

Stango and Zinman  
“Limited and Varying Consumer Attention: Evidence  
from Shocks to the Salience of Bank Overdraft Fees”

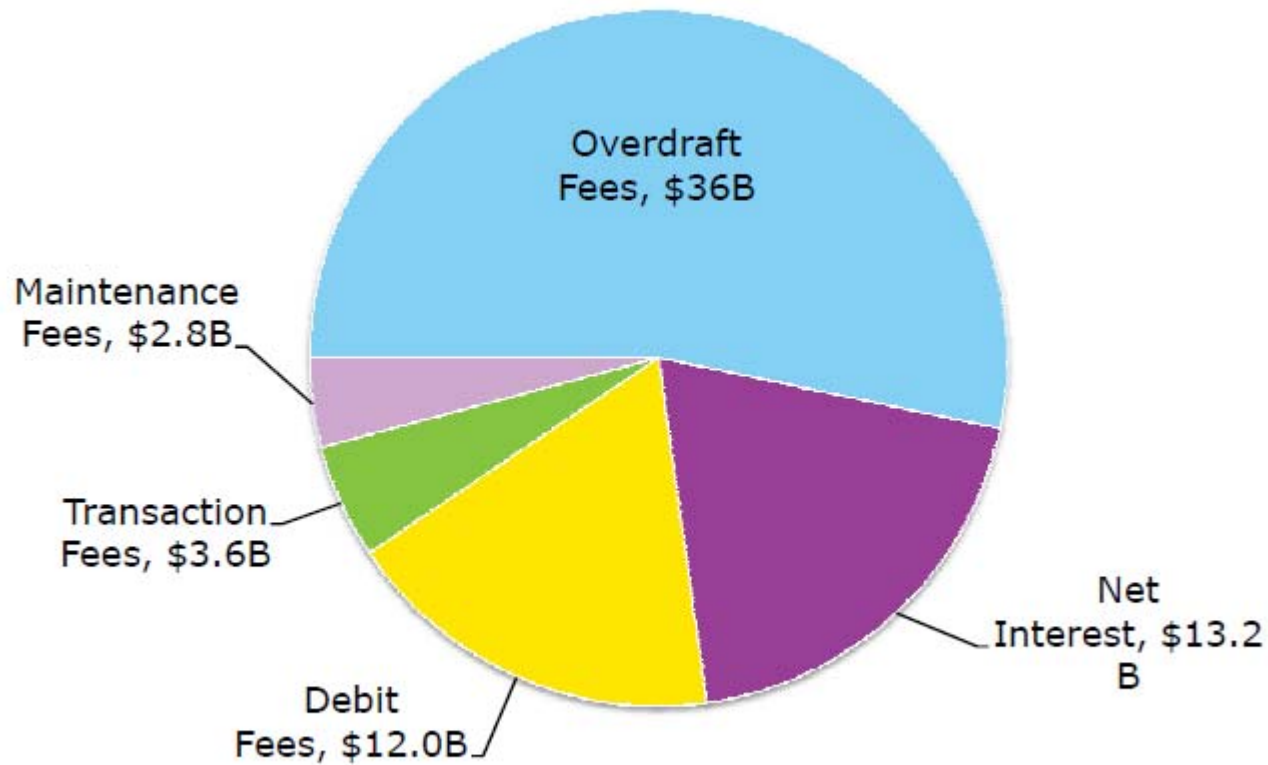
Discussion by Karen Pence  
Federal Reserve Board

**DISCLAIMER. THESE ARE MY VIEWS AND NOT NECESSARILY  
THOSE OF THE FEDERAL RESERVE BOARD OR ITS STAFF.**

# Overdraft fees are a large source of revenue for banks

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Industry revenue from checking fees, 2008



