Big Banks, Bigger Fees 2001

PIRG National Bank Fee Survey

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BIG BANKS, BIGGER FEES 2001:
The 2001 PIRG Bank Fee Survey

SUMMARY

More than 12 million American families can't afford bank accounts. The rest of us are paying too much, especially if we bank at big banks. Meanwhile, in 2000 banks recorded nearly $72 billion in profits, narrowly missing a tenth straight year of new record profits. According to the Federal Deposit Insurance Corporation (FDIC), deposit account and ATM surcharge fee income are important parts of those increased profits.

This 2001 national survey, prepared by the state PIRGs with assistance from state and local member groups of the Consumer Federation of America (CFA), updates our 1993, 1995, 1997 and 1999 national surveys.[1] The disturbing trend of more, and higher, fees is continuing. Data from 2001 are compared on a state-by-state basis and to 1999 national averages.

Since bank deregulation began in the early 1980s, the PIRGs and other consumer groups have conducted numerous studies documenting skyrocketing consumer banking fees. Our studies have helped to focus national attention on the problem of skyrocketing bank fees. Our results are substantiated by the results of the Federal Reserve Board's annual fee reports to Congress.[2]

In 2001, our findings show that the cost spread, or "big bank fee gap," between big banks and small banks continues to widen. In 2001, the best deal, for consumers who qualify for membership, is still at member-owned credit unions. Others can find lower fees at small, locally-owned community banks.

On the positive side, this year's study finds more banks, even some big banks in some markets, offering free checking accounts. On the negative side, in addition to the fee increases, we note profoundly disturbing trends in the availability of bank fee information that helps consumers shop around and allows researchers to investigate fee trends. PIRG is sending letters to bank regulators describing the difficulties we are having obtaining bank brochures and understanding bank fee descriptions. If we are having difficulty shopping around, so are consumers.

NATIONAL FINDINGS
THE 2001 PIRG BANK FEE SURVEY

In 2001, state PIRGs and CFA members surveyed 521 banks in 32 states and the District of Columbia and compared the results to a 1999 survey of 526 banks in 33 states and the District of Columbia. In 2001, we also surveyed 144 member-owned credit unions, for comparison. The survey results are representative of the fees most consumers would pay, since our sample includes 257 banks that are affiliated with the country's 300 largest commercial and savings banks. The 300 largest banks hold three-quarters of the deposits held by the nation's more than 9,000 banks and thrifts, according to PIRG analysis of FDIC data.[3]

REGULAR CHECKING ACCOUNTS:
Meeting a Balance Requirement Avoids Fees

PIRG ANNUAL FEE INDEX: Regular Checking

In each of our surveys, PIRG estimates the cost to a consumer of maintaining a regular checking account, if balance minimums are not met. The PIRG fee index is illustrative, recognizing that not all consumers will pay these fees. Nevertheless, it is a useful tool for tracking changes in banking fees, since it incorporates monthly checking fees, ATM fees and incidental fees. Nationally, in 2001, consumers who couldn't meet balance minimums to avoid fees could have paid an average of $228 annually to maintain a regular checking account, up 5% from $217 in 1999.

However, when banks are broken down into big banks and small banks, the cost of banking at small banks actually declined 6%, while the cost of banking at big banks increased 13%, largely due to increased monthly maintenance fees, higher ATM fees, and higher bounced check fees.

We call this difference the "Big Bank Fee Gap." It is measured as the difference in annual cost to bank at large and small banks. For regular checking accounts, it increased from $32 in 1999 to $75 in 2001, or 135%.

REGULAR CHECKING ACCOUNT—ANNUAL FEE INDEX
Big Bank Fee Gap Goes From $32 in 1999 to $75 In 2001

	1999	2001	Change
BIG BANKS	$235	$266	13%
SMALL BANKS	$203	$191	-6%
ALL BANKS	$217	$228	5%
CREDIT UNIONS	$112	$101	-10%

The Big Bank Fee Gap is calculated as the difference between the big bank index ($266) and the small bank index ($191), or $75 in 2001.

