March 31, 2022

The Honorable Ed Perlmutter
Chairman,
Subcommittee on Consumer Protection
and Financial Markets
Committee on Financial Services
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member,
Subcommittee on Consumer Protection
and Financial Markets
Committee on Financial Services
Washington, D.C. 20515

Dear Chairman Perlmutter and Ranking Member Luetkemeyer:

The Consumer Bankers Association (CBA) submits this letter for the record for the hearing entitled ***"The End of Overdraft Fees? Examining the Movement to Eliminate the Fees Costing Consumers Billions***." Overdraft is a safe and affordable form of immediate short-term liquidity used by millions of consumers to ensure they can continue to purchase necessary goods and services. As policymakers' review the overdraft market, it is essential that a better understanding of consumer demand for the product, its use as a form of emergency liquidity and the evolution of the overdraft product by financial institutions is warranted before making any changes that could have unintentional consequences on low to moderate-income Americans. CBA is the voice of the retail banking industry whose products and services provide access to credit to millions of consumers and small businesses. Our members operate in all 50 states, serve more than 150 million Americans, and collectively hold two-thirds of the country's total depository assets.

Banks work diligently to provide access to highly regulated, financial products to U.S. consumers. As such, CBA supports strong consumer protections for all financial services and products. We believe consumers should receive transparent information to make informed decisions about the financial services and products they choose to use.

Regulatory Acknowledgement

In December 2021, Acting Comptroller of the Currency Michael Hsu recognized overdraft services as one of the last viable sources of short-term liquidity for many U.S. consumers. In his remarks, Acting Comptroller Hsu commented on the state of the overdraft market in the United States, highlighting the important need to provide safe and affordable short-term liquidity options for consumers within the well-regulated, well-supervised banking system.[1] Amidst a renewed focus from policymakers on examining overdraft practices, Hsu's observations and recommendations illustrated how competition can empower and promote financial health for American families.

Recognizing the OCC's intent to protect financially vulnerable Americans, Hsu commented while some banks have eliminated overdraft from their financial suite, widespread adoption of this practice may yield unintended consequences:

> *"While this prevents harm, it can also limit financial capacity. For those living paycheck to paycheck, the flexibility offered by low- to no-cost overdrafts can empower them to pay their bills on time, avoid high-cost alternatives, and improve their credit profile. […] Limiting overdrafts may limit the financial capacity for those who need it most."*

Over the past five years, the overdraft market has rapidly evolved, with a significant number of large banks unveiling consumer-friendly products. While commending recent efforts from banks including PNC and Capital One, Hsu also commented on the impact competition is having on the broader market:

> *"Several banks decided, on their own, to reform their overdraft programs to make them more pro-consumer.[…] A race to the top for the most pro-consumer overdraft program could help make it less expensive to be poor and demonstrate to consumers that the banking system has their backs."*

Acting Comptroller Hsu remains correct in his remarks about the import benefit the overdraft product provides to consumers. CBA encourages other policymakers to undertake a comprehensive review of the overdraft market before promulgating changes that may have adverse effects for consumers.

Consumer Demand Leads to Change

Well informed and technically savvy consumers drove recent changes to overdraft. The popularity of the product is clear, but banks proactively listened to their customers feedback which drove innovation and lead to the updating of polices to increase affordability and access for to those who use overdraft to help meet their short-term liquidity demands.

Recent research by Curinos, a global data intelligence firm, has found that consumers make highly informed choices about when to use overdraft services. These decisions are based on real-time access to account information, clear disclosures and personal experience. Policymakers should keep in mind the existing regulatory framework for overdraft services

[1] Acting Comptroller Michael J. Hsu Remarks before the Consumer Federation of America's 34th Annual Financial Services Conference (December 8, 2021) - "Reforming Overdraft Programs to Empower and Promote Financial Health"- https://occ.treas.gov/news-issuances/speeches/2021/pub-speech-2021-129.pdf.

clearly acknowledges the role of informed individual choice and responsibility and is a voluntary action that is "opt-in." Since the 2010 amendment to Regulation E (Reg E), significant changes were added to the law pertaining to overdraft services to increase transparency and improve disclosures.

Over the past decade, a growing number of Americans leading banks have unveiled new innovations designed to avoid overdraft fees or have an overdraft product with features selected by the consumer *(Appendix A)*. Banks have proactively implemented new overdraft polices that benefited consumers use of the product that include: the elimination of overdraft fees, the elimination of account transfer fees to coverage overages, de minimums exceptions to cover small overages (avoiding an overpriced cup of coffee), grace periods for customers to make accounts whole before overdraft fees are ever assessed, access to small dollar loans (discussed more fully below), the elimination of extend overdraft fees, the elimination of returned items fees, and more. We believe these changes, in conjunction with clear disclosures, will add continued benefit to consumers that rely on overdraft services to cover short-term gaps in finances by continuing to provide a viable service that will come at minimal or no cost.

In many cases, these changes have also been accompanied by the introduction of affordable small loans, serving as an additional emergency safety net for the nearly 60% of Americans who are unable to cover an unexpected $400 bill with savings alone. Without access to a viable – bank offered short-term liquidity product – consumers will be left with little recourse but to use less-supervised, less-regulated, non-depository institutions to meet their needs—an undesirable position to place vulnerable consumers.

Curinos Data – Consumers Understand Benefit & Value Overdraft

In December of 2021, Curinos released its 'Competition Drives Overdraft Disruption' study *(Appendix B)*, which found the changes to bank overdraft programs is being driven more by competition than regulation.[2] Furthermore, the study shows the market rewards organizations that overhaul their existing overdraft programs or develop alternative products and institutions that are slow to act are losing customers to more aggressive competitors. As a result, financial institutions will continue to innovate and provide more low-cost liquidity options, with or without regulatory changes.

