CONSUMER FINANCIAL PROTECTION BUREAU | MAY 2023

Consumer experiences with overdraft programs

A summary of focus groups and interviews with low- and moderate-income consumers

Consumer Financial Protection Bureau

Table of contents

The Consumer Financial Protection Bureau regularly engages in conversations with consumers. This includes the use of interviews and focus groups to gather direct feedback and help shed light on real consumer experiences with financial products and services. The CFPB's Consumer Voices publications share the findings of these engagements with the public. The data generated provide insights about what some consumers experience, and are intended to stimulate further exploration and policy development. These data cannot be used to form generalized conclusions about the population as a whole.

1. Introduction

In 2019, bank and credit union customers in the United States paid an estimated $15 billion in overdraft and non-sufficient funds (NSF) fees.[1] These fees are charged when a consumer's checking account lacks funds to cover a transaction. Accountholders with lower account balances or volatile income and expense patterns may incur hundreds or even thousands of dollars in overdraft and NSF fees a year, and encounter consequences including financial hardships and even account closure.[2]

The CFPB held interviews and focus groups with low- and moderate-income consumers during the summer of 2022 to better understand their experiences with overdraft programs. For this engagement, 36 participants—14 in individual interviews and 22 across four focus groups—were asked about their use of deposit accounts and debit cards, their understanding of overdraft, specific incidents they experienced resulting in being charged an overdraft or NSF fee, their perceptions of ways to avoid such fees, and other related topics. Due to the limited nature of this engagement, findings should not be considered representative of all consumers, or used for statistical analysis. However, this engagement helped the CFPB to understand how these consumers use financial products at a given point in time, and highlights some problems people face with their deposit accounts in a rapidly evolving market. Some financial institutions have reduced or even eliminated overdraft and NSF fees, while the implementation of these changes remains uneven and impermanent, and some customers may not yet see or benefit from them.[3]

The consumers who took part in this engagement expressed a wide range of views about overdraft programs. Themes raised in these discussions included the following:

- **Confusion about overdraft.** While some consumers specifically considered overdraft when choosing an account, many were not aware of their financial institution's policies at the time of account opening. Some stated that it automatically came with their account. Some had difficulty explaining overdraft, and others recalled only learning about it after

1 Éva Nagypál, "Data Point: Overdraft/NSF Fee Reliance Since 2015—Evidence from Bank Call Reports," Consumer Financial Protection Bureau, December 2021, https://files.consumerfinance.gov/f/documents/cfpb_overdraft-call_report_2021-12.pdf

2 Joe Valenti, "Overdraft fees can price people out of banking," Consumer Financial Protection Bureau, March 30, 2022, https://www.consumerfinance.gov/about-us/blog/overdraft-fees-can-price-people-out-of-banking/

3 Rebecca Borné and Amy Zirkle, "Comparing overdraft fees and policies across banks," Consumer Financial Protection Bureau, February 10, 2022, https://www.consumerfinance.gov/about-us/blog/comparing-overdraft-fees-and-policies-across-banks/

incurring fees. Most consumers had not considered ending overdraft protection, but some were unaware of this as an option.

- **Concerns about fees, payment timing, and notifications.** Many consumers felt that the typical overdraft fee of roughly $35 was excessive, and not necessarily proportional to the covered transaction, while some considered the typical overdraft fee appropriate as a deterrent. They had mixed views about whether transactions resulting in an overdraft fee should go through or not, often depending on individual circumstances. Some expressed frustrations about when payments would process and the lack of up-to-date balance information causing overdrafts, and felt they did not receive timely notifications or have sufficient control to address shortfalls. Consumers welcomed recent reductions in overdraft fees and the adoption of grace periods.
- **Experiences with financial hardships and fee waivers.** Some consumers noted facing financial hardships after incurring overdraft fees, especially if they encountered multiple fees in a short period of time. In some cases, fees potentially displaced food or gas purchases, made it difficult to pay bills, and led to people working more hours to make up for a shortfall. Some participants had never considered seeking a waiver for overdraft fees, while others had limited success—often obtaining a waiver for the first overdraft fee.
- **Experiences with account closures.** In response to overdraft fees, some participants either closed their accounts or had an account closed by their financial institution. Post-closure, some had difficulty opening a new account.
- **Approaches to avoid overdraft fees.** Consumers mentioned creative approaches to avoid overdraft fees when faced with limited resources, while also noting limitations to these options and ways in which these strategies did not work in the past. They discussed making transfers from savings, frequently checking balances and using text alerts, avoiding debit cards in favor of credit cards when possible, leveraging other financial products, and using budgeting tools.
- **Limited awareness of account options without overdraft fees.** While most consumers were unaware of any deposit accounts without overdraft fees, some had seen advertisements for these accounts. Some were skeptical of these accounts or did not think they would be eligible for one; others expressed interest in exploring them. Most were also unaware of second-chance accounts, but others had experience with them either first-hand

or through someone they knew, and largely viewed them favorably. None were familiar with BankOn accounts.[4]

While most participants expressed frustration with overdraft fees and the circumstances that caused those fees, some participants expressed that they found value in overdraft programs to provide them with greater flexibility. In particular, some of these consumers had accounts with lowered fees or where their financial institution had instituted buffers or grace periods. Notably, as consumers recall their experiences with overdraft fees, some of these experiences could be very recent, while others could have taken place in prior years or with a prior deposit account.

This is one of many data-gathering efforts—qualitative and quantitative—by the CFPB to better understand overdraft programs in the context of the deposit accounts market. The CFPB last published a qualitative study of overdraft programs in 2017, with a report summarizing 88 in-depth interviews with consumers about their experiences with overdraft.[5] In this earlier report, interviewees noted benefits and drawbacks to the availability of overdraft, and expressed concerns about the high cost of overdraft fees. They generally noted uncertainty about transaction processing and how and when an overdraft fee would be charged, although some noted awareness of the risk of overdraft fees when making transactions. Interviewees expressed mixed views on alternatives to overdraft. This report builds on these earlier findings, and demonstrates the CFPB's continued effort to hear from consumers and incorporate their perspectives into its work.

---

[4] BankOn accounts are checkless checking or prepaid accounts with no overdraft features, and must meet certain low-cost criteria. Second-chance accounts are generally offered to people with a negative banking history, and similarly contain restrictions such as limitations on check or debit card usage.

