transactions accrued 84% of the reported fees. Customer accounts with 20 or more NSF transactions accrued over 68% of the reported fees.”

“Almost 12% of consumer accounts had 1 to 4 NSF transactions, 5% had 5 to 9 NSF transactions, 4% had 10 to 19 NSF transactions, and 4.9% had 20 or more NSF transactions. Almost 9% of consumer accounts of banks reporting data had at least 10 NSF transactions during the 12-month period of analysis.”

Customers with 1 to 4 NSF transactions were charged \$64 per year in NSF fees; Customers with 5 to 9 NSF transactions were charged \$215 per year in NFS fee; Customers with 10 to 19 NSF transactions were charged \$451 per year in NSF fees; Customers with 20 or more NSF transactions were charged \$1,610 per year in NSF fees.

➤ **Young adults paid the most in overdraft fees and are responsible for the most NSF transactions**

“Accounts held by young adults (ages 18 to 25) were the most likely among all age groups to have automated overdraft NSF activity...46.4% incurred NSF activity, compared with 12.2% of accounts held by seniors (over age 62) and 31.9% of accounts held by other adults. Nearly 15% of accounts held by young adults recorded more than ten NSF transactions during the year, compared with 12.1% of adult accounts and 3% of senior accounts. Most NSF transactions made by young adult accounts (61.7%) originated at a POS/debit terminal.”

➤ **Customers in low-income areas were more likely to pay recurrent overdraft charges**

“Accounts held by customers in low-income areas (in some areas, median annual income of less than \$30,000) were more likely than accounts in higher-income areas to incur overdraft charges...More than 38% of low-income accounts had at least one NSF transaction, compared with 22% of upper-income accounts.”

“Recurrent overdrafts were also more likely the lower the income group. Among low-income customers, 16.7% of accounts had 1 to 4 NSF transactions, and 7.5% had 20 or more NSF transactions. By comparison, 13.9% of accounts held by moderate-income consumers had 1 to 4 NSF transactions, and 6.4% had 20 or more NSF transactions. Consumers in upper-income areas had 1 to 4 NSF transactions in 10.5% of accounts and 20 or more NSF transactions in 3.8% of accounts.”

Key findings from the survey of 462 FDIC-supervised banks:

➤ **The median overdraft fee, per transaction, was \$27**

“Automated overdraft usage fees assessed by banks ranged from \$10 to \$38, and the median fee assessed was \$27...About one-fourth of the surveyed banks (24.6%) also assessed additional fees on accounts that remained in negative balance status in the form of flat fees or interest charged on a percentage basis.”

➤ **Customers were automatically enrolled in overdraft protection programs**

“Most banks (75%) automatically enrolled customers in automated overdraft programs, although customers were usually permitted to affirmatively opt out of the program. Survey comments indicated that in some cases, customers were not given the choice to opt in or out of the automated program.”

➤ **Overdraft protection programs are widespread, with most programs starting after 2001**

“The majority (86%) of banks operated at least one formal overdraft program—either automated, linked accounts, or lines of credit (LOC)...The number of FDIC-supervised institutions providing automated programs has grown rapidly over the past several years. Most banks (69.4%) initiated their automated overdraft programs after 2001.”

➤ **Banks process large debits first; making overdrafts more frequent**

“A significant share of banks (24.7% of all surveyed banks and 53.7% of large banks) batched processed overdraft transactions by size, from largest to smallest, which can increase the number of overdrafts.”

➤ **Banks allow ATMs and debit card overdrafts, but do not alert customers in advance**

“The majority (81%) of banks operating automated programs allowed overdrafts to take place at automated teller machines (ATMs) and point-of-sale (POS)/debit transactions. However, most banks whose automated overdraft programs covered ATM and POS/debit transactions informed customers of an NSF only after the transaction had been completed (88.8% of banks for POS/debit transactions and 70.7% of banks for ATM transactions). A minority of banks (7.9% for POS/debit and 23.5% for ATMs) did inform consumers that funds were insufficient before transactions were completed at these locations, offering the customers an opportunity to cancel the NSF transaction and avoid a fee.”