

Design and Testing of Overdraft Disclosures: Phase Two

Submitted to:
Board of Governors of the Federal Reserve System

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Submitted by:

ICF **MACRO**
an ICF International Company

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Submitted to:

Board of Governors
of the Federal Reserve System
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EXECUTIVE SUMMARY

BACKGROUND OF PROJECT

In May 2008, the Board of Governors of the Federal Reserve System (the “Board”) published proposed amendments related to overdraft coverage to Regulation DD, which implements the Truth in Savings Act. The proposed rules required that disclosures be provided to consumers about their overdraft coverage and the right to opt out of that coverage.¹ The Board’s proposed rules included model notices that institutions could use to satisfy their disclosure obligations.

Because these model notices would constitute a “safe harbor” for institutions that use them, a key objective for the Board was that they be as clear as possible to consumers. For this reason, the Board contracted with ICF Macro in March 2008 to assist it in the development and testing of model disclosures related to overdraft coverage. ICF Macro began by advising the Board on the development of the sample notices that were released with its May 2008 proposal. Following the public comment period, ICF Macro worked with Board staff to revise the notices based on comments that were received by depository institutions, consumer groups, and other public stakeholders. ICF Macro then engaged in two rounds of cognitive interviews with consumers to test the effectiveness and clarity of the model notices, and made appropriate revisions to the format and language used. ICF Macro summarized findings from these two rounds of interviews in a report to the Board in December 2008.²

In January 2009 the Board published a revised proposal under Regulation E, which implements the Electronic Fund Transfer Act. This proposal included both a revised model notice regarding the consumer’s right to opt out of overdraft coverage for ATM and everyday debit card transactions,³ and an alternative model notice regarding the consumer’s right to opt into that coverage. After receiving public comment on these amendments, the Board again contracted with ICF Macro to provide support in the testing and revision of these model notices. Between May and September 2009, ICF Macro conducted four additional rounds of cognitive interviews with consumers to test the effectiveness of revised overdraft notices. This report describes findings from this most recent phase of ICF Macro’s work related to design and testing of overdraft notices for the Board.

¹ Separate revisions to Regulation AA proposed by the Board would have required banks to provide customers with the right to opt out of overdraft coverage. Regulation AA implements section 5(a) of the Federal Trade Commission Act to prohibit unfair or deceptive practices.

² This report is available online at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20081218a6.pdf>.

³ As described below, “everyday debit card transactions,” which are debit card transactions that are non-recurring, such as a purchase at a store, were referred to by a number of labels on different notices. In this executive summary we use the term “everyday,” because it was the clearest to consumers and will be used in the model forms published by the Board.

The results of the consumer research described in this report will inform the Board's final revisions to Regulation E (to be issued in November 2009), and the notice that was developed will be included as a model. By relying heavily on consumer testing in the development of this notice, the Board hopes to ensure that its new regulations will lead to disclosures that are easy for consumers to read and understand, and as a result will help them make well-informed financial decisions.

RESEARCH METHODOLOGY

After the public comment period ended, Board staff and ICF Macro made revisions to the proposed overdraft notices that had been published in January 2009. ICF Macro then began conducting one-on-one in-depth cognitive interviews with consumers. The goal of these interviews was to assess the extent to which these disclosures were effective in communicating information to consumers about how their overdrafts would be handled by their bank, what fees they could potentially be charged, and what choices they had related to overdrafts.

Interview participants were recruited by telephone using a structured screening instrument developed collaboratively by ICF Macro and Board staff. Participation was limited to people who were the primary financial decision-maker in their households, and who had a checking account. Respondents who worked for a bank or credit union were excluded from participation. Other screening questions ensured the recruitment of participants with a range of ethnicities, ages, and education levels.

Interviews were approximately 60 minutes long, and were based on an interview guide developed collaboratively by ICF Macro and Board staff. While the guide was updated for each round, the basic structure of the interviews remained consistent. Participants were first asked a series of questions about their check and debit card use. They were then shown a notice on overdraft practices for a fictional bank called Solar Bank and asked to review it just as they would if they were opening a checking account. They were asked to "think aloud" while they read the document, and to let the interviewer know if they had any questions or saw anything that they found particularly confusing, surprising, or interesting. Once participants completed their initial review of the document, they were asked both comprehension questions to test their understanding of the disclosure content and attitudinal questions that asked how they felt about the information on the notice.

In Rounds 1 and 2, each participant was shown two types of notices.⁴ The first notice indicated to consumers that the bank would cover overdrafts for all types of transactions, but that if they wished they could opt out of coverage for ATM and everyday debit card transactions. The second notice indicated that the bank would not cover overdrafts for ATM and everyday debit card transactions, but would cover overdrafts for other types of transactions; however, the notice provided that customers could opt into coverage for ATM and everyday debit card transactions.

⁴ This set of interviews was actually the third round conducted by ICF Macro for the Board on the topic of overdrafts. However, because this phase of research was distinct from that carried out by ICF Macro in 2008, the first set of interviews in 2009 is referred to in this report as "Round 1."

These two notices are referred to in this report as the “opt-out” and “opt-in” notices, respectively. The goal of showing both notices was to assess consumers’ reaction to the two approaches, and to evaluate whether one approach might be easier for consumers to understand. The order in which these notices were shown to participants was varied in order to avoid learning effects. Participants in Rounds 3 and 4 were shown only an “opt-in” notice.

KEY RESEARCH FINDINGS

Understanding of Overdraft Practices

- In the first two rounds, almost all participants understood that if they had overdraft coverage and the bank paid an overdraft, the bank would charge them a fee for doing so. In Round 3, however, four of the nine participants mistakenly thought that having “overdraft coverage” meant that their overdrafts would be paid and they would not be charged a fee. This misconception appeared to be based on the phrase “overdraft coverage,” which implied to participants that their overdrafts would be authorized free of charge. The notice used in Round 4, which did not include this phrase, appeared to address this point of confusion; all but one participant in the final round understood that they would be charged a fee if they overdrew their account.
- The notices used in all four rounds of testing indicated that the bank had discretion in deciding whether to cover overdrafts, and did not guarantee that all overdrafts would be paid regardless of the type of transaction. Most participants understood this after reading the notice, although comprehension of this fact was slightly lower in Rounds 3 and 4.
- Notices used in the first three rounds indicated that even if customers did not have overdraft coverage for a particular type of transaction, they could still overdraw their account under certain circumstances. About two thirds of participants in these rounds understood this after reading the notice. This information was removed from the notice in Round 4 because of concerns regarding information overload. When asked whether they might still overdraw their account using a debit card transaction even if the bank’s standard practice was not to pay these overdrafts, three of seven participants in the final round indicated that this was possible.
- In Round 1, two participants confused the “overdraft coverage” described on the notice with a link to a savings account. This pattern continued in the next two rounds, even though the notices used in those rounds specifically stated that overdraft coverage differed from alternative plans offered by the bank. As noted above, the notice used in the final round did not use the phrase “overdraft coverage,” but instead described the bank’s “standard overdraft practices.” This change eliminated much of participants’ confusion on this point; in Round 4 only one of 11 participants mistakenly thought that these standard practices included a link to another account.
- The notices used in Round 1 used the phrase “one-time debit card transaction” to refer to a non-recurring transaction made by a debit card (e.g., a purchase at a store). However,

only three of nine participants understood what this phrase meant. In the next two rounds, the notices used the terms “individual debit card transaction” and “one-time debit card transaction” again, but in both cases most participants still had difficulty interpreting this phrase. One participant in Round 3 suggested that “everyday debit card transaction” would be more understandable to consumers, so this term was used in Round 4. Comprehension of this phrase was much higher; nine of 11 participants in Round 4 could explain what it meant.

Understanding of Opt-Out Notice

- Participants in Rounds 1 and 2 were shown an “opt-out” notice, indicating that the bank provided overdraft coverage on all transaction types but that customers had the right to opt out of coverage for ATM and everyday debit card transactions. In Round 1, about half of participants understood that they would be enrolled in overdraft coverage even if they did nothing, and about half also understood their right to opt out. In Round 2, all but one participant understood that they were enrolled in overdraft coverage, but only two understood the right to opt out. In both rounds, those that did not understand their right to opt out incorrectly assumed that if they “opted out” they would have no coverage on any types of transactions.
- As noted above, participants in Rounds 3 and 4 were not shown an “opt-out” notice.

Understanding of Opt-In Notice

- Participants in all rounds were shown an “opt-in” notice that indicated that unless customers specifically asked it to do so, the bank would not cover ATM and everyday debit card transactions. These notices also stated that regardless of whether customers opted into coverage on these transactions, overdrafts on all other types of transactions (including checks) would be covered. However, less than half of participants in Rounds 1 and 2—and none of the participants in Round 3—understood after reading the opt-in notice that overdrafts by check would be covered even if they did nothing. The notice used in Round 4 was significantly more successful in this regard; six of nine participants in that round understood that their check transactions would be authorized.
- Most participants in the first three rounds understood after reading the notice that they had the right to opt into overdraft coverage.⁵ However, many incorrectly thought that their decision whether or not to opt in would affect all types of transactions, rather than just ATM and everyday debit card transactions. Again, the notice used in Round 4 explained this right more clearly; most participants understood that they had the right to ask the bank to cover transactions for ATM and everyday debit card transactions.

⁵ The exception was Round 2, where only four of nine participants understood that they had the right to opt into overdraft coverage.

Participants' Attitude toward Overdraft Coverage

- Among participants who had previously overdrawn their account and been charged a fee for doing so, about half said that they would have preferred that the bank deny the transaction. Most of these participants indicated that the transactions that had overdrawn their accounts were not important enough to them to warrant paying the fee they were charged. The other half of participants said that they were pleased that the bank paid the transaction that overdrawed their account, and were willing to pay a fee for this service. These participants indicated that it was important to them that their transactions be paid, or that they were concerned about the effect that having a transaction denied would have on their credit score. This pattern was consistent throughout all four rounds of testing.
- Among participants from all rounds, about half indicated after reading the notices that they would want overdrafts to be paid for ATM and everyday debit card transactions. However, in many cases the reasoning behind this decision was unclear. In some cases, participants said that they would want these overdrafts covered, but only through a link to another account or line of credit where they might be charged fewer fees. Other participants initially said that they did not want these overdrafts to be covered, but later said that they would want coverage in case of emergencies. In a few cases, participants' decisions were affected by the fact that they did not fully understand the terms of this coverage—for example, in Round 3 there were some participants that thought they would not have to pay any fees if their overdrafts were paid.
- Less than a third of participants indicated that they would not want any overdrafts of any type to be paid by the bank. Most participants said that transactions they make by check tend to be larger in size and more important, so they would want overdrafts for checks to be paid even if it meant being charged a fee.
- When asked how they would contact their bank if they wanted to opt into or out of overdraft coverage, participants across the four rounds were evenly split between those who would go online and those who would call the bank. Only two participants indicated that they would prefer to use the tear-off form provided on the bottom of the notice. Because so few participants indicated that it would be useful, and because of some evidence that it led to confusion in some cases, this tear-off form was removed from the notice used in Round 4.

