FEDERAL RESERVE BANK PHILADELPHIA

Consumer Finance Institute

August 2021

Overdraft Use During the Pandemic: Insights from the CFI *COVID-19 Survey of Consumers*

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This research brief examines consumers' use of checking account overdrafts since the beginning of the COVID-19 crisis, using responses gathered from a special module in the Federal Reserve Bank of Philadelphia's Consumer Finance Institute *COVID-19 Survey of Consumers* conducted between July 5 and 16, 2021. The overdraft module includes responses from a national sample of 3,615 consumers, 1,054 of whom reported experiencing at least one overdraft charge during the crisis. Respondents provided their demographic and employment characteristics as part of the broader survey. Survey participants were asked to recall outcomes and experiences occurring in 2019 and early 2020 — prior to the COVID-19 crisis — and compare them with their experiences during the 16-month period beginning March 2020.

An overdraft occurs when a consumer attempts to spend or withdraw more than her available checking account balance, and the bank authorizes the transaction to go through.[2] The bank will charge a fee for the service (*overdraft fee*), typically about $35, that is deducted from the consumer's next deposit.[3] Some banks pledged to waive overdraft fees during the pandemic, and others were more willing to refund them at the customer's request for free, enabling customers to take advantage of an otherwise costly service. In this research brief, we examine how often and why consumers were charged overdraft fees during the crisis and the extent to which consumers were able to negotiate fee reversals with their bank.

We find the following:

- Before accounting for refunds, about 29 percent of survey respondents were charged an overdraft fee during the crisis. This is compared with 24.3 percent in 2019.
- We find no evidence that low- and moderate-income (LMI) households are disproportionately affected by overdrafts.
- About 64 percent of respondents who had an overdraft during the crisis had some or all of their overdraft fees refunded.
- A segment of the population regularly relies on overdrafts to meet short-term budgetary needs. Of the respondents who recall being charged an overdraft fee in 2019, 91.7 percent were also charged at least one during the crisis.
- Low-income individuals (earning below $40,000) were 7.5 times more likely not to ask about a fee refund, with about 41 percent of respondents indicating they had not inquired, compared with 5.4 percent of respondents with incomes of $125,000 or more.
- About 50.8 percent of respondents who used overdrafts during the crisis did so intentionally. Higher-income respondents were more likely to intentionally have overdrafts than lower-income respondents.
- About one in six respondents were surprised by overdraft charges during the crisis. Those individuals tended to be female, low income, older, Black, or of a non-White/non-Hispanic ethnicity.
- During the crisis, students and unemployed job seekers reported higher incidences of overdrafts than employed and other nonemployed respondents.
- White-collar professionals working onsite were almost twice as likely to have an overdraft as white-collar employees working remotely.

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1 The views expressed in this research brief are those of the authors and do not necessarily reflect the opinions of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. Philadelphia Fed publications related to the COVID-19 pandemic are free to download at https://www.philadelphiafed.org/the-economy/covid19.

2 In contrast, a *nonsufficient funds* (*NSF*) fee is charged to the customer when the bank does not process a transaction that would have resulted in a negative bank balance. Overdraft fees are most often triggered by debit card purchases, automatic bill payments, checks, and ATM withdrawals.

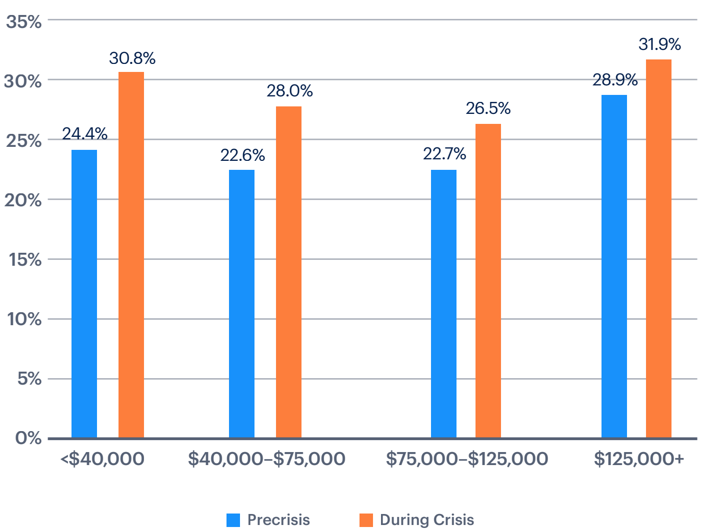
3 Since 2010, banks have been prohibited from charging consumers overdraft fees for debit card and ATM transactions unless the customer has opted in to an overdraft program. See Electronic Funds Transfers, Regulation E (Final Rule), 74 *Federal Register* 59033 (November 19, 2009).

