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Consumer voices on overdraft programs

Consumer Financial Protection Bureau

About CFPB Research, Tools, and Resources for Financial Educators

An essential part of the mission of the Consumer Financial Protection Bureau (CFPB or Bureau) is to empower consumers to take more control over their financial lives. Since the Bureau opened its doors in 2011, we have worked to improve the financial literacy of consumers in the United States and to ensure access to tools, information, and opportunities for skill-building that they need to manage their finances.

The Bureau's principal financial education mandate is set forth in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act created the Bureau and mandated the establishment of an Office of Financial Education to "be responsible for developing and implementing initiatives intended to educate and empower consumers to make better informed financial decisions." 12 U.S.C. § 5493(d)(1).

To better help consumers make well-informed financial decisions and achieve their own life goals, the CFPB has sought to increase understanding of three broad areas: consumer financial behavior, the financial education field, and effective practices in financial education. The CFPB conducts research in these areas to inform financial education efforts and to share insights with others who have a common interest in improving the financial well-being of consumers.

The CPFB's goal for its financial education activities is to help consumers move towards financial well-being. In the CFPB's definition of financial well-being, consumers:

- have control over day-to-day, month-to-month finances,
- have the capability to absorb a financial shock,
- are on track to meet financial goals, and
- have the financial freedom to make choices that allow one to enjoy life.

To learn more, visit the Resources for Financial Educators webpage at consumerfinance.gov/adult-financial-education.

To get regular updates on CFPB research, tools, and resources for financial educators, sign up for the CFPB Financial Education Exchange (CFPB FinEx) by emailing CFPB_FinEx@cfpb.gov.

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1. Introduction

Overdraft programs provide consumers with the ability to make payments or withdrawals from a checking account when they don't have sufficient funds. However, overdraft fees can result in serious consequences for consumers in terms of cost and risk of account closure. To better help consumers make well-informed financial decisions and achieve their financial goals, the Consumer Financial Protection Bureau (CFPB) seeks to increase our understanding of what consumers know and how they think about key financial topics such as overdraft programs. Engaging with consumers enables the CFPB to ensure consumers have access to tools and information they need to manage their finances.

The CFPB launched a qualitative study to explore consumers' thoughts, intentions, and expectations about overdraft programs to supplement its quantitative analyses of overdraft programs and their impacts on consumers. This qualitative study consisted of in-depth interviews with consumers who had experience with overdraft programs. While quantitative data analyses can help to illuminate the prevalence and intensity of experiences with overdraft among consumers, qualitative research can reveal other information that is not captured through quantitative data analysis. This report shares findings from these consumer interviews, including how the interviewed consumers understand overdraft programs, their perceptions of their experiences with overdraft, and their beliefs about the advantages and drawbacks to alternatives to overdraft.

Some key findings from the interviews include:

- Consumers in the study noted several benefits to the availability of overdraft as well as drawbacks. Despite recognizing some benefits, however, all participants were concerned about the high cost of overdraft fees.

- Participants commonly reported surprise at the overdraft fees they were charged. At the same time, some participants expressed awareness that they risked overdraft fees when transacting.
- Participants expressed uncertainty about how their financial institutions make decisions about what to pay into overdraft or how they charge overdraft fees; participants were particularly uncertain about how their financial institution's overdraft policies differed across types of transactions.
- Many participants' overdraft experiences reflected uncertainty about transaction processing, such as the timing of deposits being credited to their accounts. Participants also commonly forgot about scheduled payments that resulted in overdrawn accounts.
- Participants frequently cited friends and family members as resources that could provide an alternative for them to overdraft. Their views on other financial products as alternatives to overdraft such as credit cards or savings diverged widely, with some participants viewing these alternatives as beneficial and others viewing alternatives as risky.

Overall, the consumers participating in this study had a range of experiences and preferences related to overdraft programs, which we describe in Section 4 of this paper.

