

# FDIC Study of Bank Overdraft Programs

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Federal Deposit  
Insurance Corporation



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# Executive Summary

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In 2006, the Federal Deposit Insurance Corporation (FDIC) initiated a two-part study to gather empirical data on the types, characteristics, and use of overdraft programs operated by FDIC-supervised banks. The study was undertaken in response to the recent rapid growth in the use of automated overdraft programs, defined as programs in which the bank honors a customer's overdraft obligations using standardized procedures to determine whether the nonsufficient fund (NSF) transaction qualifies for overdraft coverage. Little empirical data have been available on these programs, their features, their managing practices, the fees imposed, and consumer usage patterns.

Data and information for the FDIC's study were gathered through a survey of a sample of institutions representing 1,171 FDIC-supervised banks, and a separate data request of customer account and transaction-level data from a smaller set of 39 institutions.<sup>1</sup> The two-part study was designed to obtain the following types of information related to overdraft programs: characteristics, features, and fees of overdraft programs; transaction-processing policies; marketing and disclosure practices; internal controls and monitoring practices; the role of vendors and third parties in overdraft program implementation; and NSF-related fee income and growth. The customer account and transaction-level data collection was designed to gather information on the provision of overdraft services on customer accounts, the occurrence of NSF activity covered under automated overdraft programs, and the characteristics of customer accounts that tend to incur the highest volume of overdraft fees. It was also designed to identify specific aspects of overdraft program use that may be appropriate for more rigorous quantitative inquiry.

The FDIC believes that objective information on these programs will help policymakers make better-informed policy decisions and will help the public better understand the features and costs related to automated overdraft programs. The study results also will help the banking industry develop more effective overdraft programs to better serve consumers.

This report provides key study findings pertaining to the growing provision of automated overdraft programs, enrollment practices, credit limits and fees, marketing and disclosure practices, transaction processing, and NSF-related revenues. Results from the account and transaction-level data collection are also included in this report based on the data received from the 39 banks. These latter results suggest areas that may benefit from further study.

## Key findings from the survey of 462 FDIC-supervised banks are as follows:

1. The majority (86.0 percent) of banks operated at least one formal overdraft program—either automated, linked accounts, or lines of credit (LOC).<sup>2</sup> Large banks (defined as those with at least \$1 billion in assets) tended to offer a fuller menu of overdraft programs. The share of all banks offering automated overdraft programs was 40.5 percent, but large banks were also significantly more likely to operate automated overdraft programs (76.9 percent), suggesting that a significant share of customer transaction accounts operated under automated overdraft programs.

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<sup>1</sup> The study population was 1,171 FDIC-supervised institutions scheduled for on-site examinations from May through December 2007 and FDIC-supervised institutions with at least \$5 billion in assets. The survey was administered to a stratified, random sample of 462 institutions from the study population. The 39 banks from which transaction data were received were a nonrandom subset of the 462 banks surveyed; therefore, the results are not generalizable beyond the 39-bank sample. See Section II, Methodology, for a more detailed discussion of the study methodology.

<sup>2</sup> **Automated overdraft programs** are usually a computerized program by which the bank honors a customer's overdraft obligations using standardized procedures or a matrix to determine whether the NSF occurrence qualifies for the overdraft coverage. **Linked transfer accounts** (linked-accounts) are defined as a contractual agreement between a bank and a customer, linking the customer's transaction account with other accounts within the bank, including savings and credit card accounts. **Overdraft lines of credit** (LOCs) are contractual agreements between a bank and a customer stating that the bank will lend up to a specified amount over a defined period to cover overdraft items.

2. The number of FDIC-supervised institutions providing automated programs has grown rapidly over the past several years. Most banks (69.4 percent) initiated their automated overdraft programs after 2001. Large banks were more likely (55.4 percent) to have had an automated overdraft program in place in 2001.
3. Most banks (75.1 percent) automatically enrolled customers in automated overdraft programs, although customers were usually permitted to affirmatively opt out of the program. Survey comments indicated that in some cases, customers were not given the choice to opt in or out of the automated program.
4. By contrast, almost all banks (94.7 percent) treated linked-account programs as opt-in programs, requiring that customers affirmatively request to have accounts linked. In addition, customers have to apply and qualify for an overdraft LOC program, so these programs typically operate on an opt-in basis.
5. Most banks (73.0 percent) established credit limits for automated overdraft customers in written policies, consistent with the bank's lending program. Automated overdraft credit limits stipulated in these policies ranged from \$85 to \$10,000, and the median credit limit was \$500.
6. Automated overdraft usage fees assessed by banks ranged from \$10 to \$38, and the median fee assessed was \$27. About one-fourth of the surveyed banks (24.6 percent) also assessed additional fees on accounts that remained in negative balance status in the form of flat fees or interest charged on a percentage basis.
7. Fees assessed for linked-account and overdraft LOC programs were typically lower than for automated overdraft programs. Almost half of the banks with linked-account programs (48.9 percent) reported charging no explicit fees for the service. The most common fee associated with linked-account programs was a transfer fee; where charged, the median transfer fee was \$5. The primary cost associated with overdraft LOC programs was the interest charged on funds advanced, usually accruing at an annual percentage rate (APR) of around 18 percent.
8. The majority (81.0 percent) of banks operating automated programs allowed overdrafts to take place at automated teller machines (ATMs) and point-of-sale (POS)/debit transactions. However, most banks whose automated overdraft programs covered ATM and POS/debit transactions informed customers of an NSF only after the transaction had been completed (88.8 percent of banks for POS/debit transactions and 70.7 percent of banks for ATM transactions). A minority of banks (7.9 percent for POS/debit and 23.5 percent for ATMs) did inform consumers that funds were insufficient before transactions were completed at these locations, offering the customers an opportunity to cancel the NSF transaction and avoid a fee.
9. A significant share of banks (24.7 percent of all surveyed banks and 53.7 percent of large banks) batched processed overdraft transactions by size, from largest to smallest, which can increase the number of overdrafts.
10. More than half of banks with automated overdraft programs (54.2 percent) reported that they relied on a third-party vendor to implement or manage the program. Small banks (those with less than \$250 million in assets) were more likely to rely on vendors and third parties for automated overdraft program implementation and management. Most banks using vendors to manage their automated overdraft programs (70.6 percent) also reported that they paid third-party vendors a percentage of the fees generated by the program, typically 10 to 20 percent of additional fees generated.
11. The banks earned an estimated \$1.97 billion in NSF-related fees in 2006, representing 74 percent of the \$2.66 billion in service charges on deposit accounts reported by these banks in their Reports of Conditions and Income (Call Reports).<sup>3</sup> Total NSF-related fee income accounted for roughly

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<sup>3</sup> Banks were asked to report annual NSF-related fee income associated with the processing of all NSF transactions. Fee income data cited are estimates for study population banks only and do not represent estimates for other segments of the banking industry.

6 percent of the total net operating revenues earned by the banks. Banks operating automated overdraft programs earned \$1.77 billion in NSF fees in 2006, accounting for 90 percent of total NSF-related fee income earned by the entire study population.

12. Banks that operated automated overdraft programs had higher NSF-related fee income (measured as a share of operating revenues) compared with other banks. In addition, banks whose automated program covered ATM and/or POS/debit transactions and banks that batch processed transactions largest-to-smallest reported higher fee income than those that did not have these features.
13. Consumer complaints about automated overdraft programs were received by 12.5 percent of banks that operated these programs, compared with consumer complaints from less than 1.0 percent of banks offering linked-account programs and 1.5 percent of banks offering overdraft LOC programs. Complaints about automated overdraft programs were more common for large institutions than for small institutions (21.7 percent versus 10.6 percent).
14. Automated overdraft programs operated by banks were characterized as either “promoted” or “nonpromoted.”<sup>4</sup> The survey results revealed important differences in bank marketing and disclosure practices between automated and nonautomated overdraft programs. However, in most cases survey disclosure results regarding automated overdraft programs applied only to promoted programs. Although banks that operated nonpromoted automated overdraft programs accounted for a minority (8.5 percent) of banks, these banks were typically large and accounted for more than half (51.7 percent) of the transaction account dollars held by all banks.

### **Results from the analysis of micro-level data from 39 banks with aggregate assets totaling \$332 billion and 6.5 million customer accounts are as follows:<sup>5</sup>**

1. Micro-data banks reported 22.6 million NSF transactions incurred by consumer accounts during the 12-month period of analysis. Almost all (22.5 million) of the NSF transactions analyzed were reported by banks that operated automated overdraft programs.
2. Although almost 75 percent of consumer accounts had no NSF transactions during the 12-month period examined, almost 12 percent of consumer accounts had 1 to 4 NSF transactions, 5.0 percent had 5 to 9 NSF transactions, 4.0 percent had 10 to 19 NSF transactions, and 4.9 percent had 20 or more NSF transactions. Almost 9 percent of consumer accounts of banks reporting data had at least 10 NSF transactions during the 12-month period of analysis.<sup>6</sup>
3. Customers with 5 or more NSF transactions accrued 93.4 percent of the total NSF fees reported for the 12-month period. Customers with 10 or more NSF transactions accrued 84 percent of the reported fees. Customer accounts with 20 or more NSF transactions accrued over 68 percent of the reported fees.
4. Customer accounts with 1 to 4 NSF transactions were charged \$64 per year in NSF fees on average. Customer accounts with 5 to 9 NSF transactions were charged \$215 per year in NSF fees on average. Customer accounts with 10 to 19 NSF transactions were charged \$451 per year in NSF fees on average. Customer accounts with 20 or more NSF transactions were charged \$1,610 per year in NSF fees on average.

<sup>4</sup> “Promoted” automated overdraft programs are those in which the customers are informed of the existence of the overdraft program. “Nonpromoted” automated overdraft programs are those in which customers are not informed of the existence of the overdraft program.

<sup>5</sup> Bank assets reported as of December 2006.

<sup>6</sup> For this study, NSF transaction data include NSFs covered by an automated overdraft program and returned or unpaid, as well as NSFs processed on an ad hoc basis, although nearly all NSFs were reported by banks that operated automated overdraft programs. Data on NSF transactions processed under linked-accounts or LOC programs were not collected.

5. Accounts held by customers in low-income areas (in some areas, median annual income of less than \$30,000) were more likely than accounts in higher-income areas to incur overdraft charges.<sup>7</sup> More than 38 percent of low-income accounts had at least one NSF transaction, compared with 22 percent of upper-income accounts.
6. Recurrent overdrafts were also more likely the lower the income group. Among low-income customers, 16.7 percent of accounts had 1 to 4 NSF transactions, and 7.5 percent had 20 or more NSF transactions. By comparison, 13.9 percent of accounts held by moderate-income consumers had 1 to 4 NSF transactions, and 6.4 percent had 20 or more NSF transactions. Consumers in upper-income areas had 1 to 4 NSF transactions in 10.5 percent of accounts and 20 or more NSF transactions in 3.8 percent of accounts.
7. Almost half (48.8 percent) of all reported NSF transactions took place at POS/debit (41.0 percent) and ATM (7.8 percent) terminals. Checks accounted for 30.2 percent of the reported NSF transactions.
8. The median dollar amount of all 22.5 million transactions processed by the micro-data banks with automated overdraft programs was \$36. POS/debit NSF transactions were not only the most frequent, but also the smallest, with a median dollar value of \$20. The median transaction size of an ATM withdrawal and a check that resulted in an NSF transaction were \$60 and \$66, respectively.
9. Assuming a \$27 overdraft fee (the survey median), a customer repaying a \$20 POS/debit overdraft in two weeks would incur an APR of 3,520 percent; a customer repaying a \$60 ATM overdraft in two weeks would incur an APR of 1,173 percent; and a customer repaying a \$66 check overdraft in two weeks would incur an APR of 1,067 percent. More rapid repayment of the overdraft amount results in higher APRs, and slower repayment results in lower APRs.<sup>8</sup>
10. Accounts held by young adults (ages 18 to 25) were the most likely among all age groups to have automated overdraft NSF activity. Among young adult accounts, 46.4 percent incurred NSF activity, compared with 12.2 percent of accounts held by seniors (over age 62) and 31.9 percent of accounts held by other adults. Nearly 15 percent of accounts held by young adults recorded more than ten NSF transactions during the year, compared with 12.1 percent of adult accounts and 3.0 percent of senior accounts. Most NSF transactions made by young adult accounts (61.7 percent) originated at a POS/debit terminal.

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<sup>7</sup> Actual median income limits for each income level designation vary by metropolitan statistical area. The income limit provided is a benchmark calculated based on the 2006 median family income for the United States. (Source: U.S. Census Bureau, 2006 *American Community Survey*.)

<sup>8</sup> These examples assume that the credit extended as a result of the overdraft occurrence equaled the total transaction, that the consumer repaid the credit extended in two weeks, and that no additional fees are imposed on the consumer as a result of the NSF. The APRs were calculated as follows:  $((\text{Fee Charged}/\text{Amount Financed}) \times 365) / \text{Term (14 days)}$ .

# FDIC Study of Bank Overdraft Programs

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# I. Introduction

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This report details the methodology and findings of the Federal Deposit Insurance Corporation's (FDIC) study of overdraft programs operated by a segment of financial institutions. Over the past few years, the use of automated overdraft programs has risen significantly, but little empirical data have been available on these programs, their features, their management, the fees imposed, and consumer usage patterns.

The FDIC initiated this two-part study in 2006 to gather empirical data on the types, characteristics, and use of overdraft programs operated by FDIC-supervised banks. The study was undertaken as part of the agency's mission to protect consumers, which it carries out by monitoring compliance with consumer protection laws and regulations for the banks that it supervises, educating the public about financial matters, and implementing programs that help promote economic inclusion. The study also reflects the FDIC's responsibility to monitor the safety and soundness of banks, including the proliferation of new or different types of credit.

Data and information for this study were gathered through a survey of 462 randomly selected FDIC-supervised institutions and a collection of customer and transaction-level data from a smaller set of the surveyed FDIC-supervised institutions. The survey portion of the study was designed to obtain various types of information related to overdraft programs, including features and characteristics, fees, processing policies and practices, marketing practices, disclosure, growth and revenue trends, and the role of vendors or other third parties in overdraft program implementation. The survey instrument can be found in Appendix A of this document. The micro-data collection portion was designed to gather information on the types of accounts and transactions that tend to generate the highest volume of overdraft fees and the characteristics of consumers who use automated overdraft programs. The data collection instrument can be found in Appendix B of this document.

The FDIC believes that objective information on these programs will help policymakers make better-informed policy decisions and will help the public better understand the features and costs related to automated overdraft programs. The study results also will help the banking industry develop more effective overdraft programs to better serve consumers.

The structure of this report is based on the survey and micro-data request, and the report is in two parts. The first part is based on the survey instrument and contains an overview of the overdraft programs; overdraft fees and credit limits; customer enrollment, marketing, and disclosure practices; internal controls and monitoring systems; the role of vendors and third parties in overdraft practices; and the growth and profitability of overdraft programs. The second part of this report is based on the micro-level data gathered regarding consumer overdraft usage.<sup>1</sup>

## II. Methodology

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The results presented in this report rely on information gathered from U.S. banks through (1) a survey, and (2) a collection of micro-level customer and transaction-level data (micro-data). The study population included FDIC-supervised banks that were visited by examiners, most as part of scheduled on-site examinations, from May through December 2007.<sup>2</sup> The surveyed institutions represent 1,171 banks located throughout the United States, which are defined later in Section II.1.

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<sup>1</sup> The actual survey and micro-data requests can be found in Appendices A and B, respectively.

<sup>2</sup> As of the universe selection date, September 30, 2006, there were 5,237 FDIC-supervised banks, a number that included both state-chartered, nonmember commercial banks and state-chartered savings banks.

## II.1. Overdraft Survey Methodology

The overdraft survey involved the collection of data and information on FDIC-supervised overdraft programs and practices through completion of a survey administered to a stratified random sample of FDIC-supervised institutions. The survey, attached as Appendix A, consisted of approximately 90 questions about overdraft programs and practices.

The first section of the survey instrument collected aggregate and general information on each institution's scope of overdraft services, income earned from overdraft programs, general overdraft processing practices, and general disclosure practices.

The second section of the survey instrument collected detailed, program-specific data related to policies, monitoring practices, customer disclosure, fees, account coverage, and use of third-party vendors for the following types of overdraft programs or practices most commonly used by banks:

- 1) **Automated overdraft programs:** usually a computerized program by which the bank honors a customer's overdraft obligations using standardized procedures or a matrix to determine whether the nonsufficient fund (NSF) occurrence qualifies for the overdraft coverage. "Promoted" automated overdraft programs are those in which the customers are informed of the existence of the overdraft program. "Nonpromoted" automated overdraft programs are those in which customers are not informed of the existence of the overdraft program.
- 2) **Linked transfer accounts (linked-accounts):** defined as a contractual agreement between a bank and a customer, linking the customer's transaction account with other accounts within the bank, including savings and credit card accounts. In the event of an overdraft, the bank fulfills the customer's obligations by transferring funds from the customer's other accounts linked to the customer's transaction account.
- 3) **Overdraft lines of credit (LOCs):** a contractual agreement between a bank and a customer stating that the bank will lend up to a specified amount over a defined period to cover overdraft items. These programs exclude LOC programs that do not specifically cover overdraft items (e.g., home equity LOCs). The bank initially extends the overdraft LOC after reviewing a customer's qualifications using standard underwriting criteria; the LOC is considered a loan and requires standard Truth in Lending Act (Regulation Z) disclosures. After the initial decision to grant the LOC, the lender generally does not make a decision whether to cover individual overdrafts that fall under the credit limit.
- 4) **Ad hoc overdraft:** an informal program to cover customers' overdrafts. The study also asked institutions about informal overdraft practices, if any, outside the parameters of the three formal programs described above.

FDIC examiners administered the questionnaire during scheduled on-site visits to reduce reporting burden, increase the accuracy of survey responses, and increase survey response rates. Extra steps were taken to ensure that the degree of accuracy for the on-site questionnaire was high, including development of standard computer programs to collect the data, specialized training of examiners to conduct the on-site surveys, and regular discussions to answer any questions during the survey.

The study population included (1) 1,135 institutions with less than \$5 billion in assets that were scheduled for on-site visits by FDIC examiners between May and December 2007, and (2) 36 FDIC-supervised institutions with more than \$5 billion in assets regardless of whether an examination was scheduled. Nonretail banks, such as credit card banks and industrial loan companies, were excluded from the underlying study population since the focus of the survey was on retail-oriented overdraft programs and policies.

The survey was administered to a stratified random sample of 462 financial institutions from among the study population of 1,171 FDIC-supervised institutions.<sup>3</sup> The strata were defined by three asset sizes (institutions with less than \$250 million in assets; assets between \$250 million and \$1 billion; and assets greater than \$1 billion). Institutions in the larger strata were sampled at higher rates to ensure that a substantial proportion of deposit accounts held in the study population were included. In particular, all of the 108 institutions in the population with more than \$1 billion in assets were included in the sample. Also, the institutions in the “\$250 million to \$1 billion” stratum were sampled at more than twice the rate as those in the “less than \$250 million” stratum. (See table below for exact sample sizes and sample percentages.) To derive unbiased estimates for the study population, the differential sampling rates applied across the size strata were taken into account.

As mentioned above, the survey sample included 36 FDIC-supervised institutions with more than \$5 billion in assets and 72 institutions with assets between \$1 billion and \$5 billion scheduled to be examined during the data collection window. In addition, the survey sample included 354 banks randomly selected from among 1,063 institutions with less than \$1 billion in assets. Table II-1 below summarizes the sample and study population and counts by strata; it also includes stratum sampling percentages.

Table II-1

<b>Sample Summary</b>			
<b>Asset Size Stratum</b>	<b>Study Population</b>	<b>Total Sample</b>	<b>Percent Sampled</b>
Less than \$250 million	851	222	26
\$250 million to \$1 billion	212	132	62
\$1 billion to \$5 billion	72	72	100
Greater than \$5 billion	36	36	100
<b>Total</b>	<b>1,171</b>	<b>462</b>	

Because the sample of institutions was selected from the 1,171 institutions in the study population, it is not a statistical sample of all 5,237 FDIC-supervised institutions. Therefore, unbiased estimates of survey characteristics can be made only for the 1,171 institutions in the study population. It is not possible to draw statistically defensible inferences from the sample data about banks outside of the underlying study population, including banks supervised by other agencies (such as national banks, and state-chartered Federal Reserve member banks or thrifts).

## II.2. Micro-Level Data Methodology

The micro-data request gathered account-level information and overdraft coverage for all customer accounts. The micro-data also collected data on all NSF transactions processed under an institution’s automated overdraft program or under ad hoc overdraft coverage. (This includes items returned as unpaid.) The micro-data request can be found in Appendix B.

The micro-data were collected from a nonrandom subsample of the banks surveyed. As this portion of the study involved a nonrandom sample, it is not possible to draw statistical inferences to any broader population of banks using these data. Nevertheless, the FDIC believes that these data provide valuable information about consumer usage and fee generation related to automated overdraft programs.

<sup>3</sup> In addition, the FDIC collected survey data from seven Puerto Rican banks. However, analysis of survey results revealed that the surveyed Puerto Rican banks had meaningful differences in their use of overdraft programs compared with the remainder of the survey population and, in fact, tended not to offer such programs. Consequently, Puerto Rican banks were not included in this study population.

Approximately 100 banks of different sizes, locations, and overdraft programs were identified as potential nonrandom micro-data collection candidates. Large banks and banks whose information could more easily be gathered through agreements with their existing software providers were given priority in participation in the micro-level data collection.

To facilitate the data-gathering process for smaller banks, the FDIC relied on software developed by vendors that serviced financial institutions in the survey sample. The FDIC also used standard computer programs to ensure that data gathering was accurate and consistent across the study population. In addition, the FDIC conducted periodic telephone conferences with both FDIC field staff and bankers to help disseminate information on how to gather and submit the requested information.

The micro-data used for this study include data for 39 of the 100 banks initially identified as potential candidates, covering approximately 6.5 million consumer accounts and 22.6 million NSF transactions. Twelve months of data between January 2005 and September 2008 were collected from each of these banks; the data included information about account types, account category, and customer use of automated overdraft programs.

# Part One—Overdraft Survey

## III. Overview of Overdraft Programs

This section provides an overview of survey findings related to overdraft programs and the timeframe of program adoption, the accounts and transactions covered by these programs, and the methods by which institutions processed transactions. The survey was primarily focused on automated overdraft programs; however, to provide a basis of comparison, data were also collected for linked-account programs, overdraft LOC programs, and ad hoc practices.

All tables stratify the study population banks by asset size, where small banks are defined as those with less than \$250 million in assets, medium banks as those with \$250 million to \$1 billion in assets, and large banks as those with more than \$1 billion in assets, as of December 2006.

### III.1. Programs Operated

Study population banks were asked to define all overdraft programs in operation—specifically, whether they had a promoted or a nonpromoted automated program, a linked-account program, or an overdraft LOC program—and to describe any overdraft coverage services outside of these three formal programs. The survey also asked the year and month in which banks adopted a specific overdraft program. The first year in which a bank operated a program for six months or more was considered the “start year” of the program.

Most study population banks (85.9 percent) operated some form of formal overdraft program, either automated, linked-account, or overdraft LOC (see Table III-1). Among all study population banks, 40.5 percent operated an automated overdraft program, 62.1 percent a linked-account program, and 50.1 percent an overdraft LOC program. Less than 15 percent of banks had no formal overdraft program in place, indicating that NSF transactions were processed on an ad hoc, discretionary basis.

Table III-1

Formal Overdraft Programs Operated						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size					
Did your institution operate this program at any point in 2006 or 2007? <sup>b</sup> (Multiple answers allowed)	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Memo Item(s):	
					\$1 Billion to \$5 Billion	Greater than \$5 Billion
Automated	474 40.5	253 29.7	138 65.2	83 76.9	53 73.6	30 83.3
Linked accounts	728 62.1	502 59.0	144 68.2	81 75.0	54 75.0	27 75.0
Overdraft LOC programs	587 50.1	368 43.2	135 63.6	84 77.8	56 77.8	28 77.8
Total study population banks	1,171 100.0	851 100.0	212 100.0	108 100.0	72 100.0	36 100.0
Memo Item(s): Number of banks with one or more formal overdraft program(s)	1,006	702	200	104	68	36
Percent of all study population banks	85.9	82.4	94.7	96.3	94.4	100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

Table III-2

Menu of Overdraft Programs Operated				
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size			
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>Did your institution operate this combination of programs at any point in 2006 or 2007?</i>				
Automated, linked, and LOCs	199 17.0	81 9.5	64 30.3	54 50.0
Automated and linked	127 10.8	81 9.5	32 15.2	14 13.0
Automated and LOCs	54 4.6	15 1.8	26 12.1	13 12.0
Automated only	95 8.1	77 9.0	16 7.6	2 1.9
Linked and LOCs	204 17.5	165 19.4	30 14.4	9 8.3
Linked only	198 16.9	176 20.7	18 8.3	4 3.7
LOCs only	130 11.1	107 12.6	14 6.8	8 7.4
No formal program only <sup>b</sup>	165 14.1	150 17.6	11 5.3	4 3.7
Total study population banks	1,171 100.0	851 100.0	212 100.0	108 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> No formal program refers to NSF/overdraft items not processed under automated overdraft, linked-account, or overdraft LOC programs.

Even among banks with formal overdraft programs, however, NSF transactions could be processed on an ad hoc basis.<sup>4</sup>

Large banks tended to provide a fuller menu of overdraft programs, with 50.0 percent of large banks operating all three formal programs (automated, linked-account, and overdraft LOC) (see Table III-2). In contrast, most small banks (59.9 percent) operated only one program or no formal overdraft program at all.

While the share of all study population banks with an automated overdraft program was 40.5 percent, a significantly greater share of large banks (76.9 percent) had an automated program, compared with 65.2 percent of medium banks and 29.7 percent of small banks (see Table III-1). The 83 large banks that operated an automated overdraft program accounted for 72.6 percent of all transaction account deposit dollars held in the study population banks, which suggests that the majority of accounts in the study were held in banks with an automated program.<sup>5</sup>

As mentioned in the methodology section, automated overdraft programs can be promoted or nonpromoted. Promoted programs are actively offered to customers, while nonpromoted programs are implemented without notification to the customer. Institutions with nonpromoted automated programs are not subject to certain disclosure requirements under Regulation DD of the Truth in Savings Act that

<sup>4</sup> For instance, if an account covered by an overdraft LOC program exceeded the overdraft credit limit, the NSF transaction might not be processed under the formal overdraft LOC program, and the decision to pay or return the NSF transaction would be made on an ad hoc basis.

<sup>5</sup> Deposit dollars for each of the surveyed institution's checking, negotiable order of withdrawal (NOW), and money market demand (MMD) accounts were totaled from the 2006 Call Reports.

Table III-3

Promoted and Nonpromoted Automated Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size					
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Memo Item(s):	
\$1 Billion to \$5 Billion					Greater than \$5 Billion	
Did your institution operate a promoted or a nonpromoted automated program?						
Promoted <sup>b</sup>	374 78.9	211 83.3	114 82.6	49 59.0	38 71.7	11 36.7
Nonpromoted only	100 21.1	42 16.6	24 17.4	34 41.0	15 28.3	19 63.3
Total with automated	474 100.0	253 100.0	138 100.0	83 100.0	53 100.0	30 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.  
<sup>b</sup> Fourteen institutions operated both a promoted automated and a nonpromoted automated program. These institutions are included only in the promoted total.

apply to institutions that promote the payment of overdrafts.<sup>6</sup> Among study population banks with automated overdraft programs, the majority (78.9 percent) had a promoted program in place (see Table III-3).<sup>7</sup>

Relative to all study population institutions, 31.9 percent of the institutions had a promoted automated program, and 8.5 percent operated a nonpromoted program (see Figure III-1). Despite the larger proportion of study population banks with promoted automated programs, an analysis of the dollar amount held in transaction accounts of study population banks suggests that a greater proportion of consumer accounts were likely covered by nonpromoted rather than by promoted automated programs. More than half (51.7 percent) of the transaction account dollars held in study population banks were maintained in institutions with nonpromoted automated programs (see Figure III-2).<sup>8</sup> This finding is driven by the fact that nonpromoted automated programs were more prevalent (63.3 percent) among the largest study population banks, those with more than \$5 billion in assets. These 19 institutions accounted for 45.1 percent of the transaction account dollars held in all study population banks.

Figure III-1

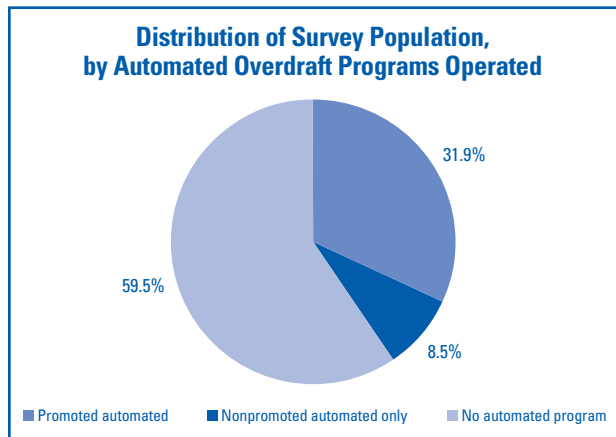
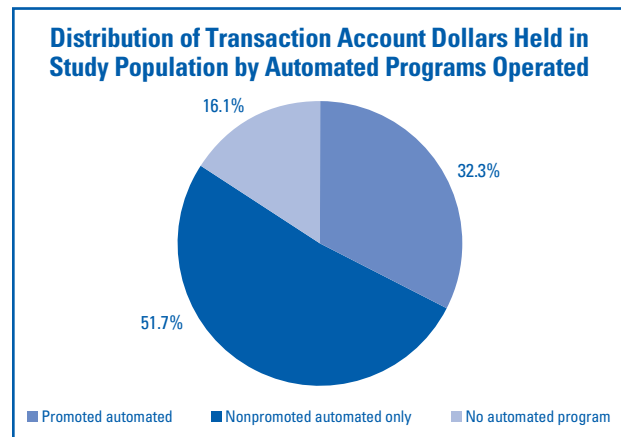


Figure III-2



<sup>6</sup> See 12 C.F.R. 230.11. See also Final Rule, 70 Fed. Reg. 29582 (May 24, 2005).

<sup>7</sup> Fourteen institutions had both promoted and nonpromoted automated overdraft programs, and as a result they were counted in the promoted category.

<sup>8</sup> Deposit dollars for each of the surveyed institution’s checking, NOW, and MMD accounts were totaled from the 2006 Call Reports.



Table III-4

Banks with a Formal Overdraft Program Implemented by 2001				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
<i>Did your institution adopt this overdraft program by 2001?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
Automated	150 31.6	46 18.2	58 41.9	46 55.4
Total with automated	474 100.0	253 100.0	138 100.0	83 100.0
Linked accounts	650 89.4	445 88.5	132 91.1	74 91.4
Total with linked accounts	728 100.0	502 100.0	144 100.0	81 100.0
Overdraft LOC programs	504 85.9	307 83.3	120 89.3	77 91.7
Total with overdraft LOC programs	587 100.0	368 100.0	135 100.0	84 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

Survey results show that the number of institutions in the study population providing automated overdraft programs has grown rapidly in the past several years. Most study population banks with automated programs (68.4 percent) initiated their program after 2001 (see Table III-4). Large banks were early adopters; more than half (55.4 percent) had an automated program in place by 2001, compared with 41.9 percent of medium banks and 18.2 percent of small banks. In contrast, the majority of study population banks that operated linked accounts and overdraft LOCs already had these programs in place by 2001 (89.4 percent and 85.9 percent, respectively).

### III.2. Account and Transaction Coverage

Surveyed institutions were asked which retail customer accounts and transaction types were covered under each overdraft program operated, whether an account could be covered by more than one overdraft program, and the order by which applicable overdraft programs applied to the account.

The three main types of transaction accounts covered by overdraft programs are checking accounts, negotiable order of withdrawal (NOW) accounts, and money market demand (MMD) accounts.<sup>9</sup> Of banks in the study that operated an automated program, all banks (100.0 percent) covered checking accounts, while the majority (74.9 percent) covered NOW accounts, and about a third (32.2 percent) covered MMD accounts (see Table III-5). Similarly, almost all institutions (99.3 percent) that operated a linked-account program covered checking accounts, while sizable majorities also covered NOW and MMD accounts. All institutions (100.0 percent) that operated overdraft LOC programs covered checking accounts, and many also covered NOW and MMD accounts.

Of the 584 study population banks that operated more than one overdraft program, the majority (71.8 percent) allowed an account to be covered by more than one overdraft program (see Table III-6). Of these 419 banks with multiple programs that allowed multiple coverage, 261 (62.2 percent) operated an automated overdraft program, while the remainder had only a linked-account and an overdraft LOC program. For the vast majority (95.8 percent) of these 261 banks, overdraft coverage under a linked-

<sup>9</sup> Although surveyed institutions were asked whether the overdraft programs covered savings accounts, these accounts were not included in the analysis because they are typically not the transaction accounts by which third parties are paid. Retail banking customers typically withdraw funds from and make payments with their checking accounts; thus, overdraft programs are most relevant for this type of account.

