

The Credit Accessibility Series: How Consumers Use Overdrafts, a PYMNTS and Sezzle collaboration, examines and analyzes consumer behaviors and sentiments on the use of overdrafts. We surveyed 2,848 U.S. consumers between June 8 and June 21 about their experiences and perceptions.



The Credit Accessibility Series

How Consumers Use Overdrafts

■ SEPTEMBER 2023



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The Credit Accessibility Series: How Consumers Use Overdrafts was produced in collaboration with Sezzle, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

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Introduction



Consumer credit card debt in the U.S. has surpassed \$1 trillion for the first time, and credit insecurity has come into focus for consumers and providers.¹ This milestone comes as the economic and financial imbalances experienced since pandemic-related restrictions have ended have segmented the labor force like never before. Due to purchasing power adjustments, access to credit has become vital for consumers who not only use it to cover short-term financial needs or purchase goods and services but also to pay bills.

One type of credit that consumers rely on are overdrafts. They provide consumers with financial flexibility and financial institutions (FIs) with revenue. The use of overdrafts shows a high contrast between benefits versus costs, vulnerabilities, income levels, credit accessibility and type of use. Last year, for example, 1 in 5 consumers used overdrafts or experienced transaction declines due to insufficient funds in their bank accounts, and almost half of credit marginalized


consumers experienced these outcomes. Moreover, about 94% of consumers who used overdrafts to cover charges in excess of \$400 reported hardships such as credit accessibility issues or problems paying bills, compared to the 77% of consumers who used overdrafts to cover charges up to \$100.

The Credit Accessibility Series: How Consumers Use Overdrafts, a PYMNTS and Sezzle collaboration, explores the characteristics, sentiments and behaviors of consumers accessing overdrafts. We surveyed a census-balanced panel of 2,848 U.S. consumers between June 8 and June 21 to determine how they use overdrafts and the impact this has on credit insecurity, livelihoods and purchasing power.

This is what we learned.

¹ Munsch, C. Total Household Debt Reaches \$17.06 Trillion in Q2 2023; Credit Card Debt Exceeds \$1 Trillion. Federal Reserve Bank of New York. 2023. <https://www.newyorkfed.org/newsevents/news/research/2023/20230808>. Accessed September 2023.

Consumers living paycheck to paycheck are six times more likely to have attempted a transaction on their account without sufficient funds in the past year. More than two-thirds of those transactions resulted in an overdraft fee being paid.



PYMNTS' research finds that 39% of paycheck-to-paycheck consumers who struggled to pay bills experienced transaction declines and overdrafts, compared to 6.3% of those not living paycheck to paycheck. Millennials and the credit marginalized — consumers who experienced at least one credit rejection in the past year — were also especially likely to have attempted transactions without sufficient funds, at 37% and 45%, respectively.

Another finding related to overdrafts is that some FIs currently offer to cover some of them without a fee. We find that 71% of transaction attempts without sufficient funds resulted in the account being overdrawn, while 29% were declined. Most consumers who experienced overdrafts had their accounts with FIs that covered them for a certain amount of time or up to a certain amount without a charge or transaction decline. We found that about 3 in 10 consumers covered their overdrafts using a linked account transfer or an overdraft line of credit. However, many are unable to cover their overdrafts during the grace period.