2. Background on overdraft

Financial institutions may charge overdraft fees for paying transactions that exceed a consumer's checking account balance.[1] When checks were the primary means through which consumers accessed their checking accounts, overdraft was typically offered on an ad hoc basis as a courtesy to enable some consumers to avoid having checks "bounced" (*i.e.*, returned unpaid) due to insufficient funds. However, with the advent of debit cards and the growth of automated clearinghouse (ACH) networks to make electronic payments, overdraft programs evolved to automated programs that could accommodate the increasing volume of electronic transactions. These developments created increasing opportunities for consumers to overdraw accounts held at institutions that offer overdraft programs. Overdraft and NSF fees accounted for approximately 65 percent of revenues from consumer deposit account fees for banks with over $1 billion in assets in 2015.[2]

Not all consumers incur these fees, but among those that do, the annual cost can be significant. Among the same sample of accounts from several large banks, accountholders that incurred one or more overdraft or non-sufficient funds (NSF) fees paid an average of $225 in overdraft and

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[1] In 2009, the Federal Reserve Board of Governors finalized a rule to prohibit a financial institution from assessing an overdraft fee for paying an ATM or one-time debit card transaction that overdraws a consumer's account unless the consumer has previously affirmatively consented ("opted in") to such a service. *See* Electronic Fund Transfers, Regulation E (Final rule), 74 Fed. Reg. 59033 (Nov. 17, 2009).

[2] Stein, G., February 2016. "New insights on bank overdraft fees and 4 ways to avoid them." *Available at:* consumerfinance.gov/about-us/blog/new-insights-on-bank-overdraft-fees-and-4-ways-to-avoid-them.

NSF fees per year. Overdraft fees can also result in consumers' checking accounts being involuntarily closed when the negative balance following an overdraft goes unpaid for a period of time.[3] Among all accounts that were open during a one-year period at these banks, six percent experienced an involuntary closure.[4]

A substantial share of overdraft fees are paid by a small fraction of consumers; eight percent of accounts at the banks were charged 74 percent of all overdraft fees.[5] The incidence of overdraft fees varies substantially with consumers' opt-in status (whether the consumer has affirmatively consented to overdraft fees on debit card purchases and ATM withdrawals).[6] Opted-in accounts at the large banks in the study incurred seven times as many overdraft fees as accounts that were not opted in.[7] Although many financial institutions waive overdraft fees charged on small transactions or small negative balances, many overdraft fees are charged for small transactions: the median debit card transaction charged an overdraft fee was $24 at a sample of large banks, and across all types of transactions (including checks, online bill payments, and others), the median transaction that was charged an overdraft fee was $50.[8]

The CFPB's interviews with consumers focus on individual consumers' perceptions of their experiences with overdraft programs. Although qualitative interviews cannot reveal systematic

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[3] Financial institutions vary in their policies for involuntary account closure, but will generally close an account after taking a charge off in the amount of the uncollected balance.

[4] Consumer Financial Protection Bureau, June 2013. CFPB Study of Overdraft Programs *at* 23-24. *Available at* http://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf. Most involuntary account closures were a result of unpaid negative balances following an overdraft.

[5] Consumer Financial Protection Bureau, July 2014. Data Point: Checking account overdraft *at* 11. *Available at* http://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf

[6] See description of the Federal Reserve Board's amendment to Regulation E in 2009 in Footnote 1, *supra*.

[7] Consumer Financial Protection Bureau, July 2014. Data Point: Checking account overdraft, *supra at* 5.

[8] Consumer Financial Protection Bureau, July 2014. Data Point: Checking account overdraft, *supra at* 18.

patterns in the way that quantitative analyses can, the interviews provide rich narratives of individual consumers' perspectives. The following section describes the participants in this study and the topics they discussed when describing their experiences with overdraft.

3. Methodology

The CFPB contracted with an independent research firm to conduct qualitative research on consumers' experiences with overdraft programs.[9] The contractor's researchers conducted in-depth telephone interviews with 88 consumers who had experience with overdraft or NSF in the prior two years. Potential participants were eligible for the study if they reported experiencing more than one overdraft or NSF or paying at least $50 in overdraft or NSF fees in the preceding two years. This eligibility restriction attempted to ensure the study focused on the experiences of consumers who had either regular experience with overdraft services or who had experienced the financial impact of more than one fee. Participants had to be 18 years old or older and reported holding an open checking account with a bank or credit union within the previous 12 months.[10] In screening for eligibility, as well as during the interviews with consumers about their experiences with overdraft, researchers conducting the study relied upon consumer's self-reporting of their characteristics and experiences. In some cases, participants' recollections about the transactions upon which they were charged fees may differ from their financial institutions' accounting of overdrafts and fees.