Preference for Opt-Out vs. Opt-In

- Over the first three rounds, participants overwhelmingly indicated that they would prefer that banks give them the right to opt into overdraft coverage on ATM and everyday debit card transactions, rather than enrolling them automatically and giving them the right to opt-out. Most participants expressed a general dislike of being signed up for something without their consent; one indicated that it would make him feel that the coverage had been “forced” on him.

- In Round 4, four of nine participants that were asked indicated that they would prefer to be enrolled in overdraft coverage automatically—a significantly higher proportion than in earlier rounds. However, at least two of these participants seemed not to fully understand the choice they were being offered. For example, one said that he preferred the “opt-out” strategy because it offered him more choice over his account, which would not seem to actually be the case.

Information about Alternative Ways of Covering Overdrafts

- The notices used in all four rounds included information about alternative ways that the bank could cover overdrafts, such as through a link to another account or an overdraft line of credit. Participants were generally able to find and understand this information, although a few were unsure what was meant by a “link to another account.” In some cases—particularly in the first three rounds—participants mistakenly thought that this link between accounts was the same as the “overdraft coverage” being described on the notices.
- When asked, all participants indicated that they would contact their bank for more information about these alternative ways of covering overdrafts. In many cases, this was because of the language on the notice that these alternatives “may be less expensive” than the bank’s standard ways of covering overdrafts.

SECTION I: INTRODUCTION

In May 2008, the Board of Governors of the Federal Reserve System (the “Board”) published proposed amendments related to overdraft coverage to Regulation DD, which implements the Truth in Savings Act. The proposed rules required that disclosures be provided to consumers about their overdraft coverage and the right to opt out of that coverage.⁶ The Board’s proposed rules included model notices that institutions could use to satisfy their disclosure obligations.

Because these model notices would constitute a "safe harbor" for institutions that use them, a key objective for the Board was that they be as clear as possible to consumers. For this reason, the Board contracted with ICF Macro in March 2008 to assist it in the development and testing of model disclosures related to overdraft coverage. ICF Macro began by advising the Board on the development of the sample notices that were released with its May 2008 proposal. Following the public comment period, ICF Macro worked with Board staff to revise the notices based on comments that were received by depository institutions, consumer groups, and other public stakeholders. ICF Macro then engaged in two rounds of cognitive interviews with consumers to test the effectiveness and clarity of the model notices, and made appropriate revisions to the format and language used. ICF Macro summarized findings from these two rounds of interviews in a report to the Board in December 2008.⁷

In January 2009, the Board published a revised proposal under Regulation E, which implements the Electronic Fund Transfer Act. This proposal included both a revised model notice regarding the consumer’s right to opt out of overdraft coverage for ATM and everyday debit card transactions, and a model notice regarding the consumer’s right to opt into that coverage. After receiving public comment on these amendments, the Board again contracted with ICF Macro to provide support in the testing and revision of these model notices. Between May and September 2009, ICF Macro conducted four additional rounds of cognitive interviews with consumers to test the effectiveness of revised overdraft notices.

This report describes this most recent phase of ICF Macro’s work with the design and testing of overdraft notices for the Board. Subsequent sections of the report describe the testing methodology used, as well as findings from each of the four rounds of interviews. The report also details the iterative changes that were made to the model notices after each round, eventually leading to the development of a notice that both ICF Macro and the Board believe will be more effective than that proposed in January 2009.

⁶ Separate revisions to Regulation AA proposed by the Board would have required banks to provide customers with the right to opt out of overdraft coverage. Regulation AA implements section 5(a) of the Federal Trade Commission Act to prohibit unfair or deceptive practices.

⁷ This report is available online at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20081218a6.pdf>.

SECTION II: RESEARCH METHODOLOGY

After the public comment period ended, Board staff and ICF Macro made revisions to the proposed overdraft notices that had been published in January 2009. ICF Macro then began conducting one-on-one in-depth cognitive interviews with consumers. The goal of these interviews was to assess the extent to which these disclosures were effective in communicating information to consumers about how their overdrafts would be handled by their bank, what fees they could potentially be charged, and what choices they had related to overdrafts.

Interview participants were recruited by telephone using a structured screening instrument developed collaboratively by ICF Macro and Board staff. Participation was limited to people who were the primary financial decision-maker in their households, and who had a checking account. Respondents who worked for a bank or credit union were excluded from participation. Other screening questions ensured the recruitment of participants with a range of ethnicities, ages, and education levels. The recruiting screener used for both rounds of interviews is provided as Appendix A; Appendix B provides detailed information about the characteristics of participants in all four rounds.

Interviews were approximately 60 minutes long, and were based on an interview guide developed collaboratively by ICF Macro and Board staff. While the guide was updated for each round, the basic structure of the interviews remained consistent. Participants were first asked a series of questions about their check and debit card use. They were then shown a notice on overdraft services for a fictional bank called Solar Bank and asked to review it just as they would if they were opening a checking account. They were asked to “think aloud” while they read the document, and to let the interviewer know if they had any questions or saw anything that they found particularly confusing, surprising, or interesting.

Once participants completed their initial review of the document, they were asked two types of follow-up questions:

- Comprehension questions, to test their understanding of the disclosure content (such as, “If you opened this account and then tried to make a debit card purchase in a grocery store for more money than you had in your account, what would happen?”)
- Attitudinal and preference questions, to collect information about how consumers felt about how their overdrafts would be handled and what choices they would make (such as, “Given what you have read here, would you opt out of overdraft coverage?”)

In some rounds, participants were shown a second notice and asked similar questions. When more than one notice was used, the order in which participants were shown the documents was varied between interviews to control for possible learning effects.

SECTION III: FINDINGS FROM CONSUMER RESEARCH

ROUND 1: INTERVIEWS IN TAMPA, FL (MAY 11 AND 12, 2009)

ICF Macro's first round of cognitive interviews with consumers was conducted on May 11 and 12 in Tampa, Florida.⁸ A total of nine interviews were conducted over the two days of testing.

Disclosure Notices Tested

Each interview participant in this round was shown two different notices that described two different overdraft coverage programs. The first notice indicated to consumers that the bank would cover overdrafts for all types of transactions, but that if they wished they could opt out of coverage for ATM and one-time debit card transactions.⁹ The second notice indicated that the bank would not cover overdrafts for ATM and one-time debit card transactions, but would cover overdrafts for other types of transactions; however, it provided that customers could opt into coverage for ATM and one-time debit card transactions if they wished. These two notices are referred to in this report as the "opt-out" and "opt-in" notices, respectively. The goal of showing both was to both assess consumers' reaction to the two approaches, and to evaluate whether one approach might be easier for consumers to understand.

In its January 2009 proposed regulations, the Board had published both "opt-out" and "opt-in" model notices. However, the notices used in this round of testing differed from those that were published in several ways, including the following:

- The notices that were published in January 2009 stated in the first section that "[overdraft] coverage differs from other overdraft services we offer, such as linking your account to another account with us or an overdraft line of credit." In the notices tested in Round 1, this information was removed from the first section. The information was retained in a section titled "Other Ways We Can Cover Your Overdrafts."
- A section was added to the notice informing consumers that even if they do not have overdraft coverage on ATM and one-time debit card transactions, those transactions could still lead to overdrafts. This statement was added to address concerns from industry commenters that participants might not be aware of this fact and that it might impact their decisions regarding coverage.

⁸ As described in the Introduction, this set of interviews was actually the third round conducted by ICF Macro for the Board on the topic of overdrafts. However, because this phase of research was distinct from that carried out by ICF Macro in 2008, the Tampa interview will be referred to as "Round 1."

⁹ The phrase "one-time debit card transactions" was used in the notice to refer to transactions made using a debit card that did not automatically recur. Different labels were used for these transactions in subsequent rounds.

- On the opt-in notice, a statement was added that “if you do not have enough money in your account for an ATM withdrawal or one-time debit card transaction, we will usually decline the transaction.” This text was added to clarify for consumers what would happen if they did not request overdraft coverage on these transactions.

The notices that participants were shown were revised slightly from the first day to the second day.¹⁰ Notices from the first day were labeled Versions O1 (opt-out) and I1 (opt-in); notices from the second day were Versions O2 and I2. These disclosure notices are provided in Appendix C.

Key Interview Findings

Previous Overdraft Experience

- Six of the nine participants indicated that they had overdrawn their account in the past and had been charged a fee to have the transaction paid.¹¹ Of these six, two said that rather than paying the fee they would have preferred to have the transaction denied, because having it paid was not worth the fee they were charged. The remaining four said that they were glad the transaction had been paid. Of these four, two indicated that they would have wanted the transaction paid because it was a large, important purchase (such as a child’s tuition). One wanted it paid because she values “her credit standing.” The remaining participant said that she would be willing to “bite the bullet” and pay the fee to have her overdraft paid.

Understanding of Overdraft Coverage

- Regardless of which notice was shown, almost all participants understood that under the bank’s overdraft coverage program at least some of their overdrafts would be paid, and that as a result the bank would charge them a fee. However, at least two incorrectly thought that the overdraft coverage being described by the notice was the same as a link to another account.
- All but one of the participants understood that if the bank did not pay an overdraft, their transaction would be declined and they would have to provide another form of payment. Most read this information on the notice, but others answered correctly based on their previous understanding of how overdraft coverage works.
- All but one of the participants understood after reading the first notice they were shown that if they had overdraft coverage, the bank would have discretion in deciding whether

¹⁰ If specific variations between forms are not mentioned in this report, it is because they had no observable impact on participants’ understanding.