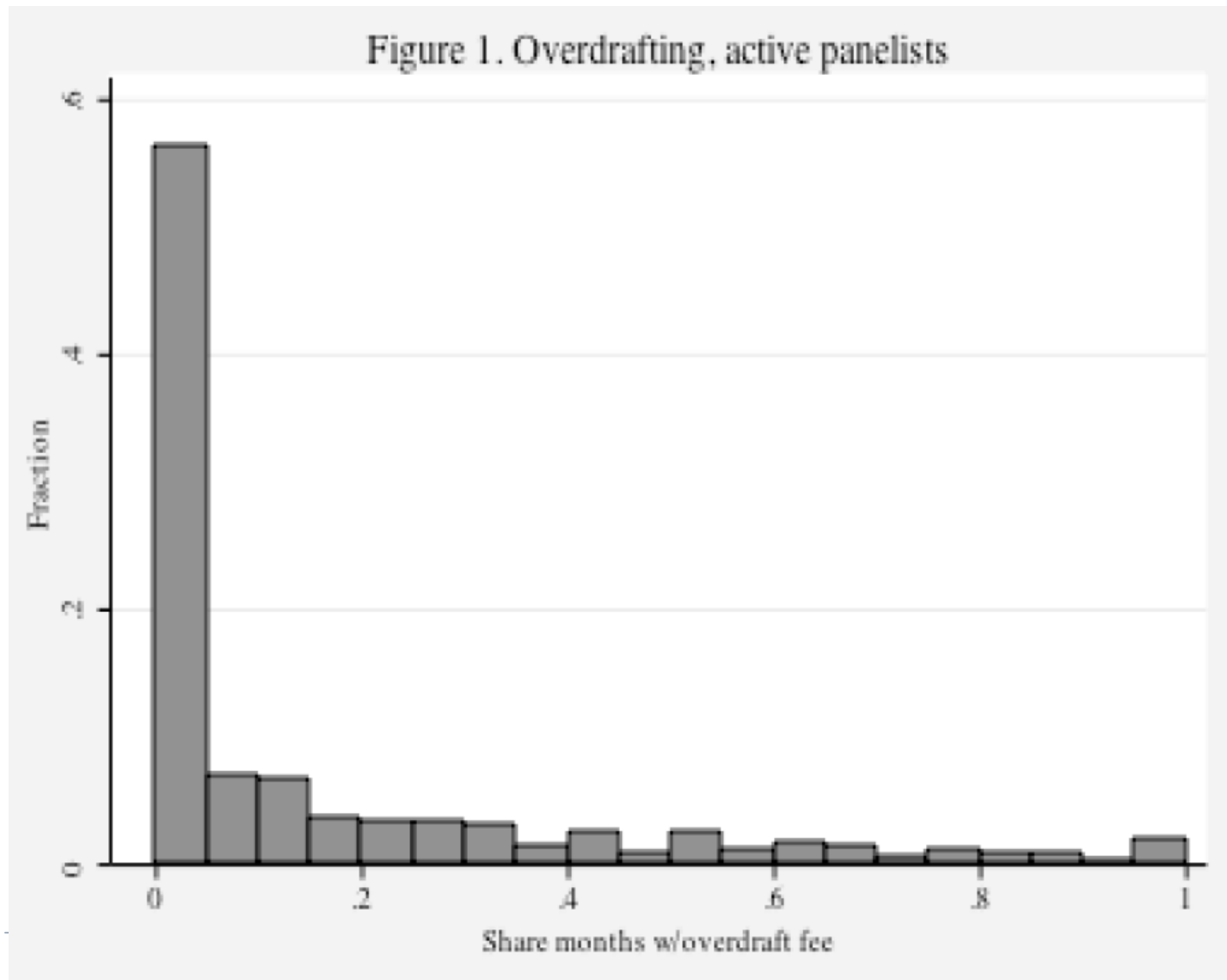
Source: Novantas, LLC

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Fees are disproportionately paid by a small fraction of customers

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## What they find

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- ▶ Bank customers who are reminded—by participating in a survey—about the overdraft features of their accounts are less likely to subsequently incur overdraft fees
- ▶ Effect appears larger in more financially vulnerable groups
- ▶ Results are still preliminary, and ideally authors would have more variation in the timing of the overdraft surveys
  - ▶ Transactions data are from February 2006 to December 2008; surveys were asked in August, October, and November 2006
- ▶ Nonetheless, finding is consistent across samples

## Natural extension: exploit revisions to Regulation E

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- ▶ As of August 15, 2010, banks cannot provide standard overdraft services for everyday debit card or ATM transactions unless the customer explicitly “opts in”
  - ▶ New rules do not cover check transactions or automatic bill payments
  - ▶ Banks provided extensive messaging to their customers about this “opt-in” choice
  - ▶ With their data, the authors can contrast the transactions affected (or not) by the changes to
  - ▶ Regulation E
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## How do the surveys affect behavior?