[5] Consumer Financial Protection Bureau, "Consumer voices on overdraft programs," November 2017, https://files.consumerfinance.gov/f/documents/cfpb_consumer-voices-on-overdraft-programs_report_112017.pdf

2. Background on overdraft programs

Financial institutions have a choice of whether to approve or decline a transaction when insufficient funds are available in a customer's account. If the transaction is declined, the financial institution may charge a non-sufficient funds (NSF) fee in response. If the transaction is approved, the financial institution may charge an overdraft fee, although several types of overdraft coverage exist:

- **ACH and check transaction coverage:** Most deposit accounts include some type of overdraft coverage for automated clearing house (ACH) and check transactions, in which these payments will be automatically processed in exchange for a fee.[6] Depending on the financial institution, consumers may or may not have a choice in whether the financial institution will approve these transactions and charge an overdraft fee, or decline them and charge an NSF fee.

- **Debit card and ATM transaction coverage:** Many deposit accounts will also potentially cover one-time debit card and ATM transactions even if funds are not available. Prior to the Federal Reserve Board's 2009 amendment to Regulation E, many financial institutions automatically covered these transactions for a fee, although some of these institutions permitted the customer to opt out of overdraft services. After the amendment, later recodified by the CFPB, went into effect in 2010, account holders must generally opt into overdraft services for these transactions in order for the financial institution to charge fees for covering them.[7]

- **Linked account programs:** Some financial institutions also offer overdraft protection programs that link the customer's checking account to another account, such as a savings account, credit card, or line of credit. Under these programs, if a transaction would overdraw the customer's checking account, funds are automatically transferred from the linked account, sometimes with an associated fee.

---

[6] For a detailed description of overdraft practices in general: Consumer Financial Protection Bureau, "CFPB Study of Overdraft Programs: A white paper of initial data findings," June 2013, https://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf.

[7] Federal Reserve System, "Electronic Fund Transfers: Final Rule," November 17, 2009, 74 FR 59033-59056.

In addition to fees charged in connection with a transaction or transfer, some financial institutions impose an additional fee if an account has a negative balance for a certain number of days, often referred to as a sustained, continuous, or extended overdraft fee.

The timing of transaction processing may also result in overdrafts. Rather than processing instantly, most financial institutions post transactions on weekday nights, taking into account both incoming and outgoing funds (credits and debits). After all transactions have settled, the account's ledger balance is updated and remains unchanged until the next posting day. The sequence in which all transactions are processed may determine whether insufficient funds exist, resulting in one or more overdraft or NSF fees. For example, in some cases debits may process before credits, large payments may process before small ones, or debit card payments may process before check and ACH payments. These practices will all vary from one financial institution to another. Additionally, because delays occur between the authorization and settlement of a debit card transaction, the amount of funds that appear available to spend in one's account at the time the consumer initiates the transaction may not reflect the amount of money in the account at settlement.

If a customer overdraws their account and is unable to bring that account back to a positive balance within a given amount of time, the financial institution may choose to close that account. Account closures are often reported to account screening CRAs (ASCRAs): specialty credit reporting companies such as ChexSystems and Early Warning. A negative record with ASCRAs may limit that customer's ability to open an account at a bank or credit union in the future.

3. Details about the engagement

From June through September 2022, the CFPB's Office of Community Affairs heard from 36 people regarding their experiences with overdraft programs: 14 participants in individual interviews, and 22 participants across four focus groups, ranging from four to seven participants per group.[8] Participants were recruited for this engagement through advertising on social media platforms and outreach to community-based organizations. They were selected based on their experiences with deposit accounts and overdraft programs. All participants met income eligibility criteria, had at least one account at a bank or credit union, and had at least one debit card that they used frequently. Participants were given an incentive for their participation. All interviews and focus groups were held virtually.

This is a small-scale engagement with a non-representative sample of consumers designed to provide insights about some consumers' experiences in order to inform future exploration and study. Though the participants represented a demographically diverse group, they are not statistically representative of the overall population. Similarly, because the CFPB also screened for people who had significant experience with overdraft programs, these participants were generally more likely to have knowledge about overdraft relative to the general population. This engagement provides insight into the views of certain consumers, but should not be seen as representing the thoughts or experiences of all consumers, and cannot be used to form generalized conclusions about the population as a whole.

Several overdraft-related topics were raised during this engagement. Participants were asked about a specific experience when they tried to make a transaction and were charged an overdraft fee because they did not have enough money in their account. They were also asked about what steps they would have preferred their bank or credit union take when handling these transactions; what they know overall about overdraft programs, including their experience when opening an account; what actions they already take, or would take, to avoid overdraft fees; their ability to change overdraft settings on an account or to seek a fee waiver; and their awareness of accounts without overdraft fees, including second-chance and BankOn accounts.

Financial institutions and the general public often use varying terms to describe certain fees and practices. While overdraft programs were the focus of this engagement, interview and focus

[8] This engagement was one of several topics pursued under a single contract. Research described in this report was funded by the CFPB under a competitive award to ICF, contract number 9531CB20A0007, BPA Call 9531CB21F0081.

group participants occasionally referenced, either implicitly or explicitly, fees other than overdraft fees. These include NSF fees and fees for exceeding limits on the number of savings transfers. When the participant is clearly describing being charged another type of fee—or the type of fee can be reasonably inferred from context—this report refers to that specific fee. When the type of fee that a participant incurred is uncertain, for purposes of this report it is interpreted as an overdraft fee given the frequent use of this term.

4. Awareness of overdraft programs in general

Most **interview participants** were not aware of their financial institution's policies with regard to overdraft at the time of account opening. They did not choose an account based on overdraft, instead choosing based on locations or other factors, and do not recall opting into overdraft. Some stated that overdraft just came automatically with their account. Other participants mentioned that they did specifically seek it out, or otherwise recall opting into overdraft protection because they felt it was important or attractive to them.

