
How Banks Sell Overdraft

**Results of Overdraft Mystery Shopping
in Four Key States**

July 2014

California Reinvestment Coalition

New Economy Project

Reinvestment Partners

Woodstock Institute

Copyright © 2014

California Reinvestment Coalition; New Economy Project;
Reinvestment Partners; Woodstock Institute
All Rights Reserved.

About the organizations:



California Reinvestment Coalition advocates for fair and equal access to banking and other financial services for California's low-income communities and communities of color. CRC has a membership of close to 300 nonprofit organizations and public agencies across the state of California. www.calreinvest.org



New Economy Project (formerly NEDAP) works with community groups to fight for economic justice, and to build a "new economy" based on principles of cooperation, democracy, equity, social and racial justice, and ecological sustainability. www.neweconomynyc.org



Reinvestment Partners advocates for economic justice and opportunity through client services, litigation, community development, research, and advocacy. www.reinvestmentpartners.org



Woodstock Institute is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. www.woodstockinst.org

Executive Summary

Banks reap billions of dollars in revenue each year from abusive overdraft products. Overdraft products are extremely high-cost, short term loans that banks make to customers who have insufficient funds in their checking accounts to cover a transaction. The exorbitant fees, often \$35 for even a very small overdraft, and short repayment terms make the actual cost of credit astronomical, and because overdraft loans are not regulated as credit, they lack many consumer protections. Overdraft, sometimes referred to as “courtesy overdraft,” can be a debt trap that causes great financial hardship for lower income customers, and pushes many out of the banking system.

Banks derive the vast majority of overdraft revenue from a relatively small percentage of struggling customers who repeatedly overdraft, and who are disproportionately lower income or people of color. *See* Pew Charitable Trusts, “Overdrawn: Persistent Confusion and Concern about Bank Overdraft Practices,” June 2014; Federal Deposit Insurance Corporation, “Checking Account Activity, Account Costs, and Account Closure among Households in Low- and Moderate-Income Neighborhoods,” 2013. In its recent study, Pew found that nonwhites are 83 percent more likely to pay an overdraft fee than whites.

Overdraft products are the biggest fee generator for banks. As reported in the *Wall Street Journal*, a survey by Moebs Services, Inc. found that financial institutions generated \$31.9 billion in overdraft revenue in 2013, while the median fee per overdraft has gone up since 2009. “Overdraft Fees at Banks Hit a High, Despite Curbs,” April 1, 2014. The significant revenue share that banks derive from expensive overdraft fees gives banks an incentive to aggressively market overdraft to customers and to reward employees for successfully pushing overdraft products.

In response to broad concerns about the abusive nature of overdraft products, the Federal Reserve Board enacted certain regulatory changes in 2009, including requiring that bank customers must “opt in” to bank overdraft products that may be triggered by ATM withdrawals or debit card purchases.

Despite the Federal Reserve’s 2009 rule changes, many bank customers are reportedly opting in to expensive courtesy overdraft coverage without their knowledge or understanding. The 2014 Pew report, for example, found that 52 percent of survey respondents who were charged overdraft fees were unaware that they had opted into overdraft coverage, and 68 percent of respondents stated that they would not knowingly opt in to overdraft coverage and would rather have a transaction declined than incur a \$35 fee. The Consumer Financial Protection Bureau (CFPB) found a large variation

Overdraft products can be a debt trap that causes great financial hardship for lower income customers, and pushes many out of the banking system.

Despite the Federal Reserve's 2009 rule changes, many bank customers are reportedly opting in to expensive overdraft coverage without their knowledge or understanding.

among banks in the rate in which customers opt in to overdraft for ATM and debit card transactions, ranging from single-digit percentages to more than 40 percent. CFPB, “Study of Overdraft Programs,” June 2013.

There are therefore serious questions as to whether certain banks are aggressively marketing opt-in overdraft to generate fees; whether banks are giving potential customers accurate information about the risks of overdraft coverage; and whether bank employees are properly trained or improperly incentivized to sell overdraft coverage to customers. Given these concerns, our four groups – California Reinvestment Coalition, New Economy Project, Reinvestment Partners, and Woodstock Institute – undertook this mystery shopping project to investigate how the largest banks in four cities provide information to customers about the cost and risk of overdraft coverage.

For purposes of this investigation and report, we focused on how banks sell their overdraft products – including “opt-in” overdraft for ATM withdrawals and debit card purchases, and other transactions for which a bank charges a fee to allow payment from a checking account without the necessary funds already on deposit. We did not examine “non-sufficient funds” (NSF) fees on bounced checks, electronic transactions or other instances when a bank denies payment on a transaction when there are insufficient funds, and then charges the account holder a fee.