¹¹ Whether or not a person had previously overdrawn their account was used as a screening criterion for recruitment in all four rounds, so no assumption should be made that participants are representative of the general population in this regard.

or not to pay overdrafts. Most thought that the bank's decision whether or not to pay overdrafts would depend on the size of the transaction, or the frequency with which a consumer overdrew their account.

- Several participants commented that they would want more information about how the bank would decide whether or not to cover transactions.
- After reading the first notice they were shown, six of the nine participants understood that even if they did not have overdraft coverage, there were some instances in which the bank might still pay overdrafts and charge them a fee. However, some of these participants assumed that these instances would be limited to overdrafts through check transactions. It was unclear to what extent they understood that even if they did not have overdraft coverage, they might still overdraw their account through an ATM or one-time debit card transaction.
- Only three of nine participants understood the term “one-time debit card transaction” to mean a non-recurring transaction made with a debit card. Others had a variety of misinterpretations of this phrase, such as that the consumer would only be allowed to overdraft one time, or that the only transactions to be covered would be those made with a debit card that could be used only once. It was unclear whether participants' lack of understanding of this phrase had an impact on their overall comprehension of overdraft coverage; most seemed to overlook the word “one-time” and notice it only when specifically asked about it.
- Participants who did not understand the phrase “one-time debit card transaction” were asked if the term “non-recurring debit card transaction” was clearer to them. All indicated that it was not.

Understanding of Opt-Out Notice

- Only two of the five participants on the first day understood after reading the opt-out notice that they were automatically enrolled in overdraft coverage. The remaining three believed that unless they contacted the bank, they would not be enrolled in the coverage. In some cases, this misconception appeared to be due to the presence of a tear-off form at the bottom of the page; some participants seemed to assume that if they did not fill out the form the coverage would not apply to them.
- Because of this misconception on the first day, the opt-out notice used on the second day of testing was revised so that the first sentence read, “Unless you tell us otherwise, we will provide overdraft coverage for your account.” Participants who saw this version were more likely to understand that they were automatically enrolled in overdraft coverage, although even then one of the four participants did not realize she would have coverage on her account if she did nothing.
- Even among those participants who understood that they were enrolled in coverage and had the right to opt out, only about half understood that their right to opt out was limited

to ATM and individual debit card transactions. The other half incorrectly believed that if they opted out, they would not have coverage on any types of transactions.

- On the first day, only one of five participants understood that recurring debit transactions would be covered whether or not the participant opted out of overdraft coverage on ATM and one-time debit card transactions. This appeared to be at least in part because the forms used on the first day did not refer specifically to recurring debits, but instead described them as “other transactions.” The forms used on the second day of testing included a specific reference to “recurring debit transactions.” Two of the four participants on the second day noticed this reference and understood that overdrafts of this type would generally be covered regardless of whether or not there was overdraft coverage on the account. However, the other two were still confused on this point.

Timing of Opt-Out Notice

- All but one participant felt that the opt-out notice should be provided to consumers multiple times, rather than just once when the account was opened. Three suggested that the bank should provide the notice to customers after the first time they overdraw their account, to remind them that they had the right to opt out of this coverage. Two thought that the notice should be provided to customers every time they overdraw their account, while two more thought it should be provided monthly regardless of whether overdrafts occurred. One participant suggested that it be provided if an account holder was charged “a lot of fees.”

Understanding of Opt-In Notice

- Only three of nine participants understood after reading the opt-in notice that if they did nothing, they would still have overdraft coverage on checks. The other six assumed that if they did nothing they would have no overdraft coverage on any transactions.
- All nine participants understood that they had the option to enroll in overdraft coverage. However, as noted above most thought that this option applied equally to all transactions—that is, that their choice was either to have overdraft coverage on all types of transactions or none.
- After these misconceptions were observed on the first day, the following text was added to the forms used on the second day of testing: “Whether or not you request overdraft coverage for ATM withdrawals and one-time debit card transactions, we will still pay overdrafts for other types of transactions, including checks and recurring debits.” However, the addition of this text did not have a noticeable effect on participants’ understanding.

Participants’ Attitude toward Overdraft Coverage

- Three of the nine participants indicated that they would want to have overdraft coverage on ATM and one-time debit card transactions. Of the other six, one said that he would

want the coverage if there were no daily fees for overdrawn accounts. Another indicated that he would want the coverage when he was shown the opt-in notice. However, when shown the opt-out notice he disliked the fact that the bank had signed him up automatically, and as a result he subsequently indicated that he would not want the coverage.

- When asked whether they would want to opt out of overdraft coverage for all types of transactions including checks, only two participants indicated that they would. The remainder indicated that they would want to keep coverage at least on check transactions; several commented that the transactions that they pay by check tend to be larger and more important to them. Of the two that indicated that they would want to fully opt out of coverage, one said that if there was no daily fee for overdrawn accounts he would opt to keep the coverage.
- Five of the nine participants indicated that if they wanted to opt in or out of coverage, they would prefer to do so online. Two said that they would complete the tear-off form on the bottom of the notice and take it to the bank in person, while one each said that they would prefer to mail the form in or use the phone.

Preference for Opt-Out vs. Opt-In

- All but one participant indicated that they would prefer that the bank give them the opportunity to opt into overdraft coverage, rather than enrolling them automatically and giving them the opportunity to opt out. One admitted that he would not have paid attention to the opt-out notice when opening his account, and therefore would have ended up with coverage that he did not want.

Understanding of “Other Ways to Cover Overdrafts”

- All but one participant were able to easily find information on the forms about other potential ways they could have their overdrafts covered. Almost all understood this section of the notice, although two confused the link to another account and the “overdraft coverage” described on the notice.
- All but one participant indicated they would ask the bank for more information about these alternative methods for covering overdrafts. Several indicated they would be more interested in the link to another account than the line of credit. In some cases this was because participants did not fully understand what a “line of credit” was; other participants seemed wary of getting involved in any bank product related to “credit.”
- Only two participants assumed that everyone would qualify for both of the alternative types of overdraft coverage described. Most others said that all consumers would likely qualify for a link to another account, while their ability to get a line of credit would depend on factors such as their creditworthiness.

- When asked whether more information should be provided on the notice about other ways to cover overdrafts, two mentioned information about the fees associated with these alternatives. One commented that the entire notice should be restructured so that all three alternatives (i.e., overdraft coverage, a link to another account, and a line of credit) are described equally. Another participant felt that the line of credit should be the “default” option, rather than the overdraft coverage described on the notice.

ROUND 2: INTERVIEWS IN DENVER, CO (JUNE 8 AND 9, 2009)

ICF Macro conducted a second round of nine cognitive interviews in Denver, CO on June 8 and 9, 2009. One of the primary goals of this round was to address the biggest misconceptions of participants in the earlier rounds—that is, a) their lack of understanding that overdrafts by check would be covered regardless of their decision whether or not to have coverage on ATM and one-time debit card transactions; and b) their mistaken belief after reading the opt-out notice that they would have to actively sign up for overdraft coverage, when in fact it was provided automatically with their account.

Disclosure Notices Tested

Participants in this round were again shown both an “opt-out” and “opt-in” notice. However, the notices used in Round 2 were significantly different than earlier versions in that they were written in a question-and-answer format, rather than the narrative format used previously. This format was used in an effort to make the notice more consumer-friendly, and to make it easier for consumers to find and understand information.

In addition to this general change in format, other revisions that were made to the notices between Rounds 1 and 2 included the following:

- The opt-in forms used in Round 2 specifically stated that the bank would “provide overdraft coverage on your account for checks, automatic bill payments, and some other types of transactions.” This statement was intended to alleviate the misconception held by most participants in Round 1 that if they did not actively opt into coverage, the bank would not cover any types of overdrafts.
- The opt-in notices used in Round 1 included a statement indicating that if the customer did not have overdraft coverage for a particular transaction type, the transaction would be declined and they would have to provide another form of payment. Because several participants in that round indicated that this was obvious to them and did not need to be stated, this text was removed from the notices used in Round 2.
- Because some participants in Round 1 mistakenly believed that overdraft coverage was the same product as overdraft protection plans like a link to a savings account, the revised notices included a note in the first section indicating that overdraft coverage differs from other overdraft services that the bank might offer.¹²
- In several cases, participants’ attitudes toward overdraft coverage in Round 1 were determined almost exclusively by the presence of a daily fee. The concern was that this

¹² This statement was present in the notices that were published for comment in January 2009. They had been removed from the versions used in Round 1 in an effort to save space, but because participants were confused, the text was added back in for Round 2.

fee might have distracted them from other information on the notice. Therefore, the reference to the daily overdraft fee was removed from the notices for Round 2.

- The notices used in Round 2 substituted the phrase “automatic bill payments” for “recurring debits,” to see whether consumers might be more familiar with this term.
- Because most Round 1 participants did not understand the phrase “one-time debit card transactions,” the revised notices instead used the phrase “individual debit card transactions.”
- The titles of the opt-out and opt-in notices in Round 1 were “Explanation of Overdraft Coverage” and “Requesting Overdraft Coverage,” respectively. For Round 2, these titles were both changed to “Your Choices Regarding Overdraft Coverage” to better reflect the fact that the disclosure was intended to make consumers aware of their options related to how their overdrafts would be handled by the bank.

As in Round 1, over the two days of testing participants were shown several versions of the notices that were slightly different. The versions used on the first day were labeled O3 (opt-out) and I3 (opt-in). On the second day participants were shown Version O4 and two different opt-in notices, I4 and I5. These disclosure notices are provided in Appendix D.

Key Interview Findings

Previous Overdraft Experience

- Seven of the nine participants indicated that at some point in the past they had spent more money than they had in their account. All indicated that the transaction had been allowed by the bank, and that they had subsequently been charged a fee. One participant described a recent incident in which he had bought a \$2 bag of ice at a convenience store that overdrawn his account. He said that he had been charged two overdraft fees in this case (for a total of about \$60), because the cashier had accidentally recorded the purchase twice.
- The participants that had previously overdrawn their accounts were evenly split as to whether they would have wanted these transactions paid or denied. Three said that they would have preferred to have the transaction denied, because this inconvenience would have been preferable to being charged fees. Three others said that because their transaction was important to them, they were willing to pay the overdraft fee to have it go through. The seventh participant had overdrawn his account multiple times, and indicated that whether he would have wanted the overdraft paid would have depended on the specific transaction in question.