[9] The research described in this report was funded by the CFPB under a competitive award to Abt Associates (contract number TPDCFPBPA130014 CALL0002).

[10] Researchers also screened out consumers who worked for a bank, another kind of financial institution, an advertising agency, a public relations firm, or a market research firm.

3.1 Identifying respondents

This study used Random Digit Dialing of mobile and landline phones to identify potential participants. Random Digit dialing allows for access to any type of phone and unlisted numbers, and ensures geographic diversity in the interview sample. The study employed screening questions to identify people who met the study criteria and who were willing to participate in an in-depth interview. Recruiters sought to include participants with a range of demographic characteristics, including age, employment status, educational attainment, race and ethnicity, household income, and gender. Researchers also sought to recruit participants with varying levels of overdraft usage within the prior two years by ensuring that recruitment included participants who reported paying more than $200 in fees in that time period as well as participants who had paid less. The recruitment process was not designed to identify participants representative of the national population or the population of consumers who experience overdraft fees; rather, it focused on identifying a range of consumers with diverse characteristics.

3.2 Participant characteristics

As noted in Section 3.1, the 88 individuals interviewed are not intended to be representative of all overdraft users. Appendix A provides counts of participants in a variety of demographic groups and displays the range of characteristics of consumers who participated in the study.

About two-thirds of study participants were female and about one-third were male. Participants' ages were widely distributed, with no one age group predominating. A little more than half the consumers interviewed identified as white, about one-third African-American, and the remaining respondents identified as Hispanic/Latino or another race/ethnicity. About half of the study participants reported to be employed. The remainder were roughly evenly split between reporting to being unemployed, retired, or not working for other reasons, such as disability. A small number of participants reported they were students.

Although participants' incomes covered a wide range, many participants reported to be low-income: about one-third of those interviewed reported incomes of less than $25,000 per year, and nearly half reported incomes of less than $40,000 per year. At the other end of the spectrum, fourteen respondents reported household incomes of $75,000 or above, including nine respondents with incomes of $100,000 or more.

Participants' level of experience with overdraft programs varied, with the majority of participants (nearly two-thirds) reporting that they experienced between two and five payments or withdrawals that resulted in an overdraft or NSF over the preceding two years. Roughly one-quarter of participants experienced six or more payments or withdrawals that resulted in an overdraft or NSF in that time period. Slightly over half of participants reported paying between $50 and $200 in overdraft or NSF fees in the past two years. Roughly one-sixth of all respondents reported paying less than $50 and the remaining one-third of respondents reported paying more than $200.[11]

The study included consumers who reported experiencing overdraft at financial institutions of different sizes. Overall, about two-thirds of respondents held their checking account with a large institution and one-third with a small institution.[12]

[11] Comparing the screening interviews to the in-depth interviews reveals that participants varied in how they remembered their overdraft experiences. Some thought of overdraft in terms of occasions, but may not remember the number of debits, for instance. Potential participants responded to a series of questions that measured their level of experience with overdraft in several different ways when being screened for eligibility for the study, and their recollections of their experiences were not always consistent across these different measurements. This could result in inconsistencies between the number of overdraft transactions that consumers reported and the fees that they recalled being charged. The data presented here reflect participants' recollections about their experience with overdraft and highlight the diversity among the interview sample in terms of frequency of overdraft and amount of fees paid.

[12] Contractors conducting the interviews provided the CFPB a list of institutions named by respondents separately from de-identified interview transcripts and without any identifier that could link any respondent's interview data to a specific bank or credit union. The CFPB then determined the size of financial institutions by identifying the asset size for each institution named by respondents, where feasible. Institutions were classified as large or small based on an asset size threshold of $10 billion, and most institutions classified as "small" held less than $1 billion in assets.