Interview participants had mixed views about what overdraft protection meant, giving multiple definitions that may reflect the wide variance in product offerings and how they are marketed. Some correctly stated that overdraft protection allowed them to spend more than the amount in their account. They would be charged a fee, or have the shortfall covered by a savings account. Others considered it to be a setting to decline payments that would overdraw their account—the opposite of traditional overdraft protection. Or, consistent with an emerging practice by financial institutions, they considered overdraft protection to allow them to readily cure a negative balance by receiving a notice and having a grace period to add money back to their accounts before incurring an overdraft fee.[9] Most did not receive advice from anyone about overdraft protection, and some mentioned that they only learned about it after they experienced it by being charged a fee.

Most **focus group participants** had heard of overdraft protection, and reported that they currently have it on their accounts. Some were aware of it as an option their financial institution offered and explicitly looked for it, while others claimed that it simply came automatically with their account or do not recall signing up for it. Several felt staff rushed the topic of overdraft protection during the account opening process. Some only learned about how overdrafts worked after being charged a fee, or after policies changed following a financial institution's merger or acquisition.

Focus group participants' explanations of overdraft protection varied. Some described it as taking funds from a linked savings account or credit card if they did not have enough money in

---

[9] In recent months, an increasing number of financial institutions are offering such free grace periods as part of their overdraft programs—in contrast to traditional overdraft protection. Previously, these services were rarely provided free of charge. Consumer Financial Protection Bureau, "Overdraft/NSF metrics for Top 20 banks based on overdraft/NSF revenue reported during 2021," (as of December 6, 2022), https://files.consumerfinance.gov/f/documents/cfpb_overdraft-chart_2023-02.pdf.

their checking account to cover a purchase, which is one form of overdraft protection, while others stated they did not currently have overdraft protection because they were unable to maintain a sufficient savings account balance. Some correctly noted that overdraft protection meant a bill would get paid or a transaction would go through with an associated fee. Others described overdraft protection as a buffer—an emerging practice, as noted above—and stated, incorrectly, that overdraft protection meant a transaction would be declined without a fee being charged.

a. Options for ending overdraft protection

Consumers have the right to end overdraft protection on their accounts for certain kinds of transactions.[10] Participants were asked whether they thought they could end overdraft protection, if they had considered or attempted to do so, and how they would go about it.

Most **interview participants** had not considered ending overdraft protection, although others had thought about it or called to disable it. Some did not know it was an option. Some thought they might need to close their account if they wanted to end overdraft protection—particularly if they had overdraft coverage through linked accounts—or that their financial institution would not allow them to do so. Others thought they would be able to, either by going to the financial institution in person, by phone, or by changing settings on the website or app. They expressed mixed views about how difficult it would be, and which method would work best.

The **interview participants** who had thought about or ultimately did opt out of overdraft protection for at least some transactions noted that they did so in response to a negative experience with overdraft, such as encountering unanticipated or multiple overdraft fees that caused financial hardship. Others noted that they preferred to keep overdraft protection as an option, while some said they might change their settings in the future.

Focus group participants expressed mixed views about ending overdraft protection. Some were unaware that it was an option, while others had opted out in the past either at the time of initial account opening or after having a negative experience with their account.[11] Some noted that it would be difficult to opt out given linked accounts, and some felt they were pressured by

[10] Consumers must affirmatively opt into overdraft services for one-time debit card and ATM transactions, while many banks and credit unions may automatically cover automated clearing house (ACH) or check transactions regardless of the customer's intent in those scenarios.

[11] When these participants describe their experiences with overdraft fees, they may be describing fees charged on a previous account or fees charged before they opted out on a current account.

their financial institution to keep overdraft protection even if they did not want it. Some would prefer to keep overdraft protection to maintain flexibility, while others valued opting out due to past experiences with overdraft, or not wanting to overspend in general. Notably, some **focus group** participants pointed out that even without overdraft coverage, they might face other challenges. They described situations where transactions were declined and in some cases they were charged non-sufficient funds fees, which also strained their finances.

5. Experiences and preferences with overdraft programs

Interview and focus group participants expressed a wide range of perspectives about their experiences with overdraft programs, and how they would have preferred transactions to be handled instead. Many of the examples given by both interview and focus group participants reflected day-to-day financial difficulties that participants face with accounts that regularly have low balances.

Three themes were frequently mentioned in people's experiences with overdraft: frustration with fee levels, concerns about payment timing and balance information, and people's sense of communication and control during negative balance episodes. As noted above, while participants often demonstrated limited understanding of overdraft protection, most had opted into overdraft coverage, or described situations they had encountered prior to opting out.

a. Frustration with fees

Most **interview participants** considered overdraft fees to be excessive, and some could not understand how fee levels were determined or why they were so high. Some placed overdraft fees in the context of the purchases they covered, considering an overdraft fee of $30 or more to be unwarranted for a $5 purchase such as a cup of coffee, or relative to how much it cost to process the transaction. Some suggested that overdraft fees could be lower while still acting as a deterrent, or recommended that overdraft fees be graduated, with amounts varying based on the size of the transaction, the number of transactions that overdrew an account (with higher overdraft fees on successive overdrafts), or the customer's income. A small group of interview participants felt that even at higher levels, overdraft fees were reasonable to discourage overspending, and appreciated that transactions would still go through in an emergency.

Interview participants expressed a wide range of perspectives on whether transactions that would overdraw their account should go through if a fee would be charged. Some would prefer that their financial institution decline transactions, especially for smaller dollar amounts. Some would prefer to have one or two transactions go through, but have subsequent transactions declined to prevent cascading fees. Others would prefer to have transactions approved and only have to deal with an overdraft fee, rather than facing consequences with the merchant as well.

Many **focus group participants** felt that the typical overdraft fee of roughly $35 was excessive, particularly as multiple fees could add up within a short period of time. They felt that overdraft fees were often not proportional to the transactions they covered, such as a $35 fee on a $15 purchase. Some felt that the magnitude of these overdraft fees meant they could not trust their financial institution to protect their funds. Some participants were aware of recent reductions in overdraft fees at some financial institutions, and were glad to see these changes.

