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HOW THE CFPB'S COMPLAINT DATABASE CAN HELP US HELP CONSUMERS

By Achim Griesel

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WHAT DO YOU GET WHEN YOU ASK PEOPLE TO SUBMIT COMPLAINTS?

Take a look at this example:

"At horrible dual charging complaints against Chase Bank and XXXX XXXX XXXX, so I do not like XXXX XXXX XXXX continually due of unfit resident of Oregon in facing rough with horrible complaints report to U.S. Senators and Speaker XXXX XXXX. I complain against Chase Bank that he did not show up and did not bring XXXX XXXX XXXX to XXXX XXXX XXXX and discuss with me in banking issues and I did not happy applied with For new Chase checking customers ... {$150.00} When you open a CHASE TOTAL CHECKING (R) account* & set up direct deposit** that I do not want alone going to Chase Bank , understand clearly! I did not get {$750.00}. I am really mad at Chase Bank that XXXX XXXX official with high-position did not show up and did not bring me to XXXX XXXX XXXX."

No, I'm not making fun of the database or of the complaints, however, it will be tough to determine the validity of claims similar to the one shown above and for many others. Besides, asking for a "complaint," a negative, will only result in negative feedback. If there are, as the database shows, 8,094 instances of people complaining about issues caused by "funds in my account being low," how many positive comments would the CFPB have received if it had asked for only compliments for the last four years?

You may have read the article about consumers, big banks, and overdrafts published by Susan Weinstock from the Pew Charitable Trust on the American Banker website. Over the years, the Pew Charitable Trust has devoted a considerable amount of time to analyzing checking accounts. Some of the recommendations from the Pew Charitable Trust studies, like its proposed disclosure, seem very valid to me. Although Pew makes a number of very valid recommendations, such as its proposed disclosure, I disagree with their overall analysis of overdrafts and our statistics appear to support our take on this important customer service.

Weinstock's article states that the examination of the CFPB's consumer complaint database validates a need to reform overdraft policies and fees. The article specifically states that one in four "bank account or service" complaints is related to overdrafts. Yet when we download data from the CFPB complaint database, here are a few facts found there:

- 489,000 total complaints to download
- 8% of the complaints are about checking accounts
- Mortgages (35%), debt collection (18%), credit reporting (16%), and credit cards (12%) collectively show 10 times more complaints than checking accounts

As the chart shows, when we break down these statistics further we see only 1.65% of total complaints are tagged as “Problems caused by my funds being low.”

Complaint Product/Issue	Number of Complaints	Percentage of Total Complaints
Bank account or service	55,538	11.35%
Account opening, closing, or management	23,597	4.82%
Deposits and withdrawals	15,262	3.12%
Making/receiving payments, sending money	4,774	0.98%
Problems caused by my funds being low	8,094	1.65%
Using a debit or ATM card	3,805	0.78%
Other	6	0.00%
Consumer loan	17,687	3.62%
Credit card	59,171	12.10%
Credit reporting	76,720	15.69%
Debt collection	86,511	17.69%
Money transfers	3,176	0.65%
Mortgage	170,356	34.83%
Other financial service	388	0.08%
Payday loan	3,350	0.68%
Prepaid card	1,968	0.40%
Student loan	14,264	2.92%
Total complaints	489,129	100.00%

Out of those CFPB complaint records, 8,094 are categorized as “bank account or service issues” defined as “Problems caused by my funds being low.” Meanwhile, overdraft income at financial institutions (banks and credit unions) is estimated at over $40 billion. That fee amount indicates an estimated 1.3 billion overdrafts per year, or five billion over the last four years. Following the math, this results in a complaint ratio of 0.00015%. Seen this way, the statistics do not seem to validate Pew's conclusion that more overdraft regulation is needed. That said, let’s explore some issues specifically mentioned in regard to overdrafts in the article.

“The burden is not evenly distributed by age, income, and race”

My company has analyzed millions of actual checking accounts at community banks over the last decade. That research shows that in most cases people make an informed and even rational decision regarding the use and expense of the overdraft option. It may not **seem** rational to the majority of customers who have no overdrafts in a typical year, but **it is** rational and there is considerable evidence to support that claim.