Backed by Curinos' proprietary research, the report methodology encompasses both consumers on the demand side and financial institutions on the supply side. On the demand side, Curinos leveraged an annual online consumer research study on checking account purchase behavior of approximately 12,000 respondents, and a targeted online consumer research study on overdraft behaviors. On the supply side, Curinos utilized a review of

[2] The study was initiated at the request of the CBA to fill a research gap in better understanding consumer sentiment, and CBA provided funding for the market research survey. Curinos independently designed, analyzed and documented the research results.

disclosures and offers from 38 financial institution websites, matching a 2015 Pew Study where possible, along with an anonymized survey of behavioral data from 14 financial institutions with $2 billion to $50 billion in total assets, representing $637 billion of total U.S. consumer deposits. Findings indicate consumer demand and intense competition within financial services are driving recent changes in overdraft policies and programs. Specifically, the study found:

- ***Consumers understand overdraft***: Consumers, especially overdraft users, continue to demonstrate a deep understanding of overdraft and available alternatives. More than 60% of overdrafts come from consumers who intend to use the service. More than 80% of overdraft transactions come from consumers who opted into debit card overdraft programs with the clear intention of using it to cover their payments. And two-thirds of consumers indicate that they will incur the cost to ensure no reduction in their access to service.
- ***Fewer people use overdraft***: The percentage of regular overdraft users (those with 10 or more transactions annually) fell by 40% to 4.9% of the population between 2010 and 2020.
- ***Consumers use overdraft for purchases of increased size***: Bank-led initiatives aimed to help consumers avoid an unintended fee have dramatically reduced the number of small purchases tied to overdraft. Since 2008, as a result of banks' innovations, overdraft fees, per U.S. adult, have declined by 77%, with, the average size of purchases triggering overdraft fees quadrupling from $50 to almost $200.
- ***Consumers want more short-term liquidity choices:*** Consumers seek convenient and relevant alternatives to overdraft. The emergence of alternatives in the market is driving consideration of new checking purchases.
- ***Overdraft fee revenue is down significantly***: U.S. overdraft revenue fell approximately 57% from $40 billion in 2008 to $17 billion in 2019.
- ***Challengers that adopt consumer-friendly policies, win market share***: New entrants, including fintechs and challenger banks, have created solutions to better manage or reduce the cost of overdraft. These entities have experienced a 40% increase in account acquisition since 2017. Financial institutions that haven't adopted overdraft innovation have experienced a nearly 30% reduction in consumer acquisition.

These finding underscore the fact that, outside of overdraft, few options remain for consumers to meet their liquidity needs within the well-regulated, well-supervised banking system. CBA has long warned, and bank regulators agree, that further restricting access to short-term liquidity options, such as overdraft services, would drive many families to predatory payday lenders and other expensive venues. Accordingly, we urge policymakers to focus on the consumer need, a complete market analysis, including the many changes already in place, and take into consideration all of the facts as they consider future action. It is our commitment to provide every consumer access to highly-regulated financial products and services.

Small-Dollar – An Essential Solution to Emergency Liquidity Deficits

Our recovering economy has left many consumers with less cushion for emergencies and reduced credit options, making access to reasonably priced small-dollar liquidity products even more important. While various entry-level credit products exist to meet a wide range of these needs, including traditional credit cards, personal loans, and other forms of credit, some consumers unfortunately cannot qualify. When debating policy affecting overdraft service, we urge policymakers to also consider a viable solution to help consumers who need short-term loan options – small-dollar lending.

Today, the need for accessible small-dollar, emergency credit for consumers has never been greater. According to the Federal Reserve, nearly half of all American adults say they cannot cover an unexpected expense of $400. Similarly, Bankrate states "63% of American adults say they are unable to pay an unexpected expense with their savings…" The Financial Health Network (formerly the Center for Financial Services Innovation) study found that more than a third of all households say they frequently or occasionally run out of money before the end of the month. [3]

Banks have been encouraged by policymakers to enter or remain in the small-dollar lending market. Banks worked with regulators to developed products carefully designed to ensure strong safeguards at reasonable prices. It was unfortunate that in 2017, the CFPB finalized a strict and prescriptive rule that restrained lenders' ability to enter into the small-dollar market. The rule's conditions created unreasonable hurdles for loans exceeding 36% requiring compliance costs so great that they negate a banks ability to make small-dollar loans at reasonable cost to consumers. The current leadership at the Bureau, looks to continue the 2017 rule that does not allow lenders to offer a short-term loan product. Consumer demand still exists for a short-term loan product, if allowed, highly regulated banks can make safe, affordable and easy to access small-dollar loans to consumer in need.

The CFPB Fee Inquiry

Heavily shaping the current fee debate, on January 26, 2022, the CFPB issued a Request for Information Regarding Fees Imposed by Providers of Consumer Financial Products or Services (RFI).[4] In the RFI, the CFPB seeks public feedback regarding fees, calling out overdraft fees directly, that are not subject to competitive pricing to assist the CFPB in exercising its authority to create fairer, more transparent, and competitive consumer financial markets.

CBA has several concerns we would like to bring to the attention of Congress. First, fee amounts and fee disclosures are subject to numerous federal and state laws. Second, fees are a

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[3] https://www.federalreserve.gov/publications/2021-economic-well-being-of-us-households-in-2020-dealing-with-unexpected-expenses.htm
[4] https://www.lenderlawwatch.com/wp-content/uploads/sites/9/2022/02/CFPB-Junk-Fees.pdf.

necessity that allows lenders to recoup operational costs, mitigate risk and can even act as a deterrence that may avoid repeated use by a customer. Finally, by characterizing various, disconnected charges as "junk fees," the Request serves to confuse consumers and undercut the purpose and utility of disclosures that regulators have worked so hard to police and implement.

The disclosure of fees is a highly prescriptive area of banking regulation. A myriad of federal and state laws govern fee disclosures and these statutes have been in place, in some instances, for over half a century. For example:

- The Truth in Lending Act (TILA), with its consumer-friendly, common-sense disclosures, has been federal law for more than 50 years.
- The Bureau oversees administration of Regulation Z, requiring disclosure of fees in account opening disclosures and in periodic statements for a number of different products, including open-end credit and closed-end credit. Regulation Z prescribes disclosures in readily-accessible, tabular format, highlighting the key terms that consumers focus on and providing, front and center, an easy-to-read snapshot of the key information associated with consumer credit products, including any fees associated with those products.
- The Electronic Funds Transfer Act, 15 U.S.C. §§ 1693, *et seq.*, and its implementing regulation, Regulation E, 12 C.F.R. Part 1005, administered by the Bureau, regulate disclosures of fees associated with ATM transactions, overdraft fees, NSF fees, periodic fees for prepaid accounts, and service or dormancy fees for gift cards, to name a few.
- Regulation DD, 12 C.F.R. Part 1030, governs fee disclosures in deposit accounts.

Financial institutions of all sizes carefully follow the rules that oversee fees and closely adhere to the numerous laws and regulations that govern the disclosure and imposition of various fees. The Bureau, since its inception, has played a central role in regulating how these fees are communicated and charged to consumers.