Mystery shoppers’ conversations with bank representatives reveal persistent misinformation about overdraft – particularly the requirement that customers opt in to the product. Although the report is based on conversations with individual bank representatives, it is clear that, given the pervasiveness of the problem, banks themselves must be held responsible.

Methodology

The project investigated whether large banks provide accurate and full information on overdraft products and services (“overdraft”); whether the information varied based on a person’s race, ethnicity, or gender, or based on neighborhood; and whether the information was provided without undue pressure or steering to costly products.

The groups conducted 64 mystery shopping visits at 39 bank branches in Chicago, Durham, New York City, and Oakland. The four largest banks by deposit size in each city or state (California) were selected, including Bank of America, BB&T, BMO Harris, Capital One, Citibank,¹ JPMorgan Chase,

¹ Citibank does not authorize overdrafts on ATM or debit point of sale transactions, unlike the other banks that the mystery shoppers visited.

SunTrust, Union Bank, and Wells Fargo. (Some banks received shopper visits in more than one city.) Working in pairs, mystery shoppers visited branches of each of the four largest banks in each city four times — making two visits to branches in predominately white neighborhoods, and two visits to branches in predominately non-white neighborhoods. Mystery shoppers conducted visits according to a common protocol and script. The mystery shoppers told bank branch staff that they were comparison-shopping among financial institutions for a checking account and were not prepared to open a checking account at the time of the shopping visit. (See Appendix for training material.)

Key Findings

Our mystery shopping yielded the following key findings:

- **In all four cities, banks' explanations of overdraft programs were highly inconsistent, and often unclear and incorrect.** Bank employees' explanations of the mechanics and costs of overdraft products and services differed from bank to bank, branch to branch, and employee to employee. The inconsistent and erroneous information bank personnel provided to mystery shoppers raises concerns about banks' training of staff and sales practices and suggest that banks may not be giving people the information they need to understand overdraft programs and make informed choices.
- **Bank employees often did not clearly or correctly explain how overdraft fees are triggered.** This was true at branches in both white and non-white neighborhoods, and for white and non-white mystery shoppers. The misinformation made it difficult or impossible for shoppers to understand the real costs of overdraft and make informed decisions.
- **Bank employees frequently did not explain the opt-in requirement for ATM and debit courtesy overdraft,** and led people to believe that it was an automatic account feature, raising serious concerns about whether the large banks are complying with federal regulations.
- **In two of the cities, bank branches visited in predominantly non-white neighborhoods had limited staff availability and long wait times, in stark contrast to well-staffed branches in predominantly white neighborhoods.** The poor service clearly affected the quality of assistance provided to customers in non-white neighborhoods.

In all four cities, banks' explanations of overdraft programs were highly inconsistent, and often unclear and incorrect.

...our four groups urge the CFPB and federal banking regulators to exercise their jurisdiction to...prohibit overdraft fees on all ATM withdrawals and debit card transactions.

Recommendations

Given the abusive nature of overdraft, and based on findings from our mystery shopping, our four groups urge the CFPB and federal banking regulators to exercise their jurisdiction to:

- Prohibit overdraft fees on all ATM withdrawals and debit card transactions. Instead, banks should simply decline transactions if there are insufficient funds in the account. Although prohibiting overdraft on ATM withdrawals and debit card transactions would not completely resolve the problem of high overdraft/NSF fees on other transaction types, it would end the worst type of fee-gouging on overdraft coverage. Several banks have already instituted this straightforward solution.
- Limit the fees a bank may charge for overdrafts to an amount commensurate with the actual cost of the transaction to the bank and proportional to the actual amount overdrawn.
- Prohibit banks from reordering transactions to maximize overdraft fees. Require banks to process ATM and debit transactions based on when they clear, and to process checks, ACH transfers, and recurring bill payments in order from smallest to highest to minimize the amount of overdrafts.

At a minimum, the CFPB and regulators should:

- Prohibit banks from providing financial incentives to branch or bank employees for the sale of overdraft products to customers.
- Create a uniform standard for how banks should verbally describe overdraft products and fees, including clear explanations of all potential overdraft fees (regardless of whether the consumer inquires specifically about overdraft) and ways that overdraft policies and fees differ by type of transaction and overdraft product or service.
- Require training of bank employees on the verbal explanation of overdraft standards and conduct periodic reviews of training and compliance.
- Limit the number of times a financial institution may impose overdraft charges to once a month, or a maximum of six charges in a 12-month period, whichever comes first.

California Reinvestment Coalition

The California Reinvestment Coalition (CRC) consists of 300 non-profit organizations that serve low income communities and communities of color throughout California. CRC members provide critical services including housing counseling, affordable housing development, entrepreneur support, small business financing, credit counseling and asset building programs. CRC advocates on their behalf and on behalf of the families and businesses they serve for access to affordable financial services that meet their needs, including loans, investment and retail services. CRC does this by working directly with banks to develop programs and by supporting legislative and regulatory reform of the financial services industry.