Focus group participants' views varied about whether transactions resulting in an overdraft fee should go through or not. Some would prefer that their financial institution decline transactions instead of charging an overdraft fee, arguing that they would use a different form of payment or deal with merchants individually. Others would prefer to have transactions approved. Some noted the importance of approved transactions for certain necessities, or for payments such as insurance premiums that would have other negative consequences if unpaid.

b. Payment timing and balance information

Some **interview participants** noted that the timing of payments caused overdrafts, while others had not encountered overdraft fees this way. They pointed to transaction posting delays leading customers to believe funds were available in their account when they made purchases, only to have these purchases go through later resulting in multiple overdraft fees at once. Some participants also had encountered inconsistencies in the balance information provided to them, such as differences between balances shown on a mobile app and a website, making it difficult to know exactly how much they could spend. Some experienced transactions that might not post for a week or more, or automatic deductions such as memberships, subscriptions, and bill payments might cause accounts to unexpectedly go negative. Transactions where the final amount is not known at authorization, such as gas station and restaurant purchases, were described as potential triggers for overdrafts, as were purchases on weekends or holidays given processing delays.

Focus group participants also noted difficulties with predicting and managing payment timing. Some similarly pointed to gas station and rental car holds causing negative balances due to the delays in releasing these holds, as well as delays on days when financial institutions are closed. Others mentioned online purchases that did not post until an item shipped, payments that took a long time to clear, or even payments that cleared faster than expected. Some also noted that their automatic payments did not always line up with their incoming deposits (such as paychecks), leading to overdraft fees. Some noted being charged overdraft fees even if an account was negative for a few hours—for example, if an incoming deposit arrived after a certain cutoff time—while others found that their financial institution's grace periods covered these shortfalls. Some recounted that when a financial institution ultimately rejected a transaction after a delay in posting because there was less money in the account than anticipated at settlement, they incurred other fees with merchants, such as a landlord or auto lender charging a late fee. These merchant fees were in addition to NSF fees charged by the financial institution.

c. Communication and control

Interview participants had mixed views regarding financial institutions' communications practices around negative balances. Some noted that their financial institution recently adopted customer alerts that would enable them to act immediately before incurring overdraft fees, and appreciated having this option, although some pointed out they might still be unable to address a shortfall in time. Several participants contrasted their lack of choices and information when it comes to overdraft with the fraud alerts and security confirmations they regularly receive from financial institutions. Based on the ways institutions handle fraud alerts, some expressed a similar desire for control in real time over whether a transaction would be approved or declined.

Focus group participants also expressed a desire for more timely notifications and options for resolving a negative balance so that they could avoid fees. Participants pointed to overdraft notifications delivered by mail a week or more after the negative balance episode began, despite the possibility of being notified promptly by email, phone, or text when an overdraft occurred. They also noted frustrations meeting cut-off times to cure a negative balance before a fee would be charged, and that cut-off times might vary or not be explained upfront. Others suggested that financial institutions should have personnel specifically assigned to deal with overdraft situations to help people understand their options and take action quickly.

Focus group participants made other suggestions as well. Some said that they would value more control over which transactions would be approved or denied, either categorically ahead of time (such as by recipient) or in real time. They argued that they should be able to pick and choose which transactions would go through with an overdraft fee, instead of being charged to effectively borrow money toward what they considered to be less important transactions. Additionally, some recommended that financial institutions provide grace periods to give consumers greater control over fees. They noted times in the past when they would have to make a deposit in less than 24 hours to avoid fees, or would be unable to add money to an account on weekends. Those with accounts at financial institutions that have already added grace periods noted that they appreciated these changes.

6. Experiences after overdraft

Participants were asked a number of questions about what happened to them after experiencing an overdraft, and how they responded. For some participants, overdraft fees led to other financial hardships. Participants' experiences also varied regarding seeking a fee waiver from their bank or credit union, closing their account in response to an overdraft, and trying to open a new deposit account after having a negative balance or involuntary account closure.

a. Financial hardships

Many **interview participants** noted that they faced financial hardships as a result of overdraft fees. Some participants encountered multiple overdraft fees in a short period of time or were overdrawn over multiple days, resulting in several hundred dollars in fees. They mentioned that they were unable to use their account for purchases until they were able to bring the balance back to positive, which was also a financial hardship. In some cases, this also meant that a significant portion of the next incoming deposit went toward paying for overdraft fees and the transactions that caused the overdraft, making it difficult to stay current on expenses and risking a chronic financial shortfall. For some other participants, even a single overdraft fee was difficult to bear as it would potentially displace food or gas purchases. Meanwhile, others noted that they were able to pay back the amounts without much difficulty, though they may have been frustrated by the experience.

Some **focus group participants** also pointed to financial hardships caused by overdraft fees and the difficulties they experienced paying them back. Some noted times when they incurred multiple overdraft fees in a short period of time, amounting to several hundred dollars or more. In those circumstances, some ultimately worked more hours or reduced spending on essentials such as food or gas to make up for the shortfall. Some were unable to pay all of their bills on time, or found it difficult to manage their money with a frozen account. For some participants with tight budgets, it could also be difficult to pay back a single overdraft fee while meeting expenses.

b. Fee waivers

Interview participants had mixed views about whether they could, or should, ask a bank or credit union to waive an overdraft fee. Some participants mentioned they had never complained about an overdraft fee, and they did not feel it would work. Some stated that they would be uncomfortable asking if the overdraft was incurred due to a mistake on their part, asserting that it was their fault and it was important to abide by their agreement with the financial institution. But if the overdraft was incurred due to an action by the bank or credit union—such as an overdraft caused by some other fee—they would potentially dispute the fee with their financial institution. Others said that they had sought fee waivers, with some success. They were often able to obtain a courtesy fee waiver for the first overdraft charge, but not for additional overdraft fees, even if the fees were part of a chain of transactions. Some were able to obtain more generous fee waivers on occasion.

Focus group participants also noted having some success obtaining fee waivers on occasion. They would often be able to get a single fee waived, but might not be able to get additional fee waivers beyond that point. Some noted having a higher success rate if they went to the financial institution in person, or if they met with a branch manager rather than a teller. Other experiences included a financial institution that extended provisional credit while investigating an unexpected large debit on someone's account, and a belief that an employee who was too generous with waivers might undermine someone's ability to maintain a budget.

c. Account closures and opening new accounts

Interview participants had mixed views about closing an account as the result of overdrafts. Some had never considered closing an account. Some participants questioned whether it would be useful to do so, given similarities across financial institutions and the hurdles involved in finding another account and switching their bill payments and other transactions. Others would switch if they could find a financial institution with lower overdraft fees or minimum balance requirements that would help them manage their finances better.