Federal and state agencies routinely monitor the adequacy of disclosures made to consumers about fees. The Bureau itself consistently engages in enforcement actions where it believes entities, including banks and financial institutions, have failed to disclose properly the fees associated with any consumer product. Indeed, not six months ago the Bureau engaged in such an enforcement action, finding that a financial services company "provided consumers with inaccurate or incomplete information about the fees it assessed."[5] The Bureau has been swift to act where it perceives problems, with the agency's most important and effective enforcement actions coming in directed, targeted efforts to address the practices of individual bad actors, rather than overbroad generalizations that sweep the entire industry into its crosshairs.

[5] *See In the Matter of JPay, LLC*, File No. 2021-CFPB-0006 (Oct. 19, 2021); https://www.consumerfinance.gov/about-us/newsroom/cfpb-penalizes-jpay-for-siphoning-taxpayer-funded-benefits-intended-to-help-people-re-enter-society-after-incarceration/.

Congress charged the Bureau with enforcing federal consumer law consistently, "in order to promote fair competition."[6] With individual financial institutions disclosing, fully and completely, what their fee practices entail, consumers can make informed choices. The Bureau itself provides information designed to help consumers understand overdraft fees and comparison shop between different financial institutions.[7] In the 2021 Curinos study[8] on overdraft fees, consumers surveyed see benefit in overdraft protection products, with nearly two-thirds of respondents indicating that triggering an overdraft payment was a conscious choice. Further, because of greater competition in the market, including competition from fintech institutions, the Curinos study showed the rate of overdraft fees per U.S. adult has declined by 77% since 2008 and overdraft transactions now cover larger, and potentially more important, transactions. Consumers are more likely to open new accounts or increase checking account activity with banks that offer overdraft innovations, with traditional banks and fintechs who offer consumer-friendly overdraft and overdraft alternatives experiencing a 40% improvement in account acquisition since 2017, compared to a decline of almost 30% for non-innovators. Market competition – a force that the Bureau has consistently referred to for its critical importance – has driven financial institutions to address gaps in their product suite and will continue to require banks to provide consumer-friendly overdraft products.

Whether you are a bank or a box store, businesses remain in operation by the net revenues they receive by offering a product or service and charging a fee for those products and services. Banks and financial institutions are not the only place where consumers encounter fees. The federal government regularly charges fees as a penalty or to mitigate costs. A late payment to the IRS triggers a fee, a parking ticket results in a fee, even state and local governments charge fees for a variety of services. As the Curinos study showed, many consumers are willing to incur a fee for the ability to use overdraft products when making purchase decisions. Bank fees are highly disclosed and in the case of overdraft there is an "opt in" requirement that the customer must choose. An increasing number of consumers look to disclosures to better understand how fees are applied and, in some cases, how to make fees work for them as a daily function of their financial decisions.

Conclusion

Banks provide access to safe, well regulated, high-quality consumer products and services, and have invested significant resources toward innovating overdraft services for consumers' long-term benefit. We encourage policymakers to work with all stakeholders to avoid any unnecessary restraint on bank products or services by carefully considering all of the options available that could prevent those most in need the ability to have their financial needs

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[6] 12 U.S.C. § 5511(b)(4).

[7] *See* "Comparing overdraft fees and policies across banks," by Rebecca Borné and Amy Zirkle (Feb. 10, 2022); https://www.consumerfinance.gov/about-us/blog/comparing-overdraft-fees-and-policies-across-banks/.

[8] *See* "Competition Drives Overdraft Disruption," 2021 Study. https://curinos.com/wp-content/uploads/2021/11/Curinos_2021-Competition-Drives-Overdraft-Disruption-web.pdf.

addressed. CBA appreciates the opportunity to be provide our thoughts to the Subcommittee and we remain eager to work with you on our shared commitment to improve financial opportunities for all Americans.

Sincerely,

Richard Hunt

President and CEO

Appendix A: Bank Overdraft Innovations
Appendix B: Curinos 2021 Overdraft study, “Competition Drives Overdraft Disruption”

Appendix A

Overdraft Innovations

FROM AMERICA'S LEADING BANKS

CBA CONSUMER BANKERS ASSOCIATION

Over the past year, a growing number of banks have unveiled new innovations designed to avoid overdraft fees or have an overdraft product with features selected by the consumer. Strategic technological investments have ensured banks are well-equipped to incorporate many of these features through digital platforms, further empowering consumers with the tools they desire to make informed financial decisions.

Ally Financial

Previously announced it would eliminate overdraft fees altogether, and unveiled CoverDraft, a new tool to provide customers additional short-term liquidity as an alternative to traditional overdraft.

Bank of America

Eliminated overdraft for consumer clients when using debit cards at the point of sale and ATM, eliminated overdraft protection transfer fees, eliminated courtesy overdraft and non-sufficient funds fees, and reduced all other overdraft fees to $10.

Capital One

Announced it will completely eliminate all overdraft fees and non-sufficient fund (NSF) fees for its consumer banking customers, while continuing to provide free overdraft protection.

JPMorgan Chase

Expanded the overdraft cushion to $50 and eliminated the Returned Item Fee. Beginning next year, the bank will provide an additional day to settle outstanding balances and will expand early direct deposit access to all customers.

Citi

Announced it will eliminate overdraft fees altogether, and will continue to cover overdraft protections through two services: Safety Check and Checking Plus.

Citizens Bank

Introduced Citizens Peace Of Mind, a new deposit feature added to all checking accounts in October aimed to provide customers with the ability to avoid the expense of unexpected overdraft fees.

Fifth Third Bank

Now offers low-cost deposit accounts, Early Pay direct deposit and the Momentum Banking account which affords extra time to make deposits, including advance funds up to $50 against future direct deposits.

Frost Bank

Customers are automatically enrolled in the overdraft grace feature, offering no-fee overdrafts up to $100.

Hancock Whitney Bank

Hancock Whitney announced plans to eliminate consumer non-sufficient funds fees as well as certain overdraft fees. Additionally increasing existing overdraft balance threshold before fees are assessed.

Huntington Bank

Huntington launched Standby Cash, a line of credit giving eligible customers immediate access up to $1,000 with no interest or fees if customers sign up for automatic payments.

M&T Bank

Announced plans to cut overdraft fees in half while also eliminating nonsufficient fund fees, and any charges customers pay when they transfer money from a linked deposit account to avoid an overdraft.

PNC

Introduced Low Cash Mode to help customers avoid overdraft fees through account transparency and control to manage low-cash moments or mis-timed payments.

Regions

Customers benefit from Regions Now Checking, providing a flat $5 monthly fee to avoid any overdraft or non-sufficient funds fees, and will eliminate overdraft protection transfer fees.

TD Bank

Introduced TD Essential Banking, a low-cost, no-overdraft-fee deposit account. TD will also eliminate fees for overdrafts of $50 or less and give customers 24 hours to fix the issue before incurring a fee.