Method

CRC sent mystery shoppers to the four largest banks in California by deposits: Bank of America, Chase, Wells Fargo and Union Bank. Paired shoppers, one white and one Latino, visited two branches of each bank in Oakland, California, one in a predominantly white community and one in a community that is predominantly people of color. Mystery shoppers visited each bank four times, for a total of 16 visits. Five of the six shoppers have bachelor's degrees, and two also have a graduate degree.

Key findings

- 1. Representatives at all of the banks tested gave lengthy but confusing and often incomplete explanations of their bank's overdraft policies and options. A few bank representatives also gave wrong or misleading information.**

The most commonly reported complaint from shoppers was that the banks' explanations about overdraft options were confusing. One shopper put it most clearly: "There was too much information to keep up. I got lost on all the options available." A few bank representatives even admitted their own confusion.

The issues that banks had the most difficulty explaining clearly included:

- Which transaction types would be declined without a fee;
- Which declined transactions would incur a returned item fee or an overdraft fee if the account had insufficient funds;
- Under what conditions a customer could deposit money to avoid

Representatives at all of the banks tested gave lengthy but confusing and often incomplete explanations of their bank's overdraft policies and options.

None of the bank representatives informed mystery shoppers that debit card transactions were the most likely to incur overdraft fees if overdraft was activated.

- overdrafts caused by transactions made earlier in the day; and
- The bank’s discretion to pay transactions and charge fees regardless of the shopper’s choice of overdraft settings.

Several bank employees gave mystery shoppers incomplete or wrong information, for example, suggesting they could avoid overdraft fees by depositing money after the transaction. A Bank of America representative stated wrongly that the shopper could avoid an overdraft fee by making a deposit within 24 hours of the transaction. A Union Bank bank representative told a mystery shopper they could overdraw their account without an overdraft charge, as long as the shopper got to the bank on the same day, or by Monday if the transaction was done on a Saturday, to make a deposit that covered the amount. Representatives of Chase and Bank of America told mystery shoppers they could avoid overdraft fees by depositing money by the end of the business day, without any further clarification of when that bank’s business day ends.

Several banks indicated that their institution had discretion to allow overdrafts, also giving confusing and inaccurate information. They told mystery shoppers that a customer’s credit history, relationship with the bank, or overdraft history would determine the bank’s decision to allow an overdraft or charge a fee. One banker told a shopper that “even if all of your overdraft protection was maxed out,” the bank may still approve an overdraft transaction, and that banks used “matrices” and “an algorithm” to determine whether or not such a transaction would go through.

Two bank representatives presented overdraft using outright misleading and inaccurate terms such as “emergency cash” and “loan.” Overdraft, however, is not regulated as credit and is therefore not subject to truth in lending and other consumer protection laws. Two bank employees also used identifiably aggressive sales tactics. One Wells Fargo bank representative told a mystery shopper that overdraft was “like a source of emergency cash.” A Chase branch employee suggested to a shopper that overdraft was a way to make emergency purchases.

2. Most banks did not present any benefits to not opting into overdraft or that “opting out” was the default setting for new accounts.

Most bank representatives never mentioned to mystery shoppers that new accounts are automatically set not to allow transactions that would cause a negative balance and overdraft fee. Bank representatives informed shoppers in only five of the 16 visits that their banks would not charge a fee for debit card transactions that are declined to avoid overdrafts. None of the bank representatives informed mystery shoppers that debit card transactions were the most likely to incur overdraft fees if

overdraft was activated.

In most cases, bank representatives neglected to inform mystery shoppers that they could avoid overdrafts and related fees on their accounts by doing nothing, i.e., not agreeing to allow “courtesy overdraft” or establish a linked account. Most bank representatives presented shoppers, either exclusively or primarily, with the option of electing “courtesy overdraft” (with a fee in the \$35 range) or “overdraft protection” through transfer from linked accounts (with a fee in the \$10 range). One bank representative stated that the most common fees besides monthly service fees were overdraft fees, “but these could be avoided if I linked to savings and met minimum requirements.”

3. Most bankers suggested that overdraft protection would be the best way to avoid fees and overstated the cost of declined transactions.

All but one bank representative volunteered information about overdraft when shoppers expressed concern about account fees. However, most of the bank representatives presented overdraft protection as the best way to avoid fees, including insufficient funds fees for declined transactions and high courtesy overdraft fees. Most bank representatives also mentioned the option not to allow overdrafts at all, but this was usually done in passing; most of the conversations were dominated by the comparison between “courtesy overdraft” and “overdraft protection,” without comparable time discussing the cost of not opting in to overdraft at all.