Table III-5

Accounts Covered by Formal Overdraft Programs			
Number of Study Population Banks Percent of Column Total	By Overdraft Programs Offered		
<i>For which of the following accounts did your institution offer the program?<sup>a</sup></i> (Multiple answers allowed)	Automated	Linked-Account	Overdraft LOC
Checking	474 100.0	722 99.3	587 100.0
NOW	355 74.9	595 81.7	432 73.6
MMD	153 32.2	439 60.3	212 36.2
Total with program	474 100.0	728 100.0	587 100.0

<sup>a</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

Table III-6

Account Coverage by Multiple Overdraft Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size			
<i>Did your institution allow an account to be covered by more than one overdraft program?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
No	164 28.2	107 31.5	40 26.3	17 18.9
Yes	419 71.8	234 68.5	112 73.7	73 81.1
Total that operated more than one program	584 100.0	341 100.0	152 100.0	90 100.0
Had automated	261 62.2	107 45.9	88 78.6	65 89.0
Did not have automated	159 37.8	127 54.1	24 21.4	8 11.0
Total that operated more than one program and allowed multiple coverage	419 100.0	234 100.0	112 100.0	73 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

account or an overdraft LOC program applied to the account first, before the automated program (see Table III-7). In 4.2 percent of the cases, therefore, an overdraft would be covered by the automated program before any linked-account or overdraft LOC program applied. Further, despite invoking a linked-account or an overdraft LOC program first, 9.0 percent of these institutions operated all three programs, but invoked their automated program second rather than third.

Regarding transaction coverage, overdraft programs can cover four broad categories of transactions: paper checks or equivalents, automated teller machine (ATM) transactions, point-of-sale (POS)/debit transactions, and automated clearing house (ACH) transactions.<sup>10</sup> The majority (80.5 percent) of institutions that operated an automated program covered all four categories (see Table III-8). Most of the study

<sup>10</sup> Equivalents are transactions that started off as a paper check—for example, a warrant, a teller check, or a check that a customer presents to a store to be scanned later. The customer expects that the payment will be processed like a regular check. ACH transactions include, for example, electronic bill payments and automatic debits.

population banks with automated programs (81.0 percent) allowed overdrafts for ATM and POS/debit transactions. Similarly, more than 80.0 percent of banks with a linked-account or an overdraft LOC program covered all four transaction types, including ATM and POS/debit.

Table III-7

Order Overdraft Programs Invoked						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size			By Type of Automated Program		
<i>In what order did your institution invoke a customer's applicable overdraft programs?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Nonpromoted	Promoted
<i>Three programs</i>						
Linked and LOC before automated <sup>b</sup>	123 47.3	42 39.3	40 45.5	41 63.1	40 61.6	83 42.6
Linked or LOC before automated <sup>b</sup>	24 9.0	12 10.7	8 9.1	4 6.2	1 1.5	23 11.5
Automated before linked and LOC	3 1.2	0 0.0	0 0.0	3 4.6	2 3.1	1 0.5
<i>Two programs</i>						
Linked or LOC before automated <sup>b</sup>	103 39.5	54 50.0	35 40.0	14 21.5	19 29.8	84 42.7
Automated before linked or LOC	8 3.0	0 0.0	5 5.5	3 4.6	3 4.0	5 2.7
Total that operated more than one program, allowed multiple coverage, and had automated	261 100.0	107 100.0	88 100.0	65 100.0	65 100.0	195 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Fourteen institutions that reported only that they invoked their linked-account then their overdraft LOC program also operated an automated overdraft program. Four institutions that reported that they invoked their linked-account then automated overdraft program also operated an overdraft LOC program. It is presumed that the omitted program was invoked last.

Table III-8

Transactions Covered by Formal Overdraft Programs			
Number of Study Population Banks Percent of Column Total <sup>a</sup>	By Overdraft Programs Offered		
<i>Which transactions were covered by your institution's program in the event of an overdraft? (Multiple answers allowed)</i>	Automated	Linked-Account	Overdraft LOC
Checks, ATM, POS/debit, and any ACH	381 80.5	601 82.6	491 83.7
ATM and POS/debit	384 81.0	603 82.9	496 84.6
Total with program	474 100.0	728 100.0	587 100.0

<sup>a</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

### III.3. Transaction Processing Practices

Surveyed institutions were asked how transactions were processed, including the method used to batch-process transactions and the order in which transactions were processed if transaction types were ranked before payment.

In batch processing, multiple transactions are bundled into one unit and processed together at some point in the day. All institutions do some level of batch processing, regardless of other primary processing methods used.<sup>11</sup> The general batch-processing methods are by check number, by presentation order, by size largest-to-smallest, and by size smallest-to-largest. The order in which transactions are processed can affect overdraft activity, since paying large transactions first could increase the number of overdrafts.<sup>12</sup>

While 47.2 percent of institutions batch processed transactions by size smallest-to-largest, a sizable share (24.7 percent) batch processed largest-to-smallest (see Table III-9). In particular, more than one-half (53.7 percent) of the large banks in the study batch processed transactions starting with the largest, compared with about a quarter (25.8 percent) of medium banks and a fifth (20.7 percent) of small banks.

Among study population institutions with an automated program, the largest share (34.5 percent) batch processed transactions largest-to-smallest, while 30.2 percent processed them smallest-to-largest. A sizable share (27.1 percent) processed by check number. In comparison, the majority (58.6 percent) of institutions that did not operate an automated program batch processed transactions smallest-to-largest.

Institutions also process transactions based on type. The different types of transactions processed include ACH, in-house ATM, system ATM, cash, POS/debit, online payments, on-us checks, and other transactions. Among study population banks, 621 (53.0 percent) processed transactions primarily by type. Of

Table III-9

Batch-Processing Methods									
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				By Overdraft Programs Offered			By Type of Automated Program	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated	Linked and/or LOC Only	No Formal Program	Non-promoted	Promoted
<i>For those items that are batch processed, which method best describes the order in which transactions were typically paid by your institution?</i>									
By check number	213 18.2	134 15.8	59 28.0	19 17.6	128 27.1	79 14.8	5 3.3	12 12.2	116 31.1
By order of presentation	89 7.6	73 8.6	10 4.5	7 6.5	35 7.3	37 6.9	18 10.9	2 2.0	33 8.7
By size, largest-to-smallest	289 24.7	176 20.7	55 25.8	58 53.7	164 34.5	96 18.0	29 17.9	48 47.8	116 31.0
By size, smallest-to-largest	553 47.2	449 52.7	87 40.9	18 16.7	143 30.2	313 58.9	97 58.6	34 33.9	109 29.2
Other	27 2.3	19 2.3	2 0.8	6 5.6	4 0.8	7 1.4	15 9.3	4 4.0	0 0.0
Total study population banks	1,171 100.0	851 100.0	212 100.0	108 100.0	474 100.0	532 100.0	165 100.0	100 100.0	374 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>11</sup> For example, even if an institution always processes checks first, before other transactions, rules need to be established for how a group of checks that come in at the same time are processed.

<sup>12</sup> For example, if a customer has an account with a \$50 balance and a total of five items (one item at \$100 and four items at \$10) are presented against it, the customer will have five overdrawn items in a largest-to-smallest batch process and only one overdrawn item in a smallest-to-largest batch process.

Table III-10

Transactions Paid First									
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				By Overdraft Programs Offered			By Type of Automated Program	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated	Linked and/or LOC Only	No Formal Program	Non-promoted	Promoted
<i>In what order were transactions typically paid by your institution?</i>									
Cash	375 60.4	268 61.9	75 55.3	31 60.8	146 53.7	174 63.0	55 75.4	26 59.9	120 52.5
POS/debit	66 10.7	46 10.6	14 10.6	6 11.8	34 12.4	33 11.8	0 0.0	3 6.0	31 13.7
In-house ATM	60 9.6	38 8.8	14 10.6	7 13.7	44 16.1	11 4.1	5 6.6	10 22.2	34 14.9
On-us checks	40 6.5	27 6.2	11 8.2	2 3.9	15 5.7	25 8.9	0 0.0	4 8.3	12 5.2
System ATM	30 4.9	23 5.3	6 4.7	1 2.0	16 5.8	9 3.4	5 7.5	0 0.0	16 6.9
Online payments	21 3.4	15 3.5	5 3.5	1 2.0	10 3.8	11 3.9	0 0.0	0 0.0	10 4.5
Other	16 2.5	12 2.7	3 2.4	1 2.0	2 0.6	10 3.7	4 5.3	2 3.7	0 0.0
ACH	12 2.0	4 0.9	6 4.7	2 3.9	5 1.9	3 1.2	4 5.3	0 0.0	5 2.3
Total that ranked transactions for processing	621 100.0	433 100.0	136 100.0	51 100.0	272 100.0	276 100.0	73 100.0	44 100.0	228 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

these institutions, 60.4 percent paid cash transactions first (see Table III-10).<sup>13</sup> POS/debit and in-house ATM transactions were paid first by 10.7 and 9.6 percent, respectively, of study population banks that processed transactions by type. Banks with no formal program (75.4 percent) were more likely to pay cash transactions first than banks with only a linked-account, overdraft LOC program, or both (63.0 percent), as well as those that operated an automated program (53.7 percent). Institutions with promoted automated programs were more likely than those with nonpromoted programs to pay POS/debit transactions first, while banks with nonpromoted programs were more likely than those with promoted programs to pay in-house ATM transactions first.

#### III.4. Summary

Of the study population of institutions, 85.9 percent operated a formal overdraft program, either through an automated program, a linked-account program, or an overdraft LOC program. Large banks tended to have a fuller menu of overdraft coverage services and were more likely than small and medium institutions to operate all three formal programs.

While 40.5 percent of study population operated an automated overdraft program, a greater share of large banks (76.9 percent) did so. The large banks that operated an automated overdraft program accounted for 72.6 percent of all transaction account deposit dollars held in the study population banks, which suggests that the majority of accounts in the study were held in banks with an automated overdraft program.<sup>14</sup>

<sup>13</sup> Cash transactions include teller services, where cash may be demanded by an account holder and immediately provided.

<sup>14</sup> Deposit dollars for each of the surveyed institutions' checking, NOW, and MMD accounts were totaled from the 2006 Call Reports.

The majority (78.9 percent) of automated programs operated by study population banks were promoted programs. However, analysis of the transaction account dollars held in study population banks suggests that nonpromoted automated program coverage was more prevalent. Although banks that operated nonpromoted automated programs accounted for 8.5 percent of the study population, these banks held more than half (51.7 percent) of the transaction account dollars maintained in study population banks. It is important to note that institutions with nonpromoted automated programs are not subject to certain disclosure requirements.

Of institutions that operated an automated program, a significant share (68.4 percent) initiated their programs after 2001, with large institutions being early adopters. In contrast, the vast majority of study population banks with linked-accounts and overdraft LOCs (89.4 percent and 85.9 percent, respectively) had their programs in place by 2001.

Account and transaction overdraft coverage was similar across all types of overdraft programs. Regardless of the overdraft program in place, almost all banks covered checking accounts and sizable shares covered NOW and MMD accounts. The majority (71.8 percent) of institutions with multiple overdraft programs allowed an account to be covered by more than one overdraft program. Of the banks with automated programs that allowed overdraft coverage under multiple programs, 4.2 percent covered an overdraft by an automated program before any linked-account or overdraft LOC program applied. In terms of transactions covered, regardless of the overdraft program, more than 80 percent of banks covered all transaction types, including ATM or POS/debit transactions.

The order in which transactions are paid by a bank can affect overdraft activity, since processing a large transaction first could increase the number of overdrafts. While 47.2 percent of institutions batch processed transactions by size smallest-to-largest, a sizable share (24.7 percent) batch processed largest-to-smallest. In particular, more than half (53.7 percent) of large banks batch processed transactions by size largest-to-smallest.

## IV. Overdraft Fees and Credit Limits

This section discusses survey findings related to overdraft fees and credit limits. Specifically, the survey included questions about NSF-related usage fees, initiation fees, periodic maintenance fees, fees charged whether or not a service is used, and other related topics. Usage-related fee questions were included to ascertain whether these fees were assessed on a per-transaction (per-item) or daily-occurrence basis, whether the fees varied with the number of NSF transactions, and whether subsequent fees were assessed on accounts where balances remained negative. Banks operating overdraft LOCs were also asked about the annual percentage interest rate (APR) charged on funds advanced. In addition, the survey gathered information about credit limits (the maximum amount of funds that would be advanced) for automated overdraft programs and overdraft LOC programs. Survey findings related to fees and credit limits are discussed as they relate to automated overdraft programs, linked-account programs, and overdraft LOC programs.

### IV.1. Automatic Overdraft Program Fees and Coverage Limits

Virtually all of the banks that operated automated overdraft programs (99.7 percent) charged NSF-related usage fees (see Table IV-1). This finding did not vary with bank size. Initiation and maintenance fees on automated overdraft programs were much less common. Thirteen institutions in the study assessed an initiation fee, and seven banks charged periodic maintenance fees, in addition to usage fees;

only two institutions charged all three types of fees.<sup>15</sup> Usage fees for automated overdraft coverage were almost always assessed on a per-item basis (by 98.4 percent of banks having an automated program) as opposed to a daily-occurrence basis (see Table IV-2). This finding was true for banks in all size classes.

Table IV-1

The Incidence of Fees Charged by Automated Overdraft Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
What types of fees are charged by your institution?	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
None of the three fees	2 0.3	0 0.0	2 1.2	0 0.0
Only usage fee	455 96.0	242 95.5	132 95.4	82 98.8
Maintenance and usage fees	5 1.0	4 1.5	0 0.0	1 1.2
Initiation and usage fees	11 2.3	8 3.0	3 2.3	0 0.0
All three fees	2 0.3	0 0.0	2 1.2	0 0.0
Total with automated	474 100.0	253 100.0	138 100.0	83 100.0
<i>Memo Item(s):</i>				
Total charging usage fee	472	253	136	83
Percent of banks with automated	99.7	100.0	98.8	100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

Table IV-2

Usage Fees for Automated Overdraft Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
How are overdraft items charged by your institution?	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
No fee charged	2 0.3	0 0.0	2 1.2	0 0.0
Charged per daily occurrence	4 0.8	4 2	0 0	0 0
Charged on a per-item basis	467 98.4	249 98.5	136 98.8	81 97.6
Item(s) not reported	2 0.4	0 0.0	0 0.0	2 2.4
Total with automated	474 100.0	253 100.0	138 100.0	83.0 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>15</sup> The much lower incidence of initiation and maintenance fees on fee-based programs, in part, reflects the fact that nonpromoted automated programs would not have initiation or maintenance fees. (Note that when an examiner defined a bank's automated fee-based program as nonpromoted, questions about maintenance fees and initiation fees were not asked.) However, the very limited presence of these fees also indicates that they are relatively uncommon, even among study population banks operating promoted programs.

Automated overdraft per-transaction usage fees ranged from \$10 to \$38, and the median fee charged was \$27 (see Table IV-3). In this context, a \$27 fee charged for a single advance of \$60 that was repaid in two weeks roughly translated into an APR of 1,173 percent. Per-item usage fees tended to be slightly higher for large banks with automated overdraft programs. The average automated overdraft NSF fee for large banks was \$30, compared with \$25 for small banks. Usage fees also tended to be higher for banks that batch processed items starting with the largest amount (compared with banks that processed items starting with the smallest amount) and for banks whose programs automatically covered ATM or POS/

Table IV-3

Per-Item Fees Charged by Automated Overdraft Programs									
Dollar Amounts <sup>a</sup> Number of Study Population Banks Percent of Banks with Program		By Asset Size			By Processing Method			By Transactions Covered	
<i>What is the highest fee charged by your institution to pay an NSF item?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Largest-to-Smallest	Not Size Related	Smallest-to-Largest	Does Not Cover ATM or POS/Debit	Covers ATM or POS/Debit
<i>All Reporting Fee Greater than 0</i>									
Minimum	10.00	10.00	16.00	22.00	10.00	16.00	15.00	10.00	16.00
Mean	27.12	25.79	27.65	30.27	28.64	27.14	25.35	25.12	27.47
Median	27.00	25.00	28.00	30.00	29.00	27.50	25.00	25.00	27.50
Maximum	38.00	33.00	35.00	38.00	38.00	35.00	35.00	35.00	38.00
Total with automated with fee greater than 0	472	253	136	83	164	166	143	70	402
Percent of banks with automated	99.7	100.0	98.9	100.0	100.0	99.1	100.0	100.0	99.6
<i>Does Not Use Vendor</i>									
Minimum	15.00	15.00	24.00	22.00	24.00	23.00	15.00	15.00	20.00
Mean	27.85	26.44	27.21	30.99	29.94	27.31	24.75	25.07	28.34
Median	28.00	27.00	27.00	30.00	30.00	27.50	25.00	25.00	28.00
Maximum	38.00	32.00	35.00	38.00	38.00	34.00	35.00	33.00	38.00
Total with automated and fee greater than 0 and does not use vendor	214	96	63	56	97	64	54	32	182
Percent of banks with automated	45.2	37.9	45.4	67.5	59.0	38.1	37.8	46.1	45.1
<i>Uses Vendor</i>									
Minimum	10.00	10.00	16.00	23.00	10.00	16.00	20.00	10.00	16.00
Mean	26.49	25.40	28.03	28.66	26.69	27.03	25.71	25.17	26.71
Median	25.00	25.00	29.00	29.00	28.00	27.00	25.00	25.00	25.00
Maximum	35.00	33.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00
Total with automated and fee greater than 0 and uses vendor	257	157	74	26	66	102	89	38	219
Percent of banks with automated	54.2	62.1	53.5	31.3	40.4	60.9	62.2	53.9	54.3
<i>Memo Item(s):</i>									
Total with automated	474	253	138	83	164	167	143	70	404
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> Includes fee amounts for four institutions that charged fee on a per-daily-occurrence basis.



debit transactions (compared with banks whose programs did not cover these transactions).<sup>16</sup> Where charged, initiation fees on promoted automated overdraft programs ranged from \$6 to \$30, and annual maintenance fees ranged from \$72 to \$120 (see Table IV-4).

Most banks (89.1 percent) with automated overdraft programs reported that usage fees did not vary with NSF activity (see Table IV-5). Among institutions with fees that vary with NSF activity, anecdotal comments indicated limits on the total dollar amount of fees that a customer could incur during a specified period of time in the range of \$100 to \$300 per day or per statement period. Other comments indicated per-item fees that increased with NSF activity.

Approximately 25 percent of banks with automated overdraft programs indicated that subsequent fees were assessed on accounts that remained in negative balance status (see Table IV-5). Large banks were more likely to assess subsequent fees. The share of large banks assessing subsequent fees was 36.1 percent, compared with 19.7 percent for small banks. Anecdotal survey comments indicated that such fees typically took the form of flat fees or interest charged on a percentage basis. Some banks reported having grace periods, ranging from 1 to 33 days before such subsequent fees were assessed.

Most banks (73.0 percent) with automated overdraft programs established overdraft coverage limits for customers in their written policies, consistent with the bank's lending policies (see Table IV-6). However, large banks were more likely than small banks to specify coverage limits on automated overdraft programs in their written policies. About 83 percent of large banks established credit limits, compared with 65.2 percent of small banks. Automated overdraft coverage limits stipulated in written policies ranged from \$85 to \$10,000, and the median credit limit was \$500. As with per-item fees, overdraft coverage limits established in policies also tended to be lower for small banks.

All institutions, regardless of the overdraft programs in place, processed some NSF transactions on an ad hoc basis.<sup>17</sup> Table IV-7 compares the NSF fees charged by the 472 banks with automated overdraft programs that charged NSF fees to the fees charged by the 690 banks in the study population that did not operate automated overdraft programs but charged NSF fees.<sup>18</sup> Fees charged to process NSF items tended to be somewhat higher for banks that operated automated overdraft programs, regardless of bank size and transaction batch-processing method.

The median amount charged by banks to pay an NSF under an automated program was \$27.00 (mean of \$27.12), as reported above, compared with \$25.00 (mean of \$22.90) charged by banks without automated programs for NSF items processed on an ad hoc basis. Banks without a formal overdraft program tended to charge the lowest NSF fees. The median NSF fee for banks that did not operate a formal program was \$20.00 (mean of \$20.84).

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<sup>16</sup> Multivariate regressions examining which factors were systematically related to the usage fees on automated overdraft programs indicated that fees were higher for banks in larger asset-size classes, banks whose programs covered ATM or POS/debit transactions, and banks that batch processed transactions from largest to smallest. Usage fees tended to be lower for banks that did not also offer an overdraft LOC program. Given these factors, vendor use and whether the bank operated a promoted or a nonpromoted program were not systematically related to usage fees on automated overdraft programs reported for study population banks.

<sup>17</sup> For instance, if an account covered by an overdraft LOC program exceeded the overdraft credit limit, the NSF transaction might not be processed under the formal overdraft LOC program, and the decision to pay or return the NSF transaction would be made on an ad hoc basis. For almost all institutions in the survey population that operated automated overdraft programs, fees charged for processing NSF items that were not covered by a formal overdraft program were equal to the per-item fee charged under the automated program.

<sup>18</sup> For most of the survey population operating automated programs, the per-item fee charged when items were paid under automated overdraft programs was the same as the fee charged by the bank on NSF items that it did not pay. These two fees were equal to each other for 98.1 percent of 451 institutions reporting the two fee items.

Table IV-4

Initiation and Maintenance Fees for Automated Overdraft Programs				
Dollar Amounts Number of Study Population Banks Percent of Banks with Program		By Asset Size		
		Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
		All		
<i>What is the initiation fee associated with the program?</i>				
Minimum	6.00	27.00	6.00	NA
Mean	25.69	28.00	22.00	NA
Median	29.00	28.00	30.00	NA
Maximum	30.00	29.00	30.00	NA
Total with automated with fee greater than 0	12	8	5	NA
Percent of banks with automated	2.6	3.0	3.5	NA
<i>What is the annual maintenance fee to maintain the program?</i>				
Minimum	72.00	96.00	72.00	120.00
Mean	93.75	96.00	72.00	120.00
Median	96.00	96.00	72.00	120.00
Maximum	120.00	96.00	72.00	120.00
Total with automated with fee greater than 0	6	4	2	1
Percent of banks with automated	1.4	1.5	1.2	1.2
<i>Memo Item(s):</i>				
Total with automated	474	253	138	83
	100.0	100.0	100.0	100.0

Note: NA = not applicable.

Table IV-5

Features of Usage-Related Fees for Automated Overdraft Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
		Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
		All		
<i>Does the per item/occurrence fee change with the number of items/occurrences with insufficient funds?</i>				
No	423 89.1	234 92.4	120 87.2	69 83.1
Yes	52 10.9	19 7.6	18 12.8	14 16.9
Total with automated	474 100.0	253 100.0	138 100.0	83 100.0
<i>Once an account is overdrawn, are additional fees or interest assessed subsequent to regular per item/per occurrence fees for being in overdraft status?</i>				
No	357 75.4	203 80.3	101 73.3	53 63.9
Yes	117 24.6	50 19.7	37 26.7	30 36.1
Total with automated	474 100.0	253 100.0	138 100.0	83 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

Table IV-6

Credit Limits of Automated Overdraft Programs				
Dollar Amount Number of Study Population Banks Percent of Banks with Program	By Asset Size			
<i>If your institution has adopted written policies and specified a cap on advances, what is the dollar limit?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
Minimum	85	100	85	300
Mean	783.7	653.5	801.2	1,066.1
Median	500	500	700	750
Maximum	10,000	1,700	3,000	10,000
Total with automated reporting limit	346	165	112	69
Percent of banks with automated	73.0	65.2	81.4	83.1
<i>Memo Items(s):</i>				
Number of banks with automated	474	253	138	83
	100.0	100.0	100.0	100.0
Banks with no written policy	81	61	14	5
	17.0	24.2	10.5	6.0
Banks having written policy but no limit specified	47	27	11	9
	9.9	10.6	8.1	10.8

Table IV-7

NSF Fees Charged by Study Population Banks											
Dollar Amount <sup>a</sup> Number of Study Population Banks	By Asset Size				By Overdraft Programs Offered				By Batch Processing Mode		
<i>What is the highest fee charged to PAY an NSF item?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Non-promoted Automated Overdraft Program	Has Promoted Automated Overdraft Program	Has Linked and/or LOC Program(s)	No Formal Program	Largest-to-Smallest	Not Size Related	Smallest-to-Largest
<i>No automated overdraft program</i>											
Minimum	7.50	7.50	15.00	15.00	NA	NA	7.50	9.00	15.00	7.50	10.00
Mean	22.90	22.26	26.80	27.10	NA	NA	23.54	20.84	25.45	23.70	21.81
Median	25.00	24.00	27.75	25.00	NA	NA	25.00	20.00	25.00	25.00	20.00
Maximum	50.00	35.00	37.50	50.00	NA	NA	50.00	32.00	37.00	50.00	35.00
Total with fee greater than 0	690	594	71	25	NA	NA	525	165	125	156	408
<i>Automated overdraft program</i>											
Minimum	10.00	10.00	16.00	22.00	15.00	10.00	NA	NA	10.00	16.00	15.00
Mean	27.12	25.79	27.65	30.27	28.17	26.83	NA	NA	28.64	27.14	25.35
Median	27.00	25.00	28.00	30.00	30.00	27.00	NA	NA	29.00	27.50	25.00
Maximum	38.00	33.00	35.00	38.00	38.00	36.00	NA	NA	38.00	35.00	35.00
Total with fee greater than 0	472	253	136	83	100	372	NA	NA	164	166	143

<sup>a</sup> For banks that do not operate an automated overdraft program, this is the NSF fee reported by the bank for processing NSF items not covered under another formal program.  
Note: NA = not applicable.

Table IV-8

The Incidence of Fees Charged by Linked-Account Overdraft Programs											
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				By Presence of Automated Overdraft Program		By Processing Method			By Transactions Covered	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Overdraft Program	No Automated Overdraft Program	Largest-to-Smallest	Not Size Related	Smallest-to-Largest	Does Not Cover ATM or POS/Debit	Covers ATM or POS/Debit
None of the three fees	356 48.9	276 55.0	61 42.2	19 23.5	122 37.4	234 58.3	70 37.4	81 40.7	205 60.1	52 58.5	304 47.6
Only initiation fee	7 1.0	4 0.8	3 2.2	0 0.0	2 0.5	5 1.4	0 0.0	2 0.8	5 1.6	0 0.0	7 1.1
Only maintenance	6 0.8	0 0.0	2 1.1	4 4.9	6 1.7	0 0.0	4 2.1	0 0.0	2 0.5	0 0.0	6 0.9
Only transfer fee	335 46.1	207 41.2	75 52.2	53 65.4	182 55.9	154 38.2	103 54.8	114 57.2	119 34.8	37 41.5	299 46.7
Maintenance and transfer fees	2 0.3	0 0.0	0 0.0	2 2.5	1 0.3	1 0.3	1 0.5	0 0.0	1 0.3	0 0.0	2 0.3
Initiation and transfer fees	19 2.5	15 3.1	3 2.2	0 0.0	11 3.3	8 1.9	8 4.1	2 0.8	9 2.7	0 0.0	19 2.9
All three fees	1 0.1	0 0.0	0 0.0	1 1.2	1 0.3	0 0.0	1 0.5	0 0.0	0 0.0	0 0.0	1 0.2
Item(s) not reported	2 0.3	0 0.0	0 0.0	2 2.5	2 0.6	0 0.0	1 0.5	1 0.5	0 0.0	0 0.0	2 0.3
Total with linked accounts	728 100.0	502 100.0	144 100.0	81 100.0	325 100.0	402 100.0	188 100.0	199 100.0	341 100.0	88 100.0	639 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

## IV.2. Fees on Linked-Account Programs

Linked-account programs allow customers to link other accounts at the same institution to their transaction account, which permits them to use funds in another account to cover NSF transactions. Almost half (48.9 percent) of the 728 banks operating linked-account programs did not charge initiation, maintenance, or usage-related transfer fees for this type of service (see Table IV-8). Small banks were less likely than other banks to charge any of these fees for linked-account services, as were banks that did not operate an automated overdraft program or those that batch-processed items starting with the smallest item.<sup>19</sup> Less than 4.0 percent of banks with linked-account programs charged initiation fees, and where such fees were charged, they ranged from \$1 to \$30 (see Table IV-9). Slightly more than 1 percent of banks reported charging periodic maintenance fees for linked-account services. Where assessed, such fees ranged from \$12 to \$36 annually.

The most common fee associated with linked-account overdraft programs for banks in the study population was a usage-related funds transfer fee (see Table IV-9). Of the 728 institutions operating linked-account programs, almost half (49.2 percent) reported imposing a transfer fee at the time an NSF occurred. Small banks were less likely than other banks to charge a transfer fee. Transfer fees on linked-account programs ranged from \$1 to \$25, and the median transfer fee was \$5.

<sup>19</sup> Multivariate regressions examining the likelihood that a bank charged any fee on its linked-account program indicated that banks that were small, batch processed transactions starting with the smallest item, did not have an automated program, and did not automatically cover ATM or POS/debit transactions were all associated with a lower likelihood of charging linked-account fees.

Table IV-9

Fees for Linked-Account Overdraft Programs				
Dollar Amounts Number of Study Population Banks Percent of Banks with Program	By Asset Size			
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>What is the initiation fee associated with the program?</i>				
Minimum	1.00	1.00	3.00	12.00
Mean	8.98	7.40	13.25	12.00
Median	5.00	5.00	10.00	12.00
Maximum	30.00	25.00	30.00	12.00
Total with linked accounts with fee greater than 0	27	19	6	1
Percent of banks with linked accounts	3.7	3.8	4.4	1.2
<i>What is the maintenance fee to maintain the program?</i>				
Minimum	12.00	NA	16.00	12.00
Mean	26.58	NA	16.00	29.00
Median	35.00	NA	16.00	36.00
Maximum	36.00	NA	16.00	36.00
Total with linked accounts with fee greater than 0	9	NA	2	7
Percent of banks with linked accounts	1.2	NA	1.1	8.6
<i>For the institution's linked accounts and lines of credit programs, what is the fee to transfer or advance funds?</i>				
Minimum	1.00	1.00	1.00	1.00
Mean	5.17	4.89	4.73	6.86
Median	5.00	5.00	5.00	5.00
Maximum	25.00	25.00	15.00	25.00
Total with linked accounts with fee greater than 0	358	222	79	57
Percent of banks with linked accounts	49.2	44.3	54.5	70.4
<i>Memo Item(s):</i>				
Total with linked accounts	728	502	144	81
	100.0	100.0	100.0	100.0
Note: NA = not applicable.				

The majority (58.8 percent) of the 352 banks that reported charging usage fees for transfers to cover NSF activity in linked accounts assessed the fees on a per-daily occurrence basis rather than a per-item basis (see Table IV-10). Only 6.2 percent of banks operating linked-account programs indicated that usage fees varied with the number of NSF transactions.<sup>20</sup> Survey comments indicated that some banks charged a fee for transfers above a preset number. Other banks reported a general policy of capping the total NSF-related usage fees that a customer could incur.

<sup>20</sup> All banks offering the program were asked if the usage fee varied with NSF activity, including banks reporting a transfer fee equal to zero, since banks could have a fee schedule that charged no transfer fee below some threshold level of NSF activity.

Table IV-10

Features of Linked-Account Transfer Fees				
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size			
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>How are overdraft items charged?</i>				
No transfer fee	369 50.7	280 55.7	66 45.6	23 28.4
Charged per daily occurrence	207 28.5	130 26.0	48 33.3	29 35.8
Charged on a per-item basis	145 20.0	92 18.3	27 18.9	26 32.1
Item(s) not reported	6 0.9	0 0.0	3 2.2	3 3.7
Total with linked accounts	728 100.0	502 100.0	144 100.0	81 100.0
<i>Does the per item/occurrence fee change with the number of items/occurrences with insufficient funds?</i>				
No	682 93.8	464 92.4	140 96.7	79 97.5
Yes	45 6.2	38 7.6	5 3.3	2 2.5
Total with linked accounts	728 100.0	502 100.0	144 100.0	81 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

### IV.3. Fees, APRs, and Credit Limits on Overdraft LOCs

This section examines the fees, interest rates, and credit limits on overdraft LOCs operated by 587 of the banks in the study population. As discussed earlier, overdraft LOCs are credit facilities that advance funds to cover NSF activity for a contractual APR.

More than half (59.2 percent) of banks with overdraft LOCs did not charge initiation, maintenance, or usage fees for the service (see Table IV-11). For these institutions, the cost of overdraft coverage was the interest charged on actual funds advanced. Small banks were somewhat less likely than large banks to charge any of the three noninterest fees, as were banks that did not also operate an automated overdraft program and banks whose LOC program did not automatically cover ATM or POS/debit transactions. The share of small banks that reported charging at least one noninterest fee on their overdraft LOC program was 36.5 percent, compared with 51.2 percent of large banks.

A small minority (10.3 percent) of banks with overdraft LOCs charged an initiation fee to establish the program for a customer. Where charged, initiation fees ranged from \$5 to \$200. Among banks charging these fees, the median initiation fee was \$25 (mean of \$30.32) (see Table IV-12). Maintenance fees were the most common noninterest fee associated with overdraft LOCs. Almost 29 percent of the 587 banks in the study population with overdraft LOCs charged periodic maintenance fees.<sup>21</sup> Maintenance fees charged for overdraft LOCs ranged from \$10 to \$200 dollars, as measured on an annual basis.

<sup>21</sup> Several institutions indicated that customers were offered a choice between a maintenance fee and a usage fee on their overdraft LOC. Because the responses for these banks contained both a nonzero maintenance fee and a nonzero usage fee, they were counted as charging both fees in the cross-tabulations on noninterest fees charged.

