

Disclosure Design, Consumer Comprehension, and Decisions about Overdraft Services

<https://meet.google.com/ghx-mfdp-qxt>



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INTRO

- Over 93% of US consumers have checking accounts¹ and about 30% of accounts have at least one overdraft (OD) per year². Accurately and effectively communicating OD policies is important because overdrafts cost consumers around ten billion dollars a year³.

STUDY 1

We collected recommendations for overdraft coverage in a conjoint (within-subjects) design from MTurkers (n = 869). We varied 6 attributes:

Attributes	Levels
Overdraft program characteristics	
Overdraft fee amount	1. \$25 per transaction.* 2. \$35 per transaction.
Maximum fees per day	1. Limited to 3 per day (up to 5[overdraft fee x 3]). 2. Limited to 6 per day (up to 5[overdraft fee x 6]).*
Financial institution type	1. Bank.* 2. Credit union.
Customer characteristics	
Low vs. high monthly financial buffer	1. Lives in a high cost area, so doesn't have much money left over at the end of the month. 2. Lives in a low cost area, so is able to save some money at the end of the month.*
Essential vs. discretionary debit card transactions	1. Customer is responsible for making important purchases (like car repairs and groceries). Uses the debit card for those purchases.* 2. Customer is not responsible for making important purchases (like car repairs and groceries) and leaves that to others in the household. Uses a debit card only for everyday purchases.
Limited vs. available alternative payment methods	1. Customer doesn't have other ways to pay if debit card is declined. 2. Customer has other ways to pay if debit card is declined.*

Specifically, participants responded to scenarios of the following form:

Please read the description below carefully. Then, please tell us whether you think this customer should get overdraft when opening a new checking account.

Personal background:

- This person enters a bank.
- They make an average income and live in a low cost area, so they are able to save some money at the end of the month.
- They are responsible for making important purchases (like car repairs and groceries) and use the debit card for those purchases.
- They have other ways to pay if their debit card is declined.

Overdraft program:

- The bank's overdraft fee is \$25 per transaction.
- The maximum number of overdraft fees is 6 each day, or \$150.

In your opinion, should this person get overdraft coverage?
(slider scale from 0-100)

Average perceptions about overdraft on checking accounts are relatively accurate. Consumer choices and knowledge are sensitive to how information is disclosed.

What You Need to Know about Overdrafts and Overdraft Fees

An overdraft occurs when you do not have enough money in your account to cover a transaction, but we pay it anyway. We can cover your overdrafts in two different ways:

- We have **standard overdraft practices** that come with my account.
- We also offer **optional overdraft plans**, such as a link to a savings account, which may be less expensive than our standard overdraft practices. To learn more, ask us about these plans.

This notice explains our standard overdraft practices.

> What are the standard overdraft practices that come with my account?

We'll authorize and pay overdrafts for the following types of transactions:

- Checks and other transactions made using your checking account number
- Automatic bill payments

We'll **not** authorize and pay overdrafts for the following types of transactions unless you ask us to (see below):

- ATM transactions
- Everyday debit card transactions

We pay overdrafts at our discretion, which means we do **not** guarantee that we will always authorize and pay any type of transaction.

If we do **not** authorize and pay an overdraft, your transaction will be declined.

> What fees will be charged if Ficus Bank pays my overdraft?

Under our standard overdraft practices:

- We will charge you a fee of up to \$34 each time we pay an overdraft.
- Also, if your account is overdrawn for 5 or more consecutive business days, we will charge an additional \$5 per day.
- There is a maximum of 6 overdraft fees per day we can charge you for overdrawing your account.

> What if I want Ficus Bank to authorize and pay overdrafts on my ATM and everyday debit card transactions?

If you also want us to authorize and pay overdrafts on ATM and everyday debit card transactions, call 800-430-7000, visit FicusBank.com/overdraft, or complete the form below and present it at a branch or mail to Ficus Bank 123 Main St, One Month, IN 50019

..... I do **not** want Ficus Bank to authorize and pay overdrafts on my ATM and everyday debit card transactions.

..... I want Ficus Bank to authorize and pay overdrafts on my ATM and everyday debit card transactions.