Interview participants also expressed mixed views about whether an unpaid overdraft at one financial institution would affect their ability to open an account at another. Some argued that it might go on their credit report or affect their credit score, but might not affect opening an account at another financial institution. Others correctly noted that financial institutions exchange information and could track these closures—as they do through ASCRAs such as ChexSystems and Early Warning—which might impede some customers from being able to open an account in the future.

Other **interview participants** had firsthand experience with accounts closed due to unpaid overdraft fees. In some cases, the account was closed at the consumer's request, while others were involuntarily closed by the financial institution. Some participants had no difficulty opening another account, while others were denied by at least one financial institution and then approved for an account at another, or were contacted by their previous financial institution to try to collect on an outstanding balance.

Many **focus group participants** also had dealt with account closures firsthand, while others had considered account closures at some point. Some had closed accounts voluntarily over excessive fees, and were able to negotiate negative balances down to a manageable amount. Others encountered involuntary closures, in some cases arguing that a large portion of their negative balance consisted of fees.

The consequences of these closures varied. For some **focus group participants**, unpaid amounts were sent to collections, affecting their credit score, while others were required to pay back amounts they owed before being able to open a new account. Some mentioned facing additional challenges. They were required to wait a year or more to open a new account; were only able to open a restricted account, such as an account with a co-signer or an account without access to overdraft; were only able to open an account at an online-only financial institution; or also faced difficulties with transactions at check cashers in addition to banks or credit unions.

7. Approaches people could take to avoid overdraft fees

Focus group and interview participants were asked about how they currently avoid overdraft fees, or would try to avoid them when faced with a hypothetical future expense. While some were skeptical that they could in fact avoid a fee, participants identified mentioned a number of strategies they already use or might use in the future, and spoke about the pros and cons of each. These open-ended responses often showed people's ingenuity and creativity when navigating difficult financial situations despite limited resources. Responses largely fit a few broad categories with participants using savings, monitoring balances, and using credit cards instead of debit cards, in addition to other approaches. However, many of these strategies also have limitations—and many participants' responses also address circumstances in which these approaches were unsuccessful in the past, or may not work in the future.

a. Making transfers from savings

Some **interview participants** mentioned that they could make transfers from a savings account in order to avoid overdraft fees, either manually or automatically. Participants who used automatic savings transfers, however, also identified some challenges with this approach. In some cases, automated transfers might not sufficiently cover negative balances, causing customers to still incur overdraft fees. Additionally, automated transfers from checking *to* savings could also cause overdrafts if customers have insufficient funds for both current expenses and savings transfers. For some accounts, these automatic savings contributions were described as a condition of the account.

Several **focus group participants** also mentioned maintaining a savings account and contributing to an emergency fund, which helped them feel more secure about their finances. At the same time, similar to interview participants, some found savings transfers to be frustrating. These negative experiences included automated savings transfers that did not take place as expected, fees imposed on savings transfers, and a savings app that repeatedly attempted to withdraw funds from an account that was already negative resulting in numerous overdraft fees. Some also mentioned financial institutions charging additional fees to transfer funds out of a savings account despite having funds available to cover an overdraft because they made too many outgoing transfers. Prior to the COVID-19 pandemic, charges were commonly imposed by banks on savings accounts exceeding six outgoing transfers per month in order to meet regulatory requirements, but the Federal Reserve eliminated the six-transfer limit in 2020.[12]

b. Frequently checking balances and using text alerts

As noted earlier in this report, many participants described situations in which payment timing or the lack of accurate balance information led them to incur overdraft fees. Some also incurred NSF fees. Participants similarly shared mixed experiences when trying to closely monitor account balances.

Most **interview participants** mentioned checking their account balances frequently—often daily or at least once or twice a week—to avoid overdrafts, whether on the website, an app, or by phone. Participants would also check their balance before making a purchase. Some would also budget for deductions and subscriptions at the beginning of the month, or use a notepad or spreadsheet to track balances and transactions that were spent but not yet posted. Some participants used and appreciated having low balance alerts, while others found that they were not helpful.

Similarly, many **focus group participants** closely monitored their finances to avoid overdrafts, sometimes as often as daily. They noted the need to plan when payments are due. Some mentioned that the balance information they receive might not reflect the full activity on their account, limiting the usefulness of these tools, and others mentioned maintaining a checkbook. Some have found text alerts to be helpful to prevent overdrafts, while others have found them unhelpful due to a chronically low balance regularly setting off these alerts.

[12] Prior to an interim final rule in March 2020—ultimately adopted as a final rule in December 2020—the Federal Reserve Board's Regulation D capped the number of "convenient" transfers or withdrawals out of a savings account at six per month. This cap was intended to differentiate savings from checking accounts and satisfy financial institutions' reserve requirements. While financial institutions are no longer required to limit excess savings transfers, the Federal Reserve has stated that Regulation D does not prohibit them from charging fees for making excess transfers: "Regulation D does not require or prohibit depository institutions from charging their customers fees for transfers and withdrawals in violation of the six transfer limit. Accordingly, the deletion of the six transfer limit does not have a direct impact on the policies or account agreements of depository institutions that charge such fees to their customers." Federal Reserve System, "Regulation D: Reserve Requirements of Depository Institutions," Apr. 24, 2020, 85 FR 23445, 23447.

c. Avoiding debit card uncertainty in favor of credit cards

Some **interview participants** noted that they felt more prone to overdraft fees when using debit cards because they might be unaware of intervening transactions. They would use credit cards in some circumstances to avoid uncertainty about when transactions would post. Others noted that they would rather use debit cards in order to avoid confusion and overspending. Notably, while none of the interview or focus group participants were asked directly about their credit card usage, it is possible that for some, credit cards would not be a viable alternative.