Who Has Used Overdraft?

According to our survey, during the past 18 months, fewer than one in three consumers experienced an overdraft with their checking account. About 29 percent of survey respondents were charged an overdraft fee during the crisis, whereas 24.3 percent of the respondents recall being charged an overdraft fee in 2019, an increase of 4.8 percentage points. Our estimates are comparable with a report by the Consumer Financial Protection Bureau (CFPB) that finds that 30.2 percent of bank accounts had at least one overdraft during the 18-month period from January 2011 through June 2012.[4]

Figure 1 presents data on the percentage of respondents who recalled being charged any overdraft fees in 2019, prior to the COVID-19 pandemic, alongside the percentage of respondents who reported being charged one or more fees since the beginning of the crisis. In both periods, respondents with (individual) incomes of $125,000 or more were most likely to be charged an overdraft; however, the range of overdraft rates across income groups has narrowed somewhat, from about 6.3 to 5.4 percent.

Figure 1: Percentage of Respondents Charged at Least One Overdraft Fee



Note: The precrisis period roughly coincides with calendar year 2019 and the first two months of 2020, whereas the crisis period is from March 2020 until the July 2021 survey period. These time periods refer to respondents' employment status and timing of the overdraft incident.

The need for short-term borrowing solutions is highlighted by some consumers' consistent use of overdraft programs from year to year. Respondents who were charged a fee in 2019 were more than 2.5 times more likely to be charged a fee during the crisis. Of the respondents who recall being charged an overdraft fee in 2019, 91.7 percent were also charged at least one during the crisis.[5]

We find possible evidence of financial distress during the crisis in the group of respondents who had not been charged an overdraft fee during 2019. About 34.9 percent of these respondents experienced one or more overdrafts during the crisis. Sixty-three percent of these respondents reported incomes of under $75,000. In addition, the respondents tended to be non-Hispanic Whites (56.5 percent) and younger than 56 years old (96.7 percent).

Fee Reversals

Consistent with reports that banks were more forgiving about overdrafts during the crisis, survey participants reported having many of their fees refunded.[6] Of the 1,054 respondents charged at least one overdraft fee during the crisis, 37.3 percent (660) had them all refunded and 26.6 percent had some fees refunded. Thus, while the gross overdraft incidence rate was 29 percent, the net overdraft rate based on fees charged was closer to 18 percent.[7] Just over 11 percent of respondents indicated that their bank was unwilling to refund their overdraft fees.

Overall, 24.7 percent of those who experienced an overdraft during the crisis reported that they did not contact their bank to inquire about fee reversals. **Figure 2** shows the percentage of each demographic segment that did not seek any reversals. Those earning $75,000 or more were the most proactive about reversals, with less than 15 percent failing to seek them, whereas those earning less than $40,000 or those aged 56 years and older were the least proactive, with more than 35 percent of those groups not requesting reversals. Women were more than twice as likely than men not to ask about fee reversals (33.5 percent versus 16.1 percent, respectively). Black and White respondents were about equally likely not to ask about fee reversals (25.8 percent and 24.9 percent, respectively). Only 19.1 percent of Hispanic respondents did not ask about a fee reversal.

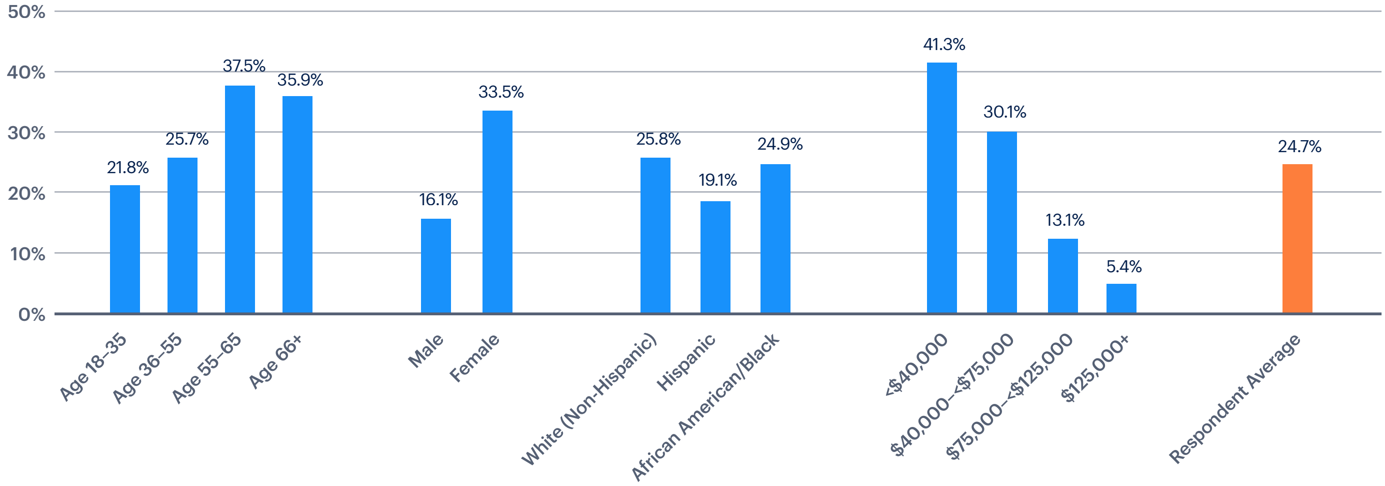
4 See Consumer Financial Protection Bureau (2014) "Data Point: Checking Account Overdraft."