3.3 Conducting the interviews

The CFPB used a qualitative study to gather rich narratives of consumers' beliefs and attitudes toward overdraft. The one-on-one interviews allow for in-depth conversations where participants are more likely to feel at ease discussing potentially sensitive information. Some limitations of a qualitative study like this are that it does not indicate how prevalent a particular consumer experience is, and that consumers may not recall particular facts of their overdraft experience, but rather provide their overall impression or recollection of the events.

Interviews were conducted by telephone with each participant, generally lasting between thirty and forty-five minutes. Interviewers used a semi-structured interview guide to engage the consumer in discussion of his or her experiences with overdrafts and opinions of overdraft programs and fees. The interview guide included questions on consumer understanding, perceptions, and use of overdraft programs; consumer understanding of their options related to opting in to overdraft coverage on debit cards and ATM transactions; consumer use of account management options; consumer use of alternatives to overdraft programs; and experiences with checking account closure. All interviews took place between May 1, 2014 and June 27, 2014.

4. Consumer experiences with overdraft

The consumers who participated in the study described a range of experiences related to overdraft programs, both positive and negative. These discussions also reflected their understanding of how overdraft programs work and the choices that are available to them in the marketplace. In-depth discussions of consumers' recent overdraft experiences revealed a variety of circumstances that led to the overdraft and consequences that in some cases included both voluntary and involuntary account closure. The interviews also explored participants' strategies for managing their checking accounts and the tools that they use to do so, as well as their perceptions of and attitudes towards alternatives to overdraft such as accessing funds from a savings account, credit cards, other financial products, or informal sources such as friends and family. This report shares quotations from the consumer interviews to illustrate these consumers' perceptions and experiences in their own words

The study was not designed to evaluate the accuracy of participants' recollections about their experiences with overdraft. Instead, the study focused on participants' perceptions of their experiences. In some cases, the events that consumers in the study reported may differ from their financial institutions' accounting of the transactions that were assessed fees, which the researchers conducting the study did not observe.

In addition, the consumers in the study may have referenced different types of overdraft coverage when discussing their experiences. As an alternative to standard overdraft services, many financial institutions offer consumers the option to link another account (such as a savings account or line of credit) to their checking account to avoid overdraft fees. The financial institution will then automatically transfer funds from the linked account to the consumer's checking account to cover a transaction that would overdraw the account, charging a transfer fee that is usually lower than the overdraft fee and, for overdraft lines of credit, charging interest on the outstanding balance. While the interviewers focused on standard overdraft services during their conversations with consumers, some participants had taken advantage of their financial institutions' linked account programs and their experiences with overdraft are likely informed by this alternative overdraft program. Although this study was not designed to identify systematic differences in the experiences of subgroups of consumers, such as those with and without linked accounts, any significant patterns in participants' perceptions are discussed below.

4.1 Attitudes toward overdraft programs

The consumers who participated in the study generally held mixed views of overdraft programs. The consumers noted several ways in which overdraft programs provided them with benefits as well as the drawbacks they experienced when overdrafting. Consumers in the study described overdraft as a resource for making important payments, such as for medical bills, groceries, or utility bills. They also described financial benefits from having bills paid through overdraft, such as avoiding late fees or negative credit reporting.[13] Several consumers in the study also noted that overdraft can help avoid embarrassment associated with having payment attempts declined or rejected. Participants who reported having overdraft coverage through a linked account, and who therefore pay lower fees to have their overdrafts covered by funds from the linked account, were more likely to express positive attitudes toward overdraft than participants who experienced standard overdraft services (generally accompanied by a per-item fee).

[13] It was unclear from the interviews whether participants were considering credit reports or other types of consumer reports when discussing overdraft as beneficial for avoiding negative credit reporting. A financial institution may report rejected payments (NSFs) to consumer reporting agencies such as Certegy and Telecheck that depository institutions use to screen checking account applicants. Rejected payments are not reflected, however, on credit reports that financial institutions use for credit decisions. Alternatively, these participants may have been thinking about circumstances where overdraft services covered a credit payment, such as an auto loan payment or credit card payment. In these cases, covering the payment through overdraft may have helped the participant avoid a delinquency on the loan, which would be reflected on their credit report.