MONTHLY MAINTENANCE FEES: Disclosed Fee May Not Include All Costs

In 2001, the average monthly maintenance fee, charged to consumers who fail to meet a minimum balance, is $8.40 for big bank consumers, up from $7.76 in 1999. In 2001, small bank consumers paid $6.80, down from $7.12 in 1999.

However, banks hide fee increases by unbundling services formerly included in these monthly maintenance fees. Since PIRG began conducting bank fee surveys in 1993, two key services have been unbundled from monthly maintenance fees -- cancelled check return and ATM cards.

When fees for return of cancelled checks and monthly ATM card use are added to monthly maintenance fees, the actual monthly checking account maintenance fee is significantly more. In 2001, big banks charged a fully loaded monthly maintenance fee of $9.64, up from $8.56 in 1999. In 2001, small banks charged $7.32, down slightly from 1999, when small banks charged $7.46. For comparison purposes, PIRG's indexes use the full fee, including the cost of check return and ATM cards.

CREDIT UNIONS:

In 2001, the regular checking annual cost index at credit unions declined to $101, down from $112 in 1999. Two things are important to note about credit unions. First, fees are lower. Second, and equally important, the minimum balance requirements to avoid fees also are lower. So, fewer credit union customers ultimately pay fees, presuming an equal ability to afford to meet balances between bank and credit union customers. The following chart, for example, shows that credit union customers are only required to maintain a $345 minimum balance to avoid fees, while big bank customers, on average, must maintain a $703 minimum balance.

Balance Requirement To Avoid Monthly Fee
Regular Checking

	Minimum Balance	Average Balance
BIG BANKS	$703	$1355
SMALL BANKS	$465	$980
ALL BANKS	$587	$1190
CREDIT UNIONS	$345	$433

Most institutions require a minimum balance to avoid fees. Some require an (easier to maintain) average balance. Some allow consumers to meet either a minimum or average balance.

INTEREST BEARING CHECKING (NOW) ACCOUNTS: Regular Checking Accounts That Earn Interest

Findings for interest bearing, or NOW, checking accounts, were similar to regular checking accounts. The PIRG annual NOW account cost index for all banks did not change from 1999, remaining at $233 in 2001. The fee gap between costs at large and small banks more than tripled, however, from $14 to $62.

INTEREST BEARING CHECKING (NOW) ACCOUNTS			
	PIRG ANNUAL COST INDEX 1999	PIRG ANNUAL COST INDEX 2001	CHANGE
BIG BANKS	$239	$266	11%
SMALL BANKS	$225	$204	-9%
ALL BANKS	$233	$233	0%
CREDIT UNIONS	$124	$131	6%
The big bank fee gap = the difference between banking at a big bank ($266) and a small bank ($204) = $62 for NOW accounts.			

NO FRILLS CHECKING: Fee Charged Regardless of Balance, Limited Check Writing

Banks also offer limited utility flat fee checking accounts, also called “no frills” accounts. These accounts are intended for consumers who write few checks, and their low fees rapidly increase if check limits are exceeded. Some states have attempted to offset the high cost of banking by requiring low-cost accounts by law. In states requiring banks to offer “low cost” or “lifeline” accounts, these no-frills products must meet certain standards. For example, the New Jersey Checking Account law requires banks to offer an account for $3 per month with a minimum of 8 checks for no additional charge.[4]

Nearly all of the no-frills accounts impose a monthly maintenance fee, regardless of balance.[5] However, the no-frills account flat fee is generally lower than the monthly fee imposed on regular or NOW checking customers who fail to meet the balance requirements of their accounts. The accounts provide a limited number of “free” checks included with the flat monthly fee. Then, if the consumer exceeds the limit, a per-check fee (and sometimes an additional penalty) is imposed. The average annual cost to consumers to maintain a no-frills account at all banks was $147 in 2001, about the same as in 1999. However, the big bank fee gap increased to $47 from $25.

BASIC OR NO FRILLS ACCOUNTS				
	PIRG ANNUAL COST INDEX 1999	**PIRG ANNUAL COST INDEX 2001**	**CHANGE**	**MONTHLY FEE 2001**
BIG BANKS	$161	$169	5%	$4.26
SMALL BANKS	$136	$122	-10%	$3.01
ALL BANKS	$148	$147	-1%	$3.71
CREDIT UNIONS	$82	$88	7%	$2.13
The average at all banks in 2001 was 9.1 "free checks" with "extra check" fees averaging 52 cents for each check in excess of the limit.				