General Understanding of Overdraft Coverage

- Regardless of which notice they were shown, almost all participants understood that “overdraft coverage” meant that at least some of their overdrafts would be paid by the

bank, and that as a result they would be charged a fee. However, at least three had difficulty distinguishing between the “overdraft coverage” described on the notice and a link to another account—despite the fact that the notice specifically indicated that these two types of overdraft services were different. In most cases, this seemed to be because participants associated the phrase “overdraft coverage” with links between accounts based on personal experience.

- All but one participant understood that if they did not have overdraft coverage their transactions could be denied; as one participant described it, she would be “left there in the aisle.” The remaining participant said that he did not know what would happen if he did not have overdraft coverage, since the notice did not provide this information.
- All but one participant understood that if they had overdraft coverage, their bank would have discretion in deciding whether or not to pay overdrafts. Seven of the eight participants who understood this fact saw this information in the notices, while the eighth simply assumed that the bank would have the discretion to refuse very large overdrafts. Most thought that the bank’s decision whether or not to pay overdrafts would depend on the size of the transaction, the length of the account-holder’s relationship with the bank, or the frequency with which a consumer overdraw their account.
- Six of the nine participants understood that even if they did not have the overdraft coverage described in the notice, they might still overdraw their account through an ATM or debit card transaction. However, only three of the six saw this information on the notice. One assumed that banks would always allow overdrafts to occur so that they could collect a fee. Another said that he thought banks would probably allow an overdraft “if it was a small amount.”
- Only three of nine participants understood that the phrase “individual debit card transaction” referred to a single non-recurring transaction made with a debit card. Most incorrectly assumed that this phrase referred to any transaction made with a debit card, including recurring debits. One thought that this phrase meant that they could opt in or out of overdraft coverage on a transaction-specific basis.

Understanding of Opt-Out Notice

- Eight of the nine participants understood after reading the opt-out notice that they were automatically enrolled in overdraft coverage.
- All participants understood that they had the right to opt out of coverage on ATM and individual debit card transactions. However, only two of the nine understood that even if they opted out, they would still have coverage on checks and automatic bill payments. As in Round 1, most participants mistakenly thought that if they opted out they would have no overdraft coverage at all.

- Three participants did not believe that the bank would allow them to withdraw more money out of an ATM than they had in their account, even if they had overdraft coverage.
- Two participants misunderstood the purpose of the tear-off section at the bottom of the opt-out notice. One said he would fill out the form if he wanted to set up a line of credit or link to another account. Another thought filling out the form would indicate to the bank that she wanted to sign up for overdraft coverage, when in fact the form would actually signal that she wanted to opt out of this coverage.
- Whether or not they were able to correctly indicate whether check transactions would be covered, participants generally understood that automatic bill payments would be treated in the same way as checks. This was equally true whether participants were looking at the opt-out or opt-in forms.

Timing of Opt-Out Notice

- When asked whether accountholders should receive information about their right to opt out of overdraft coverage more than once, six said that they should. One participant stated that it was sufficient for banks to provide this information once at account-opening; two others did not express a clear opinion.
- Opinions of how often this information should be provided to accountholders varied from monthly to annually. One person commented that accountholders should be reminded of their right to opt out each time they are charged an overdraft fee.

Understanding of Opt-In Notice

- Only four of nine participants understood that overdraft coverage was automatically provided for checks, automatic bill payments, and some other types of transactions; the remainder thought that if they did nothing they would have no coverage on their account.
- Only four of the nine participants understood that they could add overdraft coverage for ATM withdrawals and debit card transactions if they wished. Others did not see this information on the notice.
- In an effort to address these significant points of confusion, two alternative wordings (Versions I4 and I5) were tested on the second day. Both versions indicated that overdraft coverage would be provided for checks, automatic bill payments and some other types of transactions. Version I4 then stated, “In addition, you can also sign up for overdraft coverage for ATM withdrawals and individual debit card transactions.” Version I5, on the other hand, included the more direct language, “We do not provide overdraft coverage on your account for ATM withdrawals and individual debit card transactions. However, if you want coverage on these transactions, you can sign up for it.” When asked which of these two notices they preferred, four of the five participants

on the second day indicated that they found Version I5 to be clearer and more explicit. One preferred Version I4, because she found the other notice was “too wordy.”

- There was also some empirical evidence that the wording used in Version I5 might be more effective. While neither of the two participants that were shown Version I4 understood that that ATM withdrawals and individual debit card transactions would be treated differently than checks, two of the three who were shown Version I5 understood this point.
- Three participants were confused by the statement that they would have coverage for “checks, automatic bill payments, and *other types of transactions*.”¹³ One commented that they could not think of any other types of transactions that were not addressed elsewhere on the notice. Two participants who were looking at the opt-in notice incorrectly assumed that ATM and individual debit card transactions could sometimes fall into the category of “other types of transactions.”

Participants’ Attitude toward Overdraft Coverage

- Five of the nine participants indicated that if they were opening a checking account, they would want overdraft coverage on ATM and debit card transactions. However, it was not clear that these participants specifically wanted the “overdraft coverage” described on the notice; most indicated that they would prefer a link to another account if it was less expensive. Two participants indicated that they would not want any overdraft coverage on ATM and debit card transactions, while the remaining two were unsure.
- Two of the nine participants indicated that if they could, they would want to opt out of overdraft coverage for all transactions, including checks and recurring debits. One of the two described his philosophy toward overdrafts as simply, “don’t let me charge if I don’t have the money.”
- Five of the nine participants indicated that if they wanted to sign up for or opt out of coverage, they would prefer to do so by phone. The remaining four indicated that they would do so online. None said that they would use the tear-off form provided at the bottom of the page.

Preference for Opt-Out vs. Opt-In

- Six of the nine participants indicated that they would prefer that the bank give them the opportunity to opt into overdraft coverage, rather than enrolling them automatically and giving them the opportunity to opt out. One compared the “opt-out” alternative to incidents when she had found herself subscribed for magazines because she had not realized she had to check a box to refuse them. The remaining three participants

¹³ In this case, the “other types” of transactions being referenced are other transactions made using a checking account number, such as online bill payments.

preferred that the bank enroll them automatically, primarily because they knew that they would want the coverage. One of the three commented that it was “safer” to be enrolled automatically.

Understanding of “Other Overdraft Services”

- All participants saw the information on the notice about other overdraft services. As noted above, however, three participants confused the link to another account with the “overdraft coverage” described on the notice.
- All participants indicated they would ask the bank for more information about these alternative overdraft services. Most said that they would be more interested in the link to another account than the line of credit; in fact, at least two already had a link between accounts at their own banks.
- Only two participants assumed that everyone would qualify for both of the alternative types of overdraft coverage described. The remaining seven said that whether accountholders could get a line of credit would depend on their creditworthiness. Three also said that accountholders would have to qualify to get a link to another account, while others assumed that all accountholders would be eligible for this overdraft service.
- When asked whether more information should be provided on the notice about alternative overdraft services, two said that they would want information about the fees associated with these alternatives. Another said that the notice should explain how “overdraft coverage” differs from these other services.

ROUND 3: INTERVIEWS IN BETHESDA, MD (AUGUST 17 AND 18, 2009)

ICF Macro conducted a third round of nine cognitive interviews in Bethesda, Maryland on August 17 and 18, 2009. One of the primary goals of this round was to develop a notice that would address a continuing point of confusion for participants—that regardless of whether they chose to have overdraft coverage on ATM and one-time debit card transactions, the bank would still cover transactions for other types of transactions, including checks.

Beginning in Round 3, the opt-out notice was no longer used in the interviews; participants were shown only an opt-in notice, reflecting a decision to focus testing efforts solely on the opt-in notice.

Disclosure Notices Tested

As in prior rounds, different versions of the notice were used: Version I6 on the first day of testing, and Version I7 on the second day (provided in Appendix E). These notices differed from those used in Round 2 in a number of ways, including the following:

- Information about fees was moved lower in the notice, while information about how different types of transactions would be treated was moved higher. This change was made because most participants in earlier rounds of testing had clearly understood the fees, while many had misunderstood the treatment of different types of overdrafts.
- Information about how different types of overdrafts would be treated by the bank was provided in a table, rather than in narrative form. The intent of this change was to make this information more prominent.
- A section was added to the notice titled, “What happens if I don’t have overdraft coverage for a transaction?” The first sentence of this section stated that if the consumer did not have overdraft coverage, in most cases their transaction would be declined or returned. The next three sentences explained that consumers could still overdraw their account if they did not have overdraft coverage.
- The notices used in Round 2 had distinguished overdraft coverage from “other overdraft services” that the bank offered. The versions used in Round 3 referred to these other services as “overdraft protection plans.” The intent of the new wording was to further distinguish these plans from the overdraft coverage described in the notice.
- On the first day of testing, the first section of the notice included a reference to overdraft protection plans, and then provided more information about these plans in a later section. On the second day, all information about overdraft protection plans was moved to the first section in order to make more efficient use of space.

- Because some participants in Round 2 had been confused by the statement that the bank provides coverage on checks, automatic bill payments, and “other types of transactions,” the notices used in Round 3 substituted the phrase “transactions using your checking account number” for “other types of transactions.”
- The title of the notice was changed from “Your Choices Regarding Overdraft Coverage” to “What You Need to Know About Overdrafts and Overdraft Fees,” to assess whether this heading would improve the likelihood that consumers would read the disclosure.
- The daily overdraft fee was added back into notices for this round, under the label “sustained overdraft fee.”
- Because of the increased space needed for the two tables and other information that was added, the notices that were tested in Round 3 were printed on legal-sized paper. Notices for all other rounds were printed on letter-size paper.

Key Interview Findings

Previous Overdraft Experience

- All nine participants indicated that at some point in the past they had spent more money than they had in their account, and that the transaction had been allowed by their bank. Six indicated that they had subsequently been charged a fee. The remaining three participants indicated that they were not charged for overdrafts because they had overdraft protection on their checking accounts in the form of a link to a savings account or a line of credit.
- The six participants that had been charged a fee for overdrawing their account were evenly split as to whether they would have wanted these transactions paid or denied. Three said that they would have preferred to have the transaction denied so that they would not have been charged fees. The other three, however, preferred to pay the fee and have the transaction paid. One of these participants indicated that this was because he didn’t want “bad credit,” while another said that he didn’t mind being charged fees because he trusts his bank. The third noted that the bank had reversed her fee when she called to ask about it.