Table IV-11

The Incidence of Noninterest Fees Charged by Overdraft LOC Programs								
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Presence of Automated Overdraft Program		By Transactions Covered	
<i>What types of fees are charged by your institution?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Overdraft Program	No Automated Overdraft Program	Does Not Cover ATM or POS/ Debit	Covers ATM or POS/Debit
None of the three fees	348 59.2	234 63.5	74 54.8	40 47.6	121 47.7	227 68	46 72.7	302 57.6
Only initiation fee	5 0.9	4 1.0	2 1.2	0 0.0	2 0.6	4 1.2	0 0.0	5 1.0
Only maintenance	106 18.0	61 16.7	22 16.7	22 26.2	62 24.4	44 13.2	2 3.2	104 19.8
Only usage fee	56 9.5	23 6.3	21 15.5	12 14.3	34 13.6	22 6.4	10 16.4	46 8.7
Maintenance and usage fees	16 2.7	8 2.1	3 2.4	5 6.0	15 5.9	1 0.3	2 2.6	14 2.7
Initiation and usage fees	8 1.3	8 2.1	0 0.0	0 0.0	0 0.0	8 2.3	0 0.0	8 1.5
Maintenance and initiation fees	40 6.9	27 7.3	10 7.1	4 4.8	15 6.1	25 7.5	3 5.1	37 7.1
All three fees	7 1.2	4 1.0	3 2.4	0 0.0	3 1.3	4 1.2	0 0.0	7 1.3
Item(s) not reported	1 0.2	0 0.0	0 0.0	1 1.2	1 0.4	0 0.0	0 0.0	1 0.2
Total with overdraft LOC programs	587 100.0	368 100.0	135 100.0	84 100.0	253 100.0	334 100.0	63 100.0	524 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

Among banks that assessed this type of fee, the median annualized maintenance fee was \$25 (mean of \$26.41). Small institutions were less likely to charge maintenance fees on overdraft LOCs than large institutions, but small institutions were more likely to charge initiation fees (see Table IV-11). Both initiation and maintenance fees were assessed, regardless of a customer's actual overdraft activity.

Almost 15 percent of banks that operated overdraft LOCs assessed a usage fee when funds were advanced, in addition to charging interest on the credit extended. Usage-related noninterest fees ranged from \$1 to \$25 and were more likely to be assessed on a daily occurrence basis (44 institutions) than on a per-item basis (25 institutions) (data not reported in tables).<sup>22</sup> Where charged, the median noninterest usage fee for overdraft LOCs was \$5 (mean of \$6.65). Large banks tended to have somewhat higher usage fees (see Table IV-12).

The annual percentage interest rate reported by banks for overdraft LOC usage ranged from 6.0 percent to 21.0 percent per year. The median APR on overdraft LOCs reported by the study population was 18.0 percent (mean of 16.4 percent) (see Table IV-13). There was little variation in APRs on overdraft LOCs across bank asset-size groups.<sup>23</sup>

<sup>22</sup> Information on how usage-related noninterest advance fees on overdraft LOCs were charged was missing for the remaining 18 banks that reported positive fees.

<sup>23</sup> Multivariate regressions including categorical variables classifying banks in terms of size, other programs offered, batch-processing mode, and whether the overdraft LOC program covered ATM or POS/debit transactions as explanatory variables indicated that only transactions covered by the overdraft LOC program were systematically related to the APR of the program. Specifically, banks having overdraft LOC programs that did not automatically cover ATM or POS/debit transactions had lower APRs on credit extended under these programs, controlling for the other factors.

Table IV-12

Noninterest Fees Charged by Overdraft LOC Programs				
Dollar Amounts Number of Study Population Banks Percent of Banks with Program	By Asset Size			
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>What is the initiation fee associated with the program?</i>				
Minimum	5.00	5.00	12.00	10.00
Mean	30.32	23.18	50.56	32.50
Median	25.00	25.00	25.00	30.00
Maximum	200.00	50.00	200.00	60.00
Total with LOC with fee greater than 0	61	42	14	4
Percent of banks with overdraft LOC programs	10.3	11.5	10.7	4.8
<i>What is the maintenance fee to maintain the program? (annual basis)</i>				
Minimum	10.00	12.00	12.00	10.00
Mean	26.41	23.35	33.38	27.61
Median	25.00	25.00	25.00	25.00
Maximum	200.00	50.00	200.00	100.00
Total with LOC with fee greater than 0	169	100	38	31
Percent of banks with overdraft LOC programs	28.8	27.1	28.6	36.9
<i>For the institution's linked accounts and lines of credit programs, what is the fee to transfer or advance funds?</i>				
Minimum	1.00	1.00	1.00	2.00
Mean	6.65	6.04	5.79	9.39
Median	5.00	5.00	5.00	5.50
Maximum	25.00	10.00	25.00	25.00
Total with LOC with fee greater than 0	87	42	27	18
Percent of banks with overdraft LOC programs	14.9	11.5	20.2	21.4
<i>Memo Item(s):</i>				
Total with overdraft LOC programs	587 100.0	368 100.0	135 100.0	84 100.0

Table IV-13

APRs for Overdraft LOC Programs				
Dollar Amounts Number of Study Population Banks Percent of Banks with Program	By Asset Size			
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>For the institution's lines of credit program, what is the typical APR on the outstanding balance?</i>				
Minimum	6.00	8.00	6.00	6.00
Mean	16.38	16.41	16.46	16.09
Median	18.00	18.00	18.00	17.99
Maximum	21.00	21.00	21.00	21.00
Total reporting APRs	572	357	133	82
Percent of banks with overdraft LOC programs	97.4	96.9	98.8	97.6
<i>Memo Item(s):</i>				
Total with overdraft LOC programs	587 100.0	368 100.0	135 100.0	84 100.0



Table IV-14

Credit Limits of Overdraft LOC Programs				
Dollar Amounts Number of Study Population Banks Percent of Banks with Program	By Asset Size			
<i>If your institution has adopted written policies and specified a cap on advances, what is the dollar limit?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
Minimum	300.00	300.00	500.00	500.00
Mean	8,211.11	5,203.85	9,484.38	13,662.77
Median	5,000.00	4,000.00	5,000.00	5,000.00
Maximum	100,000.00	25,000.00	100,000.00	100,000.00
Total with overdraft LOC programs with written limits <sup>a</sup>	194	100	51	43
Percent of banks with program	33.1	27.1	38.1	51.2
<i>Memo Item(s):</i>				
Total with overdraft LOC programs	587	368	135	84
	100.0	100.0	100.0	100.0

<sup>a</sup> Summary statistics reflect data for banks with written policies, where the policies stipulate a written limit.

Only about one-third of banks operating overdraft LOCs reported credit limits in their written policies.<sup>24</sup> Small banks were less likely to have limits specified in written policies than large banks (see Table IV-14). Where specified, overdraft LOC credit limits ranged from \$300 to \$100,000, with a median limit of \$5,000. Small banks had a somewhat lower median credit limit on overdraft LOC programs (\$4,000) than large banks (\$5,000).

#### IV.4. Summary

For almost all study population banks operating an automated overdraft program, the main fee associated with the program was an NSF usage fee. Usage fees reported by these banks ranged from \$10 to \$38; the median fee was \$27, charged on a per-transaction basis in almost all cases. In this context, a \$27 fee charged for a single advance of \$60 that was repaid in two weeks roughly translated into an APR of 1,173 percent. Many surveyed banks (24.6 percent) assessed additional fees on accounts that remained in negative balance status in the form of flat fees or interest charged on a percentage basis.

Fees assessed for linked-account and overdraft LOC programs were generally lower than for automated overdraft programs. Almost half of the study population banks with linked-account programs did not charge explicit fees for the service. The most common fee associated with linked-account programs was a transfer fee; where charged, the median fee was \$5. The primary cost associated with overdraft LOCs was the interest charged on funds advanced, usually accruing at an APR of around 18 percent.

Most banks in the study population that operated automated overdraft programs (73 percent) established coverage limits for customers in written policies, consistent with a bank's lending program. Maximum automated overdraft coverage limits stipulated in these policies ranged from \$85 to \$10,000, and the median credit limit was \$500. In contrast, among banks with written policies establishing credit limits on overdraft LOCs, the median limit was \$5,000.

<sup>24</sup> Compared with large banks, small banks were less likely to have written policies. Small banks were also less likely to specify credit limits for overdraft LOCs.

## V. Customer Enrollment, Marketing, and Disclosure Practices

Institutions were asked a wide range of questions regarding how customers are enrolled in overdraft programs and how the overdraft programs and practices are marketed and disclosed to consumers.<sup>25</sup> This section discusses how banks determine which overdraft program to offer new customers, whether customers were given the opportunity to opt in or opt out of the program, how and what comparative and educational information was provided, and when and how customers were informed of various overdraft programs and features. In addition, this section discusses whether account and coverage limits for overdraft programs were displayed at ATMs, and when customers were notified of insufficient funds available at ATMs and POS/debit terminals.

Regarding automated overdraft programs, a number of questions in this section did not apply to nonpromoted automated programs; by definition, nonpromoted programs are not offered or advertised to customers. As previously reported in Section II, 8.5 percent of study population banks operating nonpromoted automated programs held more than half (51.7 percent) of the transaction account dollars maintained in study population banks. Therefore, some of the marketing and survey disclosure results presented in this section may not apply to a significant number of customers covered by nonpromoted automated programs. Questions regarding opt-in and opt-out features of an overdraft program, comparative and educational information, and the notification of NSF's at ATMs and POS/debit terminals applied to both promoted and nonpromoted automated programs.

### V.1. Offering Overdraft Programs to New Customers

Surveyed institutions were asked about the methods used to determine which overdraft programs to offer new customers. This question was most relevant to 584 study population banks that operated more than one type of overdraft program, and therefore had to decide which or how many programs to offer. Of those institutions, 45.5 percent reported offering all programs available, and 19.3 percent offered only promoted automated programs unless the customer specifically requested alternative overdraft options (see Table V-1). Almost one-third (31.7 percent) of institutions that operated more than one type of overdraft program had some “other” way of determining which program to offer. Some of the institutions that responded that they used “other” methods noted only offering an overdraft program upon a customer’s request, offering different programs depending on the type of account, or giving bank employees discretion as to program choice.

Institutions were asked what rules and procedures were used to determine whether a customer qualified for a program, including whether customers were subjected to credit checks or were required to have a minimum balance in their account. Banks were also asked if account age or the customer’s history with the institution, recurring deposit activity, or some other qualification criteria were used to determine if a customer was eligible for an overdraft program.

As Table V-2 shows, among study population institutions with automated overdraft programs, the most common rules used to determine if a customer qualified for an overdraft program were the age of the customer’s account (71.6 percent) and the customer’s history with the institution (60.1 percent). These results were consistent across asset-size groups. In the case of study population banks with linked-account programs, the most common response was to use “other” qualification criteria; the majority of those institutions clarified that there were no special qualification criteria for a customer to establish a linked

<sup>25</sup> The discussion in Sections V through VII of this study focus on overdraft services through automated programs, linked accounts, and LOCs.

Table V-1

How Institutions with Two or More Overdraft Programs Determine Offerings to New Customers				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
How did your institution determine which overdraft program to offer new customers?	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
Offers all programs available	266 45.5	169 49.4	61 40.0	36 40.0
Offers only promoted automated program unless customer requests other options	113 19.3	50 14.6	40 26.3	23 25.6
Uses software to determine which customers are offered programs	12 2.1	0 0.0	6 4.2	6 6.7
Other	185 31.7	115 33.7	45 29.5	25 27.8
Item(s) not reported	8 1.4	8 2.3	0 0.0	0 0.0
Total with two or more overdraft programs <sup>b</sup>	584 100.0	342 100.0	152 100.0	90 100.0
Memo Item(s): Number of banks with one or no overdraft program	587	510	59	18
Percent of study population banks	50.1	59.9	28.0	16.7

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Banks with two or more overdraft programs are those that operate at least two of the following: promoted automated overdraft programs, nonpromoted automated overdraft programs, linked account programs, or overdraft LOC programs.

Table V-2

Customer Qualification Rules for Automated Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			All Banks with Linked Accounts or LOC Programs	
Which rules were used by your institution to determine if customer qualifies for program? <sup>b</sup> (Multiple answers allowed)	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	All Linked Accounts	All LOCs
Credit check	77 16.3	46 18.2	19 14.0	12 14.5	78 10.7	538 91.7
Minimum balance	157 33.0	96 37.9	34 24.4	27 32.5	117 16.1	84 14.3
Age of account	339 71.6	176 69.7	101 73.3	62 74.7	126 17.4	171 29.2
History with bank	285 60.1	146 57.6	83 60.5	56 67.5	198 27.3	302 51.5
Recurring deposit	121 25.5	65 25.8	30 22.1	25 30.1	41 5.7	81 13.9
Other	164 34.7	88 34.8	48 34.9	28 33.7	380 52.2	88 15.0
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	728 100.0	587 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers which apply are included.

Table V-3

Whether Opt-In/Opt-Out				
Number of Study Population Banks <sup>a</sup> Percent of Column Total				
<i>Did customers opt-in or opt-out of your institution's program, or was the option not available?</i>	<b>All Automated Overdraft Program</b>	<b>Promoted Automated</b>	<b>Nonpromoted Automated</b>	<b>All Linked Accounts</b>
Opt-in	53 11.1	53 14.1	NA 0.0	689 94.7
Opt-out	356 75.1	311 83.3	45 44.6	17 2.4
Other <sup>b</sup>	65 13.7	10 2.6	56 55.4	21 2.9
Total with program	474 100.0	374 100.0	100 100.0	728 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.  
<sup>b</sup> Of the 65 institutions that reported "Other," 26 described in comments that neither the opt-in nor opt-out option was available.  
Note: NA = not applicable.

account, apart from having two or more accounts with the institution. The dominant qualification criteria for overdraft LOC programs, which commonly require underwriting, was a positive credit check result (91.7 percent).

## V.2. Enrollment in Overdraft Programs

Surveyed banks were asked whether the automated overdraft program or linked-account policies required customers to affirmatively enroll in the program (opt in) to participate, allowed customers who were automatically enrolled to request removal from the program (opt out), or followed some other policy. As shown in Table V-3, most study population banks with automated programs (75.1 percent) featured opt-out programs, while 11.1 percent featured opt-in programs. A portion of banks that responded that they followed some other policy (26 of the 65 banks) commented that customers were not given the choice to opt in or out of the automated program. There were no significant patterns across size groups for these results.

Study population institutions with promoted automated programs were far more likely (83.3 percent) than institutions with nonpromoted programs (44.6 percent) to follow an opt-out policy. Bank comments indicated that study population banks with nonpromoted automated programs were much more likely than those with promoted programs to not give customers the option to opt in or out of the automated overdraft program. In contrast, the large majority of banks with linked-account programs (94.7 percent) followed an opt-in policy (see Table V-3).

## V.3. Providing Comparative and Educational Information to Consumers

Surveyed institutions were asked whether and how consumers were provided comparative information about the features and costs of alternative types of overdraft programs, as well as educational information to help the customer use overdraft coverage wisely and efficiently. The survey did not collect information on the quality or effectiveness of information and disclosures provided to customers.

On average, 63.1 percent of institutions with more than one type of overdraft program provided comparative information about program features and costs to consumers (see Table V-4). Less than one-third of the institutions (28.8 percent) with at least one type of formal overdraft program reported providing educational information (see Table V-5).

Table V-4

Information Provided to Consumers to Compare Overdraft Programs at Institutions with Two or More Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Overdraft Programs Offered	
<i>Did your institution provide comparative information?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Automated and Other Programs	Linked and LOC Only
No	215 36.9	127 37.1	61 40.0	28 31.1	142 37.5	73 35.9
Yes	368 63.1	215 62.9	91 60.0	62 68.9	237 62.5	131 64.1
Total with two or more programs <sup>c</sup>	584 100.0	341 100.0	152 100.0	90 100.0	379 100.0	204 100.0
<i>If yes, all types of information that apply<sup>b</sup> (Multiple answers allowed)</i>						
Deposit account agreement	137 37.3	73 33.9	30 33.3	34 54.8	95 39.9	43 32.6
Brochure about accounts	207 56.3	111 51.8	56 61.4	40 64.5	153 64.3	55 41.8
Information provided by bank personnel	282 76.7	157 73.2	77 84.2	48 77.4	185 78.0	97 74.1
Information provided only when asked	46 12.5	38 17.9	5 5.3	3 4.8	22 9.1	25 18.8
Other	38 10.5	4 1.8	18 19.3	17 27.4	34 14.2	5 3.7
Total with two or more programs that provide information	368 100.0	215 100.0	91 100.0	62 100.0	237 100.0	131 100.0
<i>If yes, all information combinations</i>						
Only source of information is written materials	21 5.6	12 5.4	3 3.5	6 9.7	15 6.4	5 4.2
Only source of information is bank personnel	77 20.9	50 23.2	16 17.5	11 17.7	39 16.4	38 29.1
Other	5 1.4	0 0.0	3 3.5	2 3.2	5 2.2	0 0.0
Multiple sources of information provided	219 59.5	115 53.6	64 70.2	40 64.5	156 65.9	63 48.0
Information provided only when asked	46 12.5	38 17.9	5 5.3	3 4.8	22 9.1	25 18.8
Total with two or more programs that provide information	368 100.0	215 100.0	91 100.0	62 100.0	237 100.0	131 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

<sup>c</sup> Banks with two or more overdraft programs are those that operate at least two of the following: promoted automated overdraft programs, nonpromoted automated overdraft programs, linked account programs, or overdraft LOC programs.

Table V-5

Educational Information Provided to Consumers by Institutions with Formal Overdraft Programs										
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Overdraft Programs Offered		By Type of Automated Program		By Transactions Covered	
<i>Did your institution provide educational information?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Offers Auto-mated	Linked and/or LOC Only	Non-promoted	Promoted	Does Not Cover ATM or POS/Debit	Covers ATM or POS/Debit
		No	716 71.2	537 76.5	119 59.2	61 58.7	256 53.9	461 86.6	69 69.2	186 49.9
Yes	290 28.8	165 23.5	82 40.8	43 41.3	218 46.1	71 13.4	31 30.8	187 50.1	26 21.9	264 29.7
Total with formal overdraft program(s) <sup>c</sup>	1,006 100.0	702 100.0	200 100.0	104 100.0	474 100.0	532 100.0	100 100.0	374 100.0	118 100.0	889 100.0
<i>Memo item(s):</i> Number of banks that have no formal program Percent of study population banks	165 14.1	150 17.6	11 5.3	4 3.7	0 0.0	0 0.0	0 0.0	0 0.0	52 30.8	113 11.2
<i>If yes, all types of information that apply<sup>b</sup> (Multiple answers allowed)</i>										
Comparison chart	32 11.0	15 9.3	10 11.8	7 16.3	32 14.6	0 0.0	6 19.4	26 13.9	5 21.1	27 10.1
Fee sheets	154 53.3	88 53.5	43 52.9	23 53.5	100 45.8	54 76.3	17 55.1	83 44.3	20 77.3	135 51.0
Examples of costs	50 17.2	27 16.3	16 19.6	7 16.3	38 17.6	7 9.9	2 6.5	36 19.4	5 18.8	45 17.1
Overdraft protection brochure	149 51.3	81 48.8	48 58.8	20 46.5	134 61.2	15 21.1	10 31.3	124 66.1	9 35.1	140 52.9
Other	117 40.5	61 37.2	32 39.2	24 55.8	92 42.1	26 35.9	5 17.6	27 14.2	1 3.9	116 44.1
Total with formal overdraft program(s) that provide educational information	290 100.0	165 100.0	82 100.0	43 100.0	218 100.0	71 100.0	31 100.0	187 100.0	26 100.0	264 100.0
<i>If yes, all information combinations</i>										
Only fee sheets	43 14.7	31 18.6	8 9.8	4 9.3	11 5.1	32 44.4	4 13.6	7 3.6	12 46.1	31 11.7
Only brochure	58 20.1	35 20.9	18 21.6	6 14.0	57 25.9	2 2.2	8 24.8	49 26.1	5 18.8	53 20.2
Other	55 19.0	31 18.6	14 17.6	10 23.3	44 20.0	12 16.1	6 20.1	37 20.0	1 3.9	54 20.5
Multiple sources of information provided	134 46.2	69 41.9	42 51.0	23 53.5	107 49.1	27 37.3	13 41.5	94 50.3	8 31.2	126 47.6
Total with formal overdraft program(s) that provide educational information	290 100.0	165 100.0	82 100.0	43 100.0	218 100.0	71 100.0	31 100.0	187 100.0	26 100.0	264 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

<sup>c</sup> Results include all institutions that offered at least one type of overdraft protection program.

### V.3.A. Comparative Information Provided

As mentioned, the majority of study population banks that had more than one type of overdraft program provided comparative information about program features and costs to consumers. Close to 60 percent of these institutions used multiple means to provide comparative information to consumers. A large majority used bank personnel to communicate the information (76.7 percent) or provided account brochures (56.3 percent). More than one-third of the institutions (37.3 percent) provided information via the deposit account agreement. Banks with overdraft programs that included automated programs were somewhat more likely than those with no automated overdraft program (i.e., operated only linked-accounts, overdraft LOCs, or both) to use multiple sources to provide comparative information to consumers (65.9 percent versus 48.0 percent). A minority of institutions in the study reported providing comparative information only when asked (12.5 percent). This was more common at small banks (17.9 percent) than at medium and large banks (5.3 percent and 4.8 percent, respectively).

### V.3.B. Educational Information Provided

Institutions were also asked if educational materials were provided to help customers use overdraft coverage wisely or efficiently. As shown in Table V-5, among the 1,006 institutions in the study with formal overdraft programs, almost one-third (28.8 percent) offered educational information. Large and medium banks were more likely to provide educational materials than small banks (about 41 percent for large and medium banks, compared with 23.5 percent for small banks). Among the 474 study population banks with automated overdraft programs, those that had promoted programs (374 banks) were more likely to provide educational materials than those operating nonpromoted automated programs (50.1 percent versus 30.8 percent). Banks that covered ATM or POS/debit transactions were more likely to provide educational information than banks that did not cover such transactions (29.7 percent versus 21.9 percent). Of study population institutions that distributed educational information, 46.2 percent used multiple methods to provide the material. The most common methods were fee sheets (53.3 percent), brochures (51.3 percent), or some “other” method (40.5 percent).<sup>26</sup> Relatively fewer institutions provided comparison charts (11.0 percent) or examples of costs involved in using overdraft programs (17.2 percent).

## V.4. Product Line Information Provided to Consumers

The study yielded information on how the type and content of information provided to consumers differed by product line. Surveyed institutions were asked when and how banks informed customers about promoted automated overdraft programs, linked accounts, and overdraft LOC programs, as well as which program features were discussed with customers.<sup>27</sup> As mentioned, the survey did not collect information on the quality or effectiveness of information and disclosures provided to customers.

### V.4.A. When Information Was Provided

As reported in Table V-6, most institutions (82.1 percent) with promoted automated overdraft programs informed customers about the program at the point of account opening. Slightly more than half of institutions with promoted programs informed customers about the program upon request (52.1 percent), and 26.1 percent informed customers periodically with account updates. An additional 16.5 percent informed customers using some “other” method. There were no notable patterns across institutions by size group.

<sup>26</sup> Additional common methods of offering educational information included other types of disclosures, policies, product guides, general account- or bank-related brochures or letters, and direct communication with bank employees.

<sup>27</sup> Questions about information provided to customers were not asked of institutions operating nonpromoted automated programs as these programs, by definition, are not revealed to customers in advance.

Table V-6

Timing of Information Provided to Consumers for Promoted Automated Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size			
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>When did your institution inform its customers of the program?</i>				
<i>All instances that apply<sup>b</sup> (Multiple answers allowed)</i>				
When account is opened	307 82.1	176 83.6	91 80.3	39 79.6
Periodically with account updates	97 26.1	58 27.3	29 25.4	11 22.4
When asked by customers	195 52.1	100 47.3	72 63.4	23 46.9
Customers are not informed	NA NA	NA NA	NA NA	NA NA
Other	62 16.5	23 10.9	26 22.5	13 26.5
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0
<i>All combinations</i>				
Only when account is opened	109 29.2	77 36.4	22 19.7	10 20.4
Only when asked	15 4.0	8 3.6	6 5.6	1 2.0
Only with periodic account updates	5 1.3	4 1.8	0 0.0	1 2.0
Only at other times	28 7.4	12 5.5	8 7.0	8 16.3
Customers are not informed	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0
Informed at multiple times	217 58.1	111 52.7	77 67.6	29 59.2
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

Note: NA = not applicable

Although the majority (58.1 percent) of the 374 study population institutions with promoted automated programs used several methods to inform customers about overdraft programs at various points in time, 41.9 percent of banks used only one method. Twenty-nine percent of study population banks informed customers only at account opening. This was more common at small banks (36.4 percent), as compared with medium and large banks (approximately 20.0 percent). Four percent of study population banks informed customers about overdraft programs only when a customer asked.

In the case of linked accounts and overdraft LOCs, 61.9 percent of banks with linked accounts and 60.2 percent of banks with overdraft LOCs notified customers of the programs at account opening (see Table V-7). For both program types, large banks were the most likely to notify customers at account opening. About one in three institutions with linked-account and overdraft LOC programs (30.7 percent and 34.9 percent, respectively) informed customers of the programs only if asked.



Table V-7

Timing of Information Provided to Consumers for Linked-Account and Overdraft LOC Programs								
Number of Study Population Banks <sup>a</sup> Percent of Column Total	Banks with Linked Accounts by Asset Size				Banks with LOCs by Asset Size			
	All Linked Accounts	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	All LOCs	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>When did your institution inform its customers of the program?</i>								
<i>All instances that apply<sup>b</sup> (Multiple answers allowed)</i>								
When account is opened	450 61.9	307 61.1	87 60.0	57 70.4	353 60.2	207 56.2	85 63.1	61 72.6
Periodically with account updates	74 10.2	46 9.2	14 10.0	14 17.3	64 11.0	38 10.4	16 11.9	10 11.9
When asked by customers	562 77.2	380 75.6	117 81.1	65 80.2	480 81.8	299 81.2	117 86.9	64 76.2
Customers are not informed	20 2.7	15 3.1	3 2.2	1 1.2	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0
Other	88 12.0	58 11.5	16 11.1	14 17.3	69 11.8	46 12.5	14 10.7	9 10.7
Total with program	728 100.0	502 100.0	144 100.0	81 100.0	587 100.0	368 100.0	135 100.0	84 100.0
<i>All combinations</i>								
Only when account is opened	118 16.2	84 16.8	21 14.4	13 16.1	70 11.9	42 11.5	13 9.5	15 17.9
Only when asked	223 30.7	153 30.5	50 34.4	20 24.7	205 34.9	142 38.5	45 33.3	18 21.4
Only with periodic account updates	1 0.1	0 0.0	0 0.0	1 1.2	16 2.6	12 3.1	0 0.0	4 4.8
Only at other times	NA NA	NA NA	NA NA	NA NA	293 50.0	173 46.9	74 54.8	47 56.0
Customers are not informed	20 2.7	15 3.1	3 2.2	1 1.2	NA NA	NA NA	NA NA	NA NA
Informed at multiple times	366 50.3	249 49.6	71 48.9	46 56.8	3 0.5	0 0.0	3 2.4	0 0.0
Total with program	728 100.0	502 100.0	144 100.0	81 100.0	587 100.0	368 100.0	135 100.0	84 100.0
<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.								
<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.								
Note: NA = not applicable.								

#### V.4.B. How Information Was Provided

Study population banks used a variety of methods to provide customers with information about available overdraft programs (see Table V-8), and many banks (67.2 percent) used more than one method. About two-thirds of the institutions used bank personnel to inform customers about the features of promoted overdraft programs; slightly more than half (55.1 percent) used account brochures; 46.2 percent used letters or other special mailings; and 40.2 percent used deposit account agreements. Banks that used third-party vendors to administer their promoted automated programs were more likely to have multiple means of keeping customers informed; 78.1 percent of institutions with vendors used more than one method, compared with 51.2 percent of institutions that did not use vendors.

Approximately one-third (32.8 percent) of study population banks with promoted automated programs used only one method to provide information to customers. For these banks, letters or other special customer mailings and brochures were the most common methods used (14.7 percent).

Table V-8

Means of Informing Consumers about Promoted Automated Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Vendor Use	
<i>With what means did your institution inform customers of the features of the program?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Does Not Use Vendor	Uses Vendor
<i>All instances that apply<sup>b</sup> (Multiple answers allowed)</i>						
Deposit account agreement	150 40.2	84 40.0	45 39.4	21 42.9	55 35.8	96 43.2
Brochure about accounts	206 55.1	107 50.9	66 57.7	33 67.3	70 46.3	136 61.2
Bank personnel	254 67.9	146 69.1	77 67.6	31 63.3	91 59.6	163 73.6
Letter or special mailing	173 46.2	96 45.5	58 50.7	19 38.8	44 28.6	129 58.2
Other	38 10.0	12 5.5	16 14.1	10 20.4	16 10.3	22 9.9
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0	152 100.0	222 100.0
<i>All combinations</i>						
Only through deposit account agreement	24 6.4	19 9.1	5 4.2	0 0.0	11 7.1	13 5.9
Only through letter, special mailing, or brochure	55 14.7	27 12.7	19 16.9	9 18.4	35 22.9	20 9.2
Only by bank personnel	29 7.9	27 12.7	2 1.4	1 2.0	21 13.7	9 3.9
Only by other means	14 3.8	4 1.8	6 5.6	4 8.2	8 5.1	6 2.9
Informed at multiple times	251 67.2	134 63.6	82 71.8	35 71.4	78 51.2	173 78.1
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0	152 100.0	222 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

Survey results showed that study population banks with linked accounts or overdraft LOCs used fewer means of informing customers about program features (see Table V-9). The most common means of providing information about linked accounts and overdraft LOCs was through bank personnel (83.4 percent and 80.5 percent, respectively). Banks with linked accounts or overdraft LOCs were less likely than those with promoted automated overdraft programs to use deposit account agreements or account brochures to provide such information. These institutions were also much less likely to use a letter or special mailing (4.7 percent of institutions with linked accounts and 5.6 percent of institutions with overdraft LOCs, versus 46.2 percent for institutions with promoted programs). A fair percentage of study population banks relied solely on bank personnel to provide information about these types of programs to customers (41.8 percent of banks with linked accounts and 28.8 percent of banks with overdraft LOCs).

Table V-9

Means of Informing Consumers about Linked-Account and Overdraft LOC Programs								
Number of Study Population Banks <sup>a</sup> Percent of Column Total	Banks with Linked Accounts by Asset Size				Banks with LOCs by Asset Size			
<i>With what means did your institution inform customers of the features of the program?</i>	All Linked Accounts	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	All LOCs	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>All instances that apply<sup>b</sup> (Multiple answers allowed)</i>								
Deposit account agreement	240 33.0	146 29.0	51 35.6	43 53.1	160 27.3	96 26.0	32 23.8	32 38.1
Brochure about accounts	194 26.7	127 25.2	47 32.2	21 25.9	213 36.2	115 31.3	63 46.4	35 41.7
Bank personnel	607 83.4	426 84.7	115 80.0	66 81.5	472 80.5	307 83.3	103 76.2	63 75.0
Letter or special mailing	34 4.7	23 4.6	6 4.4	5 6.2	33 5.6	19 5.2	5 3.6	9 10.7
Customer not informed	39 5.4	27 5.3	10 6.7	3 3.7	NA NA	NA NA	NA NA	NA NA
Other	60 8.2	31 6.1	21 14.4	8 9.9	133 22.7	81 21.9	34 25.0	19 22.6
Total with program	728 100.0	502 100.0	144 100.0	81 100.0	587 100.0	368 100.0	135 100.0	84 100.0
<i>All combinations</i>								
Only through deposit account agreement	30 4.1	15 3.1	6 4.4	8 9.9	22 3.7	15 4.2	2 1.2	5 6.0
Only through letter, special mailing or brochure	13 1.9	8 1.5	5 3.3	1 1.2	22 3.7	12 3.1	6 4.8	4 4.8
Only by bank personnel	304 41.8	234 46.6	48 33.3	22 27.2	169 28.8	123 33.3	32 23.8	14 16.7
Only by other means	21 2.9	12 2.3	6 4.4	3 3.7	49 8.4	31 8.3	10 7.1	9 10.7
Customer not informed	39 5.4	27 5.3	10 6.7	3 3.7	NA NA	NA NA	NA NA	NA NA
Informed at multiple times	320 44.0	207 41.2	69 47.8	44 54.3	320 54.5	188 51.0	80 59.5	52 61.9
Item(s) not reported	NA NA	NA NA	NA NA	NA NA	5 0.8	0 0.0	5 3.6	0 0.0
Total with program	728 100.0	502 100.0	144 100.0	81 100.0	587 100.0	368 100.0	135 100.0	84 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

Note: NA = not applicable

### V.4.C. What Information Was Provided

Some of the key overdraft program features that help consumers make wise choices about overdraft program usage include information about applicable fees, covered transactions, transaction processing methods, applicable APRs, and coverage limits. As shown in Table V-10, nearly all study population banks with promoted automated programs (at least 97.5 percent) informed customers about two or more of these features. This pattern was similar across every size group. A large majority of these institutions informed customers of the schedule of fees (95.0 percent), the available coverage limit (89.6 percent), and information about the types of transactions covered (78.8 percent) at the time customers enrolled or were included in the program. The majority of these institutions also provided information on how transactions were processed (55.4 percent).