All participants expressed concern about overdraft fees, and many of the consumers who participated in the study held strictly negative attitudes towards overdraft programs and did not describe any benefits. Consumers in the study generally believed that overdraft fees are high and disliked multiple fees from overdraft charges on multiple transactions or negative balance fees charged while the account is overdrawn. They expressed concern about the challenge of being able to "catch up" or cover their future expenses due to paying overdraft fees.

> "If you are overdrafting, the risk is that you are going to end up with your whole entire deposit being eaten up by overdraft fees."

> "$35 is a lot of money for a person that doesn't have any."

The participants' attitudes about overdraft sometimes varied by the circumstances they had recently experienced. Consumers in the study who had not anticipated that a purchase would lead to an overdraft fee were frustrated that they didn't have the opportunity to use another form of payment for the transaction to avoid the fee. Participants' attitudes also differed by the size and type of transaction for which they had recently experienced an overdraft fee. Those who were charged fees on debit card transactions commonly felt that they would have preferred for the transaction to be declined, describing them as purchases that were small relative to the size of the overdraft fee or discretionary purchases that they would have preferred to delay or forgo. In contrast, participants who attributed their recent overdraft fees to a check or online bill payment more commonly found the overdraft worthwhile, describing these transactions as important or necessary.

4.2 Understanding of overdraft programs

While the consumers who participated in the study all reported experiencing overdraft programs and fees, they generally did not have a clear understanding of their financial institutions' policies related to overdraft programs. Furthermore, few participants reported that they considered overdraft-related policies when they last opened a checking account, and participants were generally uncertain of whether or how their institution's overdraft policies differ from those of other banks or credit unions.

Consumers expressed uncertainty about several components of overdraft programs, such as how their financial institution decides whether to pay a transaction into overdraft. Some participants guessed that financial institutions may use information such as the amount of the purchase relative to the balance in their account and the name of the vendor that would be paid when deciding whether to pay a transaction into overdraft. Consumers in the study were also uncertain about their financial institutions' transaction processing policies that interact with overdraft programs. Many consumers in the study described experiences with overdraft that included confusion about when they would have access to their deposits or about when their accounts' balances would reflect transactions they had made.

Participants also expressed uncertainty about whether their overdraft coverage differed across different types of transactions, such as a check in contrast to an ATM withdrawal. Relatedly, many of the consumers interviewed stated that they were not aware that financial institutions must obtain affirmative consent ("opt in") from consumers before charging overdraft fees on debit card purchases and ATM withdrawals. Awareness of this rule could vary across consumers for a variety of reasons, which could include the different approaches that financial institutions take toward soliciting opt-in from their customers or the length of the consumer's relationship with their financial institution.[14] However, many of the participants who did not recall opting in or who were not aware that they had a choice about being charged overdraft fees for debit card and ATM transactions described experiencing fees on these types of transactions.

4.3 Experiences with overdraft

Each consumer discussed his or her most recent experience with overdraft fees, describing their perception and recollection of the circumstances that led to a fee. Many of the participants

[14] As noted in the Bureau's white paper on overdraft programs, financial institutions offer different configurations of overdraft programs and took different approaches to soliciting opt-in after the Board's amendment to Regulation E went into effect (*see* "CFPB Study of Overdraft Programs," Footnote 4, *supra* at 28 – 30). Some institutions, in particular, focused on marketing opt-in to new accountholders at account opening. Customers at these institutions who had opened their accounts prior to the implementation of the amended rule were therefore less likely to be informed about the change due to their institutions' marketing strategies.

attributed their most recent overdraft to forgetting about a scheduled payment. These participants generally had their account balances reduced by an online bill payment and then experienced overdraft fees on a subsequent transaction. In some cases, the consumer said he or she had forgotten about the timing of a scheduled payment; in others, the consumer thought that he or she had cancelled the payment and hadn't expected it to be completed.

Other participants indicated that they miscalculated the timing of their financial institutions' transaction processing. These participants made purchases and payments while mistakenly believing that a deposit had been credited to their account or that a purchase or payment would not have been subtracted from their account balance, and subsequently experienced overdraft fees.