PENALTY FEES ON NO FRILLS ACCOUNTS:

Further, some banks charge additional, punitive fees on consumers who go over the check limit. This strategy began in New York, where banks responded angrily to the 1994 enactment of mandatory low-cost lifeline banking legislation by the state legislature. Nationally, 10 surveyed banks, 3 from New York, impose a penalty averaging $5.25 per month in addition to the per check fee, when consumers exceed the limit. Further, since checks are posted when received by the bank, not when written by the consumer, a consumer must be very careful that no more than the maximum number of checks clear within a statement period to avoid these inadvertent penalties.

Additionally, according to a recent report by the New York Public Interest Research Group, many banks are not complying with the New York basic banking law. These banks are failing to disclose the availability of low cost accounts.[6] Consumers cannot take advantage of accounts designed to offset the rising cost of banking if bankers fail to meet their obligations to market the accounts.

FREE CHECKING ACCOUNTS
Accounts With No Maintenance Fees

In 2001, PIRG found a significant increase in the number of banks offering free checking accounts available to any consumer. A few big banks, including Washington Mutual and Wells Fargo, are now aggressively offering free checking. In some markets, others are competing. For example, Key Bank and Bank of America are offering "teaser" one year free checking accounts. At the time of the survey, Bank of America free accounts appear to only be offered in a few markets such as the Pacific Northwest.[7]

In some areas, we found very little free checking. In the southeast, for example, we found only two of a total of 57 banks surveyed offering free checking in five states combined -- North Carolina (1), South Carolina (0), Georgia (1), Florida (0) and Louisiana (0).

Overall, in 2001, PIRG found 29% of all banks offering free checking, up from 17.5% in 1999.More than twice as many (67%) credit unions offered free checking.

A number of other banks offer free checking with regular direct deposit of either a paycheck or benefit or Social Security check.

The following chart summarizes our 2001 findings.

Percentage of Banks Offering Free Checking			
	% FREE CHECKING	**% FREE W/ DIRECT DEPOSIT**	**% FREE OR FREE W/ DIRECT DEPOSIT**
Big Banks	27%	12%	39%
Small Banks	31%	10%	41%
All Banks	29%	11%	40%
Credit Unions	67%	15%	81%

It should be noted that many of these free checking accounts may be stripped down. Nearly all include mandatory check safekeeping, where the bank keeps cancelled checks. Getting the checks back, or receiving image copies of checks, isn't even an extra fee option, as it is often is on regular checking accounts. Also, some banks may require a monthly ATM card fee only for "free" checking account customers but not other account holders.

Nevertheless, regardless of some limitations, the trend toward banks competing on the basis of price is positive.

FREE ACCOUNTS FOR OLDER AMERICANS AND SENIOR CITIZENS
Some Banks Offering Low Cost Accounts for Seniors

Although the age qualifications vary widely, ranging from 50-65 years old, banks target a number of products at senior citizens and older Americans. Although many accounts with high balance requirements or "club" accounts with various "perks" are offered by numerous institutions, PIRG looked specifically at the availability of lower-cost and free accounts.

Lower Cost Accounts for Senior Citizens 2001		
	% of all banks with senior accounts	**Of these, % that are free of service charges**
Big Banks	49%	51%
Small Banks	64%	71%
All Banks	57%	63%
Credit Unions	17%	17%

OTHER FEES CONSUMERS COMMONLY PAY:
Bounced Checks and Deposit Items Returned

BOUNCING CHECKS: Writing Checks Against Insufficient Funds

Nationally, big banks raised their fees for bouncing a check to $26.18 in 2001, from $23.08 in 1999, or an increase of 13%. At small banks, bounced check fees rose just 3%, to $21.74 in 2001, from $21.19 in 1999. Overall, bounced check fees for all banks increased 8% to $23.79 in 2001, from $22.01 in 1999.