In all but two visits, bank representatives discussed the high cost of fees to decline transactions generally and in cautionary terms, without specifying that debit card denials would not incur fees. (This even occurred at all Bank of America branches where the policy is to decline, without fees, all debit card point of sale transactions that could result in an overdraft.) The cost of non-sufficient funds (NSF) fees and “courtesy overdraft” fees were conflated and negatively compared to the cost of “overdraft protection” transfer fees.

As a result, mystery shoppers reported that the functional comparison was whether to choose “the \$33 fees” or “the \$10 fees,” in other words, to link to a savings account and pay the relatively lower transfer fee, or not to link and face a high fee for either NSF or “courtesy overdraft.” One shopper reported understanding that if he had insufficient funds, Wells Fargo would either deny or pay transactions, but that he would face a “\$35 fee no matter what,” so the best course would be to set up overdraft protection with a linked account and pay the relatively lower transfer fees.

In most cases, bank representatives neglected to inform mystery shoppers that they could avoid overdrafts and related fees on their accounts by doing nothing.

Bankers in branches serving white communities characterized overdrafts more negatively than bankers in branches serving communities of color.

4. Bank representatives in branches serving white communities characterized overdrafts more negatively than bankers in branches serving communities of color.

In all branches, bank representatives tended to pitch overdraft as a prudent practice, especially the overdraft protection option. However, mystery shoppers agreed during their debriefing that bank representatives in branches serving predominantly white communities tended to characterize overdrafts more negatively than bank representatives in branches serving communities of color. Mystery shoppers reported that in branches serving white communities, bank representatives compared linked transfer fees as more cost-effective than “courtesy overdraft” fees and NSF fees, should they occur. They reported that in branches serving communities of color, bank representatives presented overdraft and NSF fees as standard and a good practice to ensure bills would be paid, such that the best choice was to link to a savings account and pay the relatively lower cost.

Conclusions

- Bank representatives’ confused and complicated explanations about overdraft options and rules, combined with their commonly-offered advice that opting in to overdraft protection was the best way to avoid fees, undermine any clear written materials that the banks might provide. Mystery shoppers came away from their bank branch visits without a clear or accurate understanding of the costs or alleged benefits of overdraft options.
- The rules that determine whether a transaction is paid or declined, and whether a bank will charge a fee in either case, are especially confusing. Mystery shoppers did not understand which transactions the banks would always pay, regardless of the account’s overdraft setting, and which they would decline with a fee, depending on the overdraft setting. As a result, they could not estimate their likely costs based on the options presented. Shoppers would have benefited from a realistic comparison of how banks would treat the most common transaction types, if they were either to decline or opt-in to overdraft.

New Economy Project

New Economy Project works with community groups to fight for economic justice, and to build a “new economy” based on principles of cooperation, democracy, equity, social and racial justice, and ecological sustainability. Founded in 1995, the organization (formerly known as NEDAP) has led efforts in New York City to challenge discriminatory economic practices that harm communities of color and perpetuate inequality and poverty. New Economy Project has provided legal support, technical assistance, and training to hundreds of community groups, and coordinated numerous effective coalitions for change. The organization also provides extensive legal assistance and representation to low-income New Yorkers, on a wide range of financial justice matters.

Method

New Economy Project’s mystery shoppers visited the four largest retail banks in New York City, measured by deposits: Bank of America, Capital One, Chase, and Citibank. Eight mystery shoppers made 16 visits to bank branches, dividing their visits between branches in predominantly white and non-white neighborhoods.

The white neighborhoods where mystery shoppers visited banks were the Upper East Side, Manhattan; the Upper West Side and West Village, in Manhattan, and Carroll Gardens, Brooklyn. Predominantly non-white neighborhoods where mystery shoppers visited banks were East Harlem and Washington Heights, in Manhattan; Bedford-Stuyvesant and Flatbush, Brooklyn; and Melrose, Bronx.

The mystery shoppers included seven volunteer graduate students and one New Economy Project staff member. Six of the mystery shoppers were women and two were men. Four of the mystery shoppers present as white, and four as people of color.

Key Findings & Conclusions

1. Most bank employees presented overdraft as an automatic account feature, rather than as an optional product that, by law, the customer must opt into.

Bank representatives did not fully or accurately explain the optional nature of courtesy overdraft, leading mystery shoppers to believe that it was an automatic feature of the account. In fact, at 12 out of 16 (75 percent) of the bank branches visited by mystery shoppers, bank representatives initially presented courtesy overdraft as an automatic

Most bank employees presented overdraft as an automatic account feature, rather than as an optional product that, by law, the customer must opt into.

