

## CFPB Unveils Prototypes of "Know Before You Owe" Overdraft Disclosure Designed to Make Costs and Risks Easier to Understand

New CFPB Study Shows Opted-In Frequent Overdrafters Typically Pay Almost \$450 More in Fees

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**WASHINGTON, D.C.** - The Consumer Financial Protection Bureau (CFPB) today unveiled new *Know Before You Owe* overdraft disclosure prototypes designed to improve the model form that banks and credit unions already provide to consumers weighing overdraft coverage. The Bureau is currently testing four prototypes that each have a simple, one-page design aimed at making the costs and risks of opting in to overdraft coverage easier to understand and evaluate. People who frequently attempt to overdraw their checking accounts typically pay almost \$450 more in fees if they opted in to debit card and ATM overdraft coverage, according to a new CFPB study published today. The study found that most of these frequent overdrafters are financially vulnerable, with lower daily balances and lower credit scores than people who do not overdraft as often.

"Our study shows that financially vulnerable consumers who opt in to overdraft risk incurring a rash of fees when using their debit card or an ATM," said CFPB Director Richard Cordray. "Our new *Know Before You Owe* overdraft disclosure prototypes are designed to help consumers better understand the consequences of the opt-in decision."

**Prototypes of the "Know Before You Owe" overdraft disclosure are available at:**  
[http://files.consumerfinance.gov/f/documents/201708\\_cfpb\\_A-9-form-ficus\\_overdraft-model-forms-prototypes.pdf](http://files.consumerfinance.gov/f/documents/201708_cfpb_A-9-form-ficus_overdraft-model-forms-prototypes.pdf)

An overdraft occurs when consumers lack the funds in their account to cover a transaction, but the bank or credit union pays anyway. Financial institutions may charge a fee for this service, typically around \$34 per transaction, and require that the account deficit be repaid with subsequent deposits. In 2010, federal regulations began requiring financial institutions to obtain a consumer's consent in advance before charging overdraft fees on most debit card transactions and ATM withdrawals. Consumers who do not opt in to overdraft coverage will generally have debit card purchases and ATM withdrawals declined with no charge if their account doesn't have enough funds to cover the transaction at the time they attempt it.

In addition to debit card transactions and ATM withdrawals, consumers can overdraw their account through checks, online bill payments, or direct debits from lenders or other billers. Banks and credit unions can charge overdraft fees on checks or electronic payments made through the Automated Clearing House system, and on debit card payments set up on a recurring basis. Charging these fees does not require the consumer to opt in, because those fees are not covered by the 2010 rule.

### Know Before You Owe: Overdraft

Because of the possibility of racking up fees, choosing whether to opt in to debit card and ATM overdraft services can be an important decision for consumers. Federal regulations already require financial institutions to give consumers certain overdraft information, and the regulations provide a model form. The four one-page prototype model forms unveiled today, like the Bureau's *Know Before You Owe* disclosures for mortgages and prepaid accounts, are designed to give consumers more clarity about a key financial decision. The CFPB developed the prototypes through interviews with consumers, and is now testing them more widely. The prototypes are aimed at making it easier to:

- **Understand the costs of opting in:** The updated designs are aimed at helping consumers to better understand opt-in costs by clearly laying out the size of the fees and when they can be charged. They are intended to clarify the institution's overdraft policies. They also explain that the opt-in decision applies only to one-time debit card and ATM transactions, and that it does not affect overdraft on checks and other electronic transactions.
- **Evaluate the risks and benefits of opting in:** The prototypes are intended to better assist consumers in making their own choice about whether they want overdraft services for most debit card transactions. They make clear that debit card and ATM overdraft is optional, and that consumers are not required to opt in.

These updated prototypes, if adopted, could also make it easier to provide customers with the disclosure form. The CFPB would make any new *Know Before You Owe* model overdraft form available on its website. Institutions would be able to plug their specific program information into the online form and then quickly download it for free. This new approach could make it seamless for banks and credit unions to use a new model form within their existing compliance systems, and easier to update their disclosures following future overdraft program changes. However, as the Bureau tests these prototypes further and considers changes to existing requirements, the model form provided in the 2010 rule continues to apply.

### CFPB Report on Frequent Overdrafters

It is important for consumers to understand overdraft because the Bureau has found that those who opt in typically pay substantially more in overdraft fees. Today's CFPB study spotlights frequent overdrafters – consumers who attempted to overdraw their accounts more than 10 times in a 12-month period. The study found that 9 percent of accounts are frequent overdrafters and they incurred 79 percent of overdraft fees. Today's study is based on data from several large banks that together account for well over 40 million consumer checking accounts. Key findings include:

- **Opted-in frequent overdrafters typically pay almost \$450 more in fees:** The typical opted-in frequent overdrafter has 22 overdrafts compared to 18 for frequent overdrafters who are not opted in. However, the opted-in frequent overdrafter typically incurs 18 overdraft fees over a year, compared to only five for the typical frequent overdrafter who is not opted in. With a typical overdraft fee of \$34, this means that the median opted-in frequent overdrafter pays almost \$450 more in overdraft fees than someone who has not.
- **Frequent overdrafters carry low daily balances:** The typical frequent overdrafter has an average end-of-day balance of less than \$350. The typical non-overdrafter has an average end-of-day balance of more than \$1,550.
- **Frequent overdrafters have low or no credit scores:** Consumers who overdraft frequently have median credit scores of less than 600, well below what is considered to be a subprime score. Consumers with lower scores generally have difficulty obtaining new credit. Roughly 20 percent of frequent overdrafters do not have a credit score in the data that was studied. In many respects, frequent overdrafters without a credit score appear even worse off financially than other frequent overdrafters.
- **Frequent overdrafters use debit cards six times more often per month:** Median debit card usage -- measured as the number of transactions per month -- is highest among frequent overdrafters and lowest among non-overdrafters. The typical frequent overdrafter uses their debit card at least 25 times per month, which is six times more often than the typical non-overdrafter.

The study is part of a Bureau initiative to look into overdraft practices and outcomes at financial institutions. A [2013 CFPB white paper](#) <sup>1</sup> identified consumer protection concerns, including the ways consumers opt in to overdraft coverage for ATM and everyday debit card transactions. A [2014 study](#) found that the median debit card transaction resulting in overdraft fees is for \$24, and that nearly one-in-five opted-in consumers overdrafts more than 10 times per year.

Today's overdraft report is available at:

[http://files.consumerfinance.gov/f/documents/201708\\_cfpb\\_data-point\\_frequent-overdrafters.pdf](http://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_frequent-overdrafters.pdf) <sup>2</sup>

More information about avoiding overdraft fees is available at:

<https://www.consumerfinance.gov/about-us/blog/understanding-overdraft-opt-choice/>

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit [consumerfinance.gov](https://www.consumerfinance.gov).

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