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- ▶ **One possibility: information**

- ▶ Customers are not aware that they will be charged a fee if they overdraw their accounts
- ▶ Customers do not understand the rules governing overdrafts

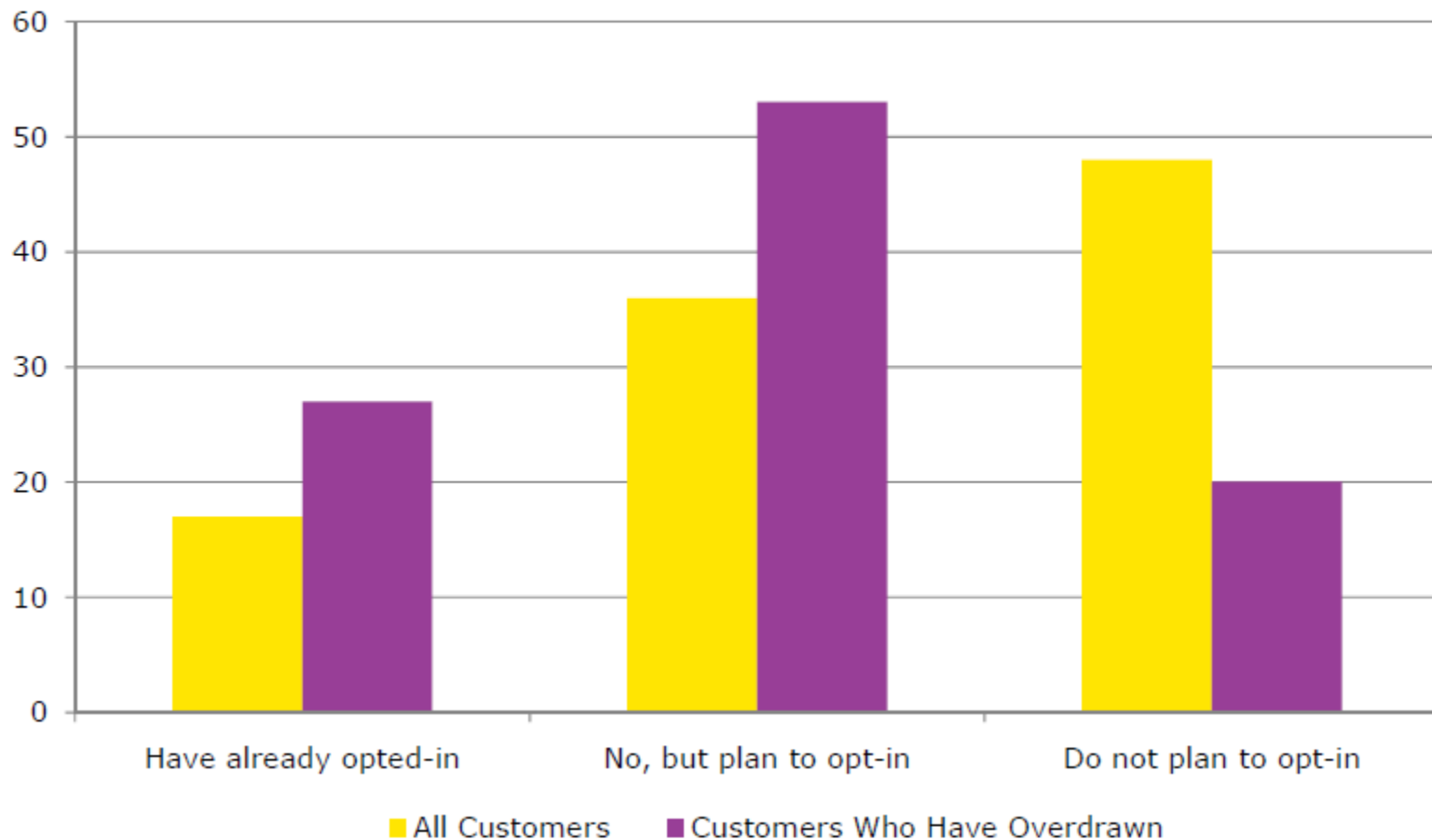
- ▶ **Authors can test this possibility: one of the surveys contains considerably more information on overdrafts (including specific fee schedules) than the others**

- ▶ **This survey did not affect overdraft behavior more than the other surveys**
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“Informed” customers (those with overdrafts in the past 6 months) are still interested in overdraft protection

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**Please indicate which one of the following statements applies to you.**



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Source: Mintel, June 2010. N=1,000 adults 18+ with internet access  
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# Bank messages to consumers about their opt-in choice

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- ▶ **Communications emphasize embarrassment**
  - ▶ “Let us continue to save you the embarrassment of having your purchases declined and the hassle of not being able to get cash in an emergency.”
  - ▶ “The benefits of overdraft protection: It’s convenient. It saves embarrassment. It provides a safety net. It’s good to have in an emergency.”
  - ▶ “Our intention has always been to save you the embarrassment and inconvenience of a declined transaction.”
- ▶ **“Salience” and “reminders” are tools that can be put to many ends**