Table V-10

Content of Information Provided to Consumers about Promoted Automated Programs									
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Processing Method			By Transactions Covered	
<i>Which features did your institution inform customers of when they enrolled or were included in the program?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Largest-to-Smallest	Not Size Related	Smallest-to-Largest	Does Not Cover ATM or POS/Debit	Covers ATM or POS/Debit
<i>All instances that apply<sup>b</sup> (Multiple answers allowed)</i>									
Fees	355 95.0	203 96.4	106 93.0	46 93.9	105 90.8	146 97.8	104 95.6	44 88.4	311 96.0
APR	20 5.2	15 7.3	3 2.8	1 2.0	4 3.3	9 5.8	7 6.5	0 0.0	20 6.0
Transactions coverage	294 78.8	161 76.4	91 80.3	42 85.7	94 81.6	108 72.7	92 84.1	45 89.6	250 77.1
Transactions processing	207 55.4	111 52.7	69 60.6	27 55.1	73 63.0	83 55.9	51 46.7	24 48.6	183 56.5
Dollar limit covered	335 89.6	192 90.9	101 88.7	42 85.7	99 85.8	133 89.2	103 94.1	47 92.8	288 89.1
Other	28 7.4	15 7.3	6 5.6	6 12.2	4 3.5	2 1.1	22 20.3	2 4.0	26 8.0
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0	116 100.0	149 100.0	109 100.0	50 100.0	324 100.0
<i>Memo item(s):</i> Number of banks with multiple features	364	211	107	46	114	143	107	48	317
Percent of banks with promoted automated program	97.5	100.0	94.4	93.9	98.3	96.1	98.5	94.8	97.9
<i>All combinations</i>									
Only price	4 1.1	0 0.0	3 2.8	1 2.0	0 0.0	3 1.7	2 1.5	2 3.2	3 0.8
Only dollar limit	2 0.4	0 0.0	2 1.4	0 0.0	0 0.0	2 1.1	0 0.0	0 0.0	2 0.5
Only other features	4 1.0	0 0.0	2 1.4	2 4.1	2 1.7	2 1.1	0 0.0	1 2.0	3 0.8
Multiple features	364 97.5	211 100.0	107 94.4	46 93.9	114 98.3	143 96.1	107 98.5	48 94.8	317 97.9
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0	116 100.0	149 100.0	109 100.0	50 100.0	324 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

Banks with promoted automated programs that processed transactions by size starting with the largest were more likely to inform customers about transaction processing methods (63.0 percent) than those that processed transactions starting with the smallest (46.7 percent) or by non-size-related methods (55.9 percent). Banks that covered ATM or POS/debit transactions were less likely than banks that did not cover those transactions to provide information about which transactions were covered (77.1 percent versus 89.6 percent).

Approximately half of institutions with linked accounts (48.7 percent) and nearly all institutions with overdraft LOCs (92.8 percent) gave customers information about multiple program features. The majority of institutions that had linked-account programs provided a schedule of fees (68.5 percent) and information regarding transactions covered (59.3 percent). Institutions with overdraft LOCs most frequently informed consumers about the applicable APR (89.3 percent) and the dollar limit covered (83.6

Table V-11

Content of Information Provided to Consumers about Linked-Account and Overdraft LOC Programs		
Number of Study Population Banks <sup>a</sup> Percent of Column Total	Banks with Linked Accounts	Banks with Overdraft LOC Programs
<i>Which features did your institution inform customers of when they enrolled or were included in the program?</i>		
<i>All features that apply<sup>b</sup> (Multiple answers allowed)</i>		
Fees	498 68.5	385 65.7
APR	23 3.1	524 89.3
Transactions coverage	432 59.3	339 57.7
Transactions processing	202 27.7	204 34.7
Dollar limit covered	N/A N/A	490 83.6
Other	95 13.1	30 5.1
Total with program	728 100.0	587 100.0
<i>Memo item(s):</i> Number of banks with multiple features	355	545
Percent of banks with promoted automated program	48.7	92.8
<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population. <sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.		

percent). Institutions operating overdraft LOC or linked-account programs were less likely than those that operated promoted automated programs to provide customers with information about fees, transaction processing, or coverage (see Table V-11).

#### V.4.D. Advertising Overdraft Programs

Among the 906 study population banks that operated promoted automated overdraft, linked-account, and overdraft LOC programs, more than 80 percent advertised in newspapers, on the radio, or on television in 2006; however, overdraft programs were generally not featured in these advertisements (see Table V-12). In the case of promoted automated programs, 7.9 percent of institutions that advertised in newspapers, radio, or television specifically featured the automated overdraft program. Large institutions (13.6 percent) and those that had promoted automated programs as the only formal overdraft program (14.9 percent) were more likely to feature them in advertising. For study population banks with linked accounts and overdraft LOCs, 1.6 percent and 3.6 percent, respectively, featured the overdraft program in advertising.

Among the small number of study population banks that featured promoted automated programs in their advertising (24 banks), two-thirds further reported that their advertisements were primarily geared toward promoting that program or prominently featured that program. Conversely, as Table V-13 shows, when study population banks advertised linked-account or overdraft LOC programs, emphasis was placed on the program relatively infrequently (16.0 percent and 18.4 percent, respectively). In the case of advertising through customer mailings in the year 2006, study population institutions were more likely to primarily or prominently feature promoted automated programs (16.9 percent) than linked accounts (1.8 percent) or overdraft LOCs (3.8 percent) (see Tables V-12 and V-13).

Table V-12

Advertising for Promoted Automated Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Presence of other Overdraft Programs	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Automated Only	Automated and Other Programs
<i>Did your institution send customer mailings prominently featuring the program?</i>						
Yes	63 16.9	50 23.6	6 5.6	7 14.3	17 21.0	46 15.8
No	310 83.1	161 76.4	107 94.4	42 85.7	64 79.0	247 84.2
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0	81 100.0	293 100.0
<i>Did your institution advertise in newspapers, radio, or television?</i>						
Yes	304 81.5	161 76.4	99 87.3	44 89.8	81 100.0	255 87.1
No	69 18.5	50 23.6	14 12.7	5 10.2	0 0.0	38 12.9
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0	81 100.0	293 100.0
<i>If yes, did your institution feature the overdraft program?</i>						
Yes	24 7.9	12 7.1	6 6.5	6 13.6	9 14.9	15 6.2
No	281 92.1	150 92.9	93 93.5	38 86.4	50 85.1	231 93.8
Total with promoted automated and advertised	304 100.0	161 100.0	99 100.0	44 100.0	58 100.0	246 100.0
<i>If yes, was it featured prominently?</i>						
Yes	16 66.4	8 66.7	3 50.0	5 83.3	5 55.8	11 72.4
No	8 33.6	4 33.3	3 50.0	1 16.7	4 44.2	4 27.6
Total with promoted automated and featured program in advertisement	24 100.0	12 100.0	6 100.0	6 100.0	9 100.0	15 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

Table V-13

<b>Advertising for Linked-Account and Overdraft LOC Programs</b>		
<b>Number of Study Population Banks<sup>a</sup> Percent of Column Total</b>		
	<b>Banks with Linked Accounts</b>	<b>Banks with Overdraft LOC Programs</b>
<i>Did your institution send customer mailings prominently featuring the program?</i>		
Yes	13 1.8	22 3.8
No	714 98.2	565 96.2
Total with program	728 100.0	587 100.0
<i>Did your institution advertise in newspapers, radio, or television?</i>		
Yes	621 85.3	488 83.2
No	107 14.7	99 16.8
Total with program	728 100.0	587 100.0
<i>If yes, did your institution feature the overdraft program?</i>		
Yes	10 1.6	17 3.6
No	611 98.4	471 96.4
Total with program and advertised	621 100.0	488 100.0
<i>If yes, was it featured prominently?</i>		
Yes	2 16.0	3 18.4
No	8 84.0	14 81.6
Total with program and featured program in advertisement	10 100.0	17 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

## V.5. ATM and POS/Debit Balance Disclosures

Surveyed institutions were asked whether balances at proprietary and nonproprietary ATMs showed overdraft coverage limits for purposes of their promoted automated overdraft programs or their overdraft LOC programs. The survey also asked questions related to the timing of NSF notifications in ATM and POS/debit transactions. NSF notification questions applied to banks with promoted and nonpromoted automated overdraft programs, as well as those that operated overdraft LOC programs.

### V.5.A. Overdraft Coverage Limit Display

Among the 374 study population banks with a promoted automated program, 308 banks (81.4 percent) covered ATM withdrawals (see Table V-14). Of these banks, most (76.9 percent) did not display overdraft coverage limits at proprietary ATMs. The tendency to exclude the overdraft limit from ATM balances increased with bank size. A minority of the 308 study population banks (16.1 percent) displayed the overdraft limit at proprietary ATMs and did so separately from the account balance. Institutions

Table V-14

Balances Shown at ATMs for Promoted Automated Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Vendor Use	
<i>Did your institution show overdraft coverage limits at balances provided at proprietary ATMs/ nonproprietary ATMs?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Uses Vendor	Does Not Use Vendor
<i>Proprietary ATMs</i>						
Overdraft limit is not shown in any ATM balance	237 76.9	119 72.1	82 81.0	36 85.7	125 71.1	112 84.6
Overdraft limit is included in the only balance shown	22 7.1	15 9.3	6 6.3	0 0.0	9 5.3	12 9.5
Overdraft limit is shown but listed separately	50 16.1	31 18.6	13 12.7	6 14.3	42 23.7	8 5.9
Total with promoted automated that covers ATM transactions	308 100.0	165 100.0	101 100.0	42 100.0	176 100.0	132 100.0
<i>Nonproprietary ATMs</i>						
Overdraft limit is not shown in any ATM balance	221 71.9	111 67.4	80 79.4	30 71.4	118 66.8	104 78.7
Overdraft limit is included in the only balance shown	17 5.6	12 7.0	5 4.8	1 2.4	6 3.7	11 8.2
Overdraft limit is shown but listed separately	22 7.0	12 7.0	8 7.9	2 4.8	20 11.3	2 1.2
Do not know	48 15.5	31 18.6	8 7.9	9 21.4	32 18.2	16 11.9
Total with promoted automated that covers ATM transactions	308 100.0	165 100.0	101 100.0	42 100.0	176 100.0	132 100.0
<i>Memo item(s):</i> Number of banks with promoted automated programs that do not cover ATM transactions	66	46	13	7	46	20
Percent of study population banks	17.6	21.8	11.3	14.3	20.5	13.3

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

that used vendors to operate their automated programs were more likely than those that did not (23.7 percent versus 5.9 percent) to display the overdraft limit separately.

A small portion (7.1 percent) of study population banks with promoted automated programs that covered ATM transactions combined the overdraft limit with the account balance in the only balance displayed to customers at proprietary ATMs. Small banks were most likely to include the overdraft limit in a combined balance at proprietary ATMs (9.3 percent), and no large banks did so.

Among study population banks with overdraft LOCs (587 institutions), 87.6 percent (514 institutions) covered NSF transactions at ATMs (see Table V-15). Almost 70 percent of these 514 institutions did not list overdraft limits in ATM balances at proprietary machines, and 20.4 percent of banks displayed balances with the overdraft limit included. Another 12.0 percent of banks with overdraft LOC programs that covered ATM transactions listed the credit limit separately. This practice was more common as bank size increased (24.3 percent of large institutions listed the limit separately).

In general, study population banks with promoted automated overdraft and overdraft LOC programs reported results for institutional practices for nonproprietary ATMs that were similar to those reported for proprietary ATMs. In some cases, study population banks (15.5 percent of those with promoted automated programs and 13.8 percent of those with overdraft LOCs) did not know how balances were displayed at nonproprietary ATMs.



Table V-15

Balances Shown at ATMs for Overdraft LOC Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
<i>Did your institution show overdraft coverage limits at balances provided at proprietary ATMs/nonproprietary ATMs?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>Proprietary ATMs</i>				
Overdraft limit is not shown in any ATM balance	347 67.5	234 73.5	75 61.8	38 51.4
Overdraft limit is included in the only balance shown	105 20.4	61 19.3	26 21.1	18 24.3
Overdraft limit is shown but listed separately	62 12.0	23 7.2	21 17.1	18 24.3
Total with overdraft LOC programs that covers ATM transactions	514 100.0	318 100.0	122 100.0	74 100.0
<i>Nonproprietary ATMs</i>				
Overdraft limit is not shown in any ATM balance	341 66.3	230 72.3	74 60.5	37 50.0
Overdraft limit is included in the only balance shown	80 15.5	50 15.7	16 13.2	14 18.9
Overdraft limit is shown but listed separately	22 4.3	0 0.0	11 9.2	11 14.9
Do not know	71 13.8	38 12.1	21 17.1	12 16.2
Total with overdraft LOC programs that covers ATM transactions	514 100.0	318 100.0	122 100.0	74 100.0
<i>Memo item(s):</i> Number of banks with overdraft LOC programs that does not cover ATM transactions	73	50	13	10
Percent of study population banks	12.4	13.5	9.5	11.9

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

### V.5.B. Customer NSF Notification

As discussed in Section IV, institutions often charged customers an NSF fee when overdrafts occurred. It is helpful for consumers to have a warning before an NSF fee is charged at an ATM or POS/debit terminal. Accordingly, institutions were asked when a customer was notified that an ATM or POS/debit transaction would result, or resulted in, an NSF. In particular, institutions were asked whether customers were notified at the time of the transaction, either before or after the completion of the transaction; subsequent to the transaction, such as by mail or e-mail; or using some other method.

Table V-16 shows that among the survey population banks with automated overdraft programs that covered NSFs at ATMs (385 banks), less than one-quarter (23.5 percent) informed customers at the time of the transaction, prior to its completion. Instead, a slight majority (54.5 percent) informed the customer subsequent to the transaction, via notification such as mail or e-mail, rather than at the time of the transaction; slightly more than 16 percent notified customers about NSFs at the time of the transaction, but after its completion.

For study population institutions with automated overdraft programs that covered POS/debit transactions (403 banks), only 7.9 percent of such banks notified customers of an NSF at the time of a POS/debit transaction prior to completing the transaction. Instead, the majority (86.2 percent) informed the customer about an NSF subsequent to the time of the transaction, such as via mail or e-mail.

Among institutions with automated programs, institutions with nonpromoted overdraft programs were more likely than institutions with promoted programs to inform the customer of an NSF at the time of the transaction, prior to transaction completion (31.0 percent versus 21.7 percent for ATM transactions and 19.6 percent versus 5.0 percent for POS/debit transactions).

Compared with study population banks with automated overdraft programs, banks with overdraft LOCs were slightly less likely to notify customers of an ATM NSF at the time of the transaction, prior to transaction completion (15.8 percent for overdraft LOC programs versus 23.5 percent for automated overdraft programs), and somewhat more likely to inform customers subsequent to the time of the transaction, via notification such as mail or e-mail (65.7 percent versus 54.5 percent) (see Tables V-16 and V-17). The reverse was true, however, for POS/debit transactions. Study population banks with overdraft LOCs that covered POS/debit transactions were slightly more likely than those with automated overdraft programs to notify customers of an NSF prior to a transaction's completion (12.6 percent for overdraft LOC

Table V-16

Customer Notification of ATM and/or POS/Debit NSF for Automated Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				By Type of Automated Program	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Non-promoted	Promoted
<i>When did your institution notify a customer when an ATM or POS/debit transaction resulted in an NSF?</i>						
<i>ATM transactions</i>						
At the time of transaction, prior to completion	91 23.5	42 21.2	30 25.7	18 26.9	24 31.0	67 21.7
At the time of transaction, after completion	62 16.2	35 17.3	13 10.8	15 22.4	16 20.9	46 15.0
Subsequent to transaction	210 54.5	115 57.7	66 55.4	29 43.3	34 43.5	176 57.2
Other <sup>b</sup>	22 5.8	8 3.8	10 8.1	5 7.5	4 4.7	19 6.1
Total with automated that covers ATM transactions	385 100.0	199 100.0	119 100.0	67 100.0	77 100.0	308 100.0
<i>Memo item(s):</i> Number of banks with automated program that do not cover ATM transactions	89	54	19	16	23	66
Percent of study population banks	18.8	21.2	14.0	19.3	23.0	17.6
<i>POS/debit transactions</i>						
At the time of transaction, prior to completion	32 7.9	19 9.1	10 7.9	3 4.3	16 19.6	16 5.0
At the time of transaction, after completion	11 2.6	4 1.8	5 3.9	2 2.9	2 2.0	9 2.8
Subsequent to transaction	347 86.2	180 85.5	106 86.8	61 87.1	61 75.9	286 88.7
Other <sup>b</sup>	13 3.3	8 3.6	2 1.3	4 5.7	2 2.5	11 3.5
Total with automated that covers POS/debit transactions	403 100.0	211 100.0	122 100.0	70 100.0	80 100.0	323 100.0
<i>Memo item(s):</i> Number of banks with automated program that does not cover POS/debit transactions	71	42	16	13	20	51
Percent of study population banks	15.0	16.7	11.6	15.7	20.0	13.7

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Includes one missing observation.

Table V-17

Customer Notification of ATM and/or POS/Debit NSF for Overdraft LOC Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
When did your institution notify a customer when an ATM or POS/ debit transaction resulted in an NSF?	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>ATM transactions</i>				
At the time of transaction, prior to completion	81 15.8	50 15.7	19 15.8	12 16.2
At the time of transaction, after completion	46 9.0	31 9.6	10 7.9	6 8.1
Subsequent to transaction	338 65.7	215 67.5	80 65.8	43 58.1
Other	49 9.5	23 7.2	13 10.5	13 17.6
Total with overdraft LOC programs that covers ATM transactions	514 100.0	318 100.0	122 100.0	74 100.0
<i>Memo item(s):</i> Number of banks with overdraft LOC programs that do not cover ATM transactions	73	50	13	10
Percent of study population banks	12.4	13.5	9.5	11.9
<i>POS/debit transactions</i>				
At the time of transaction, prior to completion	64 12.6	46 15.0	10 7.8	8 10.5
At the time of transaction, after completion	14 2.8	12 3.8	2 1.3	1 1.3
Subsequent to transaction	388 76.7	230 75.0	101 81.8	57 75.0
Other	40 8.0	19 6.3	11 9.1	10 13.2
Total with overdraft LOC programs that covers POS/Debit transactions	506 100.0	307 100.0	123 100.0	76 100.0
<i>Memo item(s):</i> Number of banks with overdraft LOC programs that do not cover POS transactions	81	61	11	8
Percent of study population banks	13.7	16.7	8.3	9.5

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

programs versus 7.9 percent for automated overdraft programs), and somewhat less likely to inform customers subsequent to the time of the transaction through customer notification (76.7 percent versus 86.2 percent).

## V.6. Summary

The survey gathered information related to how overdraft programs are offered to new customers and opt-in/opt-out features of the overdraft programs. In most cases, survey disclosure results regarding automated overdraft programs applied only to promoted programs. As mentioned, more than half of the transaction deposit dollars held in study population banks were maintained in institutions with nonpromoted automated overdraft programs. Therefore, some of the marketing and survey disclosure results presented in this section may not apply to a significant number of customers with nonpromoted automated programs.

About half of the institutions in the study with multiple overdraft programs (45.6 percent) offered all programs available to new customers. However, approximately one-fifth of institutions (19.3 percent) offered only promoted automated programs unless the customer specifically requested alternative overdraft options.

Customers in the majority of study population banks operating automated programs (75.1 percent) were automatically enrolled in the programs, but were allowed to affirmatively request to be removed from, or opt out of, the program. Some banks commented that customers were not given the choice to opt in or out of the program; this comment was most often reported for institutions with nonpromoted automated programs. In contrast, the large majority of banks with linked-account programs (94.7 percent) followed an opt-in policy. Customers have to apply and qualify for an overdraft LOC program, so it was assumed that these were opt-in programs.

The survey also gathered information on the frequency and methods of providing information to consumers about overdraft programs. Nearly all banks, especially large banks, provided consumers with some type of information about overdraft programs. These survey results, however, provided no evidence of the quality and adequacy of the information provided to consumers.

Most study population banks that operated promoted automated programs that covered ATM transactions (76.9 percent) did not display overdraft coverage limits at proprietary ATMs. Sixteen percent of banks with promoted automated overdraft programs that covered ATM transactions did so separately from the account balance. About 7 percent of the study population banks with promoted automated overdraft programs that covered ATM transactions combined the overdraft limit with the account balance in the only account balance displayed to customers at proprietary ATMs. This practice was more common among small banks (9.3 percent).

Additional opportunities for disclosure were evident when considering the information provided to a customer at the time of, or subsequent to, the transaction. Most study population banks whose automated overdraft program covered ATM and POS/debit transactions informed customers of an NSF only after the transaction had been completed (88.8 percent of banks for POS/debit and 70.7 percent of banks for ATMs), such as by mail or e-mail after the transaction. In the case of ATM transactions, less than one-quarter of study population banks alerted their customers prior to the completion of a transaction that the transaction would result in an overdraft. In the case of POS/debit transactions, only 7.9 percent of banks notified customers that completing a given transaction would result in an NSF. This was more likely among small banks. Among study population banks operating automated overdraft programs, banks with nonpromoted programs were more likely than those with promoted programs to alert customers before completing the transaction, for both ATM and POS/debit transactions.

## VI. Internal Controls and Monitoring Systems

Surveyed institutions were asked whether written policies and procedures were adopted to address risks associated with overdraft programs and practices, and about the content of these written policies. Banks were also asked about practices surrounding compliance reviews and ongoing monitoring of overdrafts.

### VI.1. Written Policies

When asked whether study population banks adopted written policies and procedures to address the operational and other risks associated with overdraft programs, a large majority of institutions with automated overdraft programs (83.0 percent) reported having written policies. This was the case for 64.2 percent of banks with overdraft LOC programs and 22.7 percent of institutions with linked-account

programs (see Table VI-1). For these formal overdraft programs, the larger the institution, the more likely it had adopted written policies and procedures. For example, for study population banks with automated overdraft programs, 94.0 percent of large banks had written policies compared with 75.8 percent of small banks.

Table VI-1

Overdraft Program Policies for Automated Overdraft Programs								
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				By Type of Automated Program		All Banks with Linked Accounts or LOC Programs	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Non-promoted	Promoted	All Linked Accounts	All LOCs
<i>Did your institution have a written policy?</i>								
No	81 17.0	61 24.2	14 10.5	5 6.0	22 21.5	59 15.8	563 77.3	210 35.8
Yes	393 83.0	192 75.8	123 89.5	78 94.0	79 78.5	315 84.2	165 22.7	377 64.2
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	100 100.0	374 100.0	728 100.0	587 100
<i>If yes, did the policy set a credit limit?</i>								
No	46 11.7	27 14.0	11 9.1	8 10.3	18 23.0	28 8.9	NA NA	179 47.5
Yes	347 88.3	165 86.0	112 90.9	70 89.7	61 77.0	287 91.1	NA NA	198 52.5
Total with program and written policy	393 100.0	192 100.0	123 100.0	78 100.0	79 100.0	314 100.0	NA NA	377 100
<i>If yes, what other features were included in the policy?<sup>b</sup> (Multiple Answers Allowed)</i>								
Fees	318 80.8	161 84.0	98 79.2	59 75.6	51 65.0	267 84.8	104 63.1	170 45.0
APR	NA NA	NA NA	NA NA	NA NA	NA NA	NA NA	NA NA	184 48.8
Customer disclosure process	194 49.3	96 50.0	61 49.4	37 47.4	0 0.0	194 61.6	89 54.2	160 42.5
Customer notification timeline	285 72.4	130 68.0	96 77.9	58 74.4	51 64.7	234 74.3	74 45.1	150 39.8
Repayment period	328 83.4	157 82.0	106 85.7	65 83.3	53 66.8	276 87.6	NA NA	166 44.0
Charge-off timeline	309 78.7	150 78.0	98 79.2	62 79.5	53 66.8	257 81.7	NA NA	147 39.2
Workout procedures	177 45.0	73 38.0	64 52.0	40 51.3	24 30.3	153 48.7	NA NA	95 25.2
Other	51 13.0	19 10.0	24 19.5	8 10.3	15 18.9	36 11.6	31 19.1	124 33.0
Total with program and written policy	393 100.0	192 100.0	123 100.0	78 100.0	79 100.0	314 100.0	165 100	377 100

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.  
<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.  
Note: NA = not applicable.

Institutions were asked whether specific overdraft program features were covered in their written policies, including overdraft coverage caps (for automated and overdraft LOC programs and ad hoc practices only), overdraft fees, disclosure-related procedures (not applicable for nonpromoted automated programs), and overdraft repayment timeline and procedures (not applicable for linked-account programs).

Among study population banks with automated overdraft programs that had written policies, 88.3 percent included a cap on the dollar amount available to be extended to a customer. This was more prevalent among promoted automated programs (91.1 percent) than nonpromoted programs (77.0 percent). Among study population banks operating overdraft LOCs that had written policies, more than half (52.5 percent) set caps on maximum advances available to be extended to customers.

For more than 80 percent of banks with automated overdraft programs, written policies covered all associated fees, although institutions with promoted programs (84.8 percent) were more likely to include associated fees in those policies than banks with nonpromoted programs (65.0 percent). Written policies for institutions with automated overdraft programs were also likely to cover customer notification timelines, repayment periods, and charge-off timelines. Written policies governing promoted automated overdraft programs were more likely than those governing nonpromoted programs to include each specific feature. There were no notable patterns across bank groups based on asset size (see Table VI-1).

Study population banks with written policies for linked-account and overdraft LOC programs were generally less likely to cover specific program features in those policies, compared with automated overdraft programs (see Table VI-1). For example, only 63.1 percent of banks with written policies for linked-account programs and 45.0 percent for overdraft LOCs included information about all associated fees.

## VI.2. Compliance Review Prior to the Implementation of the Overdraft Program

To assess the level of preliminary compliance review conducted, institutions were asked whether counsel, management, the institution's board of directors, or someone else reviewed overdraft programs for compliance with applicable laws prior to implementation of a given program. As Table VI-2 shows, more than 95 percent of institutions with automated overdraft programs reported that their programs were reviewed by at least one of the parties identified in the survey, whether inside or independent from the bank. Bank management review was common (85.4 percent) for automated overdraft programs, and board of directors review was fairly common (62.7 percent) (see Table VI-2). Five percent of institutions with automated overdraft programs reported that no compliance review was conducted prior to implementation.

Among study population banks with linked-account and overdraft LOC programs, compliance review by bank management was also the most common type of review performed before implementing the overdraft program (54.5 percent and 67.6 percent, respectively). Institutions operating linked-account and overdraft LOCs reported that their programs had not initially been reviewed for compliance in 23.1 percent and 12.9 percent of the cases, respectively.

Table VI-2

Compliance Review Policies for Automated Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				All Banks with Linked Accounts or LOC Programs	
<i>Did your institution review the program for compliance with applicable laws prior to implementation?<sup>b</sup></i> (Multiple answers allowed)	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	All Linked Accounts	All LOCs
Yes, by bank counsel	107 22.5	38 15.2	30 22.1	38 45.8	27 3.7	84 14.3
Yes, by independent counsel	113 23.8	58 22.7	32 23.3	23 27.7	23 3.1	42 7.2
Yes, by bank management	405 85.4	207 81.8	127 91.9	71 85.5	397 54.5	397 67.6
Yes, by bank board	297 62.7	169 66.7	87 62.8	42 50.6	187 25.7	233 39.7
Not reviewed	22 4.5	15 6.1	3 2.3	3 3.6	168 23.1	76 12.9
Other	78 16.4	35 13.6	35 25.6	8 9.6	65 8.9	117 19.9
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	728 100.0	587 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.

### VI.3. Methods for Monitoring and Evaluating Overdraft Programs

When asked how often senior management evaluated overdraft programs in the year 2006—including reviewing overdraft activity, heavy usage, income, and losses—the majority of institutions with automated overdraft programs (58.4 percent) reported conducting reviews 12 times per year (monthly) (see Table VI-3). However, 30.2 percent reviewed their programs less frequently, including 16.4 percent of institutions that reported no evaluations of their automated overdraft program in 2006. As Table VI-3 shows, senior management evaluation of the overdraft program occurred at 36.2 percent of institutions with linked accounts and at 52.9 percent of institutions with overdraft LOCs for the year 2006.

Study population banks generally used a variety of methods to monitor and evaluate overdraft program performance, which is also noted in Table VI-3.<sup>28</sup> Based on the results collected in the survey, the most common monitoring and evaluation method for automated overdraft programs was self-evaluation (73.0 percent), which was particularly common among medium and large institutions (84.9 percent and 81.9 percent, respectively). Although some banks used vendors or consultants to provide additional monitoring, nearly half (48.3 percent) of the institutions with automated programs used self-evaluation exclusively. The next-most-common monitoring method for banks with automated programs was the use of reports provided by vendors (32.4 percent). About 13 percent of institutions with automated programs did not regularly evaluate automated overdraft program performance. Small institutions were most likely to respond that they did not regularly evaluate automated overdraft program performance (16.7 percent of small institutions, compared with 8.1 percent of medium institutions and 7.2 percent of large institutions).

<sup>28</sup> In particular, institutions were asked if one or more of the following methods were used to monitor and evaluate performance of the overdraft program: vendor-supplied reports, self-evaluation, outside consultant evaluation, no regular evaluation, or “other.”

Table VI-3

Evaluation of Automated Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			All Banks with Linked Accounts or LOC Programs	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	All Linked Accounts	All LOCs
<i>How many times did senior management evaluate the program in 2006?</i>						
More than 12 times	54 11.4	31 12.1	14 10.5	9 10.8	36 5.0	44 7.5
12 times	277 58.4	138 54.5	90 65.1	49 59.0	164 22.5	158 27.0
Less than 12 times	65 13.8	35 13.6	21 15.1	10 12.1	63 8.7	108 18.4
Never	78 16.4	50 19.7	13 9.3	15 18.1	464 63.8	276 47.1
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	728 100.0	587 100.0
<i>How did your institution evaluate and monitor overdraft programs?<sup>b</sup> (Multiple answers allowed)</i>						
Vendor provides reports	154 32.4	92 36.4	47 33.7	15 18.1	32 4.5	29 4.9
Self-evaluation	346 73.0	161 63.6	117 84.9	68 81.9	254 34.9	320 54.6
Consultant conducts evaluation	14 3.0	4 1.5	6 4.7	4 4.8	3 0.4	16 2.7
Evaluations are not conducted	59 12.5	42 16.7	11 8.1	6 7.2	420 57.8	216 36.7
Other	25 5.3	15 6.1	5 3.5	5 6.0	33 4.6	21 3.5
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	728 100.0	587 100.0
<i>How did your institution evaluate and monitor overdraft programs? All combinations</i>						
Evaluations are not conducted	59 12.5	42 16.7	11 8.1	6 7.2	420 57.8	216 36.7
Self-evaluation only	229 48.3	104 40.9	71 51.2	55 66.3	236 32.4	300 51.2
Vendor, consultant and/or other	185 39.1	107 42.4	56 40.7	22 26.5	65 8.9	63 10.8
Item(s) not reported	NA NA	NA NA	NA NA	NA NA	7 0.9	7 1.3
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	728 100.0	587 100.0
<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.						
<sup>b</sup> Percentage shares do not sum to 100.0 percent because all answers that apply are included.						
Note: NA = No applicable.						

Similar to automated overdraft programs, the most common monitoring and evaluation method for linked-account and overdraft LOC programs was self-evaluation (34.9 percent and 54.6 percent, respectively). However, 57.8 percent of institutions operating linked accounts and 36.7 percent with overdraft LOCs reported that they did not monitor and evaluate their overdraft program performance.



#### VI.4. Ongoing Customer-Level Monitoring of Overdraft Programs

The survey also collected information on bank monitoring of customer-level usage and accrual of fees and interest, extensive use of overdraft programs by customers, denial of coverage (automated overdraft programs only), and complaint frequency.

Among study population banks with automated overdraft programs, 74.0 percent maintained customer-level information about usage, fees, and interest accrued (see Table VI-4). In particular, 60.1 percent of banks with automated overdraft programs reported monitoring excessive overdraft usage. No major differences were reported across the different asset-size groups.

Among study population banks with linked accounts and overdraft LOCs, 34.0 percent and 64.0, respectively, maintained customer-level information about usage, fees, and interest accrued for these overdraft programs. Excessive overdraft program usage was monitored by 25.8 percent of banks with linked accounts and 29.1 percent of banks with overdraft LOCs.

The survey also asked institutions with automated overdraft programs about special monitoring of NSF or overdraft fees and activity for individual accounts that were largely funded by fixed, nonattachable income, such as Social Security and Veterans Administration payments. As shown in Table VI-5, most institutions with automated overdraft programs (94.2 percent) responded that they did not conduct this type of monitoring.

The survey also gathered information on whether study population banks with promoted automated programs (374 institutions) denied overdraft coverage in 2006 for a customer in good standing, even when there were sufficient funds within the institution's policy limits. Very few institutions (2.2 percent) reported denying coverage of an NSF item for that year (see Table VI-5).

In addition, surveyed institutions were asked to report the number of complaints received in 2006 related to the various types of overdraft programs operated (see Table VI-6). Among study population banks with automated overdraft programs, 12.5 percent received at least one complaint related to the program in 2006. Large institutions were more likely to receive complaints about automated programs;

Table VI-4

Maintenance of Consumer Information and Monitoring of Excessive Use of Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				All Banks with Linked Accounts or LOC Programs	
	All Automated	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	All Linked Accounts	All LOCs
<i>Did your institution maintain customer-level information on usage, fees, and interest?</i>						
Yes	351 74.0	180 71.2	107 77.9	63 75.9	248 34.0	375 64.0
No	123 26.0	73 28.8	30 22.1	20 24.1	480 66.0	211 36.0
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	728 100	587 100
<i>Did your institution monitor for excessive usage?</i>						
Yes	285 60.1	153 60.6	87 62.8	45 54.2	188 25.8	171 29.1
No	189 39.9	100 39.4	51 37.2	38 45.8	540 74.2	416 70.9
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	728 100	587 100

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

21.7 percent of large institutions received at least one complaint, compared with about 10.5 percent of small and medium institutions. Institutions with nonpromoted automated programs were more likely (25.0 percent) to receive complaints about the overdraft program than institutions with promoted programs (9.1 percent). Also, among banks with automated overdraft programs, institutions that covered ATM or POS/debit transactions were more likely to receive complaints (13.7 percent of banks that covered ATM or POS/debit transactions, compared with 5.5 percent of banks that did not cover these transactions). In contrast, complaints were rare in institutions with linked-account (0.5 percent) and overdraft LOC programs (1.4 percent).