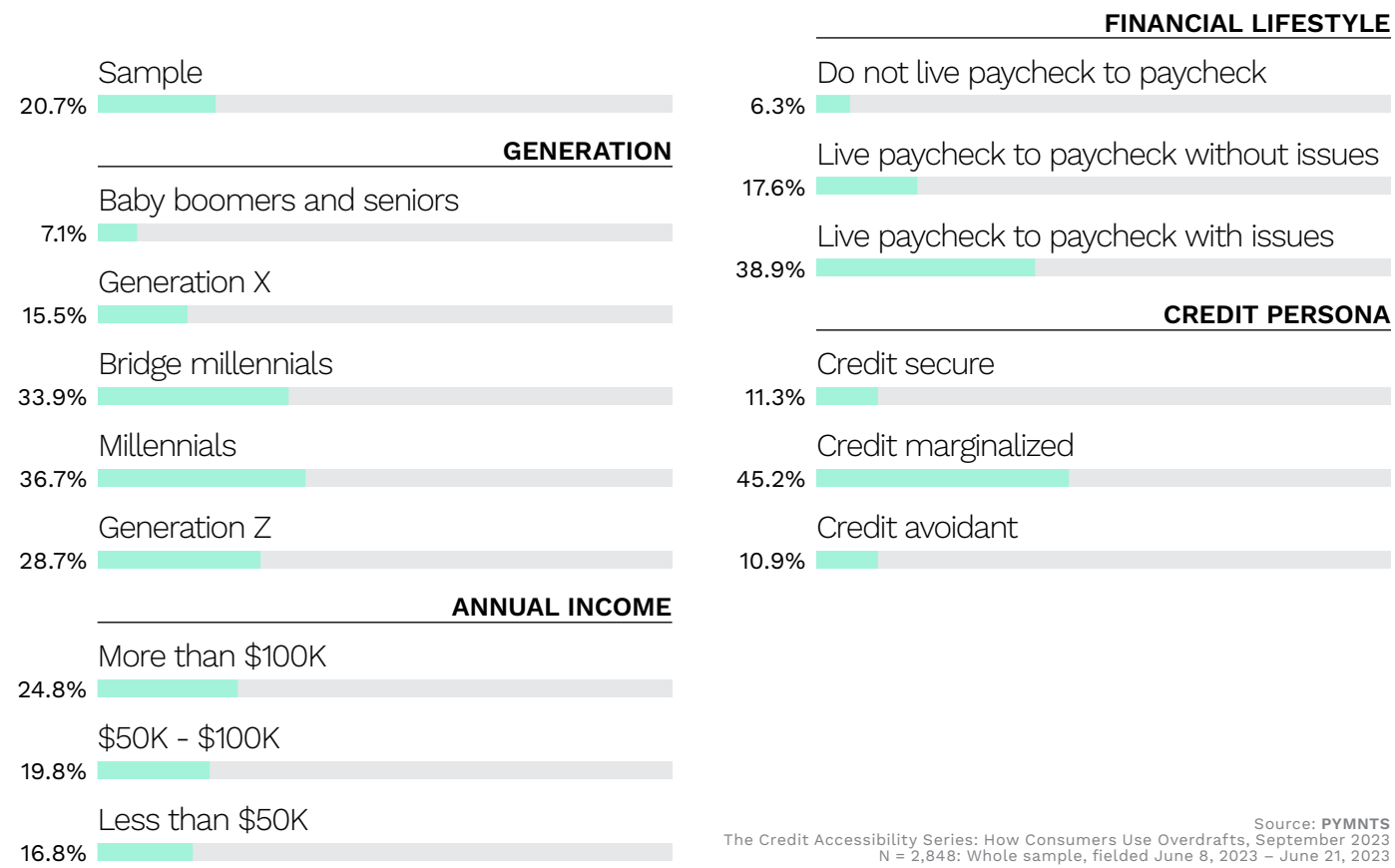
39%

of paycheck-to-paycheck consumers who struggled to pay bills experienced transaction declines and overdrafts.