In no instance did a bank representative disclose that the mystery shopper could simply avoid overdraft by choosing not to opt in.

account feature. Using words such as “feature” and “benefit,” and describing the overdraft fee as the “cost of overdrawing the account,” these bank representatives initially depicted overdraft as part of the basic account terms, or as an automatic feature when responding to questions from mystery shoppers.

Bank representatives at nine of the 16 branches visited (56 percent) maintained that courtesy overdraft was an automatic account feature, even after mystery shoppers asked specific questions about how to avoid overdraft fees. When mystery shoppers asked how to avoid overdraft charges, six of the nine bank representatives suggested that they use budgeting, mobile banking apps, or account balance alert systems available through the bank. In no instance did a bank representative disclose that the mystery shopper could simply avoid overdraft by choosing not to opt in.

Bank representatives improperly described overdraft as an automatic account feature, at six of the eight Bank of America and Chase branches visited. Capital One employees did disclose in all four visits that overdraft was an opt-in feature, but only after multiple follow-up questions from mystery shoppers. In three of the visits to Capital One, bank representatives made only partial disclosures — telling shoppers they could “opt in or opt out,” and told one shopper that she could sign a document “waiving her right” to overdraft.

New York City mystery shoppers, who were briefed about different types of overdraft before conducting their visits and are all graduate- or post-graduate level students, were nonetheless confused by the information they received at the bank branches. That banks might have accurate written material on overdraft does not mitigate the confusing and inaccurate information that banks are providing. In fact, in more than one in four visits, mystery shoppers reported that they did not understand from their conversations with bank representatives how to avoid enrolling in overdraft. Only one third of shoppers understood from the bank representatives that “doing nothing” would be sufficient to opt out. Bank representatives’ misleading descriptions of overdraft were not merely confusing; they may also reveal practices that violate federal Regulation E, which governs overdraft opt-in requirements.

- 2. Bank branches in communities predominantly of color were generally understaffed compared to branches in predominantly white neighborhoods, leading to long wait times and shorter consultations with bank staff, and making it more difficult to get basic account information.**

Crowded banks and understaffing in neighborhoods of color posed a barrier to getting basic account information in five of the eight visits (63 percent). At two of the branches, mystery shoppers waited for more than an hour to speak with a bank representative, and only one bank representative was available actually to meet because of the long line of people waiting. At a third branch, the bank was so overwhelmed with customers that the mystery shopper was told they could meet only briefly with the staff member at the public welcome kiosk. None of the mystery shoppers who visited branches in predominantly white neighborhoods encountered inadequate staffing, long lines, or poor service.

These contrasting experiences raise important questions about the banks' allocation of resources between branches in white and non-white neighborhoods. Already there is a documented and glaring absence of bank branches in neighborhoods of color. That people receive inadequate service and misleading information from banks that do have branches in neighborhoods of color raises further concerns about the lack of access to sound and affordable banking services in these neighborhoods.

Bank branches in communities predominantly of color were generally understaffed compared to branches in predominantly white neighborhoods...

Banks' explanations of how overdraft programs work and their costs differed from bank to bank, branch to branch and among bank representatives.

Reinvestment Partners

Reinvestment Partners is a nonprofit advocacy agency whose mission is to advocate for economic justice and opportunity. The agency works at the local, regional and national levels. We conduct community economic development regionally and provide direct client services including legal assistance, housing counseling, job training and tax assistance. These activities inform our research and advocacy in the financial sector.

Method

Reinvestment Partners followed the collaborative investigation protocol to conduct mystery shopping at the four largest financial institutions by deposit size, in Durham, North Carolina: BB&T, Bank of America, Sun Trust Bank, and Wells Fargo Bank. For each bank, paired shoppers were sent to a branch in a predominately non-white and predominately white census tract. Shoppers were paired by race (black and white), and by gender (male/male, female/female). The shoppers had varying educational levels including a college freshman and professionals with college degrees. There were 16 individual tests of eight branches among these four banks.

Summary of Findings

Each mystery shopper reported on how the banks they visited explained overdraft programs, fees and rules. Here are the summary responses to four key questions:

1. Did the bank representative talk about different types of overdraft?
 - Eleven shoppers reported that the bank representative did not discuss different types of overdraft.
 - Five shoppers reported the bank did discuss different types of overdraft.
 - These inconsistencies occurred across banks and branches visited.
 - All of the shoppers reported that the banks did not detail the difference between ATM transactions and debit card transactions as it relates to how and whether overdraft protection applied.
2. Based on the banker's description of the bank's policies, does the bank automatically provide a certain type of overdraft service?
 - Three shoppers reported that bank representatives said overdraft came automatically with the account.
 - Five shoppers reported that the bank representative did not discuss whether the bank automatically provided a certain type of overdraft.
 - Eight shoppers reported that the bank said that one had to opt into and