5 A small portion of respondents (13.4 percent) reported that they did not recall definitively if they were charged an overdraft fee in 2019. Of those respondents, only 3.5 percent reported definitively that they were charged at least one overdraft fee during 2020.

6 See Prang (2021) "Overdraft Fees Fell in the COVID-19 Economy" and S&P Global Market Intelligence "Overdraft Fees Jump 64% From COVID-19 Low."

7 Survey participants were not asked to recall incidences of fee reversals occurring during 2019 because doing so might have introduced unreliable data into the analysis.

Figure 2: Percentage of Respondents Not Requesting a Fee Reversal

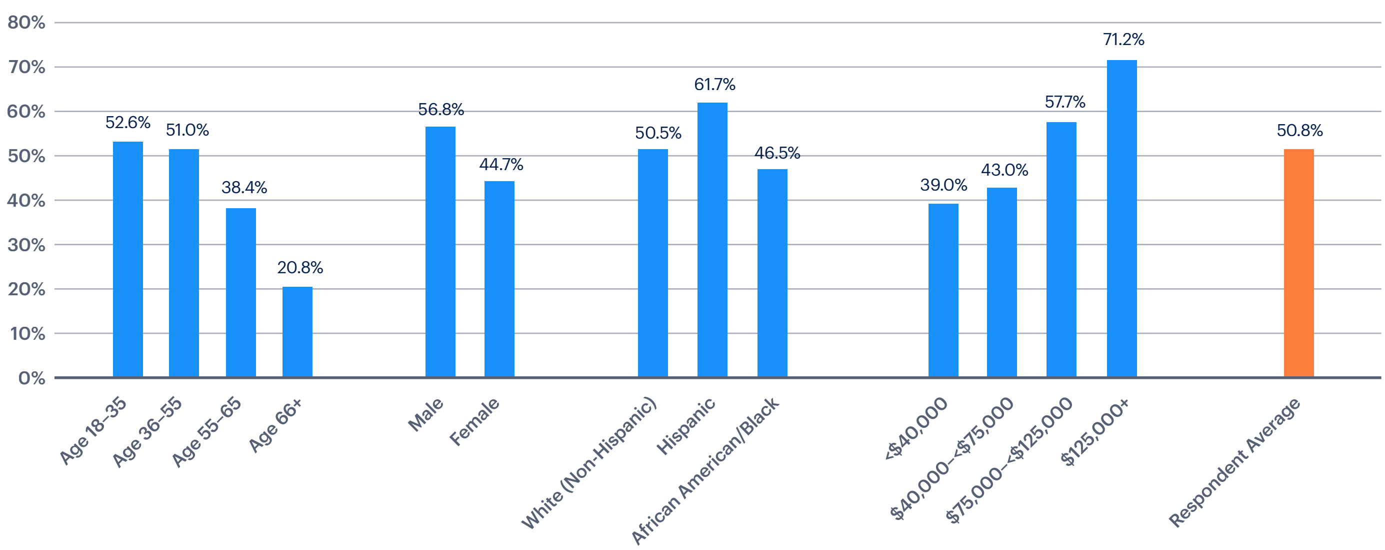


Reasons for Using an Overdraft

Respondents indicated that their use of overdrafts was often intentional. About 50.8 percent of respondents who used overdrafts during the crisis knew that their account balance wouldn't cover their expenses but chose to make payments, in effect, relying on an overdraft as a short-term loan.