Table VI-5

Other Monitoring of Automated Overdraft Programs				
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size		
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
<i>Did your institution monitor accounts funded by fixed, non-attachable income?</i>				
Yes	25 5.3	15 6.1	8 5.8	2 2.4
No	447 94.2	238 93.9	130 94.2	79 95.2
Item(s) not reported	2 0.4	0 0.0	0 0.0	2 2.4
Total with automated	474 100.0	253 100.0	138 100.0	83 100.0
<i>Has your institution denied an NSF item although sufficient funds were available?</i>				
Yes	8 2.2	4 1.8	3 2.8	1 2.0
No	366 97.8	207 98.2	111 97.2	48 98.0
Total with promoted automated	374 100.0	211 100.0	114 100.0	49 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.  
 Note(s): Question was asked only of institutions with promoted automated programs.

Table VI-6

Complaints about Automated Overdraft Programs										
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				By Type of Automated Program		By Transactions Covered		All Banks with Linked Accounts or LOC Programs	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Non-promoted	Promoted	Does Not Cover ATM or POS/Debit	Covers ATM or POS/Debit	All Linked Accounts	All LOCs
<i>Has your institution received any complaints about the program?</i>										
Yes	59 12.5	27 10.6	14 10.5	18 21.7	25 25.0	34 9.1	4 5.5	55 13.7	4 0.5	8 1.4
No	415 87.5	226 89.4	123 89.5	65 78.3	75 75.0	340 90.9	66 94.5	348 86.3	724 99.5	578 98.6
Total with program	474 100.0	253 100.0	138 100.0	83 100.0	100 100.0	374 100.0	70 100.0	404 100.0	728 100.0	587 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

## VI.5. Summary

Most study population banks with automated overdraft programs (83.0 percent) adopted written policies and procedures addressing operational and other program risks. These written policies were more prevalent among large banks (94.0 percent). In general, policies covering automated overdraft programs—and more so for promoted programs—were likely to address each of the program features identified in the survey. When institutions maintained policies and procedures for linked-account and overdraft LOC programs, it was less likely that specific program features were covered.

Management review was the most common type of compliance review that study population banks performed before implementing the automated overdraft program (85.4 percent of banks with automated overdraft programs). More than half of the banks with automated overdraft programs reviewed the program on a monthly basis during 2006; however, 16.4 percent reported no evaluations of the automated program during this period. Self-evaluation was the most common method used to monitor and evaluate program performance.

Almost three-quarters of study population banks with automated overdraft programs maintained customer-level information on usage, fees, and interest accrued by their programs. While the majority of institutions reported monitoring for excessive usage of the overdraft program, about 40 percent of institutions did not. When overdraft coverage was within the institution's policy limits, denial of NSF transactions among banks with promoted automated overdraft programs was rare (2.2 percent). Also, 5.3 percent of banks with automated overdraft programs monitored accounts largely funded by fixed, nonattachable income.

Of the study population banks with automated overdraft programs, 12.5 percent received consumer complaints about these programs. These complaints were more common for large institutions (21.7 percent versus 10.6 for small banks), institutions with nonpromoted programs (25.0 percent, compared with 9.1 percent of banks with promoted programs), and institutions that covered NSFs at ATMs and POS/debit terminals (13.7 percent versus 5.5 percent of banks with automated overdraft programs that did not cover these types of transactions). In contrast, complaints about linked accounts were reported by less than 1 percent of banks, and LOC overdraft program complaints were reported by less than 1.5 percent of banks operating these programs.

## VII. The Role of Vendors and Third Parties in Overdraft Practices

In recent years, third-party vendors have played a significant role in the development and implementation of automated overdraft programs, particularly at smaller banks. Vendor-provided overdraft programs have been marketed as tools to enhance an institution's internal reporting system for overdraft-related activities. Regulators and others have found, however, that vendor-supplied overdraft programs generally differ from in-house programs in that vendor programs feature "marketing plans that appear designed to promote the generation of fee income."<sup>29</sup> To better understand the role of third-party vendors in the provision of overdraft services, the survey asked institutions that operated an automated overdraft program a variety of questions concerning third-party vendor usage, contract duration, and compensation.<sup>30</sup>

<sup>29</sup> See the Regulation DD (Truth in Savings) Final Rule at 70 Fed. Reg. 29582 (May 24, 2005); see also Joint Guidance on Overdraft Protection Programs at 70 Fed. Reg. 9127 (Feb. 24, 2005).

<sup>30</sup> Institutions were not asked these questions in connection with linked-account or overdraft LOC programs.

Table VII-1

Institutions' Relationships with Vendors for Automated Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size			By Type of Automated Program		
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Nonpromoted	Promoted
<i>Did your institution use a vendor?</i>						
Yes	257 54.2	157 62.1	74 53.5	26 31.3	35 35.3	222 59.3
No	216 45.6	96 37.9	64 46.5	56 67.5	64 63.7	152 40.7
Item(s) not reported	1 0.2	0 0.0	0 0.0	1 1.2	1 1.0	0 0.0
Total with automated	474 100.0	253 100.0	138 100.0	83 100.0	100 100.0	374 100.0
<i>If your institution used a vendor, was the overdraft program established or expanded through a vendor?</i>						
Yes	216 83.9	130 82.9	64 87.0	21 80.8	20 55.6	196 88.4
No	41 16.1	27 17.1	10 13.0	5 19.2	16 44.4	26 11.6
Total with automated using vendor	257 100.0	157 100.0	74 100.0	26 100.0	35 100.0	222 100.0

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

### VII.1. Vendor Usage

As Table VII-1 shows, 54.2 percent of study population banks with automated overdraft programs used a vendor at the time of the survey. Institutions with promoted automated programs were more likely to use an outside vendor; about 59.3 percent of institutions with promoted programs used an outside vendor to implement and manage the program as of the survey date, compared with 35.3 percent of institutions that had nonpromoted programs. In the study, small banks were more likely than large banks to use outside vendors to manage the overdraft program (62.1 percent versus 31.3 percent).

Among study population banks with automated programs and that used vendors, 83.9 percent reported using vendors to *initially* establish or expand automated overdraft programs. Institutions with promoted programs were more likely to implement programs using a vendor; 88.4 percent of banks with promoted programs initially established or expanded those programs using a third-party vendor, compared with 55.6 percent of institutions with nonpromoted programs. The tendency to contract with a vendor to initiate or expand an automated overdraft program was relatively consistent among small, medium, and large institutions.

Study population banks that used vendors to implement or manage automated overdraft programs were also asked how long the vendor-supplied program(s) were used (see Table VII-2). Survey results show a steady increase in institutions' use of vendors to implement and manage automated overdraft programs in the six years preceding the survey date. Close to 90 percent of institutions using vendor-supplied automated overdraft programs began using them in the six years prior to the survey, and 70.2 percent started relationships with these vendors at some point during the four years prior to the survey. More than one-third of the institutions that used vendors (36.4 percent) had been doing so for less than two years. This trend was more pronounced among small banks and banks with nonpromoted overdraft programs. Most small banks (75.6 percent) that used vendors at the time of the survey began relationships with vendors within the prior four years. In contrast, among large institutions, 46.1 percent used vendors for less than four years.

Table VII-2

Length of Vendor Relationships for Automated Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Type of Automated Program	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Non-promoted	Promoted
<i>How long has your institution used your vendor?</i>						
0-2 years	94 36.4	69 43.9	18 23.9	7 26.9	17 48.9	76 34.4
2-4 years	87 33.8	50 31.7	32 43.5	5 19.2	11 30.1	76 34.4
4-6 years	49 19.0	31 19.5	11 15.2	7 26.9	1 2.8	48 21.6
More than 6 years	27 10.7	8 4.9	13 17.4	7 26.9	6 18.2	21 9.5
Total with automated using vendor	257 100.0	157 100.0	74 100.0	26 100.0	35 100.0	222 100.0
<i>What was the original term of the vendor contract?</i>						
0-2 years	77 29.8	35 22.0	32 43.5	10 38.5	6 16.4	71 31.9
2-4 years	131 51.2	88 56.1	35 47.8	8 30.8	11 31.8	120 54.3
4-6 years	38 14.7	27 17.1	5 6.5	6 23.1	15 40.9	23 10.4
More than 6 years	11 4.4	8 4.9	2 2.2	2 7.7	4 10.8	7 3.4
Total with automated using vendor	257 100.0	157 100.0	74 100.0	26 100.0	35 100.0	222 100.0
<i>Memo item(s):</i>						
Number of banks with automated overdraft programs that do not use vendors	216	96	64	56	64	152
Percent of study population	45.6	37.9	46.5	67.5	63.7	40.7

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

Study population banks with nonpromoted programs generally started vendor relationships more recently than those with promoted programs. Nearly half of the study population banks with nonpromoted programs that used vendors (48.9 percent) started doing so within two years prior to the survey, compared with 34.4 percent of promoted programs. About one-tenth of the institutions (10.7 percent) used vendors for more than six years prior to the survey (9.5 percent of banks with promoted programs and 18.2 percent of banks with nonpromoted programs).

Among study population banks with automated overdraft programs, large institutions and institutions with promoted programs were more likely to have shorter vendor contract terms (see Table VII-2). More than half (54.3 percent) of the contract terms for institutions with promoted automated programs were in the two- to four-year range, nearly one-third (31.9 percent) were shorter, and only 13.8 were longer than four years. In contrast, 51.7 percent of the study population banks with nonpromoted programs had an average vendor contract duration of at least four years.

As Table VII-3 shows, nearly two-thirds of institutions in the study with automated programs that purchased overdraft programs from a vendor (62.9 percent) used standardized or off-the-shelf programs. Slightly more than one-third (36.3 percent) purchased programs customized for the institution. Among study population banks that used vendors to manage their automated overdraft program, small banks

Table VII-3

Type of Vendor Program Used for Automated Overdraft Programs						
Number of Study Population Banks <sup>a</sup> Percent of Column Total	By Asset Size				By Type of Automated Program	
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Non-promoted	Promoted
<i>If your institution used a vendor, describe the vendor program?</i>						
Standardized or off-the-shelf	162 62.9	119 75.6	29 39.1	14 53.8	15 42.6	147 66.2
Customized for the institution	93 36.3	38 24.4	45 60.9	10 38.5	19 54.5	74 33.4
Other	2 0.8	0 0.0	0 0.0	2 7.7	1 2.8	1 0.5
Total with automated using vendors	257 100.0	157 100.0	74 100.0	26 100.0	35 100.0	222 100.0
<i>Memo item(s):</i>						
Number of banks with automated overdraft programs that do not use vendors	216	96	64	56	64	152
Percent of study population	45.6	37.9	46.5	67.5	63.7	40.7

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

and institutions with promoted programs were more likely to have standardized programs. Most small banks that used vendors purchased standardized programs (75.6 percent), compared with 53.8 percent of large banks. Also, two-thirds of institutions with promoted programs that reported using a vendor had standardized programs (66.2 percent), compared with 42.6 percent of institutions with nonpromoted programs.

## VII.2. Vendor Compensation Structure

With regard to vendor compensation, most institutions in the study that operated automated overdraft programs (70.6 percent) paid vendors a percentage of the income or fees generated by the overdraft product purchased (see Table VII-4). The smaller the institution in terms of assets, the more likely this compensation structure was adopted (78.0 percent of small institutions, 67.4 percent of medium institutions, and 34.6 percent of large institutions). Study population banks with promoted programs were also considerably more likely than institutions with nonpromoted programs to compensate vendors this way (77.7 percent versus 26.2 percent).

Study population banks with automated overdraft programs that batch processed transactions from largest to smallest were less likely than those that used other batch-processing methods to pay vendors a percentage of income or fees earned; 56.3 percent of those that processed the largest transactions first compensated vendors in this way, in contrast to 81.2 percent of institutions that processed the smallest transactions first.

Of the institutions in the study that compensated vendors based on a percentage of income or fees generated by the overdraft product, nearly half (44.7 percent) paid vendors between 10 and 19 percent. However, compensation percentages between study population banks with promoted and nonpromoted programs differed substantially. Although relatively few institutions with nonpromoted programs paid vendors a percentage of income or fees, the percentages paid were much higher than those paid by institutions with promoted programs. Eighty-three percent of institutions with nonpromoted automated programs paid vendors 20 percent or more of income or fees generated, and 41.4 percent paid more than 30 percent. By comparison, only one-third of surveyed banks with promoted automated programs paid vendors in excess of 20 percent.

Table VII-4

Vendor Compensation for Automated Overdraft Programs									
Number of Study Population Banks <sup>a</sup> Percent of Column Total		By Asset Size			By Type of Automated Program		By Processing Method		
<i>Did your institution's vendor receive a percentage of the income generated by the overdraft program?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Non-promoted	Promoted	Largest-to-Smallest	Not Size Related	Smallest-to-Largest
Yes	181 70.6	123 78.1	50 67.4	9 34.6	9 26.2	172 77.7	37 56.3	72 70.6	72 81.2
No	76 29.4	35 22.0	24 32.6	17 65.4	26 73.8	49 22.3	29 43.7	30 29.4	17 18.8
Total with automated using vendor	257 100.0	157 100.0	74 100.0	26 100.0	35 100.0	222 100.0	66 100.0	102 100.0	89 100.0
<i>If yes, what share of fees was the vendor paid in 2006?</i>									
0%	14 7.8	12 9.4	2 3.2	1 11.1	0 0.0	14 8.2	0 0.0	13 18.2	1 1.4
1-9%	21 11.5	8 6.2	11 22.6	2 22.2	0 0.0	21 12.1	4 10.3	12 16.2	5 7.5
10-14%	33 18.2	23 18.8	8 16.1	2 22.2	0 0.0	33 19.2	0 0.0	11 15.7	22 30.1
15-19%	48 26.5	27 21.9	19 38.7	2 22.2	2 17.3	46 27.0	13 34.6	14 19.6	21 29.2
20-29%	35 19.4	27 21.9	6 12.9	2 22.2	4 41.4	31 18.3	13 36.2	10 14.3	12 15.9
30% or more	30 16.6	27 21.9	3 6.5	0 0.0	4 41.4	26 15.2	7 18.9	12 16.0	12 15.9
Total with automated using vendors and paying share of fees	181 100.0	123 100.0	50 100.0	9 100.0	9 100.0	172 100.0	37 100.0	72 100.0	72 100.0
<i>Did the compensation depend on a minimum level of usage by customers?</i>									
Yes	113 44.1	84 53.7	24 32.6	5 19.2	5 15.4	108 48.7	27 40.8	50 49.1	36 41.0
No	144 55.9	73 46.3	50 67.4	21 80.8	30 84.6	114 51.3	39 59.2	52 50.9	53 59.1
Total with automated using vendors	257 100.0	157 100.0	74 100.0	26 100.0	35 100.0	222 100.0	66 100.0	102 100.0	89 100.0
<i>Did the compensation depend on program features?</i>									
Yes	1 0.4	0 0.0	0 0.0	1 3.8	0 0.0	1 0.5	0 0.0	1 1.0	0 0.0
No	256 99.6	157 100.0	74 100.0	25 96.2	35 100.0	221 99.5	66 100.0	101 99.0	89 100.0
Total with automated using vendors	257 100.0	157 100.0	74 100.0	26 100.0	35 100.0	222 100.0	66 100.0	102 100.0	89 100.0
<i>Memo item(s):</i> Number of banks with automated overdraft programs that do not use vendors	216	96	64	56	64	152	97	65	54
Percent of study population	45.6	37.9	46.5	67.5	63.7	40.7	59.0	39.1	37.8

<sup>a</sup> Figures do not always reconcile to totals due to the rounding of survey institutions weighted to represent the population.

Comparing size groups, small banks compensated vendors with a greater percentage of income or fees than large banks. For example, more than one in five banks in the smallest group (21.9 percent) paid their vendors 30.0 percent or more of the income or fees generated by the automated program purchased, but none of the large banks paid such a high percentage.

Among study population banks that compensated vendors based on a proportion of overdraft-generated income, 44.1 percent structured vendor compensation on a minimum level of overdraft customer usage. This practice was more common among small institutions (53.7 percent, compared with 32.6 percent of medium institutions and 19.2 percent of large institutions). Forty-nine percent of institutions with promoted programs structured compensation in this way, compared with 15.4 percent of institutions with nonpromoted programs. Almost no banks (less than 1 percent) made vendor compensation dependent on program features.

### VII.3. Summary

More than half (54.2 percent) of the study population banks that operated automated overdraft programs relied on third-party vendors to implement or manage the overdraft programs. Survey results show that the use of vendors to implement and manage promoted and nonpromoted automated overdraft programs has grown in recent years. Close to 90 percent of institutions using vendor-supplied automated overdraft programs began using them in the six years before the survey, and 70.2 percent started working with a vendor within the four years before the survey.

Almost two-thirds (62.9 percent) of study population banks that purchased automated overdraft programs from a vendor used standardized (or off-the-shelf) programs. Most study population banks that used a vendor to manage automated programs (70.6 percent) reported paying third-party vendors a percentage of the fees or income generated by the program, typically 10 to 20 percent.

Small banks and institutions with promoted programs were more likely than other banks to rely on third-party vendors to implement and manage the automated overdraft program; purchase and implement a standardized overdraft program; structure vendor compensation based on a percentage of overdraft income generated; and make vendor compensation contingent on a minimum level of income or fees being generated by the use of the product. When institutions with nonpromoted programs paid vendors a percentage of income or fees earned, compensation percentages were much higher than those paid by institutions with promoted programs.

## VIII. Growth and Profitability of Overdraft Programs: The Importance of NSF-Related Fee Income for Bank Earnings

The survey asked banks to provide estimates of annual fee income related to the processing of NSF items for 2005, 2006, and if available, for the years 2002–2004. The survey collected reasonable estimates of NSF-related fee income earned in 2006 for about 99 percent of study population banks. Banks representing roughly two-thirds (794 banks) of the study population reported the full five years of data requested on annual NSF-related fee income.<sup>31</sup>

<sup>31</sup> The survey instrument also asked for the breakdown of annual NSF-related fees into components measuring income related to items that were paid versus income related to items that were returned as unpaid. A much smaller number of respondents were able to provide the breakdown of NSF-related income into fees associated with paid NSF items versus fees associated with returned NSF items. Banks representing less than one-fourth of the study population were able to provide this fee breakdown for 2006, and banks representing less than one-tenth of the study population were able to provide the breakdown back to 2002.



Two types of ratios were used to evaluate the importance of overdraft programs for bank earnings: ratios that compare NSF-related fee income to other measures of income (income share ratios) and ratios that measure the flow in fee income relative to the deposit balances that generate the fees (quasi-profitability ratios).<sup>32</sup> The income share ratios compare NSF-related fee income to three income measures reported in bank Call Reports: (1) service charges on deposit accounts; (2) total noninterest income; and (3) net operating revenue, which equals the sum of net interest income and total noninterest income.<sup>33</sup> The quasi-profitability ratios compare NSF-related income to the volume of deposit dollars reported in bank Call Reports:<sup>34</sup> (1) total demand deposits; (2) total transaction deposits, which include NOW accounts; and (3) deposit balances held in MMD accounts plus total transaction deposits.<sup>35</sup>

### VIII.1. Income Share Results

Banks in the study population that reported fee-income data are estimated to have earned \$1.97 billion in NSF-related fees in 2006, representing 74.0 percent of the \$2.66 billion in service charges on deposit accounts reported by these banks in their Call Reports (see Table VIII-1).<sup>36</sup> The share was somewhat lower for large banks (72.6 percent) than for small and medium banks (79.5 percent and 78.1 percent, respectively). For study population banks with automated overdraft programs, NSF-related fee income accounted for a larger share of total service charges on deposit accounts (74.4 percent) compared with banks that operated only linked-account and overdraft LOC programs (69.4 percent). Study population banks that operated automated overdraft programs earned \$1.77 billion in NSF fees in 2006, which represented 90.0 percent of total NSF-related fee-income earnings estimated for the entire study population. Among banks with automated overdraft programs, NSF-related fees made up a larger share of total service charges on deposit accounts for banks whose programs covered ATM and POS/debit transactions (75.0 percent) than for the smaller number of institutions whose programs did not (63.8 percent). For banks having no formal programs, NSF-related fees made up 76.8 percent of Call Report deposit-account fees.

NSF-related fee income accounted for 24.8 percent of the total noninterest income earned in 2006 by study population banks. The share was lower for large banks, since more complex banks tended to have more sources of noninterest income. Among study population banks that had automated overdraft programs, the share of noninterest income attributable to NSF-related fees was higher for banks that covered ATM and POS/debit transactions (25.4 percent), than for banks whose automated overdraft programs did not cover these transactions (20.9 percent). NSF-related fees accounted for the largest shares of noninterest income for banks having no formal overdraft programs (29.5 percent) and for institutions that batch processed smallest-to-largest (28.4 percent), but smaller institutions are disproportionately represented among these groups of banks.

For all study population banks reporting fee income, NSF-related fee income accounted for 5.9 percent of net operating revenues, which includes noninterest income as well as the net interest income earned on bank assets. This share did not vary by much across the asset-size groups. However, NSF-related fees

<sup>32</sup> Because of different factors that can affect the fee income earned by banks (such as market conditions and customer or account characteristics), fee-income patterns reported in this study should be interpreted with caution. In addition, the fee-income data reflected in the survey results reflects only FDIC-supervised institutions and cannot be generalized to broader bank populations.

<sup>33</sup> It is important to note that the latter two Call Report income items can be negative numbers (for example, because of trading losses).

<sup>34</sup> As noted, the survey did not collect information on the actual accounts covered by overdraft programs. Hence, the quasi-profitability measures were constructed using Call Report items measuring total outstanding deposit balances (held in domestic offices) for broad types of accounts: demand deposit, NOW accounts, and MMD accounts. These balance sheet items include accounts held by all types of account holders (consumers and businesses), which can be covered by different types of overdraft programs.

<sup>35</sup> Deposit data used in the ratios are measured as annual average outstanding, where the beginning-of-year balances are merger adjusted to include data for banks that were acquired during the calendar year.

<sup>36</sup> Estimates of Call Report items for the study population were generated by weighting actual Call Report data for the sample of reporting banks to be consistent with population estimates of the NSF-related fee income.

Table VIII-1

NSF-Related Fee Income as a Share of Broader Income Measures											
Aggregate Ratios (Percent) and Dollar Aggregates (\$ Millions) <sup>a</sup>	By Asset Size			By Programs Offered			By Presence of Automated Program and Transactions Covered		By Processing Method		
	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Program	Only Linked or LOC	No Formal Program	Has Automated Program: Covers ATM or POS/Debit	Has Automated Program: Does Not Cover ATM or POS/Debit	Largest-to-Smallest	Not Size Related	Smallest-to-Largest
<b>All</b>											
<i>Ratio of NSF-related fee income to:</i>											
Fees on deposit account	74.0	78.1	72.6	74.4	69.4	76.8	75.0	63.8	74.4	74.4	70.5
Noninterest income	24.8	35.3	22.7	25.1	21.0	29.5	25.4	20.9	24.1	25.8	28.4
Net operating revenue	5.9	5.7	6.0	6.7	2.7	3.9	7.1	3.4	6.8	4.9	4.0
Net operating income	21.2	22.1	20.6	24.3	9.4	14.4	25.9	10.8	23.9	18.1	14.7
<i>Ratio of Call Report service charge fees on deposit accounts to:</i>											
Fees on deposit account	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Noninterest income	33.5	45.2	31.3	33.8	30.2	38.4	33.9	32.7	32.3	34.7	40.3
Net operating revenue	8.0	7.3	8.2	9.0	3.9	5.1	9.4	5.4	9.1	6.6	5.6
Net operating income	28.7	28.4	28.4	32.6	13.5	18.7	34.6	16.9	32.2	24.3	20.8
<i>Memo items(s): 2006 income (\$ Millions)</i>											
NSF-related fee income	1,966.4	266.6	1,492.5	1,768.8	163.4	34.1	1,681.5	87.3	1,401.9	338.4	226.1
Fees on deposit account	2,659.0	341.6	2,056.7	2,379.0	235.6	44.4	2,242.2	136.8	1,883.7	454.6	320.7
Noninterest income	7,932.3	755.6	6,579.1	7,036.4	780.1	115.8	6,618.0	418.3	5,826.1	1,310.9	795.4
Net operating revenue	33,306.8	3,621.6	25,021.9	26,398.5	6,029.8	878.5	23,846.6	2,552.0	20,722.6	6,898.2	5,686.1
Net operating income	9,271.0	824.3	7,242.6	7,294.0	1,739.6	237.4	6,484.4	809.7	5,856.0	1,872.3	1,542.7
Total banks reporting fee income	1157	843	105	471	529	157	402	69	287	322	548

<sup>a</sup> This includes fee income for paid overdrafted items, for returned overdrafted items, from initiation fees, and from maintenance fees.

Table VIII-2

NSF-Related Fee Income as a Share of Broader Income Measures by Quartiles												
Bank-Level Ratios (percent)*	By Asset Size			By Programs Offered			By Presence of Automated Program and Transactions Covered			By Processing Method		
	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Program	Only Linked or LOC	No Formal Program	Has Automated Program: Covers ATM or POS/Debit	Has Automated Program: Does Not Cover ATM or POS/Debit	Largest-to-Smallest	Not Size Related	Smallest-to-Largest	
<b>All</b>												
<i>NSF-related fee income share of :</i>												
<i>Fees on deposit account</i>												
25th percentile	70.1	65.3	55.4	69.1	63.5	71.4	70.7	60.1	67.8	64.4	69.8	
median	80.8	79.3	71.6	80.9	77.0	84.5	81.5	74.4	78.1	80.8	80.3	
75th percentile	92.2	88.0	87.2	89.6	90.1	94.3	89.1	90.9	89.6	87.4	93.4	
<i>Noninterest income</i>												
25th percentile	31.4	22.9	15.2	27.9	21.3	37.5	28.4	19.6	24.1	21.1	30.4	
median	47.2	36.3	27.1	42.7	42.0	56.5	42.7	41.7	41.9	37.6	47.0	
75th percentile	59.9	48.4	40.0	55.0	54.8	66.7	55.0	49.2	54.3	55.0	59.9	
<i>Net operating revenue</i>												
25th percentile	3.6	2.5	2.3	4.2	2.3	4.2	4.6	3.0	2.8	3.1	3.5	
median	5.7	4.6	4.4	6.6	4.2	6.4	7.3	4.4	5.4	5.7	5.4	
75th percentile	8.5	7.7	7.5	9.9	6.5	8.3	10.3	5.1	8.7	8.3	7.9	
<i>Net operating income</i>												
25th percentile	11.8	8.6	7.4	17.2	7.8	11.8	19.0	8.5	11.1	10.0	9.7	
median	22.5	20.1	18.8	28.2	18.3	22.3	32.6	19.0	21.5	23.6	20.7	
75th percentile	44.8	36.3	27.9	50.2	33.2	35.5	51.1	35.1	40.8	44.0	38.3	
<i>Call Report deposit fee income as share of :</i>												
<i>Noninterest income</i>												
25th percentile	40.4	32.3	24.9	36.6	33.1	50.4	37.0	35.7	37.4	32.6	38.7	
median	59.6	47.7	37.9	51.1	51.2	68.9	51.0	53.1	55.1	48.7	55.9	
75th percentile	73.2	63.2	50.5	69.7	68.3	79.0	70.1	66.2	70.4	69.1	71.2	
<i>Net operating revenue</i>												
25th percentile	4.6	3.5	3.8	5.9	3.0	6.0	6.3	4.0	4.2	4.7	3.9	
median	7.1	6.6	6.5	8.6	5.6	7.8	8.8	6.6	7.5	6.8	6.8	
75th percentile	10.6	9.5	10.0	12.3	7.9	10.9	12.6	9.2	11.7	10.3	9.6	
<i>Net operating income</i>												
25th percentile	14.9	11.8	12.7	22.9	9.6	17.8	24.7	14.6	17.6	16.5	13.3	
median	28.4	28.7	25.0	37.7	21.7	28.9	41.1	24.3	30.1	31.3	27.0	
75th percentile	50.9	44.6	37.5	58.7	39.0	47.9	64.9	52.4	46.7	54.7	49.5	
Total banks reporting 2006 NSF-related fee income	1157	844	105	471	529	157	402	69	287	322	547	

\* This includes fee income for paid overdrafted items, for returned overdrafted items, from initiation fees, and from maintenance fees.

as a share of net operating revenue were notably higher for study population banks with automated overdraft programs (6.7 percent) compared with banks with linked-account and overdraft LOC only (2.7 percent), and compared with banks with no formal overdraft program (3.9 percent). Among banks that had automated overdraft programs, NSF-related fee income accounted for a higher share of net operating revenue for banks whose programs covered ATM and POS/debit transactions (7.1 percent, compared with 3.4 percent for banks whose automated overdraft programs did not cover these transactions). NSF-related fees also were a larger share of operating revenue for banks that batch processed items largest-to-smallest (6.8 percent; see Table VIII-1). Similar patterns are evident for the ratio of NSF-related fees to net operating income, which equals net operating revenue less noninterest expenses.

As a validity check, it is useful to compare patterns evident for NSF-related fee-income ratios with those found in ratios that measure the importance of total service charges on deposit accounts for broader income flows, as estimated for the study population of banks. The deposit-service-charges to income ratios exhibit generally comparable qualitative patterns across groups of study population banks classified by size, type of overdraft program(s), transactions covered, and batch-processing method (see Table VIII-1).

A summary of quartile values for bank-level ratios indicates that NSF-related fee income tended to account for a larger share of net operating revenues and net operating income for banks that had automated overdraft programs, compared with those that operated other overdraft programs (see Table VIII-2).<sup>37</sup> However, the quartile values also show a notable variation in fee-income ratios across banks within the particular groups examined in this study. Thus, aggregate ratios evident for a group are not an accurate representation for all banks in the group.

## VIII.2. Fee Income as Shares of Deposits

Income shares may indicate little about the overall volume of income generated by NSF-related activity.<sup>38</sup> In contrast, the quasi-profitability ratios presented in this section measure the amount of NSF-related fee income accrued on a per-deposit-dollar basis. Thus, a higher ratio implies a larger flow of income as a share of the deposits from which fees are generated. For the study population as a whole, NSF-related fee income in 2006 equaled 4.2 percent of the average outstanding demand-deposit balances and 2.7 percent of average transaction-account balances (see Table VIII-3). For both deposit measures, larger banks had higher fee income per average dollar of deposits. For the broader measure of deposits that included MMDs, NSF-related fees equaled 85 basis points of average deposit balances, and there was less variation across the size groups.

As reported in Table VIII-3, NSF-related-fee income-to-deposit ratios were higher for banks that operated automated overdraft programs. For banks with automated programs, NSF-related fees reported for 2006 were 5.2 percent of average demand deposits and 3.4 percent of average transaction-account balances; for banks having linked-account and overdraft LOC programs only, these ratios were 1.5 percent and 0.9 percent, respectively. For banks having no formal programs, NSF-related fees equaled 1.5 percent of demand deposit balances and 0.9 percent of transaction-account balances. Among study population banks that operated automated overdraft programs, NSF-related fees per dollar of deposits were also higher for those whose programs covered ATM or POS/debit transactions than for institutions whose programs did not (5.6 percent and 3.6 percent for demand deposits and transaction deposits, respectively, versus 2.4 percent and 1.7 percent for banks whose automated programs did not cover ATM or POS/debit transactions). Study population banks that batch processed transactions largest-to-smallest had a higher fee-to-deposit ratio than banks that batch processed smallest-to-largest or banks that did not batch process by size. As with the income-share measures, the ratios of total service charges on deposit accounts to deposit account balances, estimated for the study population of banks, exhibited

<sup>37</sup> It is important to also examine central tendencies in bank-level ratios since larger institutions (in this case, institutions reporting more income) are given greater weight in the construction of cohort-level aggregates.

<sup>38</sup> For example, when a broader income measure becomes negative because of losses, the fee-income share ratio is not meaningful.

Table VIII-3

NSF-Related Fee Income Ratios to Deposits Outstanding												
Aggregate Ratios (Percent) and Dollar Aggregates (\$ Millions) <sup>a</sup>		By Asset Size			By Programs Offered			By Presence of Automated Program and Transactions Covered		By Processing Method		
		Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Program	Only Linked or LOC	No Formal Program	Has Automated Program: Covers ATM or POS/Debit	Has Automated Program: Does Not Cover ATM or POS/Debit	Largest-to-Smallest	Not Size Related	Smallest-to-Largest
<b>Ratio of NSF-related fee income to:</b>												
All	4.17	2.00	3.13	5.27	5.23	1.48	1.46	5.57	2.41	5.73	3.14	1.89
Demand deposits	2.69	1.11	1.90	3.69	3.40	0.94	0.92	3.58	1.72	3.79	1.98	1.19
Trans. and MMD deposits	0.85	0.72	0.89	0.86	0.95	0.42	0.60	1.00	0.47	0.98	0.71	0.54
<b>Ratio of Call Report service charge fees on deposit accounts to:</b>												
Demand deposits	5.63	2.52	4.02	7.26	7.04	2.13	1.90	7.43	3.78	7.69	4.22	2.69
Transaction deposits	3.64	1.40	2.43	5.08	4.57	1.36	1.20	4.77	2.69	5.09	2.66	1.69
Trans. and MMD deposits	1.15	0.91	1.14	1.19	1.27	0.60	0.79	1.33	0.74	1.32	0.95	0.77
<b>Memo items(s): Year-end 2006 Deposits (\$ Millions)</b>												
Demand deposits	45,801.2	10,474.3	7,941.7	27,385.2	32,665.2	10,911.9	2,224.0	29,482.1	3,183.1	23,759.5	10,237.5	11,804.2
Transaction deposits	70,309.7	18,658.0	13,015.3	38,636.4	49,992.5	16,800.2	3,517.0	45,575.6	4,416.8	35,463.1	16,450.6	18,396.0
Trans. and MMD deposits	232,926.7	28,863.4	30,032.0	174,031.3	188,336.6	39,157.5	5,432.6	169,632.3	18,704.3	143,915.9	47,034.6	41,976.3
NSF-related fee income (\$ millions 2006)	1,966.4	207.2	266.6	1,492.5	1,768.8	163.4	34.1	1,681.5	87.3	1,401.9	338.4	226.1
Total banks reporting fee income	1157	843	208	105	471	529	157	402	69	287	322	548

<sup>a</sup> This includes fee income for paid overdrafted items, for returned overdrafted items, from initiation fees, and from maintenance fees. Fee income is measured as a ratio to average deposit balances, where beginning of period deposits are calculated on a merger adjusted basis.