Truist

Introduced new personal checking accounts with no overdraft fees and an innovative deposit-based line of credit. Discontinuing returned item, negative account balance, and overdraft protection transfer fees for all existing personal accounts.

U.S. Bank

Ending non-sufficient fund fees for checking accounts. Also increasing the amount an account can be overdrawn from $5 to $50 before a fee is charged. Customers will now have a full day to deposit funds to avoid overdraft fees.

Wells Fargo

Eliminated transfer fees for Overdraft Protection and NSF fees for checks and electronic transfers, added a grace period for overdraft repayment, and provided early access to direct deposits and access to a new short-term credit product.

Appendix B

December, 2021

curinos

Overdraft and Short-Term Liquidity

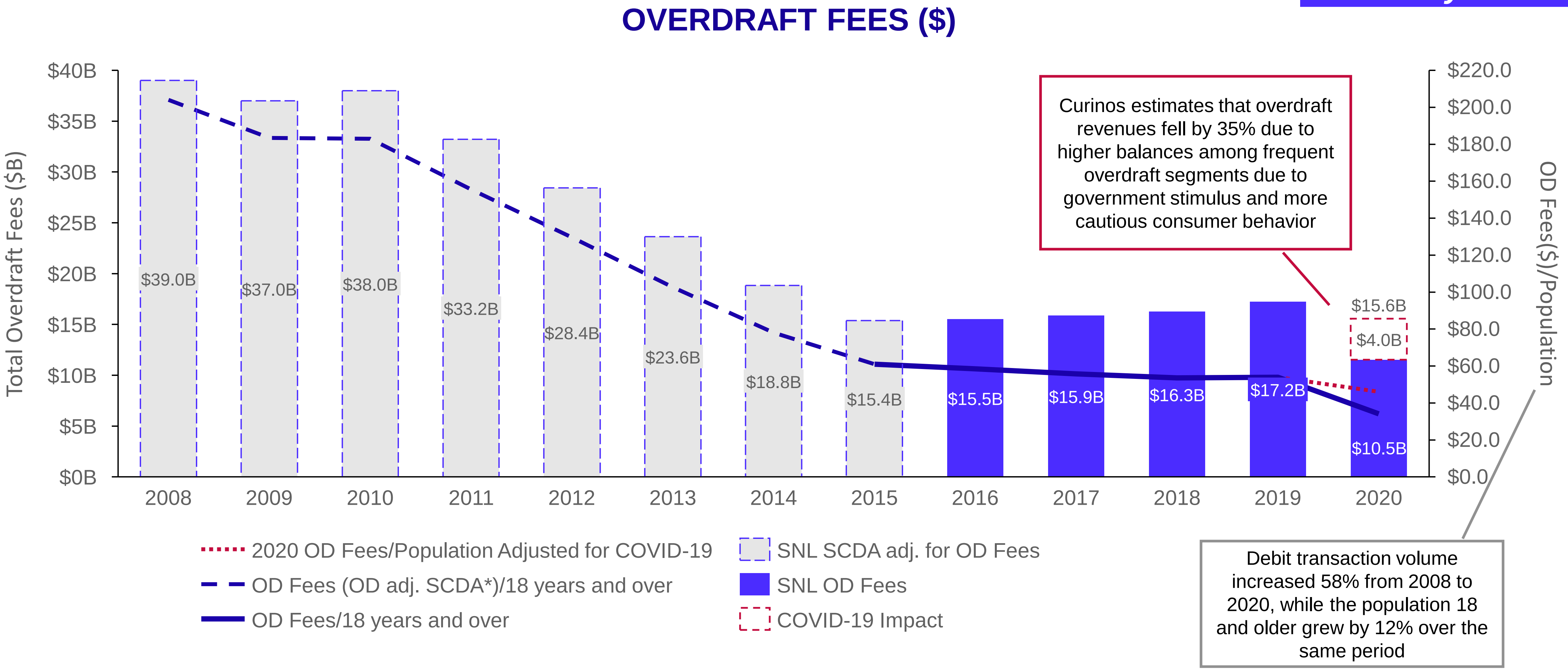
Discussion

Executive Summary

- CBA and its membership engaged Curinos to evaluate the state of the overdraft market in the US in anticipation of a regulatory shift related to the change in administrations.
- Curinos undertook a comprehensive study of the issue from the following perspectives:
    - Literature review of prior consumer advocacy, regulatory, and industry research as well as recent news articles
    - A competitive review of Financial Institution offers and disclosures
    - Consumer research including financial services shopping behaviors and overdraft behaviors
    - A blind survey of Financial Institutions to understand the change in consumer behaviors since 2011 when CFPB pulled the data for is Overdraft Data Points.
- Curinos found:
    - Overwhelmingly FI's have adopted regulator and consumer advocate proposed reforms driving OD income down by over 50% since the CFPB's 2011-12 datapoint data was collected.
    - Consumers representing an overwhelming majority of overdraft transactions understand the product and seek lower cost alternatives.
    - Competition is rapidly redefining the market and driving down margin.
- In this discussion we will review our findings and potential implications of our insights.

Since the GFC, we have observed a 77% reduction in overdraft fees per capita adjusting for population and transaction growth

Industry Context



Source: SNL Financial (2008 – 2020), Curinos analysis, US Census Bureau, 2019 US Federal Reserve Payments Study | Overdraft Fees 2015-2020 sourced from call reports of commercial banks, savings banks, and savings & loans: Service Charges on US Deposit Accounts - Overdraft | *Overdraft Fees 2008-2014 estimated with SCDA data from SNL, Curinos Analysis | OD/Population normalized by transaction volume

Much of the decline has come from policy reforms FIs have adopted since the GFC

From 2012-2015 regulators and consumer advocates identified several opportunities for banks to improve the customer centricity in overdraft	We have reviewed 38 banks that overlap with the Pew study, and found that practices have changed dramatically

KEY OPPORTUNITIES	DELTA	2014 vs 2021
Disclosure Clarity	+38% increase in adoption of Pew/Transparent Disclosure	63% / 87%
Improved Posting Order Practices	95% or more have adopted revenue agnostic or minimizing posting orders	50% / 95%
Not Offering Debit Card Overdraft	66% increase in banks giving consumers choice over debit card overdraft	24% / 8%
Removing Continuous Overdraft	-27% charging continuous OD fees	42% / 58%
Using Daily Item Caps	- One bank removed a daily item caps, but caps are generally lower than 2014	95% / 92%
Using De-Minimis Limits	+15% increase in banks with de-minimis limits rising to $7 on average	68% / 79%
		Pew 2014 / Curinos 2021
Reg E Opt-In	22% fewer customers opting into debit card overdraft	32% / 25%
		CFPB 2011 / Curinos 2021