DEPOSIT ITEM RETURNED (DIR): Depositing Someone Else's Bad Check

Nationally, big banks charged their innocent victim customers $6.21 in 2001, for receiving someone else's bounced check (a deposit item returned or DIR fee), an increase of 21% from $5.12 in 1999. Small bank DIR fees increased 9% to $4.93 in 2001, up from $4.51 in 1999. Overall, at all banks, DIR fees increased to $5.55 in 2001 from $4.79 in 1999.

ATM FEES
Off-Us and Annual Card Rental Fees

The average fees charged by big banks for their own customers to use other banks' ATM machines in national ATM networks—also known as off-us fees--increased to $1.49 in 2001 from $1.27 in 1999. At small banks, national network off-us fees increased to $1.09, up from $0.91 in 1999. The average off-us national fee for all banks increased to $1.31 in 2001, from $1.14 in 1999. National network ATM fees are the fees a bank charges to use the Plus or Cirrus networks.

Some banks impose lower fees on their customers using local or regional networks. In 2001, for example, the average fee for a local network "off-us" transaction was $1.39 at big banks and $0.97 at small banks.

Of course, in addition to paying their own bank an "off-us" fee to use another owner's ATM, since 1996, an increasing number of ATMs now impose a second, penalty surcharge on non-customers. PIRG's March 2001 ATM surcharging report found that the cost of using an off-us ATM has nearly tripled since 1996, from one fee averaging $1 then to two fees averaging a combined $2.86 now. See PIRG's annual ATM report, released in March 2001, *Double ATM Fees, Triple Trouble*.[8]

In that report we also discuss the trend of small banks and credit unions forming "selective" or "no surcharge" alliances, such as the SUM Program of the NYCE network, founded in Massachusetts, and many others, including "Community Cash" in Louisiana and the "Freedom

Alliance" in western Pennsylvania. The member credit unions and community banks allow each others' customers to use their machines without a surcharge, but do impose a surcharge on big bank customers. These shared networks allow the smaller banks and credit unions to compete against the larger banks' ATM networks.

ATM CARD ANNUAL RENTAL FEES

The March PIRG report, *Double ATM Fees, Triple Trouble*, also tracked the growing trend of ATM card rental fees. Growing numbers of banks are not only imposing ATM transaction fees, but also charging ATM card annual fees. Some banks charge the annual card rental fees for plain ATM cards, some for ATM debit (cards that can be used like a credit card in merchant transactions without a secret PIN code) cards, and some for both types of card.[9] In this report, we found that more big banks (24%) were imposing annual card fees than small banks (12%).

In addition, big banks with annual card fees were more likely to impose **both** annual card fees and transaction fees. Small banks and credit unions charging annual fees, on the other hand, were more likely to offer some or all off-us ATM transactions for free. The following chart summarizes our latest results.

ATM CARD ANNUAL "RENTAL" FEES
Big Banks Are Different
Nearly All Credit Unions And Half of Small Banks Imposing Annual ATM or Debit Card Fees Also Provide Either All Free "Off-Us" Transactions or Some Free "Off-Us" Transactions

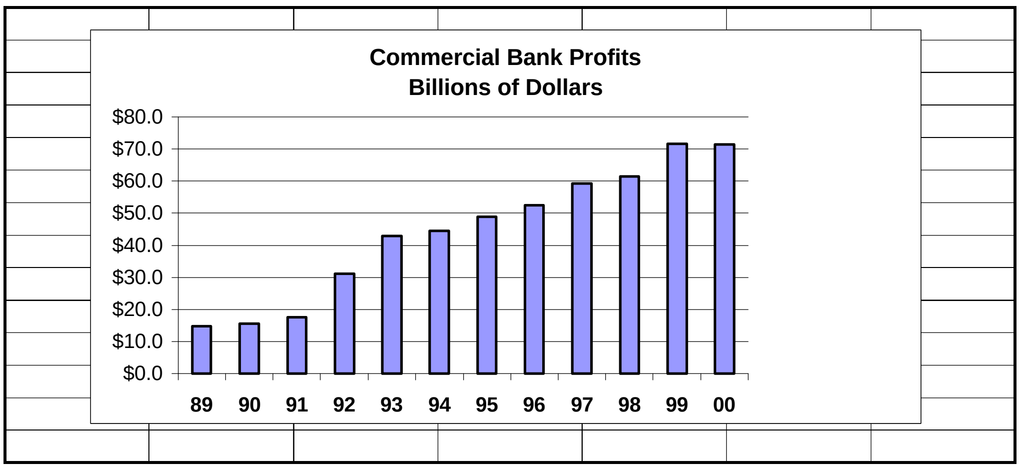
	% Charging An Annual Fee	Annual ATM Card Fee	% Charging Annual Fee That Also Provide All Or Some Off-Us Transactions for Free
BIG BANKS	29%	$13.66	11%
SMALL BANKS	16%	$12.61	50%
ALL BANKS	22%	$13.28	25%
CREDIT UNIONS	10%	$10.79	93%