General Understanding of Overdraft Coverage

- Most participants understood that if they had overdraft coverage for a particular transaction and tried to spend more money than they had in their account, the bank would pay the amount. As in previous rounds, however, a few participants (in this case, two of the nine) had difficulty distinguishing between the “overdraft coverage” described on the notice and “overdraft protection plans” offered by the bank. This confusion existed despite the fact that the notices being tested specifically stated that these two sets of practices were different.

- Four of the nine participants initially had the misconception that if they had overdraft coverage they would not be charged a fee for overdrafts. In three cases this seemed to be because of the use of the phrase “overdraft coverage”—one participant commented that if their transactions were “covered,” they would assume that they would not be charged a fee. In two of these cases this misconception was so strong that even after the interviewer explained otherwise, both still assumed that they would not be charged any fees.
- Six of the nine participants understood that if they did not have overdraft coverage, their transactions would be denied. The remaining three incorrectly thought that their transactions would be paid, but because they did not have coverage they would be charged a fee. This misconception was related to the incorrect belief that “overdraft coverage” meant that they would not be charged fees for overdrawing their account.
- Six participants were asked whether they thought the bank’s overdraft coverage program meant that it would pay all overdrafts. Three correctly stated that overdraft coverage was discretionary, although one of the three did not see this information in the notice and based her answer only on prior experience. Two incorrectly thought that the bank would pay all overdrafts, while the remaining participant did not know. As in previous rounds, those participants that understood that the bank had discretion thought that the bank’s decision whether or not to pay overdrafts would depend on the size of the transaction or the customer’s history with the bank.
- Six of eight participants¹⁴ understood that even if they did not have the overdraft coverage described on the notice, it was still possible that they would overdraw their account through an ATM or debit card transaction. Five of the six saw this information on the notice, while the sixth just assumed this was the case. The remaining two participants incorrectly thought that if they did not have overdraft coverage for ATM or individual debit card transactions, there was no way they could overdraw their account.
- Only five of eight participants who were asked understood the meaning of the phrase “one-time debit card transactions.” The remaining three participants misinterpreted this phrase; two thought it referred to debit cards that could only be used once, while the third thought it meant that the customer was only allowed to overdraw his or her account once with each debit card. One of the participants that did understand the phrase suggested that “everyday debit card transactions” would be a clearer way to describe these transactions. Two subsequent participants that were asked whether they preferred the term “one-time” or “everyday” indicated that they felt the latter term was clearer.
- Six participants were asked what would happen if they did not have overdraft coverage on checks and wrote a check to their gas company for more money than was in their

¹⁴ One of the nine participants in this round of testing had very low comprehension of overdraft coverage in general, even after reading this notice several times. As a result, this participant was not asked a number of the follow-up questions.

account. Five correctly answered that they would likely be charged a fee by both their bank (for bouncing their check) and the gas company. The remaining participant indicated thought he would be charged a fee by the gas company, but not by his bank.

Understanding of Right to Opt In

- All nine participants at least initially had the misconception that if they did not actively sign up for overdraft coverage, the bank would not cover any types of transactions. This confusion seemed to be for a variety of reasons. First, at least two participants were distracted by the presence of the tear-off form at the bottom of the page, and seemed to think that if the form was not returned there would be no overdraft coverage on the account. Some participants simply overlooked the table showing which transactions were covered. For example, one participant stated that there was no place on the notice that mentioned how different transaction types would be handled, even though this was the stated purpose of the table. Other participants saw and understood the table, but incorrectly thought that the table showed what types of transactions would be covered if they requested overdraft coverage. While about half understood after re-reading the notice more carefully that coverage on certain transactions would be provided automatically, others remained confused on this point.
- A few participants were distracted by a paragraph on the notice describing instances in which a customer could still overdraw their account even if they did not have overdraft coverage. When asked to explain how the bank would handle overdrafts, they referred exclusively to this section of the notice—even though the intent of this paragraph was to describe less-common instances when an overdraft could occur.
- All but two of the participants understood that they had the option of signing up for overdraft coverage on ATM and debit card transactions. As noted above, however, all participants also incorrectly thought that they also had to sign up for coverage on other transactions as well.
- After the fact that the bank automatically provides overdraft coverage on some transactions was explained to them, several participants suggested that the notice state that this coverage “comes standard” on their account. This terminology, they felt, would be best understood by consumers.
- All nine participants assumed that if they signed up for overdraft coverage on ATM and debit card transactions, the bank would later allow them to remove the coverage from their account if they wished. As one put it, “I assume that if I sign up, I could get out of it.”

Participants’ Attitude toward Overdraft Coverage

- Of eight participants that were asked, four initially indicated that they would want overdraft coverage on ATM and debit card transactions, while the other four said that

they would not want coverage on these transactions. Of the latter four, two later indicated that they might opt into the coverage, just in case of emergencies.

- Only one participant indicated that she would want to opt out of overdraft coverage for all transaction types if given the chance. However, this participant also indicated that she would opt into coverage on ATM and debit card transactions, so her responses were contradictory. All other participants indicated that they would want coverage at least on checks and automatic bill payments.
- When asked how they would contact their bank to sign up for overdraft coverage on ATM and debit card transactions, participants were split evenly. Four indicated that they would call the phone number shown on the notice, four indicated that they would go to the website provided, and one was unsure which of the two methods she would use. None said that they would use the tear-off form provided at the bottom of the notice.

Preference for Opt-Out vs. Opt-In

- Of the eight participants that were asked, seven said they would prefer that the bank give them the opportunity to opt into overdraft coverage, rather than enrolling them automatically and giving them the opportunity to opt out. One commented that the latter scenario would make him feel like the coverage had been “forced” on him, while another said that he generally did not like to be automatically enrolled in anything. Another participant said that she would find it “easier to agree to getting something, rather than to asking to remove it.”
- The one participant who preferred that he be automatically enrolled in coverage rather than given the opportunity to opt in did not understand what “overdraft coverage” was; he incorrectly believed that if he had this coverage he would not be charged any fees for overdrawing his account.

Overdraft Protection Plans as an Alternative to Overdraft Coverage

- Six participants generally understood the information provided on the notice about “overdraft protection plans.” The other three indicated that they did not understand the notice’s reference to plans that “link your account with a savings account, a credit card account, or a line of credit.”
- All participants indicated they would ask the bank for more information about overdraft protection plans. When asked why, all but two mentioned the language in the notice indicating that these plans “may be less expensive” than overdraft coverage.
- Of seven participants that were asked, two thought that all customers would qualify for the overdraft protection plans described in the notice. The remaining five indicated that only some people would qualify based on their credit history.

- When asked whether more information about overdraft protection plans should be provided on the notice, two participants commented that they would have liked to see more description of the plans and how they differed from overdraft coverage. Other participants said that no additional information was needed on this notice.

ROUND 4: INTERVIEWS IN PHILADELPHIA, PA (SEPTEMBER 14 AND 15, 2009)

ICF Macro conducted a final round of 11 cognitive interviews in Philadelphia, Pennsylvania on September 14 and 15. In revising the notices for this round, ICF Macro attempted to address two important misconceptions that were apparent from Round 3: a) that “overdraft coverage” meant that consumers would not be charged fees if they overdrawed their account; and b) that if consumers did not opt into coverage, overdrafts by check or automatic bill payment would not be authorized.

Disclosure Notices Tested

As in Round 3, participants in Round 4 were shown only an opt-in notice. This notice differed from that used in the previous round in two significant ways. First, the phrase “overdraft coverage” was removed entirely. Both Board staff and ICF Macro were concerned that the use of this phrase seemed to imply to some participants in Round 3 that they would not be charged a fee for overdrawing their accounts. Therefore, rather than indicating that the bank provided “overdraft coverage” to customers and then describing the meaning of that term, the revised notices described how overdrafts would be handled and referred to these as the bank’s “standard overdraft practices.” As in the previous round, the notice then distinguished these “standard overdraft practices” from “overdraft protection plans” like a link to a savings account.

In addition to the elimination of the phrase “overdraft coverage,” the notice was shortened considerably. Board staff was concerned that the length of the notices used in Round 3 made it less likely that consumers would read them, and asked ICF Macro to find ways to make more efficient use of the space. For this reason, several elements were removed from the notice:

- The two tables that had been added to the notice in Round 3 were removed. Fees were disclosed in a narrative format (as they had been in Rounds 1 and 2), and information about whether different types of transactions would be paid by the bank was provided in bulleted form.
- The tear-off form at the bottom of the notice was removed, because very few participants in the first three rounds indicated that they would be likely to use this form to communicate with their bank.
- The statement that overdrafts could still occur even if the bank did not authorize them (for example, because of delays in charges posting to the account) was removed from the notice because it appeared in Round 3 to distract participants from the general opt-in concept. Instead, the notice used in Round 4 stated simply, “if we do not authorize and pay an overdraft, your transaction will be declined.”

Unlike in previous rounds, the same notice (Version I8) was used on both days of testing. This notice is provided in Appendix F.

Key Interview Findings

Previous Overdraft Experience

- Eight of the 11 participants indicated that at some point in the past they had spent more money than they had in their account, and that the transaction had been allowed by their bank. All eight indicated that they had subsequently been charged a fee.
- As in previous rounds, participants that had been charged a fee for overdrawing their account were evenly split as to whether they would have wanted these transactions paid if they had been given the choice. Four said that they would have preferred that the transactions be declined so that they would not have been charged fees. The other four were glad that the bank had paid the transactions, even if they were subsequently charged a fee. One noted that if the bank had allowed his check to be returned unpaid he would have had to pay two fees, one to the bank (for a returned check) and another to the company he was trying to pay. Another said that he would want overdrafts paid because he wouldn't want to be “kicked out of the bank” for bouncing a check.