Several **focus group participants** also noted a preference for credit cards to minimize the number of transactions that could cause an overdraft. Some primarily used credit cards for purchases and bill payments to avoid overdraft fees, and were also motivated by points and other rewards on these cards. Some pointed to the inconvenience of debit card holds that could take several weeks to resolve, such as transactions at gas stations and rental car agencies. Some attempted to avoid automatic payments in general because of the potential for overdraft fees, and preferred to pay vendors directly, even though this often meant losing the discounts associated with auto-debit. Some considered debit cards to be outdated, while others noted they would use debit cards and automatic debits more—and would prefer to take advantage of debit rewards programs—if the risk of overdraft were not present.

d. Using mental accounting, digital wallets, and other approaches

Many **interview participants** pointed toward using various sources of credit to avoid overdrafts, including store credit cards, layaway, cash advances, and personal loans. Some noted that they might not be eligible for these products based on their credit scores, or that using credit products could exacerbate a financial shortfall and make matters worse. Some participants would use digital wallets for certain purchases, including automatic deductions, because these products would let them "float" transactions for a few days without a fee, even if they incurred a negative balance—while their regular deposit account might charge an overdraft fee. Others would attempt to stick to a budget, send a postdated check to have more time to pay, or split purchases up on multiple days or across multiple accounts. Participants also mentioned calling the financial institution in advance to seek an accommodation but were unsure if they would succeed.

Focus group participants also noted the use of similar strategies to avoid overdrafts. Their approaches included assigning certain bills to each paycheck as an informal way of maintaining a budget, choosing to pay some bills but not others, seeking grace periods or alternative payment arrangements with businesses, and looking for remedial opportunities from financial institutions such as money management classes or apps. Some would transfer funds from other accounts, take money out of digital wallets that would transfer quickly and cover a potential shortfall, or borrow a small amount from someone the day before an incoming deposit instead of risking a negative balance and overdraft fees. Others mentioned more formal credit products, including covering overdrafts with a linked credit card or with a payment advance product.

8. Perceptions of other account options

Most **interview participants** were unaware of any deposit accounts without overdraft fees. Some mentioned seeing accounts without these fees mentioned in advertisements. Some speculated that these accounts might exist at online financial institutions. Others expressed that these accounts might be available to people with high incomes, or might exist with monthly fees or a linked account. Some were skeptical of these accounts' claims, while others were interested in trying them.

Most **interview participants** were also unaware of second-chance accounts offered by financial institutions to people with a negative banking history.[13] They were generally able to speculate about the nature of these accounts for people who were otherwise unable to open an account, such as people with a history of overdraft. Some participants suggested that these accounts would have certain requirements or limitations, or might require a certain balance all the time. Several participants had experience with these accounts either first-hand, or through someone they knew. They had opened accounts after bankruptcy and involuntary account closures, or recommended accounts to friends who had prior financial challenges. In general, those with direct experience viewed them favorably.

None of the **interview participants** were aware of BankOn accounts per se, or had any idea what features they might include.[14] These accounts, now widely offered by banks and credit unions, meet certain low-cost criteria including the absence of overdraft protection and any related fees.

Some **focus group participants** were able to identify deposit accounts without overdraft fees. They pointed mostly to online financial institutions, while expressing some skepticism about the level of customer service they would receive with online accounts. They also noted the potential conditions associated with such an account, including high minimum balance requirements. Some expressed interest in exploring these accounts further.

[13] These accounts often contain restrictions such as limitations on check or debit card usage. Some may also have front-end eligibility requirements, such as paying back amounts owed to a financial institution or completing a financial education class.

[14] It is possible, although unlikely, that some participants might be familiar with a financial institution's branded product that met the BankOn criteria without associating it with the broader BankOn program.

Most **focus group participants** were not familiar with second-chance accounts. Some had personal experience with these accounts, and noted that these accounts were useful for customers with a negative banking history. They largely noted positive perceptions of these accounts, but some expressed other concerns. These concerns included resentment of the name of the account, suggesting that prior difficulties were the customer's fault rather than something caused by the financial institution's practices; the presence of fees for denied transactions; the limited functionality of the account; and financial institution policies about converting these accounts back to a traditional account over time, despite the customer not wanting to resume overdraft protection.

None of the **focus group participants** were familiar with BankOn accounts.

9. Conclusion

The CFPB's recent focus groups and interviews with consumers reflect a range of experiences with overdraft programs. Many expressed confusion about overdraft coverage during and after account opening, while others recall affirmatively choosing this coverage. Some found overdraft coverage to be valuable, while many consumers expressed concerns about overdraft fees and practices, and the financial hardships they faced as a result. Despite the evolving nature of this market, consumers had limited awareness of alternative deposit accounts that either lacked overdraft fees or did not have the possibility of overdraft at all. While these findings only reflect the views of participants—and are not generalizable to the broader population—they present a useful snapshot of consumer experiences at this point in time, and provide a starting point for future exploration.

Appendix A. Protocol for In-Depth Interviews with Consumers

Introduction (5 minutes)

Hello, and thank you for participating in this interview today. My name is ____, and I work for a company called ICF. My firm is working with the Consumer Financial Protection Bureau (CFPB), which is an agency of the Federal government whose role is to protect consumers. For this specific project, the CFPB is interested in learning more about consumers' experiences with _______ [overdraft programs / credit scores and reporting / background screening related to housing or employment / financial decision-making].

During today's session, which we expect will take about 45 minutes, we'll be talking about your own experiences with [insert topic]. We hope to use these interviews to get a better understanding of what consumers know about this topic, their experiences, and how people make decisions around that topic.

Before we begin, let's establish some quick ground rules for the session. First, if there are any questions that I ask that you'd prefer not to answer, that is okay. Second, in addition to me there are a few other people observing this interview, both from ICF and from the Consumer Financial Protection Bureau. They will be listening to what you have to say and taking notes. Does this all make sense, and do you have any questions about it? (*Pause for any questions*)

Please note the Privacy Notice for this session.

Privacy Notice

The responses you provide to ICF International (ICF) will be used by the Consumer Financial Protection Bureau (Bureau) to understand economically vulnerable consumer's experiences related to financial products and services.

With your consent, the Bureau will capture audio and video recordings of your responses as you participate in the study. The recordings will only be shared within the ICF project team for transcription.

Your feedback will be kept private and will not be linked to a personal identifier. Only information that is aggregated or de-identified will be shared with the Bureau. Additionally, the Bureau may publish de-identified reports based on the results of this study. None of your identifying information will be included in the reports.

This collection of information is authorized by Pub. L. No. 111-203, Title X, Sections 1013 and 1022, codified at 12 U.S.C. §§ 5493 and 5512.

Participation is voluntary, and you may withdraw participation at any time.