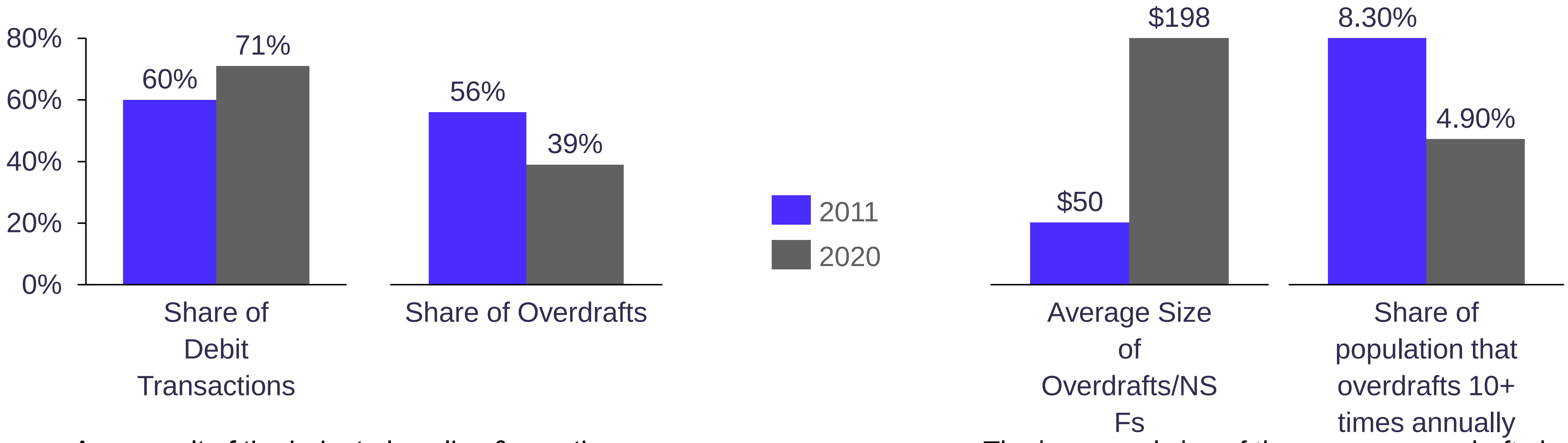
Sources: 1. Checks and Balances Report, Pew Charitable Trusts, 2013-2014; 2. Curinos Analysis of Disclosure Agreements 2021; 3. Understanding Consumer Choice: A Review of Consumer Overdraft Behaviors, Novantas, 2015. | *all banks surveyed by Pew in 2014. Among banks both surveyed by Pew in 2014 and Curinos in 2021, 100% capped the number of daily Overdrafts

These reforms are reflected in the mix and magnitude of overdraft instances and value

Industry Context

DEBIT CARD TRANSACTIONS

ALL OVERDRAFTS AND NSFS



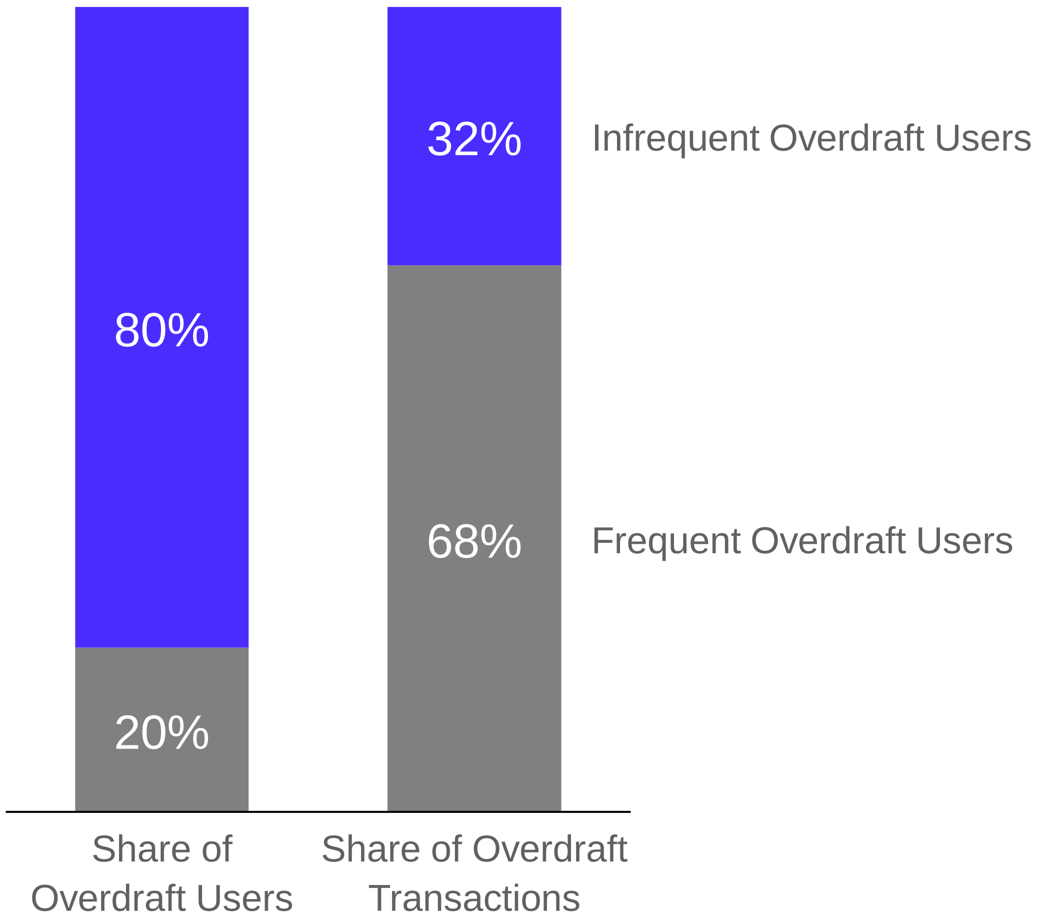
- As a result of the industry's policy & practice changes, debit card transactions are now much less likely to result in an overdraft
- In fact, debit cards no longer account for even the majority of overdrafts

- The increased size of the average overdraft shows the proverbial $35 cup of coffee has been mitigated
- Overdrafts are less than half as likely to occur on a given debit transaction now than in 2014