Understanding of Standard Overdraft Practices

- In this round of testing, immediately after reviewing the notice participants were asked to explain what the word “overdraft” meant. All were able to do so easily—and while the notice provided a definition of the word in its first sentence, it appeared that almost all participants were already familiar with the term before reading the notice.
- After reading the notice, six participants immediately understood that the bank would pay overdrafts for checks and other transactions using their checking account number, and for automatic bill payments. Two other participants realized this after re-reading the notice. The remaining three participants did not understand that overdrafts for these transactions would be paid until this fact was explained to them by the interviewer. This represented a substantial improvement from previous rounds—in the previous round, for example, none of the nine participants realized that check overdrafts would be paid.
- In at least three cases, the reason that participants initially had difficulty understanding that check overdrafts would be paid was because they focused exclusively on the statement explaining what types of transactions would not be paid, while overlooking the list of types that would be paid. One of the three commented that this was because the word “not” was underlined, which made that sentence more prominent.
- Seven of the 11 participants clearly understood from the notice that overdrafts through an ATM or debit card transaction would not be paid by the bank unless specifically requested. An additional three participants correctly indicated that these overdrafts would not be paid, but appeared to base their answers on prior assumptions rather than a close reading of the notice. Again, this was a substantial improvement in comprehension from previous rounds.

- All but one participant understood that if the bank paid an overdraft, it would charge a fee of up to \$30. The remaining participant incorrectly thought that the phrase “we will authorize and pay overdrafts” meant that the bank would pay these overdrafts without charging a fee.
- Five of the 11 participants understood that the bank’s coverage of overdrafts was discretionary, and did not guarantee that any overdrafts would be authorized or paid. Of these five, two based their response to this question on the relevant text in the notice, while the remaining three simply assumed that the bank had the right to decline overdrafts if it wished. Of the remaining six participants, four incorrectly thought that the bank would pay all overdrafts, while the other two were unsure.
- As in previous rounds participants were asked whether they could overdraw their account through an everyday debit card transaction, even though the bank generally does not pay overdrafts for these transactions. However, because this information was removed from the notice prior to this round, participants’ answers were based only on their prior experience and assumptions. Of seven participants that were asked this question, three correctly stated that it would be possible to overdraw through an everyday debit card transaction even if they did not contact the bank to request that these transactions were paid. The remaining four participants incorrectly thought that this would not be possible.
- Nine of the 11 participants were able to correctly explain what the phrase “everyday debit card transaction” meant in the context of the notice. This was a substantially higher percentage than in previous rounds, when the phrases “one-time debit card transaction” or “individual debit card transaction” were used.
- Nine participants were asked what would happen if they wrote a check to their gas company for more money than was in their account and the bank did not pay the overdraft. All correctly indicated that they probably would be charged a fee by their gas company. Only six, however, understood that they probably would also be charged a returned check fee by their bank. The remaining three indicated that they did not think such a fee would be charged because it was not mentioned in the notice.
- All nine participants who were asked knew that they had the option to tell the bank to pay overdrafts for ATM and everyday debit card transactions, and understood how they could do so. As in the previous round, all participants assumed that if they asked the bank to authorize and pay transactions on ATM and everyday debit card transactions, they could later contact the bank to reverse their decision.

Participants’ Attitude toward Overdraft Coverage

- Of nine participants that were asked, only one initially indicated after reviewing the notice that he would want the bank to pay overdrafts on ATM and debit card transactions—and this participant said he had not overdrawn his account for years and would be unlikely to ever do again. Two other participants said at first that they would not want the bank to pay these transactions, but later indicated that they might want it to

in case of emergencies. The remaining six participants indicated that they would not want the bank to pay overdrafts for ATM and debit card transactions because of the fees that they would be charged.

- Three of nine participants indicated that if they could, they would instruct the bank to never pay any overdrafts for any types of transactions. The remaining six participants indicated that they would want the bank to pay overdrafts at least on checks and automatic bill payments.
- Seven participants indicated that if they wanted to instruct the bank to pay overdrafts on ATM and everyday debit card transactions they would call the bank. The remaining two said that they would go online to let their bank know they wanted these overdrafts to be paid.

Preference for Opt-Out vs. Opt-In

- Of the nine participants that were asked, five said they would prefer that the bank give them the opportunity to request that it pay overdrafts on ATM and everyday debit card transactions, rather than providing this coverage automatically and giving them the opportunity to opt out. As in previous rounds, several participants indicated that they did not like to be automatically signed up for programs or services without their prior consent.
- The remaining four participants indicated that they would prefer that the bank pay overdrafts on ATM and everyday debit card transactions as a standard practice. This was a deviation from previous rounds, when a higher percentage of participants preferred the “opt-in” strategy. However, at least two of the four participants this round that preferred the “opt-out” strategy seemed not to fully understand the distinction between these two choices. For example, one said that he preferred the “opt-out” strategy because it offered him more choice over his account, when in fact both strategies provide an equal degree of choice for customers.

Overdraft Protection Plans as an Alternative to Standard Overdraft Practices

- Unlike in previous rounds, participants generally did not confuse the “overdraft protection plans” offered by the bank with its “standard overdraft practices.” Only one participant did not understand that these are two distinct options for how their overdrafts could be handled.
- The notice used in Round 4 used “a link to a savings account” as an example of an overdraft protection plan offered by the bank. Of ten participants that were specifically asked to comment on this section of the notice, seven understood what a “link to a savings account” meant. The other three indicated that they did not know what this meant, but that they would ask their bank.

- All participants indicated they would ask the bank for more information about overdraft protection plans. When asked why, about half mentioned the text that indicated that these plans “may be less expensive” than the bank’s standard overdraft practices.
- When asked whether more information about overdraft protection plans should be provided on the notice, two participants commented that the bank should include information about the cost of these plans rather than simply indicating they “may be less expensive.” One participant said that the bank should provide a brief description of the plans, while another thought the notice should more clearly explain the difference between these plans and the bank’s standard overdraft practices. On the other hand, one participant specifically said that no more information should be provided because it would make the notice “too wordy.”

CHAPTER III: SUMMARY

This report summarizes the second phase of work conducted by ICF Macro in support of the Board's efforts to amend Regulation E rules related to overdraft coverage. The goal of this work was to revise the overdraft notices proposed by the Board in January 2009 to ensure that they communicate information to consumers effectively and clearly.

ICF Macro conducted four rounds of consumer interviews between May and October 2009 in order to test the effectiveness of these disclosure notices. In early rounds of testing, participants had a number of serious misconceptions about how overdrafts would be handled, including that a) if they did nothing they would have no coverage for overdrafts by check; b) overdrafts of all types would be treated the same by the bank; and c) if they had "overdraft coverage" they would not have to pay any overdraft fees. Over the course of the four rounds, ICF Macro and Board staff attempted to combat these misconceptions in a number of ways, with mixed success. However, the disclosure notice shown to participants in the last round of testing was substantially more effective than earlier versions. While this notice did not eliminate all misconceptions, participants who read this version had a much greater understanding of how their overdrafts would be handled and what their options were.

The results of the consumer research described in this report will inform the Board's final revisions to Regulation E (to be issued in November 2009), and the notice that was developed will be included as a model. By relying heavily on consumer testing in the development of this notice, the Board hopes to ensure that its new regulations will lead to disclosures that are easy for consumers to read and understand, and as a result will help them make well-informed financial decisions.

Appendix A: Sample Recruitment Screener

Note: The recruitment screeners used in different rounds varied slightly in terms of the quotas that were established for different criteria, but the questions remained the same in all rounds. The screener provided here was used in Round 1 of testing.

**Participant Screener for Federal Reserve Board Interviews
Tampa, FL
May 12th and 13th, 2009**

General Information and Recruiting Specifications

- Recruit 9 participants for 60-minute interviews
- Recruit two floaters per day, one to cover AM and the other to cover PM
- Participant stipend is \$75
- INTERVIEWERS: Ask all participants to bring their reading glasses if necessary, because they will be asked to read over several credit card documents as part of the interview.

Screening Questions

- Q1. Do you currently have a checking account with a bank?
- No → *Thank respondent politely and end call.*
 - Yes → Continue
- Q2: Are you the person in your household who is responsible for making financial decisions?
- No → *Thank respondent politely and end call.*
 - Yes → Continue
 - Yes, in cooperation with my [spouse, partner, etc.] → Continue
- Q3: Do you currently work for a bank or credit union?
- No → Continue
 - Yes → *Thank respondent politely and end call.*

Screening Question	Screening Criteria:
Q4: Have you ever had an overdraft on your checking account—that is, spent more money than was available in your account? a) Yes b) No c) Don't know	<ul style="list-style-type: none"> • At least 7 recruits must respond “a” to Q4
Q5: How much money do you have currently in your checking account? a) Under \$500 b) \$500 or over	<ul style="list-style-type: none"> • At least 5 recruits must respond “a”

<p>Q6: What is your age?</p> <ul style="list-style-type: none"> a) 18 to 25 b) 26 to 35 c) 36 to 45 d) 45 to 60 e) 61+ 	<ul style="list-style-type: none"> • At least 4 recruits should respond “a” or “b” • At least 4 recruits should respond “c”, “d”, or “e”
<p>Q7: What is your ethnicity?</p> <ul style="list-style-type: none"> a) White b) African-American c) Latino d) Asian e) Other 	<ul style="list-style-type: none"> • At least 3 recruits should respond “b”, “c”, “d”, or “e” to Q7
<p>Q8: What is the highest level that you reached in school?</p> <ul style="list-style-type: none"> a) Attended some high school b) Graduated from high school c) Attended some college d) Graduated from college 	<ul style="list-style-type: none"> • At least 4 recruits should respond “a” or “b”
<p>Q9: Gender</p>	<ul style="list-style-type: none"> • At least 3 recruits of each gender

Appendix B: Information about Participants

	Round 1: Tampa (n=9)	Round 2: Denver (n=9)	Round 3: Bethesda (n=9)	Round 4: Philadelphia (n=11)	Total (n=38)*
Gender					
Male	4	7	4	6	21 (55%)
Female	5	2	5	5	17 (45%)
Age					
18-25	2	1	3	2	8 (21%)
26-35	1	3	1	3	8 (21%)
36-45	2	3	1	4	10 (26%)
46-60	3	1	2	1	7 (18%)
61+	1	1	2	1	5 (13%)
Race/Ethnicity**					
Caucasian	5	3	6	8	22 (58%)
African-American	2	2	3	2	9 (24%)
Hispanic	2	3	0	0	5 (13%)
Asian	0	0	0	1	1 (3%)
Other	1	1	0	0	2 (5%)
Education Level					
Some high school	0	0	1	0	1 (3%)
High school graduate	4	1	2	4	11 (29%)
Some college	2	3	3	3	11 (29%)
College graduate	3	5	3	4	15 (39%)
Current Checking Account Balance					
Under \$500	1	3	5	6	15 (39%)
\$500 or more	8	6	4	5	23 (61%)

*Totals may not add up to 100%, because of rounding.