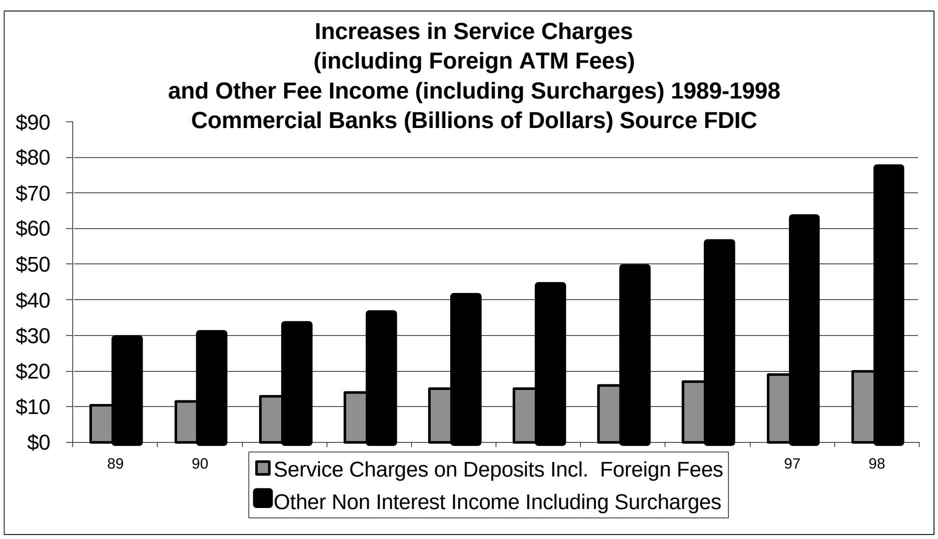
BANK FEE INCREASE STRATEGY

In 1999, banks had their ninth straight year of record profits. The $71.7 billion reported to the FDIC exceeded the previous 1998 record $61.8 billion by 16%, or $9.9 billion. In 2000, the string was narrowly broken, when bank profits suffered a tiny decline of about $300 million from the previous record, but were still the second highest ever. According to the most recent FDIC data available, for the second quarter 2001, insured commercial banks earned $19.2 billion in the second quarter of 2001, up 31% ($4.5 billion) from the previous year, second quarter: "One area of non-interest income improvement was service charges on deposit accounts, which rose by nearly $992 million (15.8%)."[10]

Fee income continues to drive a significant amount of bank income. According to the FDIC, “continued strength in non-interest revenues, particularly fee income,” is a critical part of commercial bank income. For example, non-interest income accounted for 44% of net operating revenues in the fourth quarter 1999.

Fee income accrues disproportionately to big banks. Data on deposit account fee income are limited, because bank reporting forms combine many non-interest income categories. The following charts illustrate the increased role of fee income on bank profits.





Banks' fee-generating strategies include three attacks on consumers' wallets. **(1) Raise existing consumer account fees. (2) Invent new fees. (3) Make more consumers pay more fees. (**

(1) Raising Existing Fees. PIRG's reports have identified a growing gap between fees charged by big and small banks. The results are paralleled by the Federal Reserve, which has found that multi-state (big) banks charge "significantly higher" fees than locally owned banks. In testimony to the House Banking Committee, Federal Reserve Board Chairman Alan Greenspan reported he was "troubled" by rising bank fees. [11 Feb 1999, in answer to question from member.]
(2) Inventing new fees such as the ATM surcharge. Several banks have created new types of fees, such as human teller fees, deposit-item-returned fees (charged to consumers or businesses who deposit someone else's bounced checks) and fees charged for calling computerized account computers.