Table VIII-4

NSF-Related Fee Income Ratios to Deposits Outstanding by Quartiles							
Bank-Level Ratios (Percent) <sup>a</sup>		By Asset Size			By Programs Offered		
	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Program	Only Linked or LOC	No Formal Program
<i>NSF-related fee income share of:</i>							
<i>Demand deposits</i>							
25th percentile	1.31	1.31	1.22	1.94	1.99	0.86	1.35
median	2.10	2.04	2.42	3.47	3.23	1.66	1.80
75th percentile	3.65	3.27	5.50	6.01	5.03	2.47	3.15
<i>Transaction deposits</i>							
25th percentile	0.69	0.67	0.74	1.19	1.04	0.54	0.76
median	1.14	1.05	1.37	2.44	1.70	0.85	1.08
75th percentile	1.93	1.64	2.53	3.94	2.62	1.33	1.70
<i>Trans. and MMD deposits</i>							
25th percentile	0.42	0.46	0.34	0.33	0.56	0.32	0.61
median	0.76	0.76	0.68	0.77	1.05	0.57	0.88
75th percentile	1.27	1.25	1.30	1.28	1.53	0.94	1.48
<i>Call Report service charges on deposit accounts:</i>							
<i>Demand deposits</i>							
25th percentile	1.71	1.62	1.80	3.02	2.67	1.23	1.73
median	2.85	2.57	3.52	5.09	4.03	2.15	2.50
75th percentile	4.55	4.03	6.50	8.36	6.05	3.30	4.08
<i>Transaction deposits</i>							
25th percentile	0.95	0.88	1.07	1.89	1.39	0.72	0.98
median	1.50	1.36	2.07	3.31	2.26	1.09	1.37
75th percentile	2.44	2.03	3.44	5.10	3.17	1.72	2.31
<i>Trans. and MMD deposits</i>							
25th percentile	0.58	0.59	0.53	0.62	0.77	0.42	0.79
median	0.96	0.97	0.93	0.99	1.36	0.74	1.02
75th percentile	1.57	1.55	1.78	1.75	1.95	1.19	2.01
Total banks reporting 2006 NSF-related fee income	1157	843	209	105	471	529	157

<sup>a</sup> This includes fee income for paid overdrafted items, for returned overdrafted items, from initiation fees, and from maintenance fees. Fee income is measured as a ratio to average deposit balances, where beginning of period deposits are calculated on a merger adjusted basis.

qualitatively similar patterns across groups of banks classified by size, type of overdraft program(s), transactions covered, and batch-processing method (see Table VIII-3).

Analysis of bank-level quasi-profitability ratios by quartile shows that median fee-income profitability ratios also tended to be higher for banks that operated automated overdraft programs. However, median ratios were notably lower than the aggregate measures for the whole population discussed above.<sup>39</sup> The median bank-level ratio of NSF-related fees to transaction deposits was only 1.1 percent, compared with the ratio of 2.7 percent as calculated for the aggregate study population. This result reflects the large proportion of smaller banks in the population and the relationship between NSF-related fee income and bank size: Median NSF-related fee income-to-deposit ratios tended to be higher for larger banks. The analysis also revealed a fair amount of variation in bank-level ratios measuring NSF-related fees per dollar of deposits for 2006. For instance, 25.0 percent of the banks had NSF fee-to-transaction-deposit ratios of more than 1.9 percent, and 25.0 percent had ratios of 0.7 percent or less (see Table VIII-4).

<sup>39</sup> This result reflects the higher ratios for large banks.

### VIII.3. Charged-Off and Restructured Accounts

The survey also asked banks to provide estimates of the annual number and dollar value of deposit accounts that were charged off or restructured during calendar year 2006. The survey collected reasonable estimates of charged-off and restructured accounts for banks representing almost 98 percent of the study population banks, but only 73.0 percent of year-end domestic deposit dollars estimated for the study population in 2006. This disparity is driven by the fact that a number of large institutions did not provide this information.

Banks in the study population reporting these data are estimated to have charged off 401,000 accounts totaling \$124.2 million or an average negative balance charged off of around \$310 per account. While this average balance did not vary across bank-size groups, it was somewhat higher for banks that operated automated overdraft programs (\$312.00), particularly for those programs that covered ATM or POS/debit transactions (\$322.40 if the automated program covered ATM or POS/debit transactions versus \$201.40 if ATM or POS/debit transactions were not covered) (see Table VIII-5).

Call Reports include deposit account charge-offs under the “residual charge-offs not elsewhere classified (n.e.c.)” items.<sup>40</sup> Charged-off deposit account dollars reported by study population banks represented 32.9 percent of \$377.1 million of gross charge-offs n.e.c., and 12.6 percent of total gross loan and lease charge-offs reported by these banks in 2006 Call Reports.<sup>41</sup> Deposit account charge-offs accounted for a larger share of Call Report charge-offs for banks that operated an automated overdraft program (particularly for those having programs that covered ATM and POS/debit transactions) and for banks that batch processed transactions largest-to-smallest. For study population banks with automated overdraft programs, account charge-offs equaled 35.8 percent of gross charge-offs n.e.c., compared with 12.8 percent for banks that operated only linked-account programs, overdraft LOC programs, or both, and 17.7 percent for banks having no formal program.

Reported charged-off accounts equaled less than one-fifth of a percent (18 basis points) of average transaction deposits outstanding. Again, the ratio of account charge-offs to transaction-account balances was higher for banks operating automated overdraft programs, particularly those that covered ATM or POS/debit transactions and for banks that batch processed starting with the largest transaction. Reporting study population banks that operated automated programs are estimated to have charged off more than 375,000 accounts having negative balances equaling \$117.3 million in 2006. These charge-offs represented 94.4 percent of the dollar volume of accounts charged off by the study population reporting these data.

Reporting study population banks restructured 15,600 accounts with negative balances totaling \$9.8 million, or an average of \$624 per restructured account. The average size of restructured accounts was higher for smaller banks (\$722 for small banks versus \$576 for large banks). Banks that operated automated overdraft programs accounted for the vast majority (96 percent) of reported restructured accounts (15,000 accounts) and had an average of \$572 per restructured account. Restructured account balances equaled less than 2 basis points measured as a share of average transaction-account balances in 2006.

<sup>40</sup> Charged-off accounts are classified as a loan charge-off in bank Call Reports. Deposit account charge-offs are not a specific category in the Call Report; rather they are included in two residual charge-off categories where banks report other consumer loans charged off that are n.e.c. or other (nonconsumer) loans charged off that are n.e.c. Because the survey did not collect separate information on consumer account charge-offs and other account charge-offs, the two Call Report items were aggregated to measure charge-offs n.e.c.

<sup>41</sup> Estimates of Call Report items for the study population were generated by weighting actual Call Report data for the sample of reporting banks to be consistent with population estimates of the deposit account charge-offs.

Table VIII-5

Charged-Off and Restructured Deposit Accounts in 2006												
Aggregate Ratios (Percent) Dollar Aggregates (\$ Millions)	By Asset Size			By Programs Offered			By Presence of Automated Program and Transactions Covered			By Processing Method		
	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Program	Only Linked or LOC	No Formal Program	Has Automated Program: Covers ATM or POS/Debit	Has Automated Program: Does Not Cover ATM or POS/Debit	Largest-to-Smallest	Not Size Related	Smallest-to-Largest	
All												
<i>Volume of overdrafted account balances charged off as percent of:</i>												
Gross charge-off on other consumer and other loans n.e.c.	32.9	23.8	34.3	35.8	12.8	17.7	36.6	26.5	37.0	30.1	18.9	
Gross charge-offs on all loans and leases	12.6	8.2	13.8	14.3	3.7	5.6	14.8	9.4	15.3	10.6	5.9	
Average transactions deposits	0.18	0.06	0.27	0.25	0.03	0.05	0.26	0.13	0.28	0.13	0.06	
<i>Volume of overdrafted account balances restructured as percent of:</i>												
NSF-related fee income	0.67	1.00	0.37	0.68	0.49	1.12	0.70	0.42	0.58	0.59	1.15	
Average transactions deposits	0.014	0.011	0.010	0.018	0.005	0.010	0.020	0.007	0.016	0.012	0.014	
<i>Dollar volume (\$ Millions)</i>												
Volume of overdrafted account balances charged off	124.2	10.7	96.0	117.3	5.1	1.8	110.8	6.5	92.0	21.3	10.9	
Overdraft drafted accounts restructured	9.8	2.1	3.7	8.6	0.8	0.4	8.2	0.4	5.3	1.9	2.5	
NSF-related fee income	1,462.8	207.2	1,009.2	1,266.5	162.2	34.1	1,179.7	86.8	918.9	324.1	219.7	
Services charges on deposit accounts	1,927.2	260.8	1,359.4	1,650.1	232.7	44.4	1,521.5	128.6	1,182.5	438.2	306.5	
Gross charge-off on other consumer and other loans nec	377.1	45.1	279.8	327.3	39.4	10.4	302.8	24.5	249.0	70.8	57.4	
Gross charge-offs on all loans and leases	986.8	130.8	695.0	819.0	135.1	32.7	750.1	69.0	600.4	201.7	184.7	
Transaction deposits year-end 2006	65,100.2	18,658.0	34,203.2	45,130.6	16,452.6	3,517.0	40,783.5	4,347.1	31,219.3	15,955.3	17,925.6	
<i>Memo item(s):</i>												
Number of accounts charged off (thousands)	401.0	35.3	310.1	375.9	18.4	6.8	343.6	32.3	293.5	71.3	36.2	
Average amount charged off (\$s)	309.6	304.4	309.7	312.0	274.6	273.0	322.4	201.4	313.5	298.7	300.1	
Number of accounts restructured (thousands)	15.6	2.9	6.5	15.0	0.3	0.4	14.4	0.6	8.7	3.3	3.6	
Average size of restructured account (\$s)	623.8	722.0	575.6	572.4	2775.3	1037.1	571.3	596.9	607.3	584.9	698.5	
Other consumer and other charge-offs as a share of total loan charge-offs (percent)	38.2	34.5	40.3	40.0	29.2	31.9	40.4	35.5	41.5	35.1	31.1	
Total banks reporting fee income and account charge-off data	1,142	843	98	457	528	157	389	68	279	320	544	



Table VIII-6

Net NSF-Related Fee Income Ratios											
Aggregate Ratios (Percent) Dollar Aggregates (\$ Millions)	By Asset Size			By Programs Offered			By Presence of Automated Program and Transactions Covered		By Processing Method		
	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion	Has Automated Program	Only Linked or LOC	No Formal Program	Has Automated Program: Covers ATM or POS/Debit	Has Automated Program: Does Not Cover ATM or POS/Debit	Largest-to-Smallest	Not Size Related	Smallest-to-Largest
<b>All</b>											
<i>Volume of overdrafted account balances charged off as percent of:</i>											
NSF-related fee income	8.49	5.18	7.07	9.52	3.11	5.40	9.39	7.50	10.01	6.57	4.94
Services charges on deposit accounts	6.44	4.12	5.67	7.06	2.17	4.15	7.28	5.06	7.78	4.86	3.54
<i>NSF-related fee income net of accounts charged off as a percent of:</i>											
Service charges on deposit accounts	69.5	75.3	74.6	67.2	69.6	72.7	70.3	62.4	69.9	69.1	68.1
Net noninterest income	25.0	32.9	32.3	22.6	25.7	27.9	26.3	19.8	25.0	23.9	27.2
Net operating revenue	5.12	5.43	5.13	5.06	5.95	3.67	6.36	3.20	5.99	4.48	3.75
Average demand deposits	3.04	1.90	2.89	3.55	3.72	1.38	3.91	2.30	3.75	2.89	1.82
Average transactions deposits	1.99	1.06	1.74	2.56	2.46	0.87	2.56	1.64	2.56	1.82	1.14
<i>Dollar volume (\$ millions)</i>											
Overdrafted account balances charged off	124.2	10.7	17.4	96.0	117.3	1.8	110.8	6.5	92.0	21.3	10.9
NSF-related fee income	1,462.8	207.2	246.4	1,009.2	1,266.5	34.1	1,179.7	86.8	918.9	324.1	219.7
Net NSF-related fee income	1,338.6	196.5	229.0	913.1	1,149.2	32.3	1,069.0	80.3	826.9	302.8	208.9
Services charges on deposit accounts	1,927.2	260.8	307.0	1,359.4	1,650.1	44.4	1,521.5	128.6	1,182.5	438.2	306.5
Net noninterest income	5,348.6	597.6	708.4	4,042.6	4,477.4	115.8	4,072.1	405.3	3,310.7	1,269.7	788.2
Net operating revenue	26,122.8	3,621.6	4,466.9	18,034.4	19,320.4	878.5	16,814.5	2,505.9	13,807.1	6,753.1	5,562.6
Demand deposits, year-end 2006	42,860.5	10,474.3	7,448.5	24,937.8	29,981.1	2,224.0	26,852.8	3,128.3	21,503.6	9,912.3	11,444.7
Transaction deposits year-end 2006	65,100.2	18,658.0	12,239.1	34,203.2	45,130.6	3,517.0	40,783.5	4,347.1	31,219.3	15,955.3	17,925.6
<i>Memo item(s):</i>											
Total banks reporting fee income and account charge-off data	1,142	843	200	98	457	157	389	68	279	320	544

#### VIII.4. Net Fee-Income Ratios

Table VIII-6 reports NSF-related fee-income measures that are adjusted to reflect charged-off account balances for the segment of the study population that reported charge-off information. Banks that reported these data had \$1.46 billion in NSF-related fee income and account charge-offs that equaled 8.5 percent of this income. Account charge-offs measured as a share of fee income were higher for banks in the larger asset-size groupings; for banks that had automated overdraft programs, particularly those that covered ATM and POS/debit transactions; and for banks that batch processed items largest-to-smallest (compared with other batch-processing methods). Similar patterns are evident for charge-offs measured relative to the Call Report item measuring service charges on deposit accounts.

Although their absolute levels were somewhat lower, NSF-related fee-income ratios that net out account charge-offs exhibited qualitatively similar patterns to the gross ratios examined in Sections VIII.1 and VIII.2. In particular, net NSF-related fees as a share of operating revenues varied little across the bank-size groups. However, net NSF-related fees as a share of net operating revenues were higher for banks that had automated overdraft programs (5.1 percent for all reporting banks versus 6.0 percent for reporting banks with automated programs), especially those covering ATM or POS/debit transactions (6.4 percent). In contrast, net NSF-income ratios were 2.7 percent for banks that operated only linked-account programs, overdraft LOC programs, or both, and 3.7 percent for banks with no formal overdraft program.

Net NSF-related fees measured relative to deposits were also higher for banks that operated automated overdraft programs (2.0 percent of transaction deposit dollars for all reporting banks versus 2.5 percent for reporting banks with automated programs), and particularly for those whose automated program covered ATM and POS/debit transactions (2.6 percent if ATM or POS/debit transactions were covered versus 1.6 percent if ATM and POS/debit transactions were not covered). In contrast, reporting banks with only linked account or overdraft LOCs (or both) had net NSF-related fee income equal to 93 basis points of transaction deposits, and reporting banks with no formal program had a net fee-income-to-deposit ratio of 87 basis points. Thus, although banks that operated automated programs had higher account charge-offs, fee income measured net of these charge-offs also tended to represent a larger share of operating revenues and a higher percentage of transaction-account balances.

#### VIII.5. Trends in NSF-Related Fee Income

As noted above, five years of fee-income data were available for banks representing about two-thirds (794 banks) of the study population. This section summarizes trends in fee income for these institutions. For this purpose, the importance of NSF-related fees as a component of income is measured using the ratio of NSF-related fees to net operating revenues, and the profitability of programs generating NSF-related fee income is measured relative to average outstanding transaction deposits.

As illustrated in Table VIII-7, there was a modest increase in NSF-related fee income as a share of net operating revenue among study population institutions represented by banks reporting fee income in the five-year period evaluated by the survey (from 5.5 percent in 2002 to 6.2 percent in 2006). The upward trend reflects increases evident for banks operating automated overdraft programs. For study population banks that had an automated overdraft program in place for the entire five-year period, NSF-related fee income increased to 7.3 percent of operating revenue in 2006, from 5.8 percent in 2002. These institutions tended to include larger banks that, as noted above, accounted for a disproportionate share of income estimated for the study population. In contrast, for banks that did not operate an automated program but had linked accounts or overdraft LOCs (or both) during the 2002–2006 period, the ratio of NSF-related fee income to net operating revenue declined to 2.7 percent in 2006, from 3.5 percent in 2002.

NSF-related fees measured as a percentage of average transaction deposits indicate similar patterns for banks reporting the fee-income trend data. For banks that had an automated program during the entire 2002–2006 period, the ratio of NSF-related fees to transaction deposits increased from 2.7 percent in

Table VIII-7

Trends in NSF-Related Fee Income: 2002–2006						
Aggregate Ratios (percent) <sup>a</sup> Classified by Programs Offered	All	By Year				
		2002	2003	2004	2005	2006
<i>NSF-related fee income ratio to net operating revenue (percent)</i>						
Has automated program	312	6	6.62	6.91	7.13	7.01
Started program after 2001	212	6.24	6.96	7.27	7.38	6.72
Had program in 2001	100	5.75	6.28	6.55	6.89	7.33
Offers linked or lines	380	3.38	3.13	2.89	2.67	2.66
Started program(s) after 2001	17	2.15	2.85	2.57	2.05	1.65
Had program(s) in 2001	363	3.45	3.14	2.9	2.71	2.73
No formal program	103	4.85	5.31	5.38	5.06	4.78
All banks reporting fee income trends	794	5.51	5.95	6.13	6.29	6.23
<i>NSF-related fee income as percent of average transactions deposits</i>						
Has automated program	312	2.64	3.06	3.34	3.6	3.91
Started program after 2001	212	2.62	3.30	3.98	4.18	4.58
Had program in 2001	100	2.66	2.83	2.84	3.16	3.40
Offers linked or lines	380	0.99	0.95	0.93	0.84	0.87
Started program(s) after 2001	17	0.61	0.77	0.74	0.64	0.54
Had program(s) in 2001	363	1.02	0.97	0.94	0.86	0.89
No formal program	103	1.18	1.18	1.15	1.06	1.12
All banks reporting fee income trends	794	2.20	2.46	2.64	2.80	3.03
<i>Fee income in millions of dollars</i>						
Has automated program	312	839.690	1,008.944	1,181.678	1,339.318	1,498.429
Started program after 2001	212	442.0	529.1	614.4	679.7	751.8
Had program in 2001	100	397.7	479.8	567.3	659.6	746.6
Offers linked or lines	380	101.9	108.5	115.7	112.0	118.1
Started program(s) after 2001	17	3.6	5.2	5.3	5.1	5.0
Had program(s) in 2001	363	98.3	103.3	110.4	106.9	113.1
No formal program	103	20.5	23.1	24.4	24.0	24.1
All banks reporting fee income trends	794	962.1	1,140.5	1,321.7	1,475.3	1,640.6

<sup>a</sup> Ratios of aggregate dollar amounts for the indicated group of banks.

2002 to 3.4 percent in 2006; while the comparable ratio for banks that operated only linked accounts or overdraft LOCs (or both) edged down from 1.0 percent in 2002 to 0.9 percent in 2006. For study institutions that had no formal programs during 2002–2006, NSF-related fee income as a percentage of average transaction deposits was fairly flat. These institutions, which tended to be smaller, accounted for only about 2 percent of NSF-related fee income estimated for study population banks reporting complete fee-income trend data.

The analysis of bank-level trends in fee-income ratios, as reported in Table VIII-8, indicates less distinct trends in median ratios for banks that operated automated programs during the entire five-year period. At the same time, the median of both fee-income ratios increased for banks that adopted automated programs between 2002 and 2006. (The median ratio of fee income to operating revenue rose from 5.6 percent in 2002 to 6.5 percent in 2006; the median ratio of fee income to transaction deposits rose from 1.1 percent in 2002 to 1.7 percent in 2006.) However, because banks in this group were adopting programs at a fairly steady pace, these patterns do not measure the effect program adoption had on NSF-related fee income.

Table VIII-8

Trends in NSF-Related Fee Income Ratios by Quartiles											
Classified by Programs Offered	Banks w/ Complete Income Data	NSF-Related Fee Income Ratio to Net Operating Revenue (Percent)					NSF-Related Fee Income as Percent of Avg Transactions Deposits				
		2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
<i>25th percentile</i>											
<i>Has automated program</i>	312	3.93	4.29	4.56	4.65	4.36	0.9	0.87	1.09	1.09	1.1
Started program after 2001	212	3.4	3.87	3.75	4.05	4.17	0.72	0.66	0.87	1.01	1.05
Had program in 2001	100	4.92	5.14	5.05	5.41	5.14	1.43	1.52	1.54	1.31	1.24
<i>No automated program; had linked or LOC program in 2006</i>	380	2.68	2.54	2.42	2.37	2.52	0.57	0.57	0.56	0.57	0.54
Adopted program(s) after 2001	17	0.76	1.38	1.04	1.26	1.29	0.22	0.24	0.26	0.35	0.32
Had program(s) in 2001	363	2.74	2.74	2.6	2.51	2.6	0.57	0.57	0.57	0.57	0.56
No formal program	103	4.76	4.84	5.08	5.65	5.57	0.74	0.89	0.86	0.85	0.95
Total banks with complete fee income data <sup>a</sup>	795	3.42	3.66	3.72	3.63	3.67	0.67	0.66	0.69	0.66	0.76
<i>Median</i>											
<i>Has automated program</i>	312	5.69	6.44	6.7	7.18	7.19	1.42	1.56	1.62	1.74	1.75
Started program after 2001	212	5.57	5.99	6.2	6.67	6.47	1.14	1.35	1.38	1.63	1.67
Had program in 2001	100	8.01	7.88	8.64	7.79	7.72	1.98	2.29	2.32	1.98	2.44
<i>No automated program; had linked or LOC program in 2006</i>	380	4.6	4.62	4.64	4.51	4.38	0.99	0.94	0.88	0.85	0.87
Adopted program(s) after 2001	17	5.67	6.01	5.49	4.87	3.04	0.91	0.99	0.91	0.96	1.05
Had program(s) in 2001	363	4.57	4.62	4.64	4.51	4.38	0.99	0.94	0.88	0.85	0.87
No formal program	103	6.77	7.75	7.78	7.34	6.99	1.32	1.36	1.47	1.31	1.2
Total banks with complete fee income data <sup>a</sup>	795	5.23	5.7	5.56	5.54	5.86	1.15	1.23	1.19	1.14	1.18
<i>75th percentile</i>											
<i>Has automated program</i>	312	8.88	9.93	10.66	10.89	10.61	2.39	2.59	2.6	2.8	2.8
Started program after 2001	212	7.35	8.61	10.35	10.22	10.56	1.64	2.17	2.13	2.08	2.46
Had program in 2001	100	10.81	10.99	11.53	12.92	11.63	3.97	3.84	3.51	3.91	4.27
<i>No automated program; had linked or LOC program in 2006</i>	380	7.12	7.13	6.7	6.48	6.41	1.5	1.6	1.4	1.26	1.33
Adopted program(s) after 2001	17	6.37	8.37	6.55	5.51	5.6	1.06	1.41	1.14	1.01	1.2
Had program(s) in 2001	363	7.21	7.13	7.22	6.53	6.41	1.53	1.63	1.4	1.26	1.35
No formal program	103	9.09	10.63	10.28	11.6	11.01	1.57	1.78	1.77	2	1.92
Total banks with complete fee income data <sup>a</sup>	795	8.34	8.72	8.96	8.58	8.64	1.78	1.89	1.9	1.85	1.93

<sup>a</sup> Figures only include banks reporting complete NSF-related fee income data for 2002-2006.

### VIII.6. NSF-Related Fee Income and the Adoption of Automated Overdraft Programs

To examine how NSF-related income changed with the adoption of automated overdraft programs, study population banks that adopted these programs sometime during the 2002–2006 period were classified in terms of the year they adopted the programs. Given the year of program adoption, subsequent years of fee income were identified to measure fee-income charges in each year after program implementation.<sup>42</sup> Figure VIII-1 illustrates that the median study population bank adopting an automated overdraft

<sup>42</sup> Changes in fee-income ratios are measured relative to a bank's ratio for the calendar year prior to the program implementation (for at least six months). It should also be noted that because bank program adoptions were distributed fairly evenly across the five-year period, the five years of fee-income data yielded fewer observations for later years of program operation. For example, there are four years of subsequent fee-income data for a bank that started its program in late 2002, but there are only three subsequent years of fee-income data for an institution that started a program in late 2003).

program between 2002 and 2006 (and reporting fee-income trend data) had an increase in the ratio of NSF-related fees to net operating revenue of more than 20 percent in the first year of operation, and that subsequent increases were smaller. As indicated by the patterns for the 75th and 25th percentiles, there is substantial variation in fee-income share changes subsequent to the adoption of automated overdraft programs. While a sizable segment of institutions saw even larger increases in the share of net operating revenues coming from NSF-related fees, another segment did not experience much of an income-share increase after the establishment of this type of program.

Similar patterns are evident for changes in NSF-related fee income as a percentage of (average) transaction deposits. As depicted in Figure VIII-2, the median change in this fee-income ratio was positive in the first year an automated program was implemented, but there was a wide range in profitability trends subsequent to the adoption of automated overdraft programs by study population banks.

### VIII.7. Summary

This section examined the importance of NSF-related fees for bank earnings and how these fees change after the adoption of an automated overdraft program. Banks in the study population are estimated to have earned \$1.97 billion in NSF-related fees in 2006, representing 74 percent of the \$2.66 billion in service charges on deposit accounts reported in the bank Call Reports. Study population banks that operated automated overdraft programs earned \$1.77 billion in NSF fees in 2006, accounting for 90.0 percent of total NSF-related fee income earned by the entire study population.

NSF-related fee income as a share of net operating revenue was higher for study population banks with automated overdraft programs (6.7 percent), compared with banks that had only linked-account or overdraft LOC programs or both (2.7 percent), or banks with no formal overdraft program (3.9 percent). Among banks with automated overdraft programs, NSF-related fee income was a higher share of net operating revenue for banks whose programs covered ATM or POS/debit transactions (7.1 percent, compared with 3.4 percent for banks whose automated overdraft programs did not cover these transactions). NSF-related fees also accounted for a larger share of operating revenues for banks that batch processed transactions largest-to-smallest (6.8 percent).

The profitability of overdraft-related services, as measured by the ratio of NSF-related fee income to average transaction-account balances, also varied with the types of overdraft programs operated. For the study population as a whole, NSF-related fees were 2.7 percent of the average transaction-account balances outstanding during 2006. Banks that operated automated overdraft programs had a higher ratio

Figure VIII-1

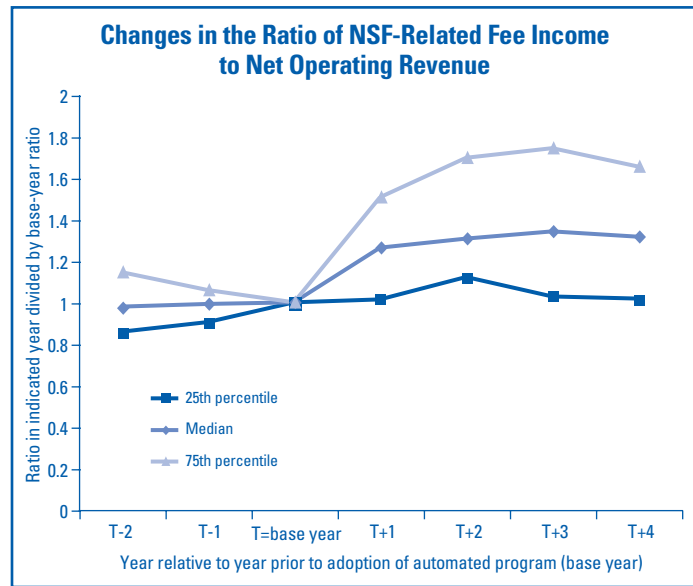
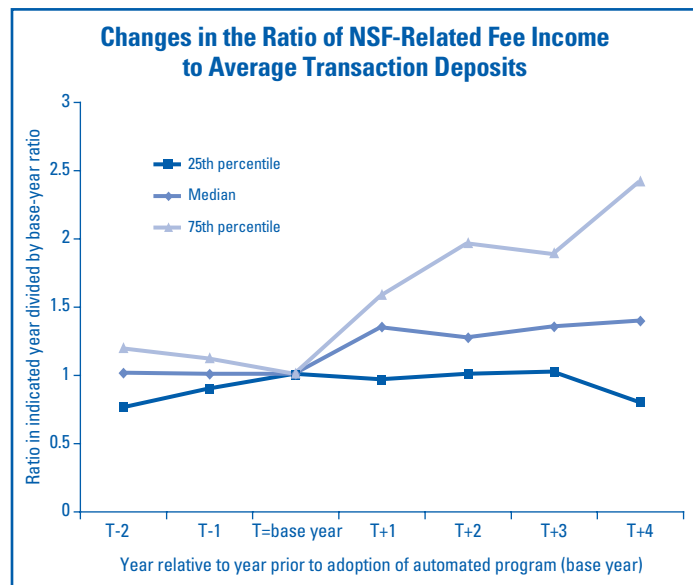


Figure VIII-2



of NSF-related fees to outstanding transaction deposits (3.4 percent) than those that had only linked accounts or overdraft LOCs or both (0.9 percent), or those that had no formal program in place (0.9 percent). And among banks operating automated overdraft programs, those whose program covered ATM and POS/debit transactions had a higher fee-to-deposit ratio than those whose program did not cover these transactions (3.6 percent versus 1.7 percent). Study population banks that batch processed transactions largest-to-smallest had a higher profitability ratio than banks that batch processed smallest-to-largest or not on a size basis (3.8 percent, 1.2 percent, and 2.0 percent, respectively).

Banks representing roughly two-thirds of the \$2.66 billion in 2006 deposit-account service charges estimated for the study population reported charging off \$124.2 million in deposit-account balances on 401,000 accounts in 2006. Reporting banks that operated automated overdraft programs accounted for \$117.3 million or 94.0 percent of the charged-off account balances reported. Charged-off accounts were a larger share of gross loan and lease charge-offs (14.3 percent) for banks with automated overdraft programs than for reporting banks that operated only linked accounts or overdraft LOCs or both (3.7 percent), or had no formal program in place (5.6 percent). Despite the larger share of charged-off account balances, the shares of NSF-related fee income net of account charge-offs relative to both net operating revenue and outstanding transaction deposits were still higher for banks with automated overdraft programs (6.0 percent of net operating revenue and 2.5 percent of transaction deposits). Banks with only linked-accounts or overdraft LOC programs (or both) reported net NSF-related fee income equal to 2.7 percent of net operating revenue and 0.9 percent of average outstanding transaction deposits.

An examination of trends in the importance of NSF-related fees indicates a modest increase in NSF-related fee income as a share of net operating revenue (from 5.5 percent in 2002 to 6.2 percent in 2006) among study population institutions reporting five years of NSF-related fee income. The upward trend was driven by banks operating automated overdraft programs. For study population banks that had an automated program in place for the entire five-year period, this fee-income share increased from 5.8 percent in 2002 to 7.3 percent in 2006. In contrast, NSF-related fee income declined as a share of net operating revenue (from 3.5 percent in 2002 to 2.7 percent in 2006) for banks that did not operate automated overdraft programs but had only linked-account or overdraft LOC programs (or both) during this period.

Analysis of banks that adopted automated overdraft programs during 2002 through 2006 (and reported fee-income trend data) indicates that the median study population bank adopting an automated overdraft program had an increase in the ratio of NSF-related fees to net operating revenue of more than 20 percent in the first year of operation, and that subsequent increases were smaller. Similarly, patterns are evident for changes in NSF-related fee income as a percentage of (average) outstanding transaction deposits. However, although on average the adoption of automated overdraft programs was associated with increases in both NSF-related fee-income ratios, there was substantial variation in fee-income trends among banks that started programs of this type.

# Part Two—Micro-Level Data

## IX. Micro-Level Data: Consumer Overdraft Usage

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This section analyzes actual coverage of overdraft programs by customers of 39 banks reporting the micro-level customer and transaction data (micro-data).<sup>43</sup> In particular, this section focuses on the use of automated overdraft programs. It provides descriptive information about the types and median size of NSF-related transactions, and reports differences in overdraft activity across different income levels and age groups.

As described in the methodology, the micro-data were obtained from a nonrandom sample of 39 institutions that emphasized large retail banks to ensure a wide coverage of consumer accounts. Micro-data banks were asked to provide comprehensive customer-level information, including the type of the account, the type of overdraft coverage that applied to the account, the ZIP code location of the account holder, the account holder's year of birth, the date the account was opened, and the average account balance during the previous 12 months. The data request was designed to mask any customer information that could raise privacy concerns.