Share of Debit Transactions: Calculated based on Federal Reserve payments study – 2019 used as 2020 is not available
Share of Overdrafts, Size of Overdrafts, Share of debit transactions that are overdrafts: 2011 from CFPB's 2014 *Data Point: Checking Account Overdraft* and 2020 from Novantas 2021 study of CBA bank data

Not all overdraft users are the same

Of the 25% of consumers who use overdraft…



Infrequent Overdraft Users:

- Comprise the majority of overdraft users, but account for a minority of overdraft transactions
- Tend to overdraft by mistake more often
- Tend to be lower income

Frequent Overdraft Users:

- Represent a minority of users, but account for a majority of overdraft transactions
- Tend to view overdraft as a source of credit
- Distributed across the income spectrum

Source: Novantas 2021 Financial Institution Survey | Infrequent Overdraft User defined as 10 or fewer overdrafts within the prior 12 months. Frequent Overdraft User defined as more than 10 overdrafts within the prior 12 months. These definitions intentionally align to CFPB Data Point reports on overdraft.

While some frequent overdrafters are impacted by low cashflows, attitudes towards money define a greater portion

The four clusters below include **all Frequent Overdraft Users**, as well as Infrequent Overdraft Users and Non-Users who share their attitudes and demographics

Most Likely to be a Frequent Overdraft User — **Least** Likely to be a Frequent Overdraft User




	Lifestyle Users	Limited Options Users	Overconfident Managers	Risky Avoiders
% of group who are **Frequent Overdraft Users**	38%	16%	12%	7%
Financial Factors (Credit Score, Income, Savings)	High	Low	Above Average	Below Average

Defining Traits

Lifestyle Users
- Don't manage their day-to-day finances well and feel out of control
- Very important that others think they are financially successful
- Use overdraft as payment coverage

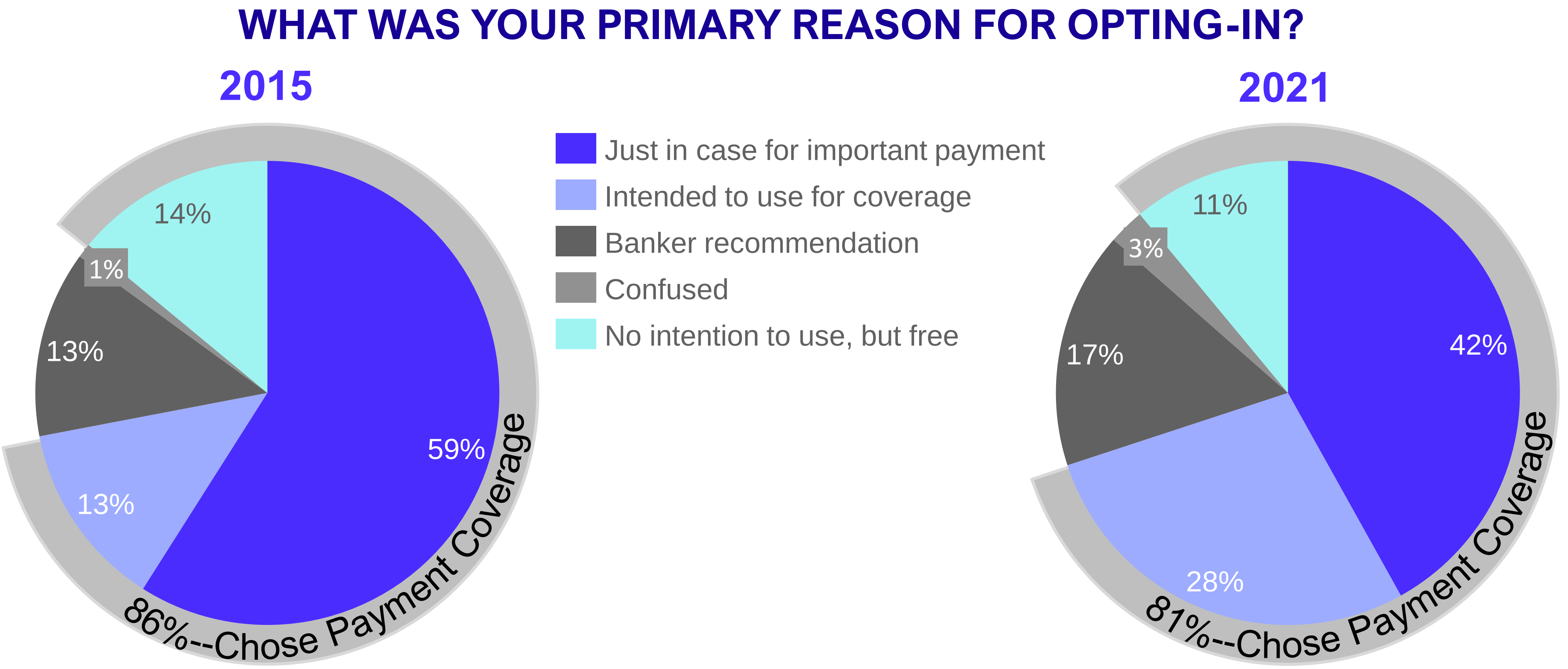
Limited Options Users
- Pessimistic about financial future and feel a lack of control
- Struggle with debt and paying their bills
- Opted-in for a safety net or to use as payment coverage

Overconfident Managers
- Confident in their ability to manage their day-to-day finances
- Confident about financial future and present
- Important that others think they are financially successful

Risky Avoiders
- Worried about unexpected expenses and view overdraft as a safety net
- In control and confident about managing their money
- What others think about their financial success is not important

Source: Curinos 2021 Overdraft Study | Total N = 2,059 | Frequent Overdraft Use defined as more than 10 overdrafts in the prior 12 months
Note: The precise size of these clusters within the population is not known, but "Risky Avoiders" is the largest cluster under any weighting scheme