Printed Name: _____
Date: _____
[Account Number] _____

(Control condition form)

Choose an overdraft option

What happens when there's not enough money in your account?

You have two options:

Keep: Bill payments and checks

ATM overdraft fee: No fee **\$34**

Debit card overdraft fee: No fee **\$34**

Online bill payment overdraft fee: **\$34** **\$34**

Check overdraft fee: **\$34** **\$34**

Maximum number of fees: 4 overdraft fees per day

After you overdraft, we charge \$5 every 10th business day if your account stays negative.

Or switch to: All transactions

6 overdraft fees per day

After you overdraft, we charge \$5 every 10th business day if your account stays negative.

Example: You spend \$25 at the store using your debit card. Your account fee: \$30 Your overdraft fee: \$30 Your transaction is declined because there's not enough money in your account. Overdraft fees: \$30

You will have: \$10 **Your new balance:** -\$40

Compare options with these examples:

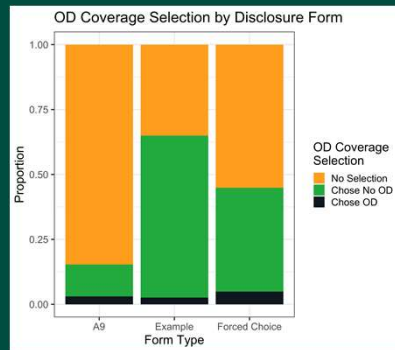
Keep bill payment and checks option: I'll let you keep bill payments and checks, but you'll pay overdraft fees on ATM withdrawals or debit card transactions.

Switch to all transactions option: I understand that Ficus Bank may authorize any transaction until I opt out of my account. I will be charged \$24 for each overdraft.

Account ending in 1020
Printed name: _____
Signature: _____
Date: _____

Mail to: FICUS BANK, 123 MAIN ST, ONE MONTH, IN 50019

(Example condition form)



STUDY 1 CONTINUED

Overall, all attributes affected perceptions in the expected way, suggesting relatively accurate overall perceptions.

	Recommendation Rating	Predicted Pattern
Overdraft Program Characteristics		
\$35 fee (vs. \$25)	-2.265*** (0.444)	
Three daily fees (vs. six)	1.603*** (0.459)	+
Credit union (vs. bank)	-0.588 (0.365)	n.s.
Customer Characteristics		
Low (vs. high) financial buffer	3.950*** (0.631)	-
Essential (vs. discretionary) transaction	7.375*** (0.586)	+
Alternative payment methods available (vs. limited)	-11.113*** (0.785)	-
Constant	33.319*** (0.457)	
Individual FE Observations	X	
Adjusted R ²	0.569	
Residual Std. Error	20.133 (df = 7815)	

STUDY 2

Participants were randomized to one of three legally accurate overdraft disclosure forms; we measured hypothetical OD choice and form comprehension (n= 480)

The disclosures affected choice (middle panel) and comprehension:

Short Question Description	Control	Comparison	Example
What kinds of transactions were affected by your decision? (ATM, Debit)	21.4	11.5*	15.9
How decision on the form affects overdrafts (Fees on all transactions or only checks/online bill payments, depending on participant choice)	35.8	55.2***	58.3***
Scenario with online utility payment that overdrafts the account (Account balance is negative with fee)	50.6	40.1	38.2*
What affects the way that Ficus charges fees (Transaction type)	57.2	61.2	55.0
What happens if form is not completed (Account will be assigned to fees on ATM/debit transactions)	61.0	60.6	40.4***
Scenario with ATM withdrawal (Account balance is negative with fee)	62.9	57.6	62.9
Additional fee after 5 business days (\$5)	76.7	62.7**	51.2***
Overdraft fee amount (\$30-\$39)	81.0	80.6	75.5

- FDIC. (2018). 2017 FDIC National Survey of Unbanked and Underbanked Households.
- Bakker, T., Kelly, N., Leary, J., & Nagypál, É. (2014). Data Point: Checking Account Overdraft.
- Stein, G. (2016). New insights on bank overdraft fees and 4 ways to avoid them.

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