We would also like to record this session, but the recording will not be shared with any outside parties and will be used only for research purposes pertaining to this project. Are you comfortable with us recording this discussion? (*Get agreement before continuing.)*

Module 1: Overdraft Programs

General Understanding of Overdraft Programs

1. Do you have an account with a bank or credit union? How many, and are they with banks or credit unions?
    a. Are your accounts checking or savings accounts?
    b. Do you have a debit card for any of those accounts? If so, how often do you use your debit card, and what do you use it for?
2. [If participant does not have a bank account] Have you ever had an account with a bank or credit union in the past? *Note: If participant does not currently have a bank account, then when asking later questions (e.g., about experiences with overdrafts) clarify that you are asking about their past experience with accounts*.
    a. If so, why do you no longer have one?
3. Have you ever tried to buy something for which you didn't have enough money in your account?
    a. If so, what happened? Did the purchase go through? Were you charged a fee for that purchase? How much?
    b. How did you try to make that purchase? With a debit card? A check?

c. Did you know that was going to happen, or were you surprised? Why? If you were charged a fee, did you know that you would be charged? If the purchase didn't go through, what happened? Were there any fees or penalties from the merchant?

d. Would you have wanted something different to happen when you tried to make that purchase? If so, what? *If purchase went through and participant was charged a fee, probe to see if they wished that the purchase had instead not gone through—and vice versa.*

Overdraft Protection

4. Do you currently or did you in the past have overdraft protection on your bank account?

    a. [If yes] What do you mean when you say that you have "overdraft protection"? How does that overdraft protection work?

If needed, here is a definition of overdraft: *An overdraft occurs when you don't have enough money in your account to cover a transaction, but the bank pays the transaction anyway. You can overdraw your account through checks, ATM transactions, debit card purchases, automatic bill payments, and electronic or in-person withdrawals. Many banks and credit unions offer overdraft protection programs in which the bank or credit union generally pays the transaction and charges you a fee (in addition to requiring repayment of the overdraft amount). Overdrafts can also be covered through a transfer of funds from a linked account, credit card, or line of credit.*

5. When you opened your account, did you know at that point whether or not you had overdraft protection?

    a. Did you ask about overdraft protection when you opened your account?

    b. Is overdraft protection something that you considered when choosing your account? Did you ask different banks or credit unions about their overdraft protection policies in order to choose between them?

6. Have you ever gotten advice from anyone about overdraft protection? If so, from whom, and what did they tell you?

7. Did you sign up for overdraft protection, or was it given to you automatically?

    a. If you signed up for it intentionally, what was the reason?

i. Did you talk to anyone before signing up for it, or look for information anywhere else about what the advantages and disadvantages might be? *Probe for conversations with friends or family, discussions with bank employees, or information from other sources.*

ii. Looking back, are you happy that you signed up for it?

b. If you did <u>not</u> sign up for overdraft protection intentionally, how did you find out that you had it?

i. When you found out you had it, how did you feel about it?

ii. Have you tried to remove overdraft protection from your account? Why or why not?

8. If you wanted to end your overdraft protection, do you think you could? If yes, how would you go about doing so?

a. Have you ever considered ending your overdraft protection? If so, why did you decide not to?

9. Have you ever been charged an overdraft fee? If so, how often would you say you are charged a fee?

a. When you overdraft your account, do you usually know that you are doing so—or does it happen by accident?

b. Are you usually expecting an overdraft fee when it is charged, or is it a surprise to you?

c. When you overdraft your account, what kind of purchases is it usually for? Does it tend to be for smaller or larger purchases?

i. Do you feel any differently about overdrafting your account when it is a small purchase vs. a big purchase? Is being able to overdraft more important to you for one of those types of purchases?

10. Did you use any strategies to avoid overdrafts? (e.g., balance alerts, check balance online, wait until day after paycheck to go grocery shopping). Is it difficult to know when you might overdraft?

11. When you have been charged fees, have you ever complained to the bank or credit union? If not, why not?

a. Have you ever asked your bank/credit union to waive a fee? Do you think you could do this, and do you think it would be successful?

b. Do the fees that you are charged impact your finances significantly? Have you ever had trouble paying them back?

c. Have you taken other financial steps to avoid these fees? (e.g. using other types of credit such as a payday loan or credit card, or going without a purchase)

12. Have you ever been charged multiple overdraft fees in a short time period? If so, please describe the situation when that happened.

13. If you were charged overdraft fees at one bank but did not pay them, do you think that might have an impact when you tried to open another account at another bank? Why or why not?

14. Do you think that there are any bank accounts that don't charge overdraft fees? Have you ever heard of any accounts like that?

15. Have you ever considered closing a bank account because of overdraft fees that you were charged?

    a. [If participant currently has an account] If you did close your account, do you think you would open another one? Or would you just go without a bank account in order to avoid overdraft fees?

[If participant no longer has a bank account]

16. Do you like not having a bank account or do you wish you still had one? Why?

    a. What other financial products, if any, do you use? Probe to see if participant uses prepaid cards, check cashing facilities, payday loans, or other products.

17. Have you ever tried to apply for a bank account after your previous one was closed? Were you able to open up that account?

    a. If not, do you know what the issue was? Was it an issue of how you had used a bank account in the past, such as fees that weren't paid or too many bounced checks? Were overdrafts a factor?

    b. Did the bank provide any guidance on potential alternatives to a bank account? (e.g. second chance, checkless checking, prepaid card)

c. What did you do after you were denied? Did you apply for accounts at other banks? If so, were you successful in opening those accounts?

d. When your earlier bank account was closed, did you make the decision to close it, or did the bank close it?

   i. If you closed it, why did you close it?

   ii. If the bank closed it, what did they tell you about why it was closed? Did they give you an opportunity to do anything to prevent it from being closed?

[All participants]

18. Have you ever heard of "second chance accounts" at banks and credit unions? If so, what do you think they are?

    a. Have you ever heard of "Bank On" accounts? If so, what do you think they are?

19. Imagine that you knew that you might sometimes have to make purchases that overdraw your checking account but wanted to avoid being charged fees for doing so. Is there anything you could do?

Conclusion/False Close

20. Is there anything else related to overdrafts or overdraft protection that you would like to share today?

At this point the interviewer will excuse him or herself from the interview in order to ask observers if there are any follow-up questions that should be asked. He or she will then return to the interview, ask any follow-up questions, and conclude the interview.