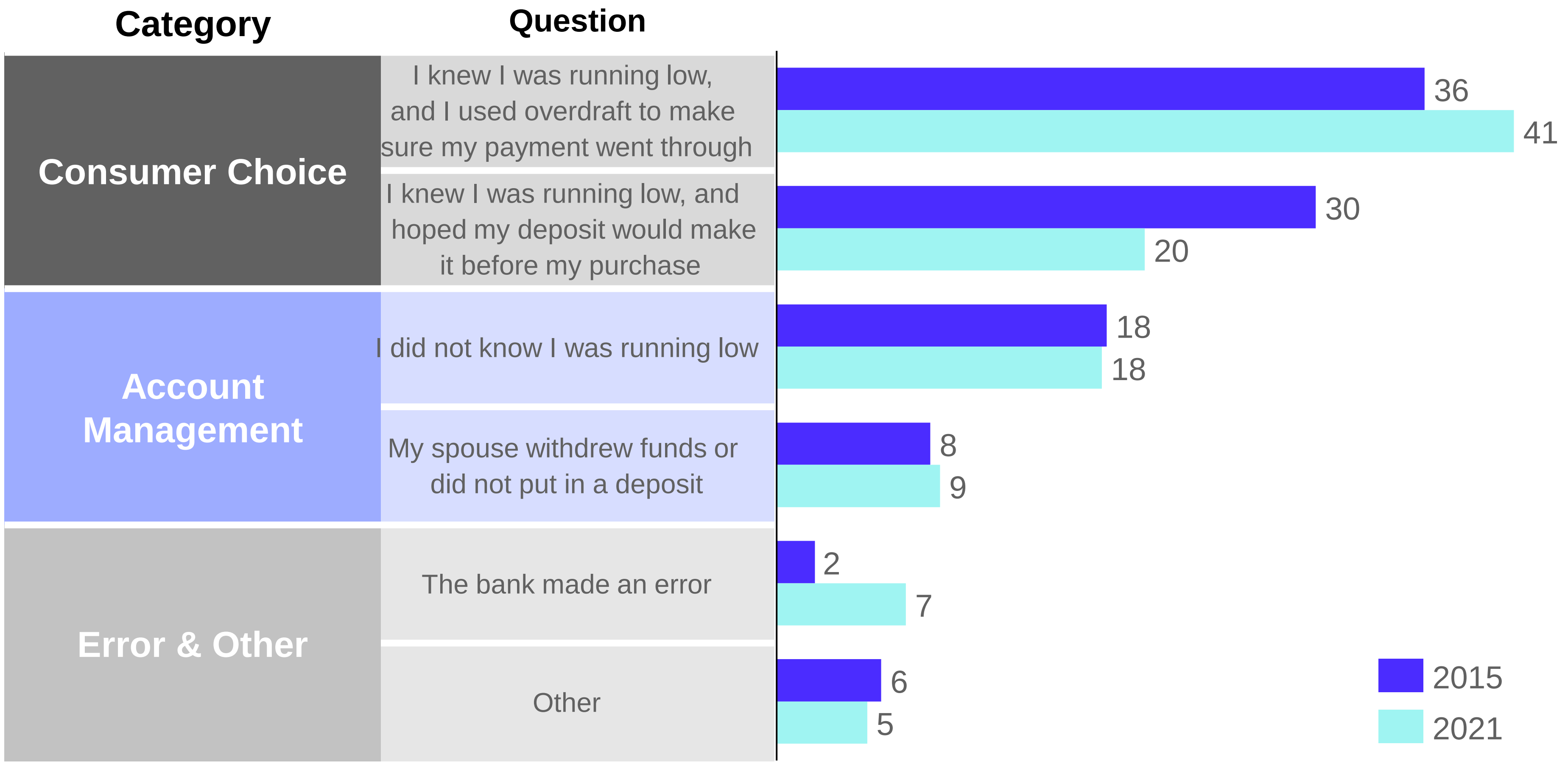
Which explains why when we talk to consumers, we find that overdraft is much more intentional, starting with debit card opt in…



Source:
Novantas 2021 Overdraft Study N = 690 recall opting in
Novantas 2021 Overdraft Study N = 1,027 recall opting in
Weighted Average on OD items (of Opt-In Respondents) from CFPB DataPoint

… and ending with intentionality when they use overdraft

Thinking back to your most recent overdraft experience, what was the cause?



Weighted average of OD Respondents based on 2014 CFPB Data Point. Source: Novantas 2021 Overdraft Study N = 2251 | Novantas 2015 Overdraft Study, N=1724

Despite intentionality, consumers want alternatives, and challengers are meeting their demands with an array of capabilities

AREAS OF PRODUCT INNOVATION

Safe Money Accounts – No Overdraft	No Charge Cure Periods	Free Overdraft	Early Access Direct Deposit	Immediate Check Deposit Availability	No Interest Deposit Advance	Small Dollar Lending	Financial Wellness Tools/Coaching
Initiated by regulators and consumer advocates, Safe Money Accounts do not charge or allow for overdraft from consumer-initiated transactions	Pioneered by Huntington, with offerings from PNC and Wells Fargo, provides notification of overdraft and up to 48 hours to fund the account to avoid the fee	Provides a known limit and no charge for negative balances	Providers are making ACH credits available based on the receipt rather than settlement of item when the FI is credited by the clearing bank up to 2 days early	Working with clearing partners, banks have enabled consumers to receive instant availability of check deposits, reducing the deposit clearing delay for a fee	Offered exclusively by Neobanks and Fintechs today, No Interest Deposit Advances provide consumers with liquidity to avoid overdraft fees charged by other banks.	Traditional players introduced small loans as an alternative to overdraft for small dollar liquidity. Neobanks have begun to integrate small loans into deposit accounts as automatic protection against overdraft fees	FinTech plays to help consumers change their spending habits through cognitive behavioral therapy or financial coaching to address the root cause of avoidable overspending

The market has rewarded overdraft innovators with larger acquisition share

OVERDRAFT UNDER PRESSURE

From 2012-2015 regulators and consumer advocates applied pressure to banks to reduce overdraft fees

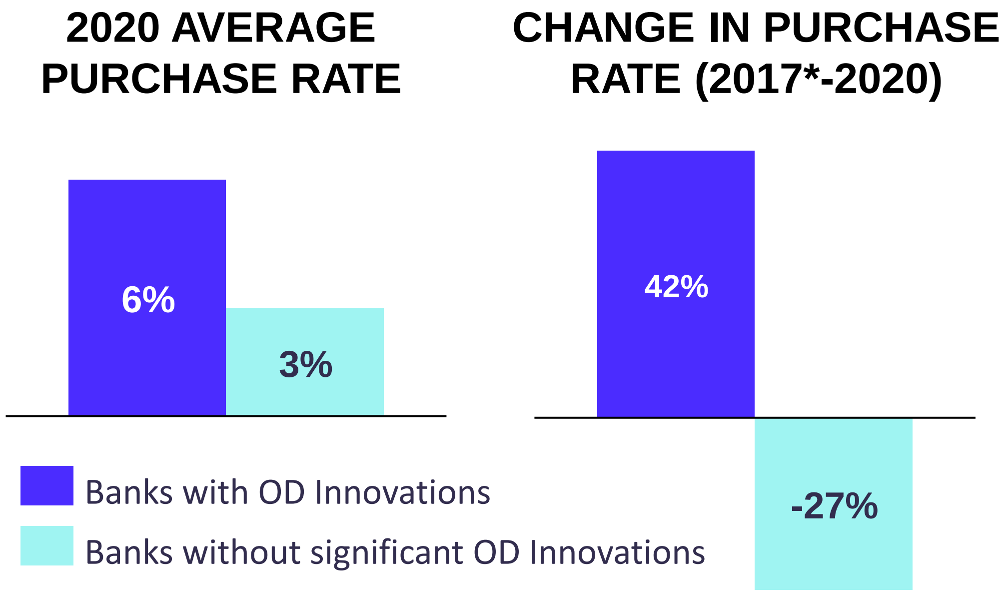
REDUCED COST AND FLEXIBILITY

In response, banks introduced checking accounts that promised no overdraft fees, by removing the ability for consumers to overdraft. Though well intentioned, uptake was low.