- sign up for overdraft.
- These inconsistencies held across banks and branches.
3. If the customer does not want to have any form of overdraft, what would he or she have to do to make sure the account did not include it?
- Eight shoppers stated they did not know how to avoid overdraft products.
 - Six shoppers reported, “Nothing, accounts automatically come without any form of overdraft.”
 - Two shoppers reported that you had to opt out if you did not want overdraft.
4. Were written materials offered to you?
- In one mystery shopping visit, nothing was provided and the bank referred the mystery shopper to a website.
 - In four mystery shopping visits, bank representatives provided only a business card.
 - In three mystery shopping visits, banks provided brochures on accounts, but nothing on overdraft programs.
 - In eight instances, material on accounts and how overdraft programs and fees worked were provided.

Reinvestment Partners found that mystery shoppers received inconsistent information and marketing material across the board, regardless of race, gender or branch location.

Conclusions

- **Banks’ explanations of how overdraft programs work and their costs differed from bank to bank, branch to branch and among bank representatives.** Banks often were unclear or incorrect in their explanations of how overdraft programs work and fees are incurred.
- **Bank representatives did not affirmatively explain the opt-in requirement for overdraft programs, in half of the mystery shopping visits.** They did not consistently provide written material on overdraft program rules and costs.
- **Banks left mystery shoppers of all backgrounds confused about overdraft.** Mystery shoppers experienced differential treatment by race in three instances, reflecting a pattern of inconsistency among banks in how they explain products and provide written information.

Bank representatives did not affirmatively explain the opt-in requirement for overdraft programs, in half of the mystery shopping visits.

None of the four visited banks had staff who consistently explained overdraft products in the same way that overdraft was presented in the bank's written materials...

Woodstock Institute

Woodstock Institute is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. Woodstock Institute works locally (in the Chicago region and in Illinois) and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity. We conduct research on financial products and practices, promote effective state and federal policies, convene a coalition of community investment stakeholders working to improve access to credit, and help people use our work to understand the issues and develop and implement solutions.

Method

Woodstock Institute conducted mystery shopping at four of the largest banks by deposit size in Chicago: Bank of America, BMO Harris, Chase, and Citibank, during March and April of 2014 to examine how banks explain and market overdraft products and services associated with checking accounts. Following the multi-state partners' protocol and shopper script, an African American male shopper and a white female shopper visited one branch of each of the four banks located on the north side of the city in predominantly white areas including Lincoln Park and Logan Square, while an African American female shopper and a white male shopper visited one branch of each of the four banks located on either the south side or west side of the city in predominantly non-white areas including West Garfield Park, Near West Side, and Armour Square. The shoppers had various education levels, including one with some postsecondary education, two with college degrees, and one with a master's degree.

Key Findings

1. Banks provided consistent written material.

In general, the Chicago mystery shoppers received similar material from each bank branch, such as a brochure, booklet, or handout with information on the basic checking account features and costs. The written material included brief, but basic, disclosures on overdraft protection fees and the costs of optional overdraft for ATM and debit cards. One bank also provided all four shoppers with two brochures that contained more detail on overdraft services and costs. One bank gave one shopper a brochure focused solely on overdraft.

2. Verbal explanations varied by banker, by branch, and by bank.

Mystery shoppers inquired about the banks' basic checking accounts and associated costs and relied on the verbal explanations provided by bank staff to understand how overdraft services and products work. In half of the shopping visits (eight of 16), the bank representative did not address overdraft until shoppers specifically asked about check and debit transactions. In three of the visits, the bank representative did not discuss overdraft until the shopper directly asked about overdraft policies.

None of the four visited banks had staff who consistently explained overdraft products in the same way that overdraft was presented in the bank's written materials or in the same way as other bank representatives or other branches of the same bank. The explanations given varied from banker to banker, from branch to branch, and from bank to bank. At least one mystery shopper at each bank came away from the shopping visit with an understanding of the bank's overdraft products and services that differed from the understanding of the other shoppers at the same bank. For example:

- One bank told a mystery shopper that she would be automatically enrolled in overdraft protection if she had a checking account and another account at the bank, while the bank's written materials clearly state that the customer must enroll.
- One bank told two shoppers that the bank would always process checks even if there were insufficient funds, while the same bank told another shopper that the bank never processes checks when there are insufficient funds. Regarding overdraft fees, the bank told one shopper that the fee was \$10 on top of a \$35 overdraft fee for a total of \$45, while the same bank told the rest of the shoppers that overdraft protection cost \$10 total.
- One bank gave clear explanations to shoppers about not processing ATM or debit transactions when there are insufficient funds, but gave different and confusing explanations about overdraft protection to cover checks or reoccurring bill payments, telling one shopper that overdraft charges would apply even when the customer has overdraft protection.
- One bank told two shoppers that the bank never allows debit and ATM transactions to go through if it would result in an overdrawn account, while the same bank told two other shoppers that overdraft is allowed on ATM and debit transactions, but did not make it clear whether this was an opt-in or automatic feature or whether overdraft applied to all transactions or only to checks.