(3) Making it harder for consumers to avoid fees. Several banks are making it harder to avoid fees by, for example, changing "average" balance requirements on checking accounts to "minimum daily balance" requirements, as well as raising those minimums dramatically.

FEE DISCLOSURES ARE COMPLEX. SOME BANKS REFUSE TO PROVIDE THEM

In addition to the fee increases, we note profoundly disturbing trends in the availability of bank fee information that helps consumers shop around and allows researchers to investigate fee trends.

- First, despite the rapid growth of the Internet as an information source for consumers generally, banks have generally failed to provide adequate fee information on their web sites and regulators have dismally failed to use their discretionary authority to require them to do so. On October 1, regulators postponed, yet again, a requirement for electronic delivery of fee brochures[11].
- Second, the lack of adequate Internet information exacerbates a growing difficulty PIRG surveyors find in obtaining requested fee brochures from banks. Whether we request brochures in person, either by announcing our survey or by posing as consumers, or request brochures by mail for non-partisan research purposes, many banks ignore our requests. Others provide partial details. Others provide obtuse documents that barely meet the statutory requirements of the Truth-In-Savings Act.
- Third, unless Congress takes action, the requirement that the Federal Reserve Board provide the Congress with annual fee reports has terminated, or “been allowed to sunset.” The board has indicated its opposition to continuing these reports on a voluntary basis.[12] Rep. John LaFalce has introduced legislation, HR 1061, to continue and to improve the quality of these reports.[13]

To conduct this survey, PIRG and CFA volunteers visited or called banks to ask for all the brochures necessary to open a bank account. Most banks sent at least one brochure, but not every brochure was helpful or clear. In addition, PIRG sent official letters to numerous banks, in conjunction with a separate fee survey being conducted for the AARP, which is publishing bank shopping guides in selected cities around the nation. Some banks ignored these requests, apparently not desiring to be included in a bank fee shopping guide. We remain consistently disappointed in the way banks fail to provide comprehensive fee information to shoppers or surveyors.

Posing as a consumer, the author, for example, visited a Bank of America branch on Capitol Hill twice, seeking both general checking account brochures and, additionally, detailed fee schedules, mandated by the Truth In Savings Act describing all checking, savings and miscellaneous fees. He was refused the second brochure on both occasions and shooed out the door. Bank of America, like most big banks, does not provide detailed fees on its Internet site, although the site does include a primitive "zip code" locator for comparing a modicum of information on accounts, depending on where you live. Although the biggest, Bank of America is not in any way the only bank that makes it difficult to obtain or understand brochures.

The purpose of the 1991 Truth-in-Savings Act was to improve disclosures to consumers so that they can better compare financial services at different banks. It is not working as well as it should. Disclosure of terms of bank accounts differs dramatically. Many brochures appear designed to confuse, rather than assist, consumers. Some banks even place some account terms in one brochure, and other key terms in another, or even a third. Additionally, the language used to describe the same fee often varies from bank to bank.

Bank brochures are worse in 2001 than in 1999, 1997, 1995 or 1993. Many banks are inventing overly-complex fee structures that make it more difficult for consumers to compare accounts. Worse, while some banks might impose the same fees across several states, others impose different fee structures in different cities or counties of the same state. Fees change often and many banks insert cryptic addendums or amendments listing only the changes into otherwise out-of-date pre-printed brochures, instead of printing new brochures. Key Bank publishes easily the most obtuse fee amendment brochures of any bank, including sentences amending the "check limit on certain accounts in certain counties in Ohio only" in the same paragraph as fee changes affecting all accounts nationwide, except sometimes those in one other state! Bank One fee amendment brochures mix changes for consumers and business accounts in a confusing manner.

Banks have not taken advantage of the tremendous opportunity that the Internet offers to post better fee descriptions and disclosures. The Internet offers an opportunity for banks to provide all fees required by the Truth-In-Savings Act, at a low cost. Why haven't regulator and banks