In many cases, consumers' financial constraints – such as low balances or low incomes – left them with little margin for error. Financial constraint was often an implicit factor contributing to an overdraft or NSF fee, even if it was not the dominant circumstance that the consumer described as contributing to his or her most recent overdraft experience. Often, the overdrafts occurred toward the end of the month or right before a consumer was paid or received a benefits check – a time when some financially constrained consumers start to run out of money or become more vulnerable to timing issues regarding the posting date of a deposit.

> "…by the end of the month, it is getting very close as far as money because at the beginning of the month, you're sending out all your monthly bills. So then you find that you are getting down to a very close edge and it is easy to get yourself into a position of an overdraft."

A small number of participants described other circumstances, which included making a calculated decision to overdraw to be able to pay bills or make purchases. Most of the consumers in the study who described intentionally using overdraft had linked an account to their checking account to move funds from their own savings or credit account to their checking account instead of using standard overdraft services. A small number of participants also lacked awareness that taking their account balances negative may result in overdraft fees being charged.

Most consumers participating in the study described themselves as surprised when they received an overdraft fee and usually thought they had enough money to cover a purchase or payment that later resulted in an overdraft. This expectation aligns with the common circumstances that consumers in the study described of either forgetting about a scheduled payment that reduced their balance unexpectedly or miscalculating the timing of when deposited funds would be available or when other transactions would be processed. Some of the participants described a more variable experience with overdraft, where sometimes they were surprised but at other times expected to be charged a fee when making a purchase or payment. In addition, some of the consumers in the study who expressed surprise at the fees they were charged also described awareness that they ran a risk of overdrafting during the course of the interview. This aligns with the experience of participants who are living at the edge and have uncertainty about payment processing timing and may be aware that they are at risk of incurring overdraft fees.

> "I think my thought process was how close it was to payday. And how close it was until the money came in. So I was rolling the dice as it were because it might have cleared before but it might have cleared after. So I just rolled the dice to see what would happen."

Participants described the circumstances contributing to their most recent overdraft, sometimes noting a certain transaction as the underlying cause of an overdraft for having reduced their account balance even though a subsequent transaction was the one that brought the account balance negative and was assessed the fee. In many cases, participants described their most recent overdraft experience (either the transaction that was assessed a fee, or their perception of the underlying cause of the overdraft) as relating to a basic household need. Bills were the most common payment described, particularly utility bills and bills related to transportation such as auto insurance or paying an auto loan. Other necessities participants mentioned included groceries and gas. In contrast, some participants attributed their most recent overdraft to a discretionary purchase. These consumers generally stated that they were unaware that they didn't have enough funds in their account and would have preferred to defer the purchase if they had been aware of the risk of an overdraft fee.

> "I got tired of my checks being gone before I can spend them."

Some consumers stated that experiences with overdraft fees resulted in deciding to close their checking accounts or in losing their checking accounts after failing to cure a negative balance caused by overdraft. Many of these consumers said they were eventually able to repay the amount they owed to the financial institution and some were even able to reopen an account at the same financial institution. Some of the consumers in the study who had experienced an involuntary closure said they had not attempted to open another account, either because they did not think they would be able to or because they felt they didn't need a checking account. These consumers said that they instead relied on people that they live with to pay bills, or used prepaid cards, cash, or money orders.

4.4 Account management experiences

Participants discussed how they access information about their account balances to manage their accounts. Participants varied in their reported frequency of monitoring their account balances, ranging between daily and monthly. Many consumers in the study described checking their accounts regularly out of habit; others described checking their account balance when planning for purchases or payments. Less frequent reasons that participants mentioned included checking when they expected to receive a paycheck, when they thought their balance was running low, or in response to receiving a low-balance alert from their financial institution.

Some of the participants said they used their financial institution's website to monitor their account balances, and many of these consumers indicated they used their financial institution's mobile app as well. Some participants stated that they preferred to call their financial institution to check their account balances. Less commonly described methods included visiting the financial institution in person, conducting a balance inquiry at the ATM, and reviewing periodic statements. The method of accessing account balance information varied by the participant's age: the consumers in the study that used their financial institutions' mobile app tended to be young, while those who used their periodic statements to check their balances were older.