If this is happening frequently at the largest banks in multiple regions throughout the country, it is probably happening at many other banks of all sizes and in all regions.

In far too many cases, bank representatives' verbal explanations of overdraft products were inaccurate, inconsistent, and confusing.

3. There was a lack of clarity on opt-in for ATM/debit vs. automatic overdraft for checks/payments, and more clarity on costs.

The majority of shoppers understood from the bankers' explanations that there was a difference between ATM and debit card overdraft and overdraft protection that applies to checks and reoccurring payments. Nevertheless, shoppers did not clearly understand how these overdraft products differed, including whether a customer must opt-in for ATM/debit overdraft, whether overdraft fees applied to checks and recurring bill payments even if the customer does not opt in to ATM/debit overdraft, and whether enrollment in an overdraft protection program was automatic.

Shoppers did come away with a clear understanding of the different costs associated with overdraft services. They understood that the bank would charge the customer \$34 or \$35 for opt-in overdraft, while the bank would charge \$10 for an overdraft protection transfer fee. When discussing the line of credit overdraft protection option, bankers mentioned the potential for double-digit interest rate charges in only two of the 16 shopper visits. In almost all cases, bankers marketed overdraft protection fees as a much less expensive option than ATM/debit overdraft charges. In only one case did a banker tell the shopper that overdraft protection could also be expensive because of fees and that interest might be charged when using a line of credit.

4. There was a general lack of clarity on how to avoid overdraft fees.

The biggest push or "sell" by bank staff was their suggestion to mystery shoppers that customers should use the bank's online, phone, and mobile banking services to avoid overdraft fees by tracking their balances and using email or text alerts for when their balance dips below a certain number. It does not appear that bank staff told shoppers that they could avoid overdraft fees by "doing nothing" or by not opting in to ATM/debit overdraft.

Conclusions

- In far too many cases, bank representatives' verbal explanations of overdraft products were inaccurate, inconsistent, and confusing.
- If this is happening frequently at the largest banks in multiple regions throughout the country, it is probably happening at many other banks of all sizes and in all regions.

- Banks' provision of accurate written materials that comply with Regulation E requirements regarding overdraft is not sufficient to prevent consumer confusion when bankers also give inaccurate, inconsistent, and confusing verbal information.
- The level of confusion experienced among even well-educated mystery shoppers raises serious questions as to how less well-educated customers can comparison shop or make informed decisions about overdraft features associated with checking accounts.
- Improved regulatory oversight and bank staff training are needed to ensure that consumers can obtain accurate information and comparison shop for overdraft products and services associated with checking accounts.

APPENDIX: Goals, Methodology & Training

Goal

The goal of our mystery shopping was to investigate how banks present overdraft products and their cost to prospective new customers.² The main questions we posed in our mystery shopping were:

1. Do branch staff talk about overdraft with prospective customers?
2. What costs associated with overdraft do branch staff discuss with prospective customers?
3. How are overdraft services (in the form of courtesy overdraft or linked to a savings or line of credit) described? Do they lead customers to believe that overdraft coverage is:
 - an add-on service that must be opted into?
 - something that is by default built-in to the account or set up such that the customer would need to opt-out if they didn't want these services?
 - a service whose cost can be limited by opting into the "overdraft protection" service which links to a savings or other account and costs a "transfer fee"?
4. Is overdraft service (in any form) described as good for the customer, such as a desirable service the customer should want, or cautiously, as a potential cost to the customer that she could avoid?
5. What language is used to describe overdraft services? (i.e., "good for when you don't have money for emergencies", "avoids embarrassment", "good as a last resort")
6. Do branch staff in branches located in predominantly white communities talk about overdraft differently than staff in branches located in communities that predominantly of color?
7. Do branch staff talk about overdraft differently with prospective customers that are white than with prospective customers of color?

² As of 2010, debit cards were the most popular type of payment among consumers, even more than cash. Consumers made an average of 22.7 debit card and 21.1 cash payments in a typical month, accounting for about three-fifths of all consumer payments in a typical month (59.7 percent). The next most popular payment instruments were credit cards (13.3 payments) and checks (7.7 payments). All other payment instruments were used an average of 8.5 payments per month. The 2010 Survey of Consumer Payment Choice, Federal Reserve Bank of Boston, 2010 (Kevin Foster, Scott Schuh, and Hanbing Zhang).