Unexpectedly, higher-income respondents were more likely to intentionally have an overdraft than lower-income respondents. As shown in **Figure 3**, about 71.2 percent of respondents with overdrafts and incomes of $125,000 or more indicated they used overdrafts to cover an expense when their bank balance was too low. About 56.8 percent of male respondents indicated they used overdrafts intentionally, compared with 44.7 percent of female respondents. Hispanic respondents were most likely to indicate they used overdrafts intentionally, with about 61.7 percent indicating they had done so, compared with 50.5 percent of non-Hispanic Whites and 46.5 percent of Blacks. Respondents with incomes below $75,000 or over the age of 55 were the least likely to intentionally have an overdraft.

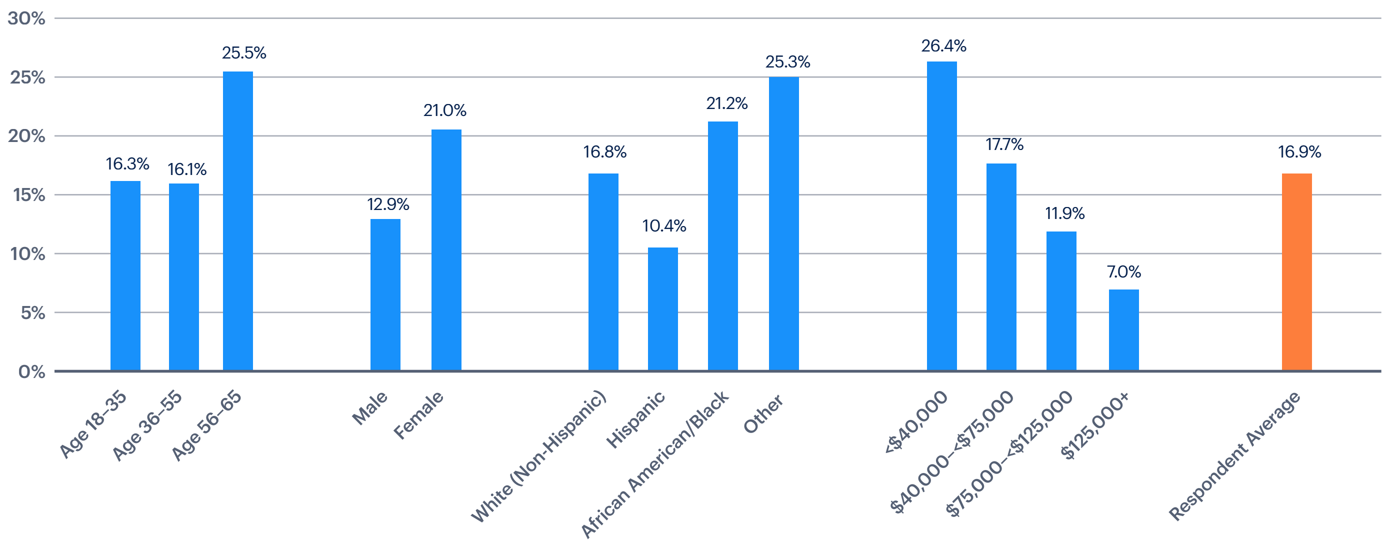
Figure 3: Percentage of Respondents with Intentional Overdrafts



Some survey respondents used overdrafts as a form of implicit insurance during the crisis. About 32.3 percent of respondents indicated they knew they were at risk of incurring an overdraft because their account balance was low, but they thought there was a chance the balance could cover the transaction(s). Those using overdrafts as implicit insurance tended to have lower incomes or were female. Respondents with an annual income below $75,000 were about 10 percentage points more likely to report having used overdrafts as implicit insurance than those with incomes over $75,000 (36.7 percent versus 26.4 percent, respectively). Women were slightly more likely to indicate knowing they were at risk to incur an overdraft prior to an overdraft event than men. About 34.4 percent of female respondents indicated using overdrafts as implicit insurance, compared with 30.3 percent of males.

As shown in **Figure 4**, about one in six respondents were surprised by overdraft charges during the crisis. Individuals with low incomes were also likely to not have anticipated overdraft charges. About 26.4 percent of respondents with incomes below $40,000 reported expecting that their account balance was high enough to cover their transaction. In contrast, only 7 percent of respondents with incomes of $125,000 or more received unanticipated overdraft charges.