Few participants discussed alerts as an account management tool.[15] Of those that did, several participants expressed frustration that the alerts they received did not help them avoid overdrafts because the alert did not incorporate information about upcoming scheduled payments that would further reduce the account balance. Several participants also expressed interest in timely information that would help them to make purchasing decisions, such as information at the point of sale if a transaction would overdraw the account.

4.5 Alternatives to overdraft

Consumers in the study discussed their perceptions of different alternatives to overdraft when needing to pay for expenses that they couldn't cover with their checking account. They shared thoughts on alternatives that they would consider and the benefits and drawbacks of these alternatives. The most common alternative that participants discussed was borrowing from friends and family. Participants described friends and family as providing the benefit of avoiding the financing costs associated with overdraft programs and formal lending products.

> "Well, with a credit card actually it just gives you – you buy a little time to pay it off… And I knew that I would have the money in two weeks."

Some participants also named credit cards as a favorable alternative. These consumers liked the longer and more flexible repayment period that credit cards offer, in contrast to overdraft programs where repayment is made out of the consumer's next deposit. Consumers in the study also noted that repaying a credit card, even one with a high interest rate, can be more affordable because of the option for a longer repayment period. However, other participants expressed concerns about using credit cards. These consumers were wary of accessing credit generally, either because of previous challenges in managing credit or because

[15] Interviewers did not directly ask whether consumers had signed up to receive alerts, so there may have been more participants enrolled in alerts than those who mentioned them as an account management tool.

of a belief that credit cards could encourage spending beyond one's means. Few consumers in the study said they considered payday or other short-term high-cost loans as an alternative; those who did described calculating the fees associated with payday loans and with overdraft to decide which they would choose.

"… I notice that with myself, the more I use it, the more I am just like – keep a balance on it and end up getting like bigger and bigger over time."

Some participants also discussed using their savings. These consumers said they preferred to use money they already had rather than pay an overdraft fee. Participants generally were referring to non-retirement savings held in a savings account or elsewhere, although a small number of participants also considered withdrawing money from their retirement accounts. Some consumers in the study who discussed the benefit of using savings to cover their expenses said they were unable to use this alternative because of insufficient savings upon which to draw. Others were wary of drawing down their savings, preferring to leave this alternative as a last resort.

Some participants in the study reported enrolling in a linked account program and generally viewed such programs positively. These consumers cited lower fees as a significant benefit of being enrolled in the program. The remaining participants appeared split in their perceptions of linked account programs: while many of them said they liked the idea of paying lower fees, others said they preferred to maintain a separation between their checking and savings accounts. Some participants also noted concerns about linking their checking account to a credit account because of concerns about misusing the credit and negatively affecting their credit reports. Other discussed concerns including additional complexity due to keeping track of multiple accounts and being charged a fee for accessing one's own money.

"It's good because if I do come to an overdraft or whatever, I can just pull it out of the savings and I like that. As compared to whatever larger fee I might otherwise be paying."

"I don't want them to touch my savings. I mean, if I have savings, savings is savings. It has nothing to do with my checking. I have my savings account somewhere else where no one can touch it except me."

Many participants said their preferred sources of funds related to the type of expenditure that they were considering. When considering a discretionary purchase that they didn't have enough money to cover, many participants stated that they would prefer to forgo the purchase or wait until they had sufficient funds instead of overdrawing their accounts or seeking an alternative source of funds. Many participants shared that they felt they shouldn't use overdraft to cover discretionary purchases and that it was only appropriate for basic necessities such as utility bills. However, even for necessities, some consumers in the study said they preferred to defer the payment rather than pay an overdraft fee. These consumers said they felt that late fees would be less costly than overdraft fees or that it would be possible to make arrangements with their billers for a delayed payment.