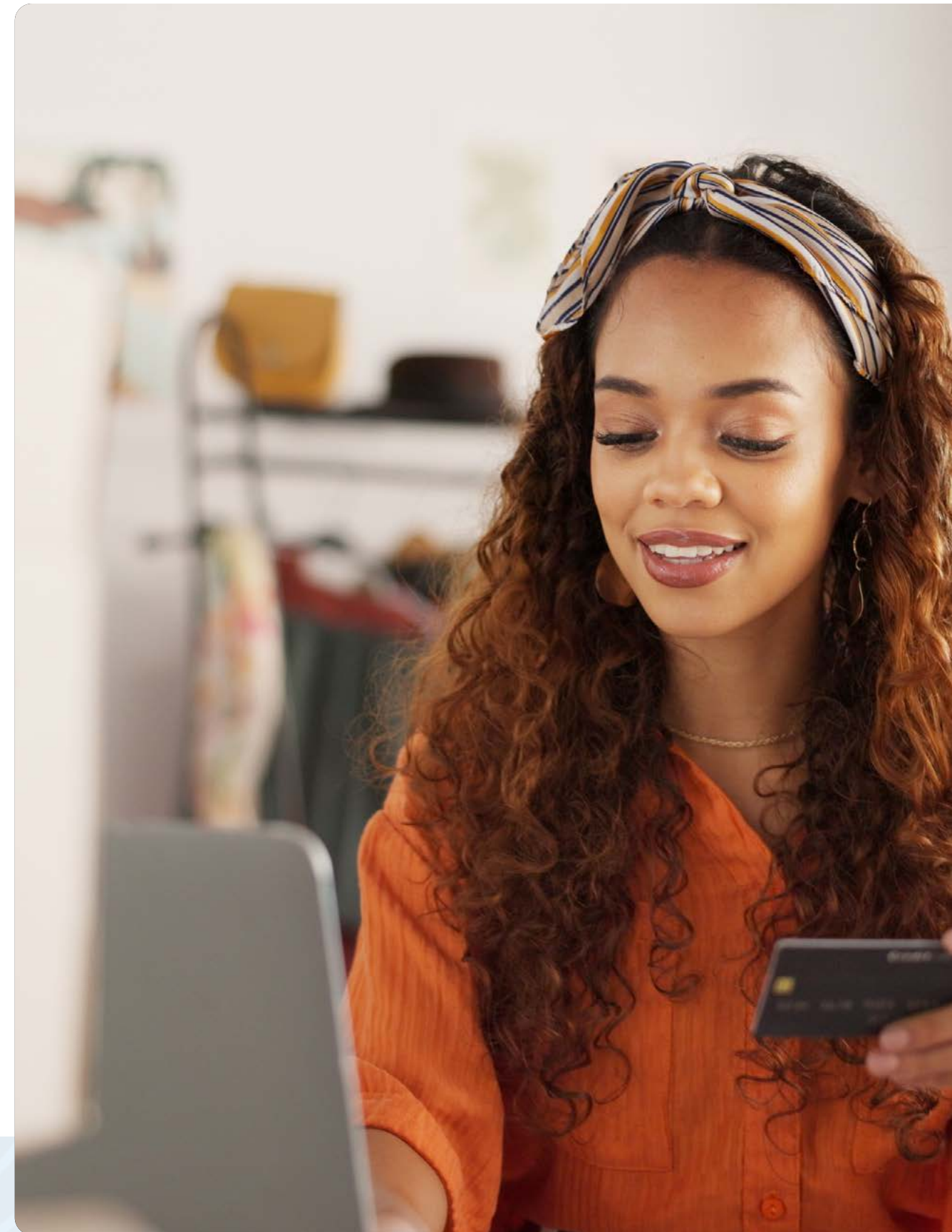
FIGURE 1:

Transactions attempted without sufficient funds


Share of consumers who attempted a transaction without having sufficient funds in the last 12 months, by demographic



Source: PYMNTS
The Credit Accessibility Series: How Consumers Use Overdrafts, September 2023
N = 2,848: Whole sample, fielded June 8, 2023 – June 21, 2023



Six out of 10 overdrafts were unpaid within the free grace period or within the free credit amount and resulted in additional fees. High-income and Generation X consumers paid overdraft fees at a higher rate than other consumers.



PYMNTS' data shows that 62% of consumers who attempted a transaction without sufficient funds were charged some type of overdraft fee: 45% of consumers were charged a flat fee and 27% were charged a percentage of the transaction; however, some consumers were charged a combination of a fixed fee and a percentage charge. The average flat fee consumers faced was \$29 and the average percentage charge was 2.9% of the transaction.

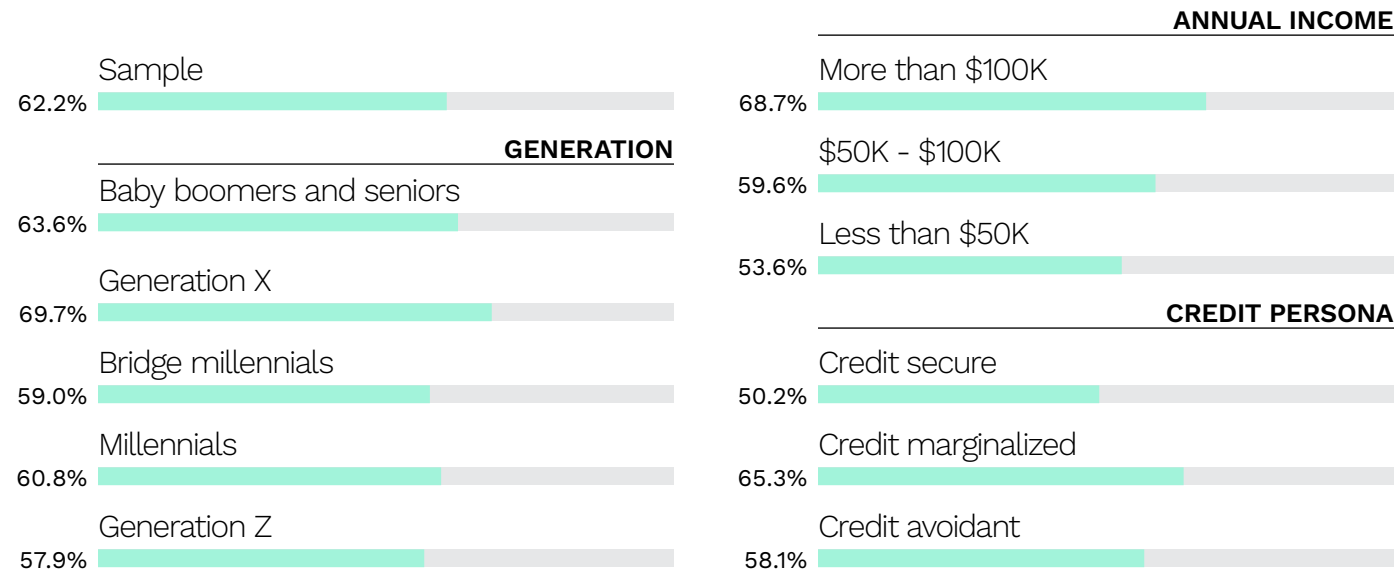
Gen X consumers stand out: 70% of them who overdrew their accounts paid fees, representing the highest share among all generations.