Appendix B. Protocol for Focus Groups with Consumers

Introduction (5 minutes)

Hello, and thank you for participating in this focus group today. My name is ____, and I work for a company called ICF. My firm is working with the Consumer Financial Protection Bureau (CFPB), which is an agency of the Federal government whose role is to protect consumers. For this specific project, the CFPB is interested in learning more about consumers' experiences with _______ [overdraft programs / credit scores and reporting / background screening related to housing or employment / financial decision-making].

During today's session, which we expect will take between 60-90 minutes, we'll be talking about each of your experiences with [insert topic]. We hope to use these interviews to get a better understanding of what consumers know about this topic, their experiences, and how people make decisions around that topic.

Before we begin, I wanted to provide some ground rules for our session. First, please know that participation in this focus group is voluntary and you are welcome to participate as much or as little as you want. And if there are any questions that I ask that you prefer not to answer, please let me know and I will skip them. Second, in addition to me there are a few other people observing this interview, both from ICF and from the Consumer Financial Protection Bureau. They will be listening to what you have to say and taking notes. Does this all make sense, and does anyone have any questions? (Pause for any questions)

We would also like to record this session, but the recording will not be shared with any outside parties and will be used only for research purposes pertaining to this project. Are you comfortable with us recording this discussion? (Get agreement before continuing.)

Module 1: Overdraft Programs

General Understanding of Overdraft Programs

1. By a show of hands, who here has an account with a bank or credit union?

    a. Are your accounts checking or savings accounts?

2. For those of you who do not have a bank account, have you ever had one in the past?

    a. If so, why do you no longer have one?

3. By a show of hands, has anyone ever tried to buy something for which you didn't have enough money in your account?

    a. What happened? Did the purchase go through?

    b. Did you know that was going to happen, or were you surprised? Why? If you were charged a fee, did you know that you would be charged?

    c. How did you try to make that purchase? With a debit card? A check?

    d. Were you charged a fee?

    e. Would you have wanted something different to happen when you tried to make that purchase? If so, what? *If purchase went through and participant was charged a fee, probe to see if they wished that the purchase had instead not gone through—and vice versa.*

Overdraft Protection

4. By a show of hands, how many people have heard of "overdraft protection"?

    a. How many of you think you have overdraft protection on your current account? How many of you think you do not have overdraft protection? How many of you don't know?

    b. [For participants who no longer have a bank account] When you had a bank account, did you have overdraft protection?

5. Can someone who has overdraft protection talk a little bit about what "overdraft protection" is and how it works?

If needed, here is a definition of overdraft: *An overdraft occurs when you don't have enough money in your account to cover a transaction, but the bank pays the transaction anyway. You can overdraw your account through checks, ATM transactions, debit card purchases, automatic bill payments, and electronic or in-person withdrawals. Many banks and credit unions offer overdraft protection programs in which the bank or credit union generally pays the transaction and charges you a fee (in addition to requiring repayment of* *the overdraft amount). Overdrafts can also be covered through a transfer of funds from a linked account, credit card, or line of credit.*

6. When you opened your account, did you know at that point whether or not you had overdraft protection?

    a. Did you ask about overdraft protection when you opened your account?

    b. Is overdraft protection something you considered when choosing your account? Did you ask different banks or credit unions about their overdraft protection policies in order to choose between them?

7. Did you sign up for overdraft protection, or was it given to you automatically?

    a. If you signed up for it intentionally, what was the reason?

        i. Did you talk to anyone before signing up for it, or look for information anywhere else about what the advantages and disadvantages might be?

    b. If you did not sign up for overdraft protection intentionally, how did you find out that you had it?

        i. When you found out you had it, how did you feel about it?

    c. Have you ever considered ending your overdraft protection? Do you think you could?

8. Has anyone been charged with an overdraft fee? *Ask participants to raise hands.*

    a. When you overdraft your account, do you usually know that you are doing so—or does it happen by accident?

    b. Do the fees that you are charged impact your finances significantly? Have you ever had trouble paying them back?

    c. When you overdraft your account, what kind of purchases is it usually for? Does it tend to be for smaller or larger purchases?

    d. Have you experienced being charged multiple overdraft fees over a short period of time? Same day or a small number of days? What happened?

9. What strategies do you use to avoid overdrafts? (e.g., balance alerts, check balance online, wait until day after paycheck to go grocery shopping). Is it difficult to know when you might overdraft?

10. When you have been charged fees, have you ever complained to the bank or credit union? If not, why not?

    a. Have you ever asked your bank/credit union to waive a fee? Do you think you could do this, and do you think it would be successful?

11. Do you think that there are any bank accounts that don't charge overdraft fees? Have you ever heard of any accounts like that?

12. Has anyone closed or considered closing your account because of overdraft fees that you were charged? *Ask participants to raise hands.*

    a. [For participants who did close their account] Do you think you will open another one? Or would you just go without a bank account in order to avoid overdraft fees?

    b. Have you taken other financial steps to avoid these fees? (e.g. using other types of credit such as a payday loan or credit card, or going without a purchase)

[For participants who have had their bank account closed]

13. Do you like not having a bank account or do you wish you still had one? Why?

14. Have you ever tried to apply for a bank account after your previous one was closed? Were you able to open up the account?

    a. If not, do you know what the issue was? Were overdrafts a factor?

    b. Did the bank provide any guidance on alternatives to a bank account? (e.g. second chance, checkless checking, prepaid)

    c. What did you do after you were denied? Did you apply for accounts at other banks? If so, were you successful in opening those accounts?

[All participants]

15. Has anyone ever heard of "second chance accounts" at banks and credit unions? *Ask participants to raise hands.*

    a. If so, what do you think a “second chance account” is?

16. Has anyone ever heard of “Bank On” accounts? *Ask participants to raise hands.*

17. If so, what do you think a “Bank On” account is? Imagine that you knew that you might sometimes have to make purchases that overdraw your checking account, but wanted to avoid being charged fees for doing so. Is there anything you could do?

Conclusion/False Close

18. Is there anything else related to overdrafts or overdraft protection that you would like to share today?

At this point the interviewer will excuse him or herself from the interview in order to ask observers if there are any follow-up questions that should be asked. He or she will then return to the interview, ask any follow-up questions, and conclude the focus group.