



Overdrafts: Checks and Debit Cards

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It's all about consumer choice. Today, everyone who has debit card and ATM overdraft protection had to proactively opt-in for the coverage.

- Since July 2010, all consumers have had to affirmatively choose, by opting in, to have debit card overdrafts paid.
- Before opting-in, consumers receive a one-page, consumer-tested, government required, opt-in form that explains debit card overdrafts and less expensive options. They receive written confirmation of that choice.
- Overdraft protection users understand that coverage comes with fees that are simple and straight-forward.

Consumers are in control. Consumers who are currently covered by overdraft protection have the right to *opt-out* at any time without consequence or cost.

- Bank customers are informed of their on-going right to opt-out of debit card overdraft services on a variety of occasions during the banking relationship: at account opening, during frequent user counseling, and sometimes as part of the paper, text or electronic notice provided when an overdraft fee is charged.
- Customers receive notices of overdrafts and fees and are provided monthly reminders on their periodic statement of overdraft fees incurred that month and year-to-date overdraft fee totals.

Consumers have multiple tools to manage their accounts and avoid overdrawing.

- Customers have convenient tools to receive alerts about low balances or overdrawn balances online and through cell phones and mobile devices.
- Similarly, customers may easily check their bank account balances and transactions by phone, mobile devices, and online.
- Banks are required to distinguish account balances from any available overdraft coverage amounts.

Most customers don't pay any overdraft fees.

- According to a 2015 ABA survey conducted by Ipsos Public Affairs, 82 percent of depositors with overdraft protection did not incur any overdrafts.¹
- Generally fewer than 1 in 5 depositors pay more than one debit card overdraft fee a year.

Banks are committed to ensuring customers -- and potential customers -- are able to understand and compare accounts.

- Many banks have voluntarily gone beyond what federal regulations require them to provide on account terms and have dedicated significant resources to develop additional, consumer-friendly disclosures, often in partnership with Pew. At the same time, one size doesn't necessarily fit all.
- Banks conduct a lot of research on how people want to receive information, and are committed to working with their customers to understand their preferences and exceed their expectations.

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The industry works to preserve confidence in the checking system by keeping the number of bounced checks to an absolute minimum.

- Unpaid overdrafts are a liability for banks. The most common type of check fraud is from overdrafts that bank customers never pay back.
- Overdraft fees are intended to encourage people to manage their checking accounts. It's not that different from a parking ticket. If the fee for parking in a fire lane were only \$5, fire trucks would have a very hard time getting through.
- Banks charge an average fee of \$33.07² to discourage customers from writing bad checks.

Banks help ensure that the transactions most important to the customer are paid.

- Most banks pay the smallest transactions first or in order of presentation. Some process the largest payments first.
- Paying the largest transactions first can ensure that important payments, such as mortgage, rent, insurance or credit card bills, will be paid.
- Some studies have shown that consumers prefer that the highest amount be deducted first when it's a mortgage or car payment, which they especially do not want to bounce.

Consumers like the reassurance of overdraft protection programs.

- Overdraft protection programs are there for an emergency, much like a spare tire. They should be used accordingly – no one would drive across the country on a spare tire.
- No one likes to bounce a check or have an electronic bill payment returned. Overdraft protection programs give customers peace of mind, for a fee.
- A customer with overdraft protection can avoid additional fees imposed by merchants or creditors, additional interest and late payment fees, and the inconvenience and embarrassment of bouncing a check. Having overdraft protection also ensures that other merchants will continue accepting your checks.
- Banks use various programs and practices in handling overdrafts, but they charge a fee (NSF, or non-sufficient funds fee) to customers who bounce a check and have not opted in to overdraft coverage, whether or not the overdraft is paid.

Keeping accurate personal records of your transactions is the best way to be certain of your account balance.

- Keeping track of your transactions is important not only to avoid overdrafts but also to help manage spending and ensure against fraud (someone else using the account without permission).

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- Not all transactions are processed in real time. Customers should be aware that deposit transactions – checks, ATM, debit and credit card – may be presented to an account at different times.

To avoid overdraft fees, consumers should be certain they have enough funds to cover their checks.

- Relying on “float” – the time it takes for a check to clear – is like playing Russian roulette with your bank account – and with your good name.
- As technological advances increase the efficiency of today’s payment system, the time it takes to clear a check continues to decrease.
- Don’t write a check if you don’t have the funds to cover it.
- Other tips consumers should follow to avoid overdraft fees:
 - Use direct deposit for your paycheck.
 - Keep track of your balance and transactions, and don’t forget about recurring automatic payments.
 - Keep a “pad” of money in your checking account just to be safe.
 - Link your checking account to an overdraft line of credit, savings account, or credit card. These are usually less expensive alternatives.
 - Sign up for automatic notification when your balance drops below a certain level.
 - Shop around. If your bank doesn’t offer the services you would like, or charges too much for overdrafts, change banks. Thousands of banks are competing for your business.

Background:

Banks assume that all transactions are drawn on sufficient funds. Consumers accustomed to “floating” the system may find themselves squeezed as technology continues to advance.

Banks use various programs and practices in handling overdrafts, but they charge a fee for the overdraft, whether it is paid or not. Many banks have automated the process of covering overdrafts, making it a more consistent and fair process for all customers.

Credit laws apply only when a bank extends credit to a consumer, such as with an overdraft line of credit. They do not apply to bank overdrafts. Most automated overdraft protection programs do not fall under the Truth in Lending Act (TILA). If covered by this law, banks would be compelled to bounce all overdrafts to the great cost and aggravation of customers.

The opt-in requirement applies only to ATM and one-time debit card transactions. The provision does not apply to checks and electronic bill payments because the Federal Reserve Board found that overwhelmingly, people consider these to be important payments that they want honored, and they are willing to pay a fee for overdraft coverage. Important payments such as mortgage, rent, insurance and credit cards tend to be made by check or electronically.

Sources:

¹*American Bankers Association Consumer Survey*, Ipsos Public Affairs (2015).

²*2015 Checking Survey*, Bankrate.com (Sept. 2015) Retrieved from <http://www.bankrate.com/finance/checking/record-setting-year-for-checking-account-fees-4.aspx>