Income level is also important to understanding the overall picture of overdraft use and the financial burden they place on the people who use them: 69% of high-income consumers — those earning more than \$100,000 per year — who overdrew their accounts paid fees, while 54% of low-income consumers — those earning less than \$50,000 annually — paid them, highlighting how consumers of all income levels rely on overdrafts. On average, high-income consumers paid \$30.90 in fees as compared to the \$25.50 low-income consumers paid. Although the amount reported is lower, these fees may affect low-income consumers more, as they add expenses to their already vulnerable financial situations.

FIGURE 2:

Who experiences overdraft fees

Share of consumers who paid any type of fee for not having sufficient funds to cover a charge or withdrawal attempt in the last 12 months, by demographic




Source: PYMNTS
 The Credit Accessibility Series: How Consumers Use Overdrafts, September 2023
 N = 2,848: Whole sample, fielded June 8, 2023 – June 21, 2023

62%

of consumers who attempted a transaction without sufficient funds were charged some type of overdraft fee.



Nine out of 10 consumers who struggle to cover charges to their accounts experience further financial hardships. Two-thirds of overdrafts led to broader credit accessibility issues.



One potential benefit of overdrafts is the ability to cover short-term financial emergencies or unexpected expenses. However, their use may be synonymous with financial burden: 90% of consumers who experienced overdrafts faced further hardship, as did 84% of consumers who had their transactions declined. Furthermore, nearly two-thirds of overdrafts led to broader credit accessibility issues. This is mainly due to transaction declines leading to uncovered charges, including bills and other essentials where service may be cut off, whereas overdrafts beyond the grace period or permitted amount may lead to further charges and difficulty paying accumulated fees. As a result, 49% of declines made paying bills and buying essentials difficult, compared to 41% of overdrafts. Moreover, 64% of overdrafts resulted in broader credit accessibility issues, such as damaged credit scores or the inability to pay accumulated fees, compared to 53% of transaction declines.