5. Conclusion

As part of its mission to empower consumers to make well-informed financial decisions and achieve their goals, the CFPB provides consumers with educational information as well as resources for financial educators. The range of experiences with overdraft described by consumers participating in this study highlights the importance of providing resources that reflect the diversity in how consumers use and understand overdraft programs. While many consumers in the study described experiencing inadvertent fees, a small number reported that they turned to overdraft programs intentionally (although these consumers generally had other accounts linked to their checking accounts, instead of using standard overdraft services). Consumers in the study also differed in their preferences for alternatives to overdraft programs and in their approaches to managing their finances. Some participants described programs that link their checking accounts to other accounts as helpful options for avoiding the cost of standard overdraft services. Other participants may have been unable to access these sources of funds or expressed wariness of doing so. The wide range of preferences and experiences that consumers relayed through the interviews indicates that financial educators may best achieve their goals by designing flexible resources that adapt to individual consumers' experiences and preferences. Below are some suggestions of strategies for financial educators to support consumers:

- Remind consumers to consider a bank or credit union's overdraft practices when selecting a checking account.
- Encourage consumers to investigate all overdraft options offered for their current checking account, including linking an account, in order to select the plan that best fits their needs.
- Help clients develop a system for staying aware of the timing of their scheduled payments. The CFPB's Your Money Your Goals toolkit includes a spending tracker and a bill calendar that consumers can use to keep track of their cash flow. Those who are

interested in the tools can order them for free at consumerfinance.gov/your-money-your-goals/.

- Encourage consumers to check account balances periodically by doing things such as calling their bank, visiting an ATM, signing up for text alerts, viewing accounts online, or using mobile applications before making discretionary purchases.

- Suggest that consumers sign up for low balance alerts to help them avoid unintentional overdraft.

Although the consumers participating in the study shared a range of perspectives, their experiences did not appear to vary systematically by characteristics such as their level of overdraft usage or by the size of the institution at which they held their checking account. However, this qualitative study was designed to provide in-depth explorations of a limited number of consumers' perceptions rather than to identify systematic trends. Further research would be needed to evaluate the trends and patterns in experiences with overdraft programs among different subgroups of consumers.

In developing resources and tools for consumers about overdraft programs, financial educators should also keep in mind that participants' conceptualizations of overdraft services did not always reflect the same service, with some participants thinking of standard overdraft services and others focusing on linked account programs. Financial educators should develop their resources with awareness that consumers may interpret "overdraft programs" in different ways.

The CFPB's own educational resources and tips for consumers on managing checking accounts, including information on overdraft-related issues, include:

- Guides to selecting and managing checking accounts, available at consumerfinance.gov/about-us/blog/guides-to-help-you-open-and-manage-your-checking-account/.

- A worksheet to support consumers in managing spending to achieve their financial goals at consumerfinance.gov/about-us/blog/managing-your-spending-achieve-your-goals/.

- Explanation of how overdraft programs differ for everyday debit card purchases and ATM withdrawals at consumerfinance.gov/about-us/blog/understanding-overdraft-opt-choice/.

- Answers to consumer questions about overdraft and other issues relating to bank accounts and services as part of the Ask CFPB website at consumerfinance.gov/askcfpb.

These and other resources for consumers can be found at consumerfinance.gov.

APPENDIX A:

Participant Demographics

TABLE 1: GENDER

Participant gender	Number of participants
Male	33
Female	55

TABLE 2: AGE

Participant age	Number of participants
18-29	19
30-49	26
50-64	29
65+	14

TABLE 3: RACE/ETHNICITY

Participant race/ethnicity	Number of participants
White (non-Hispanic)	49
African-American (non-Hispanic)	30
Hispanic/Latino	6
Other race/ethnicity	3

TABLE 4: EMPLOYMENT

Participant employment status	Number of participants
Employed	47
Full-time	30
Part-time	17
Unemployed	12
Retired	14
Student	4
Other not working	11

TABLE 5: EDUCATIONAL ATTAINMENT

Participant educational attainment	Number of participants
Less than high school	11
High school	22
Some college	25
College	12
Postgraduate	11
Technical	7

TABLE 6: INCOME

Participant income	Number of participants
Less than $25,000	30
$25,000-$40,000	13
$40,000-$75,000	22

Participant income	Number of participants
$75,000-$100,000	5
$100,000 and above	9
Don't know/refused	9

TABLE 7: AMOUNT OF FEES PAID IN PAST TWO YEARS

Fees paid by participants	Number of participants
Less than $50	13
$50-$99	24
$100-$199	22
$200-$349	17
$350 and above	12

TABLE 8: SIZE OF FINANCIAL INSTITUTION

Size of participant's financial institution	Number of participants
Large	55
Small	24
Data not available	9