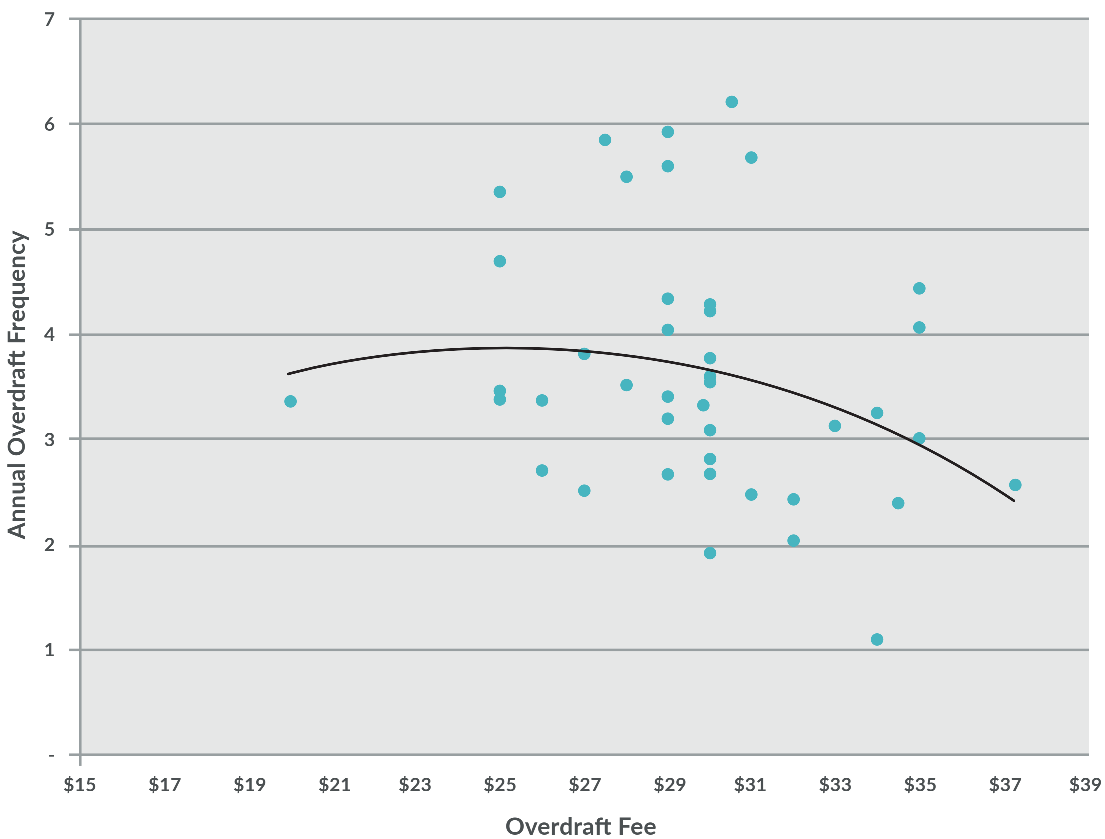
If it supposedly is true that the overdraft services are more frequently used by certain age or race groups, what would be the result if financial institutions did not offer that service and declined transactions that would cause an overdraft? Would the headline say, “Younger customers as well as certain race segments experience more transaction declines”?

Our research clearly shows:

1. Consumers overdraw less often when the price per occurrence goes up.
2. Consumers overdraw more often when their banks pay the checks or allow the POS purchases to go through.
3. Consumers who have a greater ability to repay their overdrafts, overdraft the most.

Let’s look further into these three points.

First, people overdraw less often when the price per occurrence goes up. This is textbook consumer behavior and shows that overdrafts are subject to the same supply and demand principles as any other product or service. The graph below illustrates the impact of an increasing price on the frequency with which customers buy the service.



The facts show that customers choose overdraft services when they judge the price to be "right or fair" considering all other options available to them. Furthermore, financial institutions that value this type of fee income are very responsive to the “consumer” utility of the service.

A second indication of rational behavior is evident when checking customers change their behavior toward the overdraft when they see it is tolerated and not treated as a punishment. In other words, customers overdraw more often when their financial institution treats them with respect and pay their checks or allow POS purchases to go through without difficulty.

To fully understand this rationale, it is important to examine what happens when a check is returned or when an ACH or a debit card transaction is declined. With a check and an ACH, there may be merchant fees, late fees, lost time running to the branch or the merchant to settle the claims, etc. Additionally, with a check that has been “returned for insufficient funds” — and even more so with a debit card transaction — there is embarrassment. The customer usage related data, therefore seems to indicate that consumers value this service and choose to use it.

Finally, the people who can afford it most are those who overdraw the most. For them, overdraft service is a convenience. But unlike the way it is portrayed in the media, *people who can’t afford overdraft fees incur very few.*

We have analyzed “high users” of overdraft services, those overdrawing an average of more than twice per months. This “high user” of overdraft services **deposits on average nearly 30% more dollars than the average customer** into their checking account each month. The remaining 28% of all customers that utilize the service utilize it at a lower level. This coincided with their deposit behavior as well. The deposits amounts into their accounts are lower and therefore they decide to utilize the service less frequently.

There are two conclusions from the Pew Charitable Trust article with which I agree. Clear disclosure (similar to the sample referred to at the beginning of this article) is helpful and should always be encouraged, maybe even standardized. Providing other short-term liquidity solutions as options is another recommendation I could not agree with more. Offering choices and clear disclosure should lead to consumers being able to choose the best option for their individual needs. Regulated pricing, on the other hand, will never get us to the best solution for the customer.

One final comment about the usefulness of the complaint database. If any agency would determine that more regulation is necessary, does the database guide us to the institutions where the regulation is needed? As our firm assists community-based financial institutions with a size from $20 billion in assets all the way to less than $100 million in assets we decided to also look at the complaint database from that aspect. An interesting fact here is that 97% of complaints in the "Problems caused by my funds being low" category are complaints at institutions with over $25 billion in assets and 91% are from institutions with assets over $50 billion in assets. This fact would raise the question whether new regulations are necessary at larger organizations. To answer that question, let me go back to where we started:

a. Only 8% of total complaints are about checking accounts, and only 1.65% is defined as "Problems caused by my funds being low".
b. Complaints on this specific issue represent less than 0.0002% of the total occurrences of estimated overdrafts over the timeframe the complaint database has been in place.
c. Other categories of complaints by far outweigh complaints in this area. For each complaint in this category there are 21 mortgage complaints, 11 debt collection complaints, 9 credit reporting complaints, and 7 credit card complaint.

Analyzing the database, I can only conclude that this specific area may not need any additional regulations, but clear disclosure and analysis will always be helpful to the consumer.

Achim Griesel is Chief Operating Officer at Haberfeld Holdings, Inc, the leading new customer acquisition marketing and profitability consultant for community-based financial institutions in the country. Haberfeld provides consulting, marketing and training services for community FIs and gains its unique data and benchmarks through analyses of millions of consumer banking records at community banks across the country.