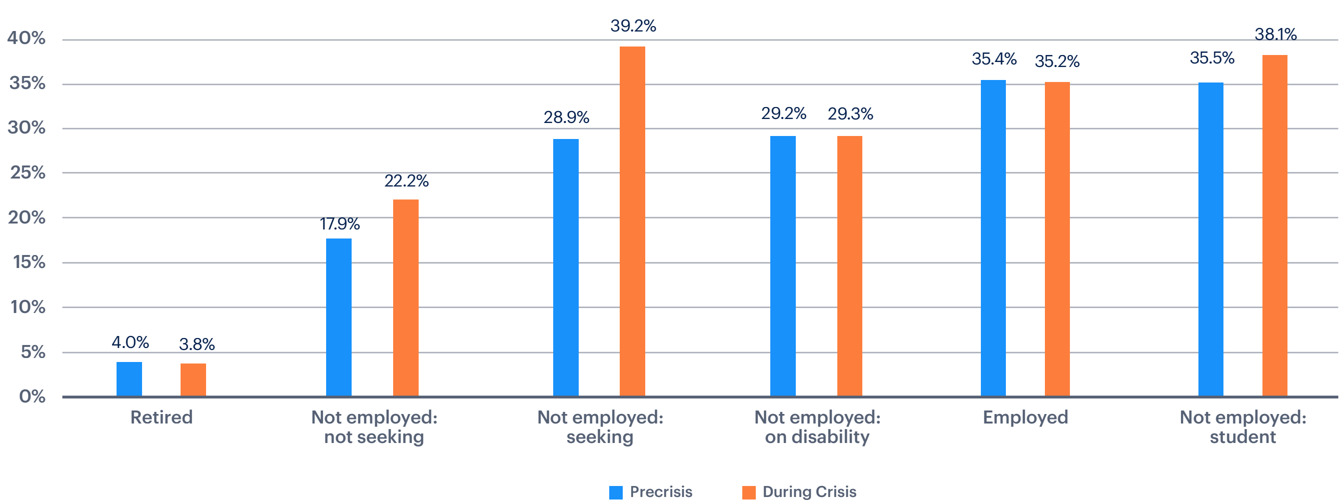
Figure 4: Percentage of Respondents with Unanticipated Overdraft Charges



Overdraft Use by Employment Status

We also examined how overdraft use varied by respondents' recent employment experience. **Figure 5** presents the percentage of respondents in different employment categories who were charged at least one overdraft fee before or during the COVID-19 crisis. In both time periods, about 35 percent of employed persons experienced an overdraft charge. Of the five different nonemployment groups in Figure 5, only respondents who identified as (nonemployed) students have overdraft rates over 35 percent. During the crisis, the percentage of students with at least one overdraft increased by 2.6 percentage points, to 38.1 percent.

Figure 5: Percentage of Respondents Charged at Least One Overdraft Fee, by Employment Status



Note: The precrisis period roughly coincides with calendar year 2019 and the first two months of 2020, whereas the crisis period is from March 2020 until the July 2021 survey period. These time periods refer to respondents' employment status and timing of the overdraft incident.

Respondents on disability also appear to incur overdrafts at a high rate relative to other nonemployment groups, albeit about 6 percentage points less than employed respondents. Both before and during the crisis, about 29 percent of respondents on disability experienced at least one overdraft. Figure 5 also shows that the percentage of unemployed respondents seeking employment who experienced overdraft fees increased by 10.3 percentage points from precrisis levels. Further analysis of the data reveals that the entirety of the increase was a result of respondents being charged more than one overdraft fee during the time period.

We also found that a reduction in work hours was a key predictor of overdraft use. While 30.8 percent of respondents who continued to work normal hours reported an overdraft, 47.9 percent of respondents who lost their job and 48.7 percent of respondents working reduced hours experienced at least one overdraft during the crisis.

Last, there is some evidence that in certain occupation categories, respondents working onsite were more likely to report overdrafts than those working remotely. Among respondents whose occupation could be classified as white-collar professional, 46.3 percent of those working onsite reported being charged at least one overdraft fee during the crisis, whereas 23.7 percent of those working remotely were charged an overdraft fee.

Final Thoughts

Our data suggest that, while consumers may have incurred overdrafts in their checking accounts as much or more during the crisis as they did in 2019, banks responded to the global health crisis by waiving many of the fees. About 64 percent of respondents had some or all of their overdraft fees refunded. By one estimate, these reversals resulted in a 10 percent drop in overdraft fee income at financial firms.[8]

Many consumers see overdrafts as a necessity. Over 90 percent of consumers who had an overdraft in 2019 did so during the crisis, and about half of them knowingly used overdrafts as a means of paying bills that came due during periods of low checking account balances.

Our data also suggest that consumers may need to be made more aware of the possibility of overdraft reversals and encouraged to contact their bank. Additional information on checking account overdrafts is available at the Federal Deposit Insurance Corporation and the Consumer Financial Protection Bureau.

8 See Prang (2021) "Overdraft Fees Fell in the COVID-19 Economy."