**One participant in Tampa identified him/herself as both White and African-American.

Appendix C: Disclosure Notices Used in Round 1 of Testing

- Notices Used on First Day of Testing:
 - Version O1
 - Version I1
- Notices Used on Second Day of Testing:
 - Version O2
 - Version I2

EXPLANATION OF OVERDRAFT COVERAGE

Description of Your Coverage

We provide overdraft coverage for your account. This means that if you do not have enough money in your account for an ATM withdrawal or a one-time debit card transaction, we may still authorize the transaction and pay the overdraft. Having overdraft coverage does **not** guarantee that we will authorize your overdrafts in all cases. If we decide to pay an overdraft, we will charge you a fee. See below for more information, including how to opt out if you do not want us to authorize any ATM or one-time debit card overdrafts.

Overdraft Fees

- We will charge you up to \$30 each time we pay an overdraft.
- We will also charge you \$5 for each day your account remains overdrawn.
- There is no limit on the total amount of fees we can charge you for overdrawing your account.

Your Right to Opt Out of Overdraft Coverage

You may opt out of overdraft coverage for ATM withdrawals and one-time debit card transactions by telling us not to authorize these transactions when you do not have enough money in your account. Opting out may allow you to limit the overdraft fees you are charged. However, some overdrafts could still occur even if you opt out. For example, you may have enough money in your account when we authorize a transaction, but other transactions may reduce the amount in your account before that transaction clears. If this causes an overdraft, you will be charged a fee.

Opting out will not affect whether we pay overdrafts for other types of transactions, including checks. If we decide to pay these overdrafts, we will charge you a fee.

Other Ways to Cover Your Overdrafts

We offer other ways of covering your overdrafts that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How to Opt Out or Get More Information

To opt out of overdraft coverage or request information about other ways to cover your overdrafts:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I do not want overdraft coverage for my ATM withdrawals and one-time debit card transactions.
 I want information about other ways to cover my overdrafts.

Printed Name: _____

Date: _____

Account Number: _____

REQUESTING OVERDRAFT COVERAGE

Your Right to Request Overdraft Coverage

If you do not have enough money in your account for an ATM withdrawal or one-time debit card transaction, we will usually decline the transaction. In these cases, you may be unable to complete the transaction unless you have another form of payment. **If you want us to authorize and pay these overdrafts, you can request overdraft coverage.** Having overdraft coverage does **not** guarantee that we will authorize your overdrafts in all cases. If we decide to authorize and pay an overdraft, we will charge you a fee.

Even if you do not request overdraft coverage for ATM withdrawals and one-time debit card transactions, overdrafts could still occur in some cases. For example, you may have enough money in your account when we authorize a transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account and you will be charged a fee.

Your choice will not affect whether we pay overdrafts for other types of transactions, including checks. If we decide to pay these overdrafts, we will charge you a fee.

Overdraft Fees

- We will charge you up to \$30 each time we pay an overdraft.
- We will also charge you \$5 for each day your account remains overdrawn.
- There is no limit on the total amount of fees we can charge you for overdrawing your account.

Other Ways to Cover Your Overdrafts

We offer other ways of covering your overdrafts that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How to Request Overdraft Coverage or Get More Information

To request overdraft coverage or information about other ways to cover your overdrafts:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I want overdraft coverage for my ATM withdrawals and one-time debit card transactions.

I want information about other ways to cover my overdrafts.

Printed Name: _____

Date: _____

Account Number: _____

EXPLANATION OF OVERDRAFT COVERAGE

Description of Your Coverage

Unless you tell us otherwise, we provide overdraft coverage for your account. This means that if you do not have enough money in your account for an ATM withdrawal or a one-time debit card transaction, we may still authorize the transaction and pay the overdraft. Having overdraft coverage does **not** guarantee that we will authorize your overdrafts in all cases. If we decide to pay an overdraft, we will charge you a fee. See below for more information, including how to opt out if you do not want us to authorize any ATM or one-time debit card overdrafts.

Overdraft Fees

- We will charge you up to \$30 each time we pay an overdraft.
- We will also charge you \$5 for each day your account remains overdrawn.
- There is no limit on the total amount of fees we can charge you for overdrawing your account.

Your Right to Opt Out of Overdraft Coverage

You may opt out of overdraft coverage for ATM withdrawals and one-time debit card transactions by telling us not to authorize these transactions when you do not have enough money in your account. Opting out may allow you to limit the overdraft fees you are charged. However, some overdrafts could still occur even if you opt out. For example, you may have enough money in your account when we authorize a transaction, but other transactions may reduce the amount in your account before that transaction clears. If this causes an overdraft, you will be charged a fee.

Even if you opt out of coverage for ATM withdrawals and one-time debit card transactions, we may still pay overdrafts for other types of transactions, including checks and recurring debits. If we do pay these overdrafts, we will charge you a fee.

Other Ways to Cover Your Overdrafts

We offer other ways of covering your overdrafts that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How to Opt Out or Get More Information

To opt out of overdraft coverage or request information about other ways to cover your overdrafts:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

You do not need to do anything if you want overdraft coverage for your account.

 I do not want overdraft coverage for my ATM withdrawals and one-time debit card transactions.
 I want information about other ways to cover my overdrafts.

Printed Name: _____

Date: _____

Account Number: _____

REQUESTING OVERDRAFT COVERAGE

Your Right to Request Overdraft Coverage

If you do not have enough money in your account for an ATM withdrawal or one-time debit card transaction, we will usually decline the transaction. In these cases, you may be unable to complete the transaction unless you have another form of payment. **If you want us to authorize and pay these overdrafts, you can request overdraft coverage.** Having overdraft coverage does **not** guarantee that we will authorize your overdrafts in all cases. If we decide to authorize and pay an overdraft, we will charge you a fee.

Even if you do not request overdraft coverage for ATM withdrawals and one-time debit card transactions, overdrafts could still occur in some cases. For example, you may have enough money in your account when we authorize a transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account and you will be charged a fee.

Whether or not you request overdraft coverage for ATM withdrawals and one-time debit card transactions, we may still pay overdrafts for other types of transactions, including checks and recurring debits. If we do pay these overdrafts, we will charge you a fee.

Overdraft Fees

- We will charge you up to \$30 each time we pay an overdraft.
- We will also charge you \$5 for each day your account remains overdrawn.
- There is no limit on the total amount of fees we can charge you for overdrawing your account.

Other Ways to Cover Your Overdrafts

We offer other ways of covering your overdrafts that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How to Request Overdraft Coverage or Get More Information

To request overdraft coverage or information about other ways to cover your overdrafts:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I want overdraft coverage for my ATM withdrawals and one-time debit card transactions.

I want information about other ways to cover my overdrafts.

Printed Name: _____

Date: _____

Account Number: _____

Appendix D: Disclosure Notices Used in Round 2 of Testing

- Notices Used on First Day of Testing:
 - Version O3
 - Version I3
- Notices Used on Second Day of Testing:
 - Version O4
 - Version I4
 - Version I5

YOUR CHOICES REGARDING OVERDRAFT COVERAGE

What is overdraft coverage?

Unless you tell us otherwise, we will automatically provide overdraft coverage for your account. This means that if you make a transaction for more money than you have in your account, we may authorize and pay the transaction anyway. However, having overdraft coverage does not guarantee that we will always authorize your overdrafts. *Note that this coverage differs from other overdraft services we offer, such as a link to another account you have with us or an overdraft line of credit.*

Will I be charged any fees for overdrawing my account?

Yes. We will charge you up to \$30 each time we pay an overdraft. There is no limit on the total amount of fees we can charge you for overdrawing your account.

What if I don't want overdraft coverage?

You can opt out of overdraft coverage for ATM withdrawals and individual debit card transactions (see below). However, even if you do opt out, we will still continue to provide overdraft coverage for checks, automatic bill payments, and other types of transactions. If we do pay these overdrafts, we will charge you fees.

Could I overdraw my account even if I opt out of overdraft coverage for ATM withdrawals and debit card transactions?

Yes, in some cases. For example, you may have enough money in your account when we authorize a debit card transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account, and you will be charged fees.

What other options do I have for covering overdrafts?

We offer other ways of covering your overdrafts that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How do I opt out of overdraft coverage?

To opt out of overdraft coverage on ATM withdrawals and individual debit card transactions, or for information about other ways to cover your overdrafts:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I do not want overdraft coverage for ATM withdrawals and individual debit card transactions.

Printed Name: _____

Date: _____

Account Number: _____

YOUR CHOICES REGARDING OVERDRAFT COVERAGE

What is overdraft coverage?

If you have overdraft coverage and make a transaction for more money than you have in your account, we may authorize and pay the transaction anyway. However, having overdraft coverage does not guarantee that we will always authorize your overdrafts. *Note that this coverage differs from other overdraft services we offer, such as a link to another account you have with us or an overdraft line of credit.*

Will I be charged any fees for overdrawing my account?

Yes. We will charge you up to \$30 each time we pay an overdraft. There is no limit on the total amount of fees we can charge you for overdrawing your account.

What are my choices regarding overdraft coverage?

We provide overdraft coverage on your account for checks, automatic bill payments, and some other types of transactions.

In addition, you have the option to sign up for overdraft coverage for ATM withdrawals and individual debit card transactions (see below).

Could I overdraw my account even if I don't sign up for overdraft coverage for ATM withdrawals and debit card transactions?

Yes, in some cases. For example, you may have enough money in your account when we authorize a debit card transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account, and you will be charged fees.

What other options do I have for covering overdrafts?

We offer other ways of covering your overdrafts that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How do I sign up for overdraft coverage on ATM withdrawals and debit card transactions?

To sign up for overdraft coverage on ATM withdrawals and individual debit card transactions, or for information about other ways to cover your overdrafts:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I want overdraft coverage for ATM withdrawals and individual debit card transactions.

Printed Name: _____

Date: _____

Account Number: _____

YOUR CHOICES REGARDING OVERDRAFT COVERAGE

What is overdraft coverage?