Micro-data banks were also asked to report individual NSF transactions processed during a 12-month period under an automated overdraft program, if one was in place, or under no formal program (overdraft processed on an ad hoc, discretionary basis). These data included the type of the transaction (i.e., check, POS/debit, ATM), the date and amount of the transaction, whether the item was paid or returned unpaid, and the NSF fee charged. To minimize the data-gathering burden for banks, the micro-data collected 12 consecutive months of NSF transaction data for the period that was most feasible for banks to provide. All of the transaction data analyzed in this section reflect customer NSF activity for 12 consecutive months that occurred between January 2005 and September 2008. The data collection instrument used in the micro-data collection effort is attached as Appendix B.

As mentioned in the methodology, this portion of the study involved a nonrandom sample, so it is not possible to draw statistical inferences from any bank-level analysis using these data. Nevertheless, these micro-data provide unprecedented and valuable information about consumer usage and fee reliance on the automated overdraft programs.

### IX.1. Overview of Overdraft Programs Operated and Account Coverage of Micro-Data Banks

The 39 micro-data banks reported a total of \$332 billion in assets and more than 6.5 million consumer transaction accounts with a total account balance of \$35.6 billion.<sup>44</sup> Of the 39 banks, 28 had an automated overdraft program in place. These banks accounted for 98.2 percent of the consumer accounts analyzed and 94.4 percent of the deposit balances held in these accounts (see Table IX-1). Among the 28 banks that operated an automated overdraft program, half (14 out of 28) had a nonpromoted automated program (see Table IX-2). Of the 11 micro-data banks that did not operate an automated overdraft program, 10 had other formal overdraft programs in place (i.e., linked-account programs, overdraft LOC programs, or both), and one did not have a formal overdraft program in place. These 11 banks accounted for 1.8 percent of the consumer accounts analyzed and 5.6 percent of the total deposit dollars.

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<sup>43</sup> The survey results reported in Sections III to VIII provide information about the types of overdraft programs operated by a bank, but do not provide evidence about actual number of accounts covered by particular types of programs at a bank.

<sup>44</sup> The asset information is based on the December 2006 Call Report data. The number of accounts reported excludes business accounts, savings accounts (other than checkable accounts), new accounts, and customers with more than ten accounts.

Table IX-1

<b>Consumer Transaction Accounts and Deposit Dollars Held in Micro-Data Banks by Overdraft Program Type Offered</b>			
<b>Sum<sup>a</sup> Percent of Row Total</b>	<b>By Program Type</b>		
<b>Category</b>	<b>All</b>	<b>Automated</b>	<b>Nonautomated</b>
Number of banks	39 100.0	28 71.8	11 28.2
Number of accounts	6,539,446 100.0	6,420,017 98.2	119,429 1.8
Deposits (\$ Millions)	35,578 100.0	33,599.6 94.4	1,978.5 5.6

<sup>a</sup>Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

Table IX-2

<b>Overdraft Protection Programs Offered by Micro-Data Banks</b>						
<b>Frequency of Study Population Percent of Column Total</b>	<b>By Asset Size</b>					
<i>Did your institution operate this program at any point in 2006 or 2007?</i>	<b>All</b>	<b>Less than \$250 Million</b>	<b>\$250 Million to Less than \$1 Billion</b>	<b>Greater than \$1 Billion</b>	<b>Memo Item(s):</b>	
					<b>\$1 Billion to \$5 Billion</b>	<b>Greater than \$5 Billion</b>
<i>By Automated Overdraft Program</i>						
Automated	28 71.8	9 75.0	0 0.0	19 79.2	3 42.9	16 94.1
Promoted	14 35.9	9 75.0	0 0.0	5 20.8	1 14.3	4 23.5
Nonpromoted only	14 35.9	0 0.0	0 0.0	14 58.3	2 28.6	12 70.6
No automated	11 28.2	3 25.0	3 100.0	5 20.8	4 57.1	1 5.9
Linked and/or LOCs	10 25.6	2 16.7	3 100.0	5 20.8	4 57.1	1 5.9
No formal program only	1 2.6	1 8.3	0 0.0	0 0.0	0 0.0	0 0.0
Total data download banks	39 100.0	12 100.0	3 100.0	24 100.0	7 100.0	17 100.0

Among the consumer accounts in the micro-data, 98.2 percent were held in banks with automated overdraft program (see Table IX-1). Most accounts (86.3 percent) were covered by a nonpromoted automated overdraft program (see Table IX-3). This result was driven by the fact that micro-data institutions with nonpromoted automated programs were very large (most with more than \$5 billion in assets) (see Table IX-2). In contrast, a much smaller proportion of the consumer transaction accounts analyzed had overdraft coverage under linked-accounts (12.8 percent) or overdraft LOC programs (3.2 percent). Note that an account could be covered under multiple overdraft programs (see Table IX-3).



Table IX-3

Overdraft Program Coverage for Consumer Transaction Accounts for All Micro-Data Banks	
Account Coverage Type	Sum <sup>a</sup> Percent of Column Total
Linked accounts covered	834,866 12.8
Covered by LOC	209,551 3.2
Covered by promoted automated programs	248,853 3.8
Covered by nonpromoted automated programs	5,644,784 86.3
Total consumer transaction accounts <sup>b</sup>	6,539,446

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.  
<sup>b</sup> Some accounts are covered by multiple programs.

## IX.2. Characteristics of Automated Overdraft Programs Operated by Micro-Data Banks

The 28 micro-data banks that operated automated overdraft programs reported 6.4 million consumer accounts with an aggregate average balance of \$33.6 billion (see Table IX-1). Of these accounts, 71.3 percent were checking accounts, 19.9 percent were NOW accounts, and 8.8 percent were MMD accounts (see Table IX-4).

In 26 of the 28 micro-data banks operating automated programs, customers were automatically enrolled in the program and were required to affirmatively opt out of the program if they did not want this type of overdraft coverage (see Table IX-5). Most banks that operated automated overdraft programs (89.3 percent) advanced funds to cover all types of transactions (see Table IX-6). Almost all micro-data banks with automated overdraft covered POS/debit transactions. One bank covered overdrafts originated only through checks.

Most micro-data banks with automated overdraft programs (67.9 percent) batch processed transactions by size, starting with the largest transactions (see Table IX-7). Consistent with the survey results, largest-to-smallest batch processing was more prevalent among large institutions. About 18 percent of the banks that provided micro-data batch processed items starting with the smallest item, and these were all small banks.

Table IX-4

Type of Accounts by Neighborhood Income for Micro-Data Banks with Automated Overdraft Programs				
Percentage of Row Total		By Account Type <sup>a</sup>		
Census Tract Income Bracket	All	Checking	NOW	MMD
Low income	100.0	76.2	18.6	5.2
Moderate income	100.0	76.2	17.2	6.6
Middle income	100.0	72.0	19.8	8.2
Upper income	100.0	66.3	22.2	11.6
Income not classified	100.0	72.1	15.2	12.8
No tract	100.0	79.8	11.8	8.3
All income classes	100.0	71.3	19.9	8.8

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

Table IX-5

<b>Opt-In/Opt-Out Policies of Micro-Data Banks with Automated Overdraft Programs</b>				
<b>Number of Banks Percent of Column Total</b>		<b>By Asset Size</b>		
<i>Did customers opt-in or opt-out of your institution's program, or was the option not available?</i>	<b>All</b>	<b>Less than \$250 Million</b>	<b>\$250 Million to Less than \$1 Billion</b>	<b>Greater than \$1 Billion</b>
Opt-out	26 92.9	9 100.0	0 NA	17 89.5
Other	2 7.1	0 0.0	0 NA	2 10.5
Total micro-data banks with automated	28 100.0	9 100.0	0 NA	19 100.0

Note: NA = not applicable.

Table IX-6

<b>Transactions Covered by Micro-Data Banks with Automated Overdraft Programs</b>				
<b>Number of Banks Percent of Column Total</b>		<b>By Asset Size</b>		
<i>Which transactions were covered by your institution's program in the event of an overdraft?</i>	<b>All</b>	<b>Less than \$250 Million</b>	<b>\$250 Million to Less than \$1 Billion</b>	<b>Greater than \$1 Billion</b>
<i>All Transaction Combinations</i>				
Checks, ATM, POS/debit, and any ACH	25 89.3	8 88.9	0 NA	17 89.5
Checks, POS/debit, and any ACH	1 3.6	0 0.0	0 NA	1 5.3
Checks and any ACH	1 3.6	1 11.1	0 NA	0 0.0
Checks only	1 3.6	0 0.0	0 NA	1 5.3
Total micro-data banks with automated	28 100.0	9 100.0	0 NA	19 100.0

Note: NA = not applicable.

Table IX-7

Transaction Batch-Processing Method for Micro-Data Banks with Automated Overdraft Programs				
Number of Banks Percent of Column Total		By Asset Size		
<i>For those items that are batch processed, which method best describes the order in which transactions were typically paid by your institution?</i>	All	Less than \$250 Million	\$250 Million to Less than \$1 Billion	Greater than \$1 Billion
By order of presentation	2 7.1	1 11.1	0 NA	1 5.3
By size, largest-to-smallest	19 67.9	3 33.3	0 NA	16 84.2
By size, smallest-to-largest	5 17.9	5 55.6	0 NA	0 0.0
Other	2 7.1	0 0.0	0 NA	2 10.5
Total micro-data banks with automated	28 100.0	9 100.0	0 NA	19 100.0

Note: NA = not applicable.

### IX.2.A. Distribution of Consumer Transaction Accounts by Income Group

The micro-data request collected nine-digit ZIP code data of consumer account holders. ZIP code information was also used to identify the census tract and income bracket associated with an account holder. Income brackets were determined by comparing the family median income of a census tract to the family median income for the metropolitan statistical area (MSA) where the census tract was located.<sup>45</sup> Low-income tracts were those where the median income was less than 50 percent of MSA median income; moderate-income tracts had median income between 50 percent and 80 percent of the MSA median income; middle-income tracts had median income between 80 percent and 120 percent of the MSA median income; and upper-income tracts had median income that exceeded 120 percent of the MSA median.<sup>46</sup> Table IX-8 shows the dollar range for each income level, calculated using the lowest and the highest MSA family median income in 2006. For example, the lowest median income in the country

Table IX-8

Median Family Income Thresholds by Census Tract Income Bracket			
Dollar Amounts		2006 HUD MSA Estimates	
		Lowest	Highest
	2006 USA <sup>a</sup>	(McCallen-Edinburg-Mission MSA, TX)	(Bethesda-Gaithersburg-Frederick MSA, MD)
Family median income	\$58,526	\$30,800	\$98,400
<i>By census tract income (upper bound except where indicated):</i>			
Low	\$29,263	\$15,400	\$49,200
Moderate	\$46,821	\$24,640	\$78,720
Middle	\$70,231	\$36,960	\$118,080
Upper (lower bound)	\$70,231+	\$36,960+	\$118,080+

<sup>a</sup> 2006 USA estimates based on 2006 American Community Survey.

<sup>45</sup> For census tracts in rural areas, family median income was compared to family median income of all rural tracts in the state.

<sup>46</sup> This classification follows the standards used for the purposes of the Community Reinvestment Act.

Table IX-9

Customer Accounts by Income Group for Micro-Data Banks with Automated Overdraft Programs	
Census Tract Income Bracket	Percent of Column Total
Low income	2.3
Moderate income	14.2
Middle income	54.2
Upper income	27.3
Income not classified	0.0
No tract	2.0
All income classes	100.0

<sup>a</sup>Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

Table IX-10

Account Balance by Average Dollar Amount Held and Income Group for Micro-Data Banks with Automated Overdraft Programs								
Percent of Row Total		By Account Balance <sup>a</sup>						
Census Tract Income Bracket	All	Less than 100	Less than 500	Less than 1,000	Less than 2,000	Less than 3,000	3,000 or More	Unknown <sup>b</sup>
Low income	100.0	56.7	14.6	8.5	7.3	3.0	9.9	0.0
Moderate income	100.0	39.1	16.2	11.2	10.8	5.1	17.7	0.0
Middle income	100.0	30.3	15.5	11.8	12.8	6.4	23.1	0.0
Upper income	100.0	33.5	14.4	9.1	10.7	6.2	26.1	0.0
Income not classified	100.0	32.2	14.8	10.0	7.7	5.1	30.2	0.1
No tract	100.0	26.2	16.1	12.3	13.0	6.6	25.9	0.0
All income classes	100.0	32.9	15.3	10.9	11.8	6.1	22.9	0.0

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.  
<sup>b</sup> Includes customers with missing data on account balance.

(McCallen-Edinburg-Mission, Texas) was \$30,800. Therefore, moderate-income families in this area earned an annual income between \$15,400 and \$24,640.

For micro-data banks with automated overdraft programs, 81.5 percent of the 6.4 million consumer accounts were held by customers located in middle- and upper-income neighborhoods (see Table IX-9). Accounts held by consumers located in low- and moderate-income areas made up 16.5 percent of consumer accounts in the micro-data (2.3 percent in low-income and 14.2 percent in moderate-income areas). As a reference, low- and moderate-income areas account for 25.0 percent of the country's population (4.0 percent in low-income and 21.0 percent in moderate-income areas), 50.0 percent of the country's population reside in middle-income areas, and 24.0 percent reside in upper-income areas.<sup>47</sup> Approximately 2 percent of the consumer accounts analyzed could not be classified in terms of neighborhood income because of incomplete or erroneous ZIP codes.<sup>48</sup>

The type and average balance of accounts held at micro-data banks with automated overdraft programs differed by income area. More than three-fourths of accounts in low- and moderate-income areas were checking accounts, and less than 6 percent were MMDs. In contrast, micro-data accounts in upper-

<sup>47</sup> According to the 2000 U.S. Census Bureau data from the Federal Financial Institutions Examination Council (FFIEC) 2006 census data file.

<sup>48</sup> A nine-digit ZIP code was used to assign the census tract for 5.6 million accounts (86 percent). For 763,000 accounts (12 percent), a five-digit ZIP code was used to approximate the census tract. Approximately 127,000 consumer accounts in the micro-data did not have a valid ZIP code.

income areas had the highest proportion of NOW and MMD accounts (22.2 percent and 11.6 percent, respectively), and two-thirds of accounts were checking accounts (see Table IX-4).

Regarding account balance, more than half (56.7 percent) of the micro-data accounts in low-income areas held less than \$100, on average, during the period of analysis (see Table IX-10). In comparison, 39.1 percent of micro-data accounts in moderate-income areas had less than \$100 on average. Middle- and upper-income areas had approximately one-third of accounts with less than \$100 and about one quarter of accounts with an average balance of \$3,000 or more.

### IX.3. Patterns of NSF Activity and Fees for Micro-Data Banks with Automated Overdraft Programs

As noted earlier, the micro-data request collected 12 months of NSF transaction activity processed under automated overdraft programs. For institutions with no automated overdraft programs (including banks that operated only linked-accounts or overdraft LOC programs or both), the NSF transaction data included only NSF items processed on an ad hoc basis and usually through a manual review process. The micro-data did not collect NSF transactions processed under linked-account or overdraft LOC programs.

Micro-data banks reported 22.6 million NSF transactions incurred by consumer accounts during the 12-month period of analysis.<sup>49</sup> Almost all (22.5 million) of the NSF transactions analyzed were reported by the 28 micro-data banks that operated automated overdraft programs.

For the 28 micro-data banks with an automated program, 74.3 percent of consumer accounts had no NSF transactions during the 12-month period examined (see Table IX-11). However, 11.9 percent of accounts had 1 to 4 transactions, 5.0 percent had 5 to 9 transactions, 4.0 percent had 10 to 19 transactions, and 4.9 percent of accounts incurred 20 or more NSF transactions. Accounts with at least 10 NSF transactions were charged 84.0 percent of all NSF fees, and the 4.9 percent with 20 or more NSF transactions were charged more than 68 percent of all NSF fees (see Table IX-12).

Micro-data banks with automated overdraft programs charged consumer transaction accounts a total of \$738 million in NSF fees over the 12-month period of the study. Consumer accounts with one to four transactions were charged an average \$64 per year in NSF fees (see Table IX-13). For accounts with 20 or more transactions, the average annual cost was \$1,610.

For the 11 micro-data banks with no automated program, 81.6 percent of consumer accounts had no NSF transactions during the year, 12.7 percent had 1 to 4 transactions, and 1.4 percent had more than

Table IX-11

Customer Accounts by Number of NSF Transactions per Year and Income Group for Micro-Data Banks with Automated Overdraft Programs						
Percentage of Row Total		By Number of Transactions <sup>a</sup>				
Census Tract Income Bracket	All	Zero	1 to 4	5 to 9	10 to 19	20 or More
Low income	100.0	61.9	16.7	7.6	6.3	7.5
Moderate income	100.0	68.4	13.9	6.2	5.1	6.4
Middle income	100.0	74.3	11.8	5.0	4.0	4.9
Upper income	100.0	78.2	10.5	4.2	3.3	3.8
Income not classified	100.0	74.6	12.2	6.0	3.6	3.6
No tract	100.0	74.2	12.6	5.1	3.9	4.3
All income classes	100.0	74.3	11.9	5.0	4.0	4.9

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

<sup>49</sup> For all 39 micro-data banks, 91.2 percent of the 22.6 million NSF transactions were paid, 8.3 percent were not paid, and payment information was missing for 0.5 percent.

Table IX-12

NSF Fees Charged by Income Group and by Number of NSF Transactions per Year for Micro-Data Banks with Automated Overdraft Programs					
Percent of Row Total		By Number of Transactions <sup>a</sup>			
Census Tract Income Bracket	All	1 to 4	5 to 9	10 to 19	20 or More
Low income	100.0	6.2	9.6	16.9	67.2
Moderate income	100.0	6.1	9.1	15.9	68.9
Middle income	100.0	6.6	9.2	15.4	68.8
Upper income	100.0	7.2	9.8	15.9	67.1
Income not classified	100.0	8.3	14.0	18.5	59.1
No tract	100.0	7.9	10.9	17.2	64.1
All income classes	100.0	6.6	9.4	15.7	68.3

<sup>a</sup>Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

Table IX-13

Annual Dollar Amount of NSF Fees Charged per Consumer Account for Micro-Data Banks with Automated Overdraft Programs					
Average Dollar Amount		By Number of Transactions <sup>a</sup>			
Census Tract Income Bracket	All	1 to 4	5 to 9	10 to 19	20 or More
Low income	174	64	221	464	1,568
Moderate income	148	65	218	457	1,597
Middle income	116	65	215	449	1,618
Upper income	92	63	213	446	1,613
Income not classified	89	61	207	458	1,460
No tract	103	65	220	459	1,536
All income classes	115	64	215	451	1,610

<sup>a</sup>Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

Table IX-14

Customer Accounts and NSF Fees by Number of NSF Transactions per Year for Banks with No Automated Overdraft Program						
Percentage of Row Total		By Number of Transactions <sup>a</sup>				
Category	All NSF Classes	Zero	1 to 4	5 to 9	10 to 19	20 or More
Accounts	100.0	81.6	12.7	2.9	1.5	1.4
NSF fees	100.0	0.0	14.6	11.6	12.3	61.5

<sup>a</sup>Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

20 transactions (see Table IX-14). As with the other banks, the majority of fees (61.5 percent) were charged to accounts with more than 20 transactions.

### IX.3.A. NSF Activity by Income Group for Micro-Data Banks

For micro-data banks with automated overdraft programs, lower-income groups were more likely to incur NSF charges than higher-income groups. About 62 percent of accounts in low-income areas had zero NSF charges, while 78.2 percent of accounts in upper-income areas had zero NSF charges (see Table IX-11). Recurrent overdrafts were also more likely in lower income groups. Among low-income customers, 16.7 percent of accounts had 1 to 4 NSF transactions, and 7.5 percent had 20 or more transactions. By comparison, moderate-income customers had 13.9 percent of accounts with 1 to 4 NSF transactions and 6.4 percent of accounts with 20 or more NSF transactions. Customers in upper-income

Table IX-15

NSF Transactions by Income Group and Transaction Type for Micro-Data Banks with Automated Overdraft Programs							
Percent of Row Total		By Transaction Type <sup>a</sup>					
Census Tract Income Bracket	All	Check	ATM	POS/Debit	ACH	Other <sup>b</sup>	Unknown <sup>c</sup>
Low income	100.0	21.2	16.4	40.6	15.2	5.8	0.8
Moderate income	100.0	26.7	10.7	40.1	15.0	5.1	2.4
Middle income	100.0	31.4	7.0	40.2	14.0	4.0	3.4
Upper income	100.0	30.8	6.1	44.2	13.8	2.9	2.3
Income not classified	100.0	37.1	4.7	42.2	14.5	1.0	0.5
No tract	100.0	36.3	7.9	37.4	14.2	3.4	0.7
All income classes	100.0	30.2	7.8	41.0	14.2	4.0	2.8

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.  
<sup>b</sup> Includes all transactions designated as "other."  
<sup>c</sup> Includes all transactions with missing data on transaction type.

Table IX-16

NSF Transactions by Income Group and Transaction Type for Micro-Data Banks with Nonautomated Overdraft Programs							
Percent of Row Total		By Transaction Type <sup>a</sup>					
Census Tract Income Bracket	All	Check	ATM	POS/Debit	ACH	Other <sup>b</sup>	Unknown <sup>c</sup>
Low income	100.0	73.9	0.0	0.0	14.2	11.8	0.0
Moderate income	100.0	65.0	0.0	0.1	24.9	10.1	0.0
Middle income	100.0	63.4	0.1	0.3	25.0	11.2	0.0
Upper income	100.0	69.3	0.1	0.0	13.9	16.7	0.0
Income not classified	100.0	79.2	0.0	0.0	3.8	17.0	0.0
No tract	100.0	74.6	0.0	0.0	24.8	0.6	0.0
All income classes	100.0	67.5	0.1	0.1	19.2	13.2	0.0

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.  
<sup>b</sup> Includes all transactions designated as "other."  
<sup>c</sup> Includes all transactions with missing data on transaction type.

areas had 10.5 percent of accounts with 1 to 4 transactions and just 3.8 percent of accounts with 20 or more NSF transactions.

The micro-data request asked the banks to identify the type of NSF transaction: paper checks or equivalents, ATM withdrawals, POS/debit, or ACH transactions. The largest share of NSF transactions (41.0 percent) reported by micro-data banks with automated programs was generated at POS/debit terminals, while ATM transactions accounted for 7.8 percent of all NSF transactions analyzed (see Table IX-15). These two types of electronic payments accounted for nearly half of all NSF transactions. Checks remained a significant source of NSF transactions (30.2 percent). NSF transactions via ACH accounted for 14.2 percent of reported overdraft items. In contrast, the NSF transactions processed for the 11 micro-data banks with no automated overdraft program exhibited very different results. For these banks, the NSF approval or denial occurred on a case-by-case basis (as opposed to an automated process), and real-time transactions such as NSF originating at ATM or POS/debit terminals were generally rejected.<sup>50</sup> Accordingly, less than 1 percent of the NSF transactions processed under no formal

<sup>50</sup> If the ATM or POS/debit terminal was offline, real-time funds verification was not possible and transactions could be approved, causing an inadvertent NSF.

Table IX-17

Median NSF Transaction Amount by Income Group and Type of Transaction for Micro-Data Banks with Automated Overdraft Programs							
Median Dollar Amount		By Type of Transaction <sup>a</sup>					
Census Tract Income Bracket	All	Check	ATM	POS/Debit	ACH	Other <sup>b</sup>	Unknown <sup>c</sup>
Low income	39	81	60	19	68	25	178
Moderate income	37	70	60	19	72	29	72
Middle income	35	62	60	20	76	20	55
Upper income	37	75	60	20	94	23	87
Income not classified	45	128	60	20	108	41	NA
No tract	37	55	60	20	66	99	101
All income classes	36	66	60	20	78	22	60

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.  
<sup>b</sup> Includes all transactions designated as "other."  
<sup>c</sup> Includes all transactions with missing data on transaction type.  
Note: NA = not applicable.

program originated at an ATM or POS/debit transaction (see Table IX-16). For these micro-data banks, most NSF transactions (67.5 percent) were check transactions.

The median dollar amount of all 22.5 million transactions processed by micro-data banks with automated programs was \$36 (see Table IX-17). POS/debit NSF transactions were not only the most frequent, but also the smallest, with a median value of \$20. The median transaction size of an ATM withdrawal and a check that resulted in an NSF transaction were \$60 and \$66, respectively. ACH NSF transactions showed the largest median at \$78.

The following calculations illustrate the relative cost of NSF fees associated with automated overdraft programs. A customer repaying a \$20 POS/debit overdraft in two weeks would incur an APR of 3,520 percent, a customer repaying a \$60 ATM overdraft in two weeks would incur an APR of 1,173 percent, and a customer repaying a \$66 check overdraft in two weeks would incur an APR of 1,067 percent.<sup>51</sup> More rapid repayment of the overdraft amount would result in higher APRs, and slower repayment would result in lower APRs.

### IX.3.B. NSF Activity by Age Group for Micro-Data Banks

The micro-data request collected year-of-birth information for 94.1 percent of the 6.5 million consumer accounts held in banks with automated overdraft programs. Adults (ages 26 to 61) held approximately half (54.9 percent) of consumer accounts analyzed, while seniors (age 62 or older) and young adults (ages 18 to 25) accounted for 31.3 percent and 7.6 percent, respectively, of consumer accounts analyzed in the micro-data (see Table IX-18).

Young adults had the largest share of accounts with NSF activity during the year, while seniors had the smallest share. Only 53.6 percent of young adults had no NSF transactions, while 68.1 percent of adults and 87.8 percent of seniors had no NSF activity (see Table IX-19). Nearly 15 percent of accounts held by young adults recorded more than ten NSF transactions during the year, compared with 12.1 percent of adult accounts and 3.0 percent of senior accounts.

<sup>51</sup> These examples assume a \$27 overdraft fee (the bank survey median reported in Section IV), the credit extended as a result of the overdraft occurrence equaled the total transaction, the consumer repaid the credit extended in two weeks, and no additional fees are imposed on the consumer as a result of the NSF. The APR is calculated as follows: ((Fee Charged/Amount Financed)\*365)/Term (14 days).



Table IX-18

Customer Accounts by Age Group for Micro-Data Banks with Automated Overdraft Programs	
Age Group	Percent of Column Total <sup>a</sup>
Over 62	31.3
26-61	54.9
18-25	7.6
Less than 18	0.4
Unknown	5.9
All age groups	100.0

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

Table IX-19

Customer Accounts by Number of NSF Transactions in a Year per Age Group for Micro-Data Banks with Automated Overdraft Programs						
Percentage of Row Total		By Number of Transactions <sup>a</sup>				
Age Group	All	Zero	1 to 4	5 to 9	10 to 19	20 or More
Over 62	100.0	87.8	7.0	2.2	1.5	1.5
26-61	100.0	68.1	13.7	6.1	5.2	6.9
18-25	100.0	53.6	21.5	10.3	7.9	6.8
Less than 18	100.0	78.1	12.1	4.0	3.0	2.7
Unknown	100.0	86.2	7.5	2.4	1.8	2.1
All age classes	100.0	74.3	11.9	5.0	4.0	4.9

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

Table IX-20

NSF Transactions by Age Group and Transaction Type for Micro-Data Banks with Automated Overdraft Programs							
Percent of Row Total		By Transaction Type <sup>a</sup>					
Age Group	All	Check	ATM	POS/Debit	ACH	Other <sup>b</sup>	Unknown <sup>c</sup>
Over 62	100.0	46.0	8.1	23.2	16.7	3.5	2.7
26-61	100.0	29.8	7.8	41.1	14.5	4.0	2.8
18-25	100.0	14.4	8.0	61.7	8.7	4.0	3.2
Less than 18	100.0	27.2	10.1	42.4	13.0	4.1	3.3
Unknown	100.0	43.5	5.0	24.4	18.3	5.4	3.3
All income classes	100.0	30.2	7.8	41.0	14.2	4.0	2.8

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.

<sup>b</sup> Includes all transactions designated as "other."

<sup>c</sup> Includes all transactions with missing data on transaction type.

The type of NSF transactions also differed across age groups. Among young adults, 61.7 percent of NSF transactions originated at a POS/debit terminal, while less than 15 percent of NSF transactions were generated from checks (see Table IX-20). In contrast, for seniors the largest share of NSF transactions (46.0 percent) originated from checks, while less than one in four NSF transactions (23.2 percent) originated at POS/debit terminals. The median amount of the NSF transactions for checks was \$60 for both groups, but the POS/debit median transaction resulting in an NSF was \$24 for seniors and only \$12 for young adults (see Table IX-21).

Table IX-21

Median NSF Transaction Amount by Age Group and Type of Transaction for Micro-Data Banks with Automated Overdraft Programs							
Median Dollar Amount		By Transaction Type <sup>a</sup>					
Age Group	All	Check	ATM	POS/Debit	ACH	Other <sup>b</sup>	Unknown <sup>c</sup>
Over 62	49	60	60	24	66	19	57
26-61	38	68	60	20	82	25	75
18-25	20	60	40	12	60	14	60
Less than 18	30	54	60	16	67	14	55
Unknown	50	77	60	23	86	30	35
All income classes	36	66	60	20	78	22	60

<sup>a</sup> Excludes business accounts, savings accounts, other than checkable accounts, new accounts, and customers with more than 10 accounts.  
<sup>b</sup> Includes all transactions designated as "other."  
<sup>c</sup> Includes all transactions with missing data on transaction type.

#### IX.4. Summary

This section reported patterns in actual overdraft coverage and overdraft activity for 39 banks that provided micro-level data on consumer accounts and NSF transactions that were processed under an automated program or processed on an ad hoc basis under no formal program. Of the 39 micro-data banks, 28 had an automated overdraft program in place, and most of these were nonpromoted.

Roughly 75 percent of consumer accounts held in micro-data banks with automated overdraft programs had no NSF item in the 12 months of reported data on NSF activity. However, NSF activity reported in the micro-data was concentrated in a subset of accounts that reported recurring overdrafts during the period of analysis. Almost 9 percent of accounts had at least 10 NSF transactions, and 4.9 percent of accounts incurred 20 or more NSF transactions. A large share (84.0 percent) of total NSF fees were charged to these accounts, with more than 68 percent of NSF fees charged to accounts with 20 or more transactions. For consumer accounts with 20 or more transactions, the average annual cost of NSF fees was \$1,610.

The micro-data also showed differences in overdraft activity and fees charged by income group. Accounts in lower-income areas were more likely to incur overdrafts than accounts in higher-income areas. More than 38 percent of low-income accounts had at least one NSF transaction, compared with 22 percent of upper-income accounts. Lower-income customers were also more likely to have repeated overdraft transactions. Almost 14 percent of low-income customers had 10 or more NSF transactions, and 7.5 percent had more than 20 NSF transactions. Moderate-income customers had 11.5 percent of accounts with ten or more transactions. Customers in upper-income areas had just 7.1 percent of accounts with 10 or more NSF transactions, and less than 4 percent with 20 or more NSF transactions.

POS/debit and ATM transactions accounted for almost half the NSF transactions at micro-data banks with automated overdraft programs. Checks accounted for 30.2 percent of overdraft transactions at banks with automated programs. The median dollar value of transactions at banks with automated programs was \$20 for POS/debit, \$60 for ATM, and \$66 for checks. Assuming a \$27 overdraft fee (the survey median), a customer repaying a \$20 POS/debit overdraft in two weeks would incur an APR of 3,520 percent; a customer repaying a \$60 ATM overdraft in two weeks would incur an APR of 1,173 percent; and a customer repaying a \$66 check overdraft in two weeks would incur an APR of 1,067 percent. More rapid repayment of the overdraft amount results in higher APRs and slower repayment results in lower APRs.<sup>52</sup>

<sup>52</sup> These examples assume that the credit extended as a result of the overdraft occurrence equaled the total transaction, that the consumer repaid the credit extended in two weeks, and that no additional fees were imposed on the consumer as a result of the NSF. The APRs were calculated as follows:  $((\text{Fee Charged}/\text{Amount Financed}) \times 365)/\text{Term}$  (14 days).

During the period of analysis, young adults were more likely, and seniors less likely, to have NSF activity. Among young adults, 46.4 percent of accounts incurred NSF activity, compared with 31.9 percent of accounts held by adults and 12.2 percent of accounts held by seniors. Based on the type of NSF transactions, the micro-data suggest greater reliance on electronic payments among young adults, with most NSF transactions originating at a POS/debit terminal and less than 15 percent resulting from checks. In the case of seniors, the largest share of NSF transactions (46.0 percent) originated from checks, while fewer than one in four NSF transactions (23.2 percent) originated at POS/debit terminals. The median check NSF amount was the same for seniors and young adults (\$60), but POS/debit transactions resulting in an NSF tended to be smaller for young adults (\$12, compared with \$24 for seniors and \$20 for other adults).