Methodology

We conducted mystery shopping at the four banks with the most deposits in our respective state. For each bank, we selected two branches: one in a community of color and one in a predominantly white community. White neighborhoods were defined as census tracts in which the population was at least 80 percent white, and non-white neighborhoods were defined as census tracts in which the population was at least 80 percent non-white. Two shoppers visited each branch: one shopper who is read by others as a person of color, and one shopper read as a white person. The mystery shoppers were directed to visit branches on separate days. Each group conducted 16 shopping visits total.

For example, in California it looked like this:

BANK / BRANCH LOCATION	SHOPPER	SHOPPER
BANK OF AMERICA		
White Community	Shopper A (White)	Shopper B (of Color)
Community of Color	Shopper B (of Color)	Shopper A (White)
JPMORGAN CHASE		
White Community	Shopper A (White)	Shopper B (of Color)
Community of Color	Shopper B (of Color)	Shopper A (White)
WELLS FARGO		
White Community	Shopper A (White)	Shopper B (of Color)
Community of Color	Shopper B (of Color)	Shopper A (White)
UNION BANK		
White Community	Shopper A (White)	Shopper B (of Color)
Community of Color	Shopper B (of Color)	Shopper A (White)

General Guide to Overdraft Options

Each of the four organizations reviewed a general guide to overdraft with the mystery shoppers, and directed them to review each bank's specific policies. Terms covered included:

Default – Transactions that will result in a negative balance are rejected at the point of sale, meaning no fee but also no purchase. Bounced checks and recurring automatic payments could still cause a fee, usually around \$25 to \$35.

Opt in – overdraft coverage – The bank can choose to process transactions with insufficient funds, but charge an overdraft fee for the convenience,

meaning your debit card won't be declined at the register, but you will face a hefty fine, usually around \$25 to \$35.

Opt in – overdraft protection - The bank will automatically transfer funds over from a linked account (usually savings) to cover a transaction. A fee still applies, but it's usually much lower (about \$10-\$12 per instance)

Mystery Shopping Questions

Mystery shoppers were directed to:

1. Walk into the assigned branch and ask for help from branch staff (not a teller). Bring a small notepad or something you can take notes with. Say that you are looking for information about a new account. Say, "I'd like to sit down with someone who can tell me about your accounts."
2. Ask for and take the person's card. Tell the person you are looking for a basic checking account. Ask how much it will cost you. You can say, "I'm interested in a basic checking account. Which account do you recommend? What fees does it charge?"

Take notes of the different costs and fees they mention and take any written material they offer.

- If the person mentions "overdraft," find out how it works and how much it costs. For example, you can say, "How does that work? How much does it cost?"

Ask as many questions as you need to until you feel you understand how overdraft works at that bank. Move on to the next question only when you feel you have received all the information the banker has to give you.

- If you have talked about overdraft – skip to question #6. If you have not yet talked about overdraft, ask question #3.
3. Ask about unexpected fees that you might have to pay. For example, you can say, "I hate unexpected fees. I recently had to pay a fee I did not expect and because I did not enough money in the account and I went negative. Are there any other fees I should know about?"
- If the person mentions "overdraft," find out how it works and how much it costs. For example, you can say, "How does that work? How much does it cost?"

Ask as many questions as you need to until you feel you understand

how overdraft works at that bank. Move on to the next question only when you feel you have received all the information the banker has to give you.

- If you have talked about overdraft – skip to question #6. If you have not yet talked about overdraft, ask question #4.
4. Ask, “What will the bank do if my landlord tries to cash my rent check or I use my debit card and I don’t have enough in my account?” (Be sure to mention both things.)

The banker can talk about many things in response to this question so pay close attention to and takes notes about all the different things the bank can do in this situation.

- If the person mentions “overdraft,” find out how it works and how much it costs. For example, you can say, “How does that work? How much does it cost?”

Ask as many questions as you need to until you feel you understand how overdraft works at that bank. Move on to the next question only when you feel you have received all the information the banker has to give you.

- If you have talked about overdraft – skip to question #6. If you have not yet talked about overdraft, ask question #5.
5. If by now the person still has not mentioned overdraft, ask, “What is the bank’s overdraft policy?”

Ask as many questions as you need to until you feel you understand how overdraft works at that bank. Move on to the next question only when you feel you have received all the information the banker has to give you.

6. Ask how you can avoid paying fees as much as possible. For example, you can say, “How can I avoid any of these fees we’ve talked about?”
7. Thank the person for their help. Ask if there is anything else you should know before you leave.
8. If under pressure to open an account on the spot, indicate you are not ready to open an account today because you still want to check out other banks.