Unless you tell us otherwise, we will automatically provide overdraft coverage for your account. This means that if you make a transaction for more money than you have in your account, we may authorize and pay the transaction anyway. However, having overdraft coverage does not guarantee that we will always authorize your overdrafts. *Note that this coverage differs from other overdraft services we offer, such as a link to another account you have with us or an overdraft line of credit.*

Will I be charged any fees for overdrawing my account?

Yes. We will charge you up to \$30 each time we pay an overdraft. There is no limit on the total amount of fees we can charge you for overdrawing your account.

What if I don't want overdraft coverage?

You can opt out of overdraft coverage for ATM withdrawals and individual debit card transactions (see below). However, even if you do opt out, we will still continue to provide overdraft coverage for checks, automatic bill payments, and other types of transactions. If we do pay these overdrafts, we will charge you fees.

Could I overdraw my account even if I opt out of overdraft coverage for ATM withdrawals and debit card transactions?

Yes, in some cases. For example, you may have enough money in your account when we authorize a debit card transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account, and you will be charged fees.

What other options do I have regarding overdraft services?

We offer other overdraft services that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How do I opt out of overdraft coverage on ATM withdrawals and debit card transactions?

To opt out of overdraft coverage on ATM withdrawals and individual debit card transactions, or for information about other overdraft services:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I do not want overdraft coverage for ATM withdrawals and individual debit card transactions.

Printed Name: _____

Date: _____

Account Number: _____

YOUR CHOICES REGARDING OVERDRAFT COVERAGE

What is overdraft coverage?

If you have overdraft coverage and make a transaction for more money than you have in your account, we may authorize and pay the transaction anyway. However, having overdraft coverage does not guarantee that we will always authorize your overdrafts. *Note that this coverage differs from other overdraft services we offer, such as a link to another account you have with us or an overdraft line of credit.*

Will I be charged any fees for overdrawing my account?

Yes. We will charge you up to \$30 each time we pay an overdraft. There is no limit on the total amount of fees we can charge you for overdrawing your account.

Do I have overdraft coverage on my account?

We provide overdraft coverage on your account for checks, automatic bill payments, and some other types of transactions.

In addition, you can also sign up for overdraft coverage for ATM withdrawals and individual debit card transactions (see below).

Could I overdraw my account even if I don't sign up for overdraft coverage for ATM withdrawals and debit card transactions?

Yes, in some cases. For example, you may have enough money in your account when we authorize a debit card transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account, and you will be charged fees.

What other options do I have regarding overdraft services?

We offer other overdraft services that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How do I sign up for overdraft coverage on ATM withdrawals and debit card transactions?

To sign up for overdraft coverage on ATM withdrawals and individual debit card transactions, or for information about other overdraft services:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I want overdraft coverage for ATM withdrawals and individual debit card transactions.

Printed Name: _____

Date: _____

Account Number: _____

YOUR CHOICES REGARDING OVERDRAFT COVERAGE

What is overdraft coverage?

If you have overdraft coverage and make a transaction for more money than you have in your account, we may authorize and pay the transaction anyway. However, having overdraft coverage does not guarantee that we will always authorize your overdrafts. *Note that this coverage differs from other overdraft services we offer, such as a link to another account you have with us or an overdraft line of credit.*

Will I be charged any fees for overdrawing my account?

Yes. We will charge you up to \$30 each time we pay an overdraft. There is no limit on the total amount of fees we can charge you for overdrawing your account.

Do I have overdraft coverage on my account?

We provide overdraft coverage on your account for checks, automatic bill payments, and some other types of transactions.

We do not provide overdraft coverage on your account for ATM withdrawals and individual debit card transactions. However, if you want coverage on these transactions, you can sign up for it (see below).

Could I overdraw my account even if I don't sign up for overdraft coverage for ATM withdrawals and debit card transactions?

Yes, in some cases. For example, you may have enough money in your account when we authorize a debit card transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account, and you will be charged fees.

What other options do I have regarding overdraft services?

We offer other overdraft services that may be less expensive, such as a link to another account you have with us or an overdraft line of credit. Ask us about these options.

How do I request overdraft coverage on ATM withdrawals and debit card transactions?

To request overdraft coverage on ATM withdrawals and individual debit card transactions, or for information about other overdraft services:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I want overdraft coverage for ATM withdrawals and individual debit card transactions.

Printed Name: _____

Date: _____

Account Number: _____

Appendix E: Disclosure Notices Used in Round 3 of Testing

- Notice Used on First Day of Testing:
 - Version I6
- Notice Used on Second Day of Testing:
 - Version I7

Note: Unlike the notices used in other rounds, Versions I6 and I7 were designed to be printed on legal-sized paper.

What You Need to Know about Overdrafts and Overdraft Fees

➤ What is “overdraft coverage”?

If you have overdraft coverage and do not have enough money in your account to cover a transaction, we may authorize and pay it anyway. We will charge you fees each time we pay an overdraft (see below).

Overdraft coverage is not the same as overdraft protection plans that we offer, which link your account with a savings account, a credit card account or a line of credit.

➤ Do I have overdraft coverage on my account?

It depends on the kind of transaction you are making, as shown in the table below.

Type of transaction	Do I have overdraft coverage?*
- Checks	Yes
- Automatic bill payments	Yes
- Transactions using your checking account number	Yes
- ATM transactions	No, unless you sign up for it (see below)
- One-time debit card transactions	No, unless you sign up for it (see below)

*Overdraft coverage is discretionary, and does not guarantee that we will pay all overdrafts.

➤ What happens if I don't have overdraft coverage for a transaction?

If you do not have overdraft coverage, in most cases your transactions will be declined or returned.

However, there may be instances when you can still overdraw your account. For example, you may have enough money in your account when we authorize a debit card transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account, and you will be charged fees.

➤ What are the fees for overdraft coverage?

Type of fee	Fee**
- Overdraft fee	Up to \$30 for each overdraft item.
- Sustained overdraft fee	\$5 per day, if your account is overdrawn for 5 or more consecutive business days.

**There is no limit on the total fees we can charge you for overdrawing your account.

➤ What alternatives do I have to overdraft coverage?

We offer overdraft protection plans that may be less expensive than overdraft coverage. These plans link your account to another account with us, such as a savings account, credit card account or line of credit. Ask us about these plans.

➤ How can I sign up for overdraft coverage for ATM and one-time debit card transactions?

To sign up for overdraft coverage for ATM and one-time debit card transactions, or for information about overdraft protection plans:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

 I want to sign up for overdraft coverage for ATM and one-time debit card transactions.

Printed Name: _____

Date: _____

Account Number: _____

What You Need to Know about Overdrafts and Overdraft Fees

➤ How does Solar Bank treat overdrafts on my account?

Even if you do not have enough money in your account to cover a transaction, we may authorize and pay it anyway depending on the type of transaction you make. If we do, we will charge you fees (see below). This service, which comes with your account, is called “overdraft coverage.”

As an alternative to overdraft coverage, we also offer overdraft protection plans that may be less expensive. Ask us about these plans. Our overdraft protection plans include:

- A link to a savings account you have with us;
- A link to a credit card you have with us; or
- An overdraft line of credit.

➤ How does overdraft coverage apply to my account?

Overdraft coverage applies as shown in the table below.

Type of transaction	Do I have overdraft coverage?*
Checks	Yes
Automatic bill payments	Yes
Transactions using your checking account number	Yes
ATM transactions	No, unless you sign up for it (see below)
One-time debit card transactions	No, unless you sign up for it (see below)

*Overdraft coverage is discretionary, and does not guarantee that we will pay all overdrafts.

➤ What happens if I don't have overdraft coverage for a transaction?

If you do not have overdraft coverage, in most cases your transactions will be declined or returned.

However, there may be instances when you can still overdraw your account. For example, you may have enough money in your account when we authorize a debit card transaction, but other transactions may reduce the funds in your account before that transaction clears. This may cause you to overdraw your account, and you will be charged fees.

➤ What are the fees for overdraft coverage?

Type of fee	Fee**
Overdraft fee	Up to \$30 for each overdraft item.
Sustained overdraft fee	\$5 per day, if your account is overdrawn for 5 or more consecutive business days.

**There is no limit on the total fees we can charge you for overdrawing your account.

➤ How can I sign up for overdraft coverage for ATM and one-time debit card transactions?

To sign up for overdraft coverage for ATM and one-time debit card transactions, or for information about overdraft protection plans:

- Call us at 1-800-555-1234;
- Visit www.solarbank.com/overdrafts; or
- Complete the form below and mail it to Solar Bank, P.O. Box 1234, Pittsburgh, PA 19714.

___ I want to sign up for overdraft coverage for ATM and one-time debit card transactions.

Printed Name: _____

Date: _____

Account Number: _____

Appendix F: Disclosure Notice Used in Round 4 of Testing

- Notice Used on Both Days of Testing:
 - Version I8

What You Need to Know about Overdrafts and Overdraft Fees

An overdraft occurs when you do not have enough money in your account to cover a transaction, but we pay it anyway. We can cover your overdrafts in two different ways:

1. We have standard overdraft practices that come with your account.
2. We also offer overdraft protection plans, such as a link to a savings account, which may be less expensive than our standard overdraft practices. To learn more, ask us about these plans.

This notice explains our standard overdraft practices.

➤ What are the standard overdraft practices that come with my account?

We authorize and pay overdrafts for the following types of transactions:

- Checks and other transactions made using your checking account number
- Automatic bill payments

We do not authorize and pay overdrafts for the following types of transactions unless you ask us to (see below):

- ATM transactions
- Everyday debit card transactions

We pay overdrafts at our discretion, which means we do not guarantee that we will always authorize and pay any type of transaction.

If we do not authorize and pay an overdraft, your transaction will be declined.

➤ What fees will I be charged if Solar Bank pays my overdraft?

Under our standard overdraft practices:

- We will charge you a fee of up to **\$30** each time we pay an overdraft.
- Also, if your account is overdrawn for 5 or more consecutive business days, we will charge an additional \$5 per day.
- There is no limit on the total fees we can charge you for overdrawing your account.

➤ What if I also want Solar Bank to authorize and pay overdrafts on my ATM and everyday debit card transactions?

If you also want us to authorize and pay overdrafts on ATM and everyday debit card transactions, call 1-800-555-1234 or visit www.solarbank.com/overdrafts.



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