MEETING NEEDS AT LOWER COST

Led by neobanks, a new set of overdraft innovations has emerged. Banks are providing short term liquidity to consumers – at low or no cost.

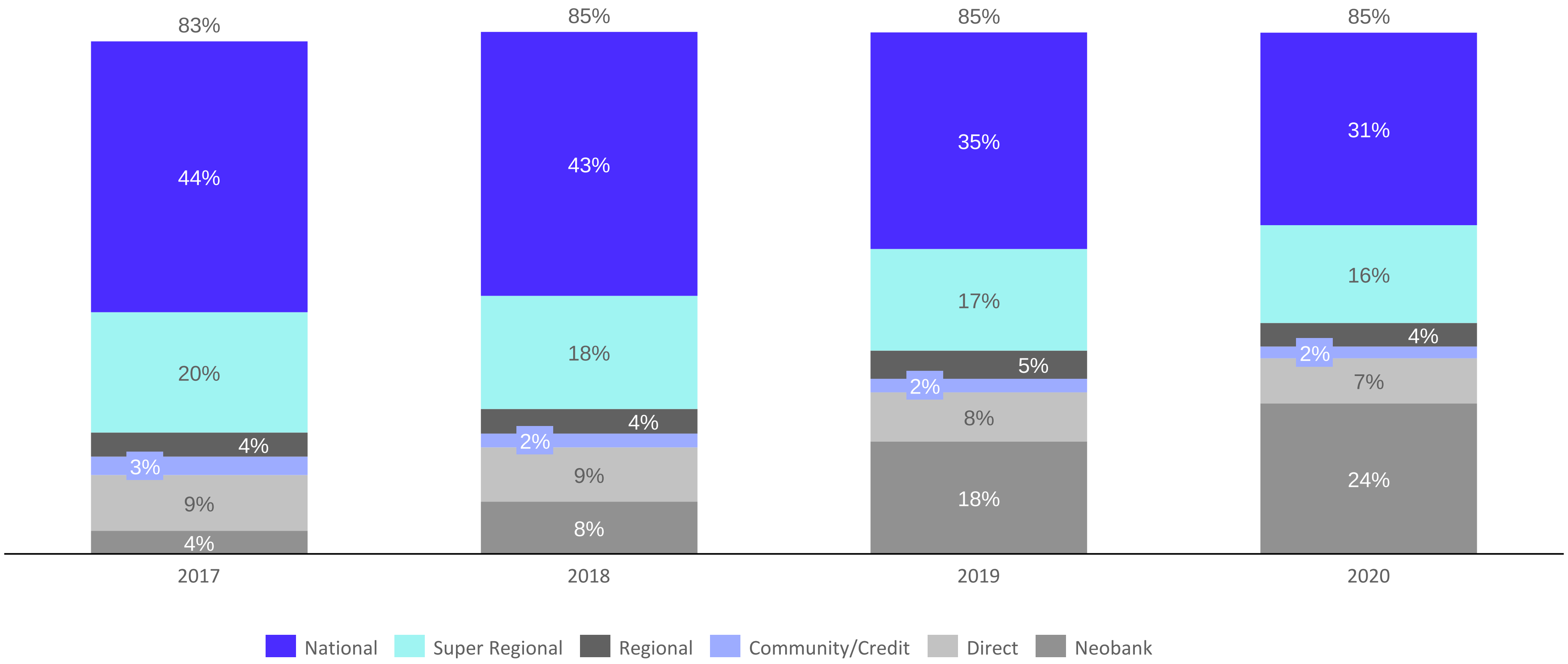
The **market has responded**, and consumers have rewarded overdraft innovators with their business. The Novantas Shopper Survey, an annual measure of consumer behavior and sentiment shows **higher purchase** rates for banks who have **met the needs of consumers** through innovative overdraft offerings and products



Source: Curinos/Novantas Customer Knowledge | US Shopper Surveys 2017-2020
Note: Bank scores are calculated across markets each bank is present in

The shift contributes to our observed shift in acquisition share of checking accounts

YEAR PRIMARY CHECKING ACCOUNT OPENED – PRIMARY BANK TYPE



Source: Curinos Customer Knowledge | 2020 Shopper Survey 2020 (N=10,038)

Summary Findings

Overdraft Revenue Is Down

- ***Gross overdraft fees are down 53%*** from 2011 to Present adjusting for COVID related transaction decline
- ***Per Capita overdraft fees from are down 70%*** adjusting for population and transaction volume growth in the same time period
- Instance rates of overdrafts have fallen from 1/100 transactions to 1/200 transactions in the same time period
- Average overdraft item size has grown from $50 to $198, reflecting changes in FI practices

Consumers Leverage Overdraft Mindfully in Most Instances

- 87% who indicate they have opted in, would do so again if educated on the practice and cost
- 81% of consumers who have opted did so with direct intent to leverage overdraft as payment coverage in deposit aligns
- Consumers representing 61% of overdrafts intended or knew it was likely they would incur an overdraft

Innovation Is Rampant

- Over 15 distinct FIs, ranging in size from the nations largest to regional banks and FinTechs, have brought unique innovations to market benefiting frequent and infrequent overdraft users:
    - Infrequent Overdraft Users: Cure Periods, De-Minimis Limit Expansion, Early Access to Direct Deposits and Checks
    - Frequent Overdraft Users: Free Overdraft, Small Dollar Lending and Financial Wellness tools

The Market Is Rewarding Innovators

- Banks with overdraft features are recognized as more distinctive than those without
- Banks with overdraft features have seen their consumer acquisition grow by ~40%, while those without have seen their acquisition share fall by ~30%