# FDIC Study Group on Bank Overdraft Programs

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# Appendix A

## FDIC Overdraft Survey Instrument

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### Institution Programs and Practices

Final Version: June 26, 2008

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Definitions
<b>A. Programs</b>
<p><b>(1) Linked Transfer Accounts</b></p> <p>A contractual agreement between a bank and a customer, linking the customer's transactions account with other accounts within the bank, including savings and credit card accounts. In the event of an overdraft, the bank will fulfill the customer's obligations by transferring funds from the customer's other accounts linked to his transactions account.</p>
<p><b>(2) Overdraft Lines of Credit</b></p> <p>A contractual agreement between a bank and a customer that the bank is willing to lend up to a specified amount over a specified future period to cover overdrafted items. These programs DO NOT include line of credit programs that do not specifically cover overdrafted items, for example, home equity lines of credit. The bank extends the line of credit after reviewing a customer using standard underwriting criteria; the line is considered a loan and requires standard Truth-in-Lending (Regulation Z) disclosures.</p>
<p><b>(3) Automated Promoted Overdraft Protection</b></p> <p>A program or policy where a bank generally honors a customer's overdrafted obligations, and customers <b>ARE informed of the existence</b> of the overdraft protection program. The program is uniformly offered to qualifying customers. Excluded are all overdraft programs where an APR is required. The program is <b>automated</b> in the sense that standardized procedures or a "matrix" is used to determine whether the NSF item qualifies for the overdraft protection. Automated programs are typically, but not necessarily, computerized.</p>
<p><b>(4) Automated Non-Promoted Overdraft Protection</b></p> <p>A program or policy where a bank generally honors a customer's overdrafted obligations; however, customers <b>are NOT informed of the existence</b> of the overdraft protection program. The program is <b>automated</b> in the sense that standardized procedures or a "matrix" is used to determine whether the NSF item qualifies for the overdraft protection. Automated programs are typically, but not necessarily, computerized.</p>
<p><b>(5) Non-Automated Non-Promoted Ad Hoc Overdraft Protection</b></p> <p>These include truly incidental and discretionary accommodations to customers by banks to honor overdrafted items. These decisions are made independent of or override the programs described in (1) through (4).</p>
<b>B. Terms</b>
<p><b>Grace Period</b> – The period of time an account holder has to bring an overdrafted account back to a positive balance without incurring any fees other than the initial per item/per occurrence fee.</p>
<p><b>Initiation Fee vs. Maintenance Fee</b> – An initiation fee is a one time charge to begin/establish a customer in a program. A maintenance fee is a recurring fee to maintain the customer in the program. It is typically a monthly or annual fee.</p>
<p><b>Overdraft Item vs. Occurrence</b> – For example, if a customer had two bounced checks in a given day and was charged two separate fees, that would be considered a fee "per item." On the other hand, if the customer was charged one lump sum to cover both checks in the same day, that would be considered a fee "per occurrence."</p>
<p><b>Workout Phase</b> – When a customer cannot return an account to a positive status and works with the bank to develop a repayment schedule.</p>

<b>Survey I</b>	
<b>A. Institution</b>	
Bank Name	
Headquarter City	
Headquarter State	
Region	
FDIC Certificate Number	
<b>B. FDIC</b>	
Examiner Name	
Examination Type	
Examination Date	
Survey I Completion Date	
<b>C. Coverage</b>	
As of July 1, 2006, did the institution believe it was subject to the overdraft provisions of Regulation DD	

I. General	
A. Scope of Services	
<p>Section IA determines to what extent portions of this survey are relevant to the institution depending on what overdraft options it <b>offers or offered in 2006-2007</b>. For questions IA1, IA2, IA3, and IA4, each "Yes" answer indicates that a subsequent subsection in Section II, "Program Specifics," related respectively, to (1) linked transfer accounts, (2) overdraft lines of credit, (3) automated <b>promoted</b> overdraft protection, and (4) automated <b>non-promoted</b> overdraft protection, is to be completed. Please refer to page ii for definitions for Programs (1) through (4).</p>	
1. Does the institution offer linked transfer accounts, or offered it at any point in 2006 or 2007? If yes, please answer the questions using column (1) for all subsections of Section II. 1 = Yes, 2 = No.	
1.1 If the institution <b>initiated the program within the last five years</b> , please specify the month and year in which the institution initiated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
1.2 If the institution <b>terminated the program in 2006 or 2007</b> , please specify the month and year in which the institution terminated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
<b>1.3 If yes to Question 1, please describe below the institution's program.</b>	
2. Does the institution offer overdraft lines of credit, or offered it at any point in 2006 or 2007? If yes, please answer the questions using column (2) for all subsections of Section II. 1 = Yes, 2 = No.	
2.1 If the institution <b>initiated the program within the last five years</b> , please specify the month and year in which the institution initiated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
2.2 If the institution <b>terminated the program in 2006 or 2007</b> , please specify the month and year in which the institution terminated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
<b>2.3 If yes to Question 2, please describe below the institution's program.</b>	
3. Does the institution offer <b>automated promoted overdraft protection</b> , or offered it at any point in 2006 or 2007? If yes, please answer the questions using column (3) for all subsections of Section II. 1 = Yes, 2 = No.	
3.1 If the institution <b>initiated the program within the last five years</b> , please specify the month and year in which the institution initiated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
3.2 If the institution <b>terminated the program in 2006 or 2007</b> , please specify the month and year in which the institution terminated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
<b>3.3 If yes to Question 3, please describe below the institution's program.</b>	
4. Does the institution extend <b>automated non-promoted overdraft protection</b> , or did so at any point in 2006 or 2007? If yes, please answer the questions using column (4) for all subsections of Section II. 1 = Yes, 2 = No.	
4.1 If the institution <b>initiated the program within the last five years</b> , please specify the month and year in which the institution initiated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
4.2 If the institution <b>terminated the program in 2006 or 2007</b> , please specify the month and year in which the institution terminated the program. Please mark "NA" if not applicable.	
a. Month (MM)	b. Year (YYYY)
<b>4.3 If yes to Question 4, please describe below the institution's program.</b>	
5. Does the institution have any other overdraft program that does not meet the descriptions of programs (1) through (4) described under "Definitions - A. Programs"? 1 = Yes, 2 = No.	
<b>5.1 If yes, please describe below this program.</b>	



I. General	
B. Aggregate Income & Losses	
1. For each year below, what was the TOTAL dollar amount of the institution's <b>total gross income</b> from all fees related to NSF items? This <b>includes</b> fee income for paid overdrafted items, for returned overdrafted items, from initiation fees, and from maintenance fees.	
1.1	2006
1.2	2005
1.3	2004*
1.4	2003*
1.5	2002*
2.* For each year below, what was the dollar amount of the institution's <b>total gross income</b> from per item/ per occurrence PAID NSF items? This <b>excludes</b> fee income for returned overdrafted items, initiation fees, and maintenance fees.	
2.1	2006
2.2	2005
2.3	2004
2.4	2003
2.5	2002
3.* For each year below, what was the dollar amount of the institution's <b>total gross income</b> from per item/ per occurrence RETURNED NSF items? This <b>excludes</b> fee income for paid overdrafted items, initiation fees, and maintenance fees.	
3.1	2006
3.2	2005
3.3	2004
3.4	2003
3.5	2002
4. How many deposit accounts were charged off in 2006?	
5. What was the total dollar amount of these charge-offs?	
6. How many deposit accounts were converted to workout loans in 2006?	
7. What was the total dollar amount of these workout loans?	

\*Note: If data readily available.

I. General	
C. General Processing Practices	
1. In what order are transactions typically paid? (Please rank beginning from "1" and mark "NA" if not applicable.)	
a. Cash transactions (e.g. teller services)	
b. In-house ATM transactions	
c. System ATM transactions	
d. On us	
e. Online payments	
f. ACH	
g. POS	
h. Other (please describe below)	
2. For those items which the institution batch processes, which method best describes in what order transactions are typically paid?	
1 = By size, starting with largest	
2 = By size, starting with the smallest	
3 = By check number	
4 = By order of presentation	
5 = Other (please describe below)	
3. Can an account be covered by more than one overdraft program? 1 = Yes, 2 = No.	
3.1 Please rank, beginning from "1" or (mark "NA" if not offered), the order in which a customer's applicable overdraft protection programs are invoked.	
a. Linked Transfer Accounts	
b. Overdraft Lines of Credit	
c. Promoted Overdraft Protection	
d. Automated Non-Promoted Overdraft Protection	

I. General	
D. Program Selection	
1. How does the institution determine which overdraft protection program to offer new customers? 1 = Offers all programs available for the type of account 2 = Uses software to determine which customers are offered which programs 3 = Offers only automated promoted overdraft protection unless other options solicited by customer 4 = Other (please describe below)	
2. Does the institution provide information that allows consumers to compare the features and costs of alternative types of overdraft protection? 1 = Yes, 2 = No	
2.1 If yes, with what means are customers informed of alternative types of overdraft protection offered by the institution? (Mark <b>each</b> that applies.)	
a. Deposit account agreement	
b. Brochure about accounts	
c. Bank personnel informs customers	
d. Provide information only when asked	
e. Other (please describe below)	
3. Does the institution offer any educational information that helps customer use overdraft protection wisely/efficiently? 1 = Yes, 2 = No	
3.1 If yes, with what means are customers assisted in selecting an overdraft protection program? (Mark <b>each</b> that applies.)	
a. Comparison chart	
b. Fee sheets	
c. Example of costs	
d. Overdraft protection brochure	
e. Other (please describe below)	

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
	Complete this section if you answered "Yes" for Question:				
A. Policies	IA1	IA2	IA3	IA4	IA5
1. Has the institution adopted written policies and procedures to address the operational and other risks associated with the program? 1 = Yes, 2 = No					
1.1 If yes, does this policy set a cap on the total dollar amount of advances per customer that the bank will extend through the program, which is consistent with the institution's ability to absorb losses? 1 = Yes, 2 = No					
1.1.1 If yes, what is that dollar limit?					
1.2 What other features of the program are established in this written policy? (Mark <b>each</b> that applies.)					
a. All associated fees					
b. APR					
c. The process for providing disclosures to customers					
d. A timeline of customer notification					
e. The period established to repay/bring account positive					
f. A timeline for charge-off of unpaid advances					
g. Workout loan procedures					
h. Other (please describe below)					
.....					
2. Was this program reviewed for compliance with applicable laws prior to implementation? (Mark <b>each</b> that applies.)					
a. Yes, by bank counsel					
b. Yes, by independent counsel					
c. Yes, by bank management					
d. Yes, by bank board					
e. Not reviewed					
f. Other (please describe below)					
.....					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
	Complete this section if you answered "Yes" for Question:				
B. Monitoring	IA1	IA2	IA3	IA4	IA5
1. Does the institution maintain customer-level information about usage, and fees and interest accrued under the particular overdraft program?  1 = Yes, 2 = No					
2. How many times in 2006 did senior management evaluate the program, including items such as reviewing overdraft activity, heavy usage, income and losses?					
3. What best describes how the institution monitors and evaluates the performance of the program? (Mark <b>each</b> that applies.)					
a. Vendor provides reports					
b. Self evaluation					
c. Hire consultant to conduct evaluation					
d. Do not regularly evaluate					
e. Other (please describe below) .....					
4. Does the institution monitor the program for extensive usage?  1 = Yes, 2 = No					
4.1 If yes, please describe.					
5. In 2006, did the institution <b>NOT</b> cover an NSF item for a customer in good standing, where there were sufficient funds within the institution's policy limits?					
6. In 2006, how many complaints were received by the institution for the particular program?					
7. Does the institution do any special monitoring of NSF/Overdraft fees and activity for individual accounts largely funded by fixed, non-attachable income such as Social Security and VA payments?  1 = Yes, 2 = No					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
	Complete this section if you answered "Yes" for Question:				
C. Information Provided to Consumers	IA1	IA2	IA3	IA4	IA5
1. When does the institution inform its customers of the program? (Mark <b>each</b> that applies.)					
a. When account is opened					
b. Periodically with account updates					
c. When asked by customer					
d. Do not inform customers					
e. Other (please describe below)					
.....					
2. What are the <b>primary</b> means by which customers are informed of the features of the program? (Mark <b>each</b> that applies.)					
a. Deposit account agreement					
b. Brochure about accounts					
c. Bank personnel informs customer					
d. Letter or special mailing to customer					
e. Do not inform customers					
f. Other (please describe below)					
.....					
3. Which features are customers informed of when they enroll or are included in the program? (Mark <b>each</b> that applies.)					
a. The schedule of fees charged					
b. APR					
c. Which transactions are covered					
d. How transactions are processed in determining account balances and fees charged					
e. The available dollar limit covered					
f. Other (please describe below)					
.....					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
Complete this section if you answered "Yes" for Question:					
C. Information Provided to Consumers, con't	IA1	IA2	IA3	IA4	IA5
4. Do balances provided at proprietary ATM's show the overdraft coverage limit? 1 = No, the overdraft limit is not shown in any ATM balance 2 = Yes, the overdraft limit is included in the only balance shown 3 = Yes, the overdraft limit is shown but listed separately from the actual balance					
5. Do balances provided at non-proprietary ATM's show the overdraft coverage limit? 1 = No, the overdraft limit is not shown in any ATM balance 2 = Yes, the overdraft limit is included in the only balance shown 3 = Yes, the overdraft limit is shown but listed separately from the actual balance 4 = Do not know					
6. When an ATM transaction results in an NSF, when is the customer notified? 1 = At the time of the transaction, prior to completion of the transaction 2 = At the time of the transaction, after the completion of the transaction 3 = Subsequent to the time of transaction (e.g. via customer notification such as mail or email) 4 = Other (please describe below)					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
Complete this section if you answered "Yes" for Question:					
C. Information Provided to Consumers, con't	IA1	IA2	IA3	IA4	IA5
7. When a POS transaction results in an NSF, when is the customer notified?  1 = At the time of the transaction, prior to completion of the transaction 2 = At the time of the transaction, after the completion of the transaction 3 = Subsequent to the time of transaction (e.g. via customer notification such as mail or email) 4 = Other (please describe below)					
8. In 2006, how many times did the institution advertise in newspapers, radio, or television?					
8.1 If the institution had print, radio, or television advertisements, how many featured the program?					
8.2 Of these advertisements which featured the program, how many were primarily to promote the program or prominently featured the program?					
9. In 2006, of all the institution's customer mailings (including emails), how many primarily or prominently featured the program?					



II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
	Complete this section if you answered "Yes" for Question:				
D. Fees	IA1	IA2	IA3	IA4	IA5
1. What is the initiation fee associated with the program? (If none enter \$0.)					
2. What is the maintenance fee to maintain the program? (If none enter \$0.)					
2.1 How often is this fee assessed? 1 = Monthly 2 = Yearly 3 = Other					
3. How are overdraft items charged? 1 = Per item 2 = Per daily occurrence 3 = No per item or daily occurrence fee charged 4 = Other (please describe below)					
4. Fees and interest charged:					
4.1 For the institution's <b>linked accounts</b> and <b>lines of credit</b> programs, what is the fee to transfer or advance funds?					
4.2 For the institution's <b>lines of credit</b> program, what is the typical APR on the outstanding balance?					
4.3 What is the highest fee charged to PAY an NSF item?					
4.4 What is the highest fee charged to RETURN an NSF item?					
5. Does the per item/occurrence fee change with the number of items/occurrences with insufficient funds? 1 = Yes, 2 = No					
5.1 If yes, please describe the program's fee schedule.					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
	Complete this section if you answered "Yes" for Question:				
D. Fees, con't	IA1	IA2	IA3	IA4	IA5
6. How are overdraft funds typically transferred/advanced? 1 = As needed to meet overdrafts 2 = As needed with a minimum draw 3 = Round lots 4 = Other					
6.1 If "Round lots" was chosen, in what denomination are the round lots? (e.g. \$50, \$100)					
7. Once an account is overdrawn, are additional fees or interest assessed subsequent to regular per item/per occurrence fees for being in overdraft status? 1 = Yes, 2 = No					
7.1 If yes, please describe.					
7.2 If yes, what is the grace period before the additional fees are charged, in days?					
8. In the context of fees, does the institution define days by: 1 = Business Days, 2 = Calendar Days					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
Complete this section if you answered "Yes" for Question:					
E. Account Coverage	IA1	IA2	IA3	IA4	IA5
1. For which of the following accounts is the program offered? (Mark <b>each</b> that applies.)					
a. Checking					
b. Money Market					
c. NOW					
d. Savings					
2. Which transactions are covered by the program in the event of an overdraft?					
a. Paper checks/Equivalents					
b. ATM withdrawals					
c. Debit cards/POS					
d. Electronic billpay					
e. Automated debit					
f. ACH					
g. Other (please describe below)					
3. Is the program: 1 = Completely Opt-in 2 = Completely Opt-out 3 = Other (please describe below)					
4. In 2006:					
4.1 How many accounts opted in to the program?					
4.2 How many accounts opted out of the program?					
5. What rules/procedures are used to determine whether a customer qualifies for the program? (Mark <b>each</b> that applies.)					
a. Credit check					
b. Minimum balance					
c. Age of account					
d. History with institution					
e. Recurring deposit (e.g. direct deposit)					
f. Other (please describe below)					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
Complete this section if you answered "Yes" for Question:					
F. Vendor	IA1	IA2	IA3	IA4	IA5
1. Is the institution's current overdraft program implemented/managed by a vendor or other third party? 1 = Yes, 2 = No					
<i>If the answer to Question 1 is "Yes," please answer the following vendor-related questions below.</i>					
2. How long has the institution used a vendor-supplied program, in months (MM)?					
3. What was the original term of the institution's current contract with the vendor, in months (MM)?					
4. Which of the following best describes the institution's program? 1 = A standardized program obtained from a vendor (off-the-shelf) 2 = A customized program obtained from a vendor where the institution sets the program's parameters 3 = Other (please describe below)					
5. Did the institution first establish or expand its overdraft protection program with the adoption of a vendor program? 1 = Yes, 2 = No					

II. Program Details					
	(1)	(2)	(3)	(4)	(5)
	Linked Transfer Accounts	Lines of Credit	Automated Promoted Overdraft Protection	Automated Non-Promoted Overdraft Protection	Non-Automated Non-Promoted Ad Hoc Overdraft Protection
	Complete this section if you answered "Yes" for Question:				
F. Vendors, con't	IA1	IA2	IA3	IA4	IA5
6. Which vendor does the institution currently use? 1 = Allied Solutions Group Inc. 2 = Fiserv Inc 3 = Impact Financial Services 4 = Jack Henry 5 = John M. Floyd & Associates 6 = MEA Financial Services 7 = Moeb's Services Inc. 8 = Pinnacle Financial Strategies 9 = Strunk & Associates L.P. 10 = Other (please list below)					
7. Does the vendor receive a percentage of income/fees generated by the product? 1 = Yes, 2 = No					
7.1 If yes, in 2006, what share of fees (in %, e.g. 15, 25) from the institution's overdraft protection program was the vendor paid?					
8. Does the vendor's compensation depend on a minimum level of usage by bank customers? 1 = Yes, 2 = No					
8.1 If yes, please describe.					
9. Does the vendor's compensation depend on features of the program such as its fee structure or how transactions are cleared? 1 = Yes, 2 = No					
9.1 If yes, please describe.					

**Comments**

The space below is provided for any additional comments the institution may desire to make regarding its overdraft protection policies, programs and practices.

# Appendix B

## Micro-Level Data Request

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### Customer/Transactions Level Data Request

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#### Public Burden Statement

It is estimated that completing this form, including reviewing the instructions and gathering the data needed, takes an average of 80 hours. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to the Paper Reduction Act Clearance Officer, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number. This form is OMB control number 3064-0155.

### Download Descriptions

The customer level data request consists of two separate downloads. They are:

#### Download I: Customer/Account List

A complete listing of all of the customers for the institution's transactions (e.g. checking, money market, etc.) and savings accounts, for 2006 or for the time period of the NSF transactions file (described below), whichever time period is more appropriate. The listing should identify customers using an anonymous customer ID number (field 2). This number should be unique to each individual holding an account or multiple accounts within the institution. The account ID (field 3) need only be unique for each of a particular customer's accounts. For example, Mr. John Doe may have three separate accounts within the institution. His unique ID could be "1" and his accounts could be numbered "1," "2," and "3." Ms. Jane Doe with two accounts within the institution could have a unique ID of "2" and her accounts numbered "1," and "2." No other customers of the institution, however, should have the ID's of "1" or "2."

#### Download II: NSF Transactions File Automated Promoted, Automated Non-Promoted, and Ad Hoc Overdraft Programs Only

A complete listing of NSF transactions paid or returned under the institution's automated promoted, automated nonpromoted, or ad hoc overdraft protection programs, for the customer/accounts listed in Download I, for calendar year 2006 or for the most recent complete 12 calendar month period, whichever is more readily available. ***Note that if an account had no NSF activity covered under any of these three programs during the relevant twelve month period, then the account will not appear in the Download II NSF transactions file, even though it would be included in the "customer/account" Download I data file.*** Each NSF item should appear as a unique record in the transactions file. The NSF activity for a specific customer and account will be linked to the Download I "customer/account" file using the anonymous customer ID number and the account ID number.



## Download Instructions

### 1. File Naming Conventions

**Download I:** cust\_cert\_surveydate

**Download II:** nsf\_cert\_survey date

Where “cust” and “nsf” are characters as is, “cert” is the institution’s FDIC certificate number, and “survey-date” is the date Survey II was completed by the institution (YYYYMMDD). The three terms should be separated by underscores “\_”. For example, an institution’s Customer List may be named “cust\_99999\_20060131.”

### 2. Variable Naming

For the two data download files, please include a header row with the variable names that **we provide** in the following “Fields Requested.”

### 3. File Format

Please provide the files in **comma-delimited “.csv”** format, with text fields surrounded by **quotes**.

### 4. Media Format

The files should be transferred to FDIC using one of two methods. The institution can use FDIC Connect to securely transmit files sizes of up to 100MB. For institutions with larger files or who do not have access to FDIC Connect, please provide the files on a CD or DVD media. If necessary due to large file sizes, the files may be zipped and saved on multiple CD’s. In this case, please use an arbitrary but natural break to separate the disks, for example, by months or by region of activity.

If the data are encrypted, please provide the name of the appropriate contact person and his/her contact telephone number and email address, in order for the FDIC to obtain the necessary password to decrypt the data.

Please **retain a back-up copy** of the data provided to the FDIC, in the event that the original data are lost in transit.

### 5. Shipping Directions

Please ship the data overnight to:

**The Federal Deposit Insurance Corporation**  
**3501 Fairfax Drive**  
**Arlington, VA 22226**  
**Attn: P. Cashman**  
**F6028, 202.898.6534**

Please mark the envelope “Media Enclosed - Do Not X-Ray.”

### 6. Survey Guidance

Please note that the FDIC will be conducting weekly conference calls to brief institutions on how to complete the Overdraft Protection Survey II downloads before they begin their data collection processes. This will be an opportunity to ask general questions and hear the questions that other institutions may have. Subsequent to the general conference call, institutions will have the opportunity to call in and receive one-on-one guidance for issues and questions that are particular to the institution.

## Program Definitions

### (1) **Linked Transfer Accounts**

A contractual agreement between a bank and a customer, linking the customer's transactions account with other accounts within the bank, including savings and credit card accounts. In the event of an overdraft, the bank will fulfill the customer's obligations by transferring funds from the customer's other accounts that are linked to his transactions account.

### (2) **Overdraft Lines of Credit**

A contractual agreement between a bank and a customer that the bank is willing to lend up to a specified amount over a specified future period to cover overdrafted items. For the purposes of this Survey, these programs DO NOT include line of credit programs that do not specifically cover overdrafted items, for example, home equity lines of credit. The bank extends the line of credit after reviewing a customer using standard underwriting criteria; the line is considered a loan and requires standard Truth-in-Lending (Regulation Z) disclosures.

### (3) **Automated Promoted Overdraft Protection**

A program or policy where a bank generally honors a customer's overdrafted obligations, and customers **ARE informed of the existence** of the overdraft protection program. The program is uniformly offered to qualifying customers. Excluded are all overdraft programs where an APR is required. The program is **automated** in the sense that standardized procedures or a "matrix" is used to determine whether the NSF item qualifies for the overdraft protection. **Automated** programs are typically, but not necessarily, computerized.

### (4) **Automated Non-Promoted Overdraft Protection**

A program or policy where a bank generally honors a customer's overdrafted obligations; however, customers **are NOT informed of the existence** of the overdraft protection program. The program is **automated** in the sense that standardized procedures or a "matrix" is used to determine whether the NSF item qualifies for the overdraft protection. **Automated** programs are typically, but not necessarily, computerized.

### (5) **Non-Automated Non-Promoted Ad Hoc Overdraft Protection**

These include truly incidental and discretionary accommodations to customers by banks to honor overdrafted items. These decisions are made independent of or override the programs described in (1) through (4).

Table IA

Download I: Customer/Account List			
Fields Requested			
Section	Field Number	Field Name	Field Description
Institution & Customer Identifiers	1	cert	<b>FDIC Certificate Number</b> This value should be the same for every record for the institution.
	2	cust_id	<b>Unique Anonymous Customer ID</b> A customer ID, unique to each customer within the institution. Other individuals on the Customer List should NOT have the same value as another customer. Depending on the number of accounts the customer has within the institution, there may be multiple records for the same cust_id.
	3	acct_id	<b>Account ID</b> An account ID, unique to each account held by customer. The numbering convention may repeat across customers.
	4	cust_cit	<b>Customer City</b> City name of the customer's address. Do not include any commas; however city names with more than one term may be spaced. (For example: Salt Lake City)
	5	cust_st	<b>Customer State</b> 2 letter state postal abbreviation of the customer's address. (For example, for California: CA)
	6	cust_zip	<b>Customer 9 Digit Zip Code (XXXXXXXX)</b> 9 digit postal zip code of the customer's address, with 5 digit prefix and 4 digit suffix. (For example: 112381234). This variable MUST be provided in the complete 9-digit format.
	7	cust_yob	<b>Year of Birth (YYYY)</b> 4 digit year of customer's birth. (For example: 1965) Note: In cases of accounts with multiple account holders, only one instance of the account should be reported, and the birth year of only one account holder reported. In these instances, list the year of birth of the primary or first listed account holder. Typically, this is the individual for which the institution has a Social Security or Tax ID number.
Account Profile	8	acct_dat	<b>Date Account Opened</b> (YYYYMMDD) 8 digit date of when the customer's account was opened. Begin with year, then month, then day, including any leading zeroes. (For example, January 1, 1990 would be: 19900101)
	9	acct_typ	<b>Account Type Choose</b> Choose one of the following 1 digit codes to indicate the type of deposit account: 1 = Checking 2 = Money Market 3 = NOW 4 = Savings 5 = Other
	10	acct_cat	<b>Account Category</b> Choose one of the following 1 digit codes to indicate to which category of customer the account holder belongs: 1 = Consumer 2 = Commercial, Farm, Non-Profit (e.g. churches and schools), or Local, City, State, or Federal Government 3 = Internal (e.g. official checks)

Table IA, con't

Download I: Customer/Account List			
Fields Requested			
Section	Field Number	Field Name	Field Description
Account Profile, con't	11	acct_spc	<p align="center"><b>Special Consumer Accounts</b></p> <p>Choose one of the following 1 digit codes to indicate whether the consumer account was open under a special program that the institution offers:</p> <ul style="list-style-type: none"> <li>1 = Special Account for Military</li> <li>2 = Special Account for Seniors</li> <li>3 = Special Account for Students</li> <li>4 = Other 1 (Self Describe)</li> <li>5 = Other 2 (Self Describe)</li> <li>6 = Other 3 (Self Describe)</li> <li>7 = Not a Special Account</li> </ul> <p>Note 1: This indicator is solely for the account, <b>not</b> the individual customer. For example, if a senior opens a regular savings account, then the correct code would be "7." However, if she opens a savings account which is eligible only to seniors, then the correct code is "2." If an individual in the military has an account which is not a special account offered only to the military, then the account would also be coded "7" rather than a "1."</p> <p>Note 2: If the institution offers other "special" consumer accounts, please use Codes 4, 5, and 6 and provide a separate listing of what accounts those codes represent.</p>
	12	acct_ss	<p align="center"><b>Social Security Benefits Recipient</b></p> <p>Is this account specially denoted as receiving Social Security benefits?</p> <ul style="list-style-type: none"> <li>1 = Yes</li> <li>2 = No</li> <li>3 = Cannot tell</li> </ul>
	13	acct_bal	<p align="center"><b>Account Average Balance</b></p> <p>For this specific account, the dollar amount of the customer's <b>annual</b> average balance in 2006. Do not include any commas or dollar signs. (For example, an average balance of \$5,613.42 should be entered as: 5613.42.)</p>

Table IA, con't

Download I: Customer/Account List			
Fields Requested			
Section	Field Number	Field Name	Field Description
Overdraft Coverage	14	acct_lnk	<p><b>Linked Transfer Accounts</b></p> <p>Choose one of the following 1 digit codes to indicate if the customer had this type of overdraft coverage for the particular account:</p> <p>1 = Yes 2 = No</p> <p>Note: An account may have more than one type of overdraft coverage.</p>
	15	acct_loc	<p><b>Lines of Credit</b></p> <p>Choose one of the following 1 digit codes to indicate if the customer had this type of overdraft coverage for the particular account:</p> <p>1 = Yes 2 = No</p> <p>Note: An account may have more than one type of overdraft coverage.</p>
	16	acct_pod	<p><b>Automated Promoted Overdraft Protection</b></p> <p>Choose one of the following 1 digit codes to indicate if the customer had this type of overdraft coverage for the particular account:</p> <p>1 = Yes 2 = No</p> <p>Note: An account may have more than one type of overdraft coverage.</p>
	17	acct_np	<p><b>Automated Non-Promoted Overdraft Protection</b></p> <p>Choose one of the following 1 digit codes to indicate if the customer had this type of overdraft coverage for the particular account:</p> <p>1 =Yes 2 =No</p> <p>Note: An account may have more than one type of overdraft coverage.</p>

Table IB

Download I: Customer/Account List																
Example																
Institution & Customer ID's			Customer Profile				Account Profile						Overdraft Coverage			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
cert	cust_id	acct_id	cust_cit	cust_st	cust_zip	cust_yob	acct_dat	acct_typ	acct_cat	acct_spc	acct_ss	acct_bal	acct_lnk	acct_loc	acct_pod	acct_np
99999	1	4	Washington	DC	200101234	1965	20060331	3	1	2	2	4520.00	2	2	2	2
99999	1	3	Washington	DC	200101234	1965	19951221	2	1	1	2	3000.00	2	2	2	2
99999	1	2	Washington	DC	200101234	1965	19900101	1	1	1	2	2561.27	1	1	1	2
99999	1	1	Washington	DC	200101234	1965	19900101	4	1	1	2	271.22	1	2	2	2
99999	2	2	Indio	CA	123455678	1970	19951201	1	2	1	2	1081.31	1	1	1	2
99999	2	1	Indio	CA	123455678	1970	19951201	4	2	1	2	352.37	2	2	2	2

Table IIA

<b>Download II: NSF Transactions File</b> <b>Automated <u>Promoted</u>, Automated <u>Non-Promoted</u>, and <u>Ad Hoc</u> Overdraft Programs Only</b> <b>Fields Requested</b>			
Section	Field Number	Field Name	Field Description
Institution & Customer Identifiers	1	cert	<b>FDIC Certificate Number</b> This value should be the same for every record for the institution.
	2	cust_id	<b>Unique Anonymous Customer ID</b> A customer ID, unique to each customer within the institution.
	3	acct_id	<b>Account ID</b> An account ID, unique to each account held by customer. Depending on the customer's level of NSF activity, there may be multiple records for the same cust_id/acct_id combination.
Overdraft Activity	4	nsf_date	<b>Date of NSF Item (YYYYMMDD)</b> 8 digit date of the NSF item. Begin with year, then month, then day, including any leading zeroes. (For example, January 1, 2005 would be: 20050101)
	5	tran_typ	<b>Transaction Type</b> If electronically identifiable, choose one of the following 1 digit codes to indicate for what type of transaction the NSF activity was related: 1 = Paper checks/Equivalents 2 = ATM withdrawals 3 = Debit cards/POS 4 = Electronic billpay 5 = Automated debit 6 = ACH 7 = Other
	6	nsf_dec	<b>NSF Decision</b> Choose one of the following 1 digit codes to indicate whether the NSF item was paid or returned by the institution: 1 = Paid NSF 2 = Returned NSF
	7	paid_und	<b>Paid Under This Overdraft Program</b> Choose one of the following 1 digit codes to indicate under what overdraft program the NSF item was paid: 1 = Automated Promoted or Automated Non-Promoted Overdraft 2 = Ad Hoc and/or Paid Outside of Program Parameters 3 = NSF Item Not Paid Note: If the answer for Field Number 6 is "2," the NSF item was returned, then the answer to Field Number 7 should always be "3," the NSF item was not paid.
	8	nsf_fee	<b>Applicable Fee for NSF Item</b> The dollar amount of the fee applicable for the NSF item. This is the dollar amount of the fee that <b>should</b> apply to this NSF. Do not include any commas or dollar signs. (For example, a fee of \$20.50 should be entered as: 20.50)
	9	nsf_waiv	<b>NSF Fee Waivers</b> Choose one of the following 1 digit codes to indicate whether any fee was waived or refunded in relation to the NSF item: 1 = Fee Waived or Refunded 2 = Fee Not Waived nor Refunded
	10	nsf_amt	<b>\$ Amount of NSF Item</b> The dollar amount of the NSF item. Do not include any commas or dollar signs. (For example, an NSF item of \$213.12 should be entered as: 213.12)

Table IIB

<b>Download II: NSF Transactions File</b> <b>Automated <u>Promoted</u>, Automated <u>Non-Promoted</u>, and <u>Ad Hoc</u> Overdraft Programs</b> <b>Example</b>									
Institution & Customer ID's			Overdraft Activity						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
cert	cust_id	acct_id	nsf_date	tran_typ	nsf_dec	paid_und	nsf_fee	nsf_waiv	nsf_amt
99999	1	2	20050101	1	1	1	20.00	2	20.36
99999	1	2	20050102	2	1	1	20.00	2	100.00
99999	1	2	20050103	1	1	2	20.00	2	151.20
99999	1	2	20050104	5	2	3	20.00	1	50.00
99999	2	1	20051201	3	1	1	20.00	2	200.00
99999	2	2	20051201	1	2	3	20.00	2	1000.00