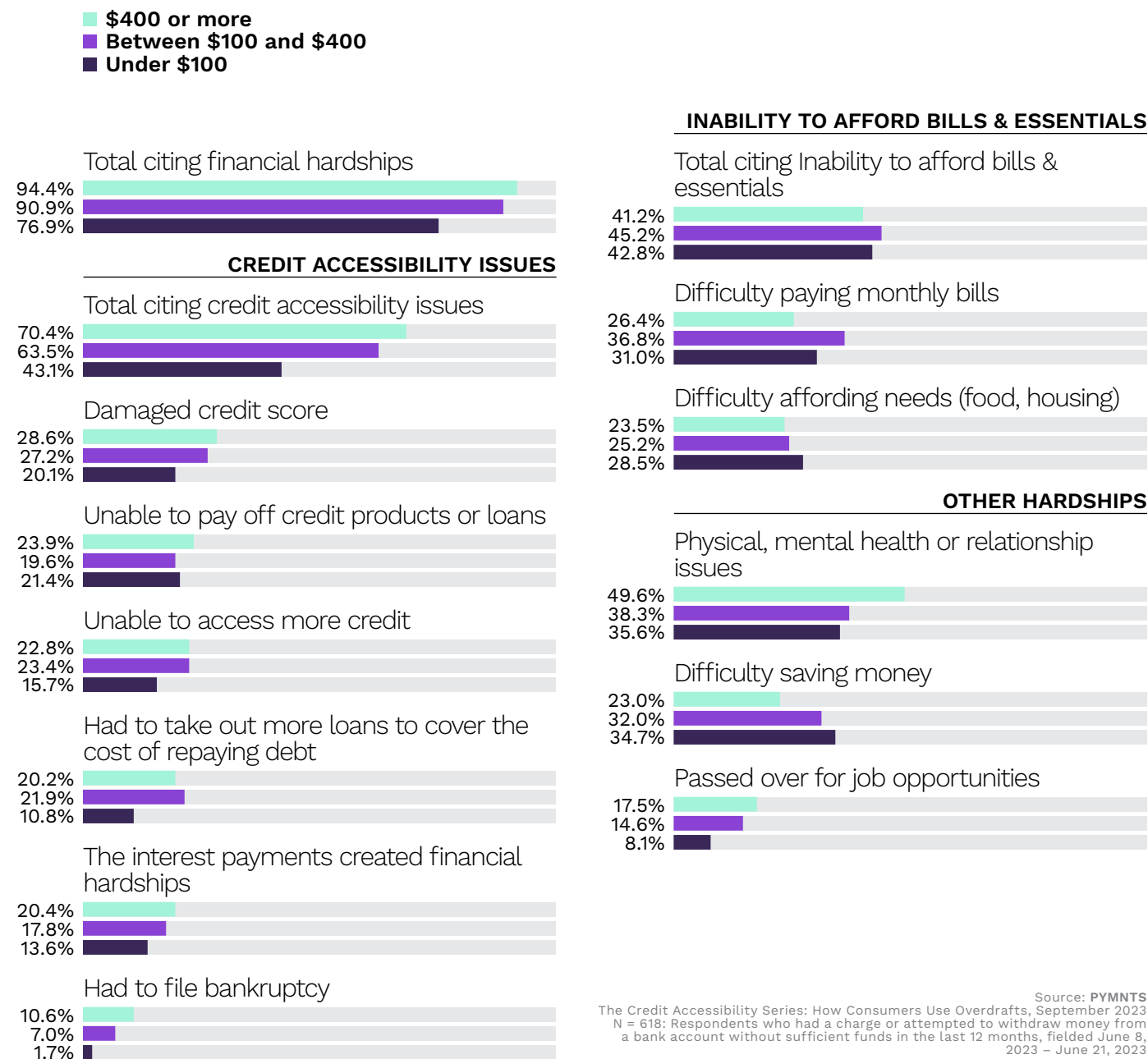
90%

of consumers who experienced overdrafts faced further financial hardship.

FIGURE 3:

Additional financial stress from overdrafts

Share of consumers who experienced hardships or difficulties due to not having enough funds to cover a transaction, by amount charged in dollars



Survey data indicates that the differences between consumers who experienced additional financial hardship from having their transactions declined and those who had overdrafts is small, underlining the difficult financial position both groups of consumers were in from the start.

Consumers who lack funds to cover a transaction more frequently are in the tightest spot. Per PYMNTS’ data, 98% of consumers with more than one overdraft each month reported some form of hardship as a result, compared to 79% of those who only overdraft once or twice a year. It is not easy for those who have their transactions declined either, with 97% of them experiencing financial hardship.

Moreover, those who need to cover overdrafts that have higher dollar amounts are also affected negatively. About 94% of consumers who made transactions over \$400 using overdrafts reported hardships such as credit accessibility issues or problems paying bills, compared to 77% of those who charged up to \$100.

Conclusion

Consumers rely heavily on accessing credit because of persistent rising prices, a fragile economic outlook and stagnant real wages. One of the credit tools consumers depend on is overdrafts. People who live paycheck to paycheck, millennials and the credit marginalized tend to use overdrafts the most — and, at the same time, are the most vulnerable consumer groups. Overdrafts are a double-edged sword: They help consumers alleviate short-term financial needs, but they often cause consumers additional financial hardships. The current situation highlights the state of credit insecurity for consumers of all income levels and generations, but also showcases an ample array of opportunities to educate consumers on financial and credit management as well as create products tailored to consumers' specific characteristics.



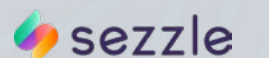
Methodology

The Credit Accessibility Series: How Consumers Use Overdrafts, a PYMNTS and Sezzle collaboration, examines and analyzes consumer behaviors and sentiments on the use of overdrafts. We surveyed 2,848 U.S. consumers between June 8 and June 21 about their experiences and perceptions. The sample was balanced to match the U.S. adult population in a set of key demographic variables: Our respondents' average age was 48.1, 51% identified as female and 38% earned more than \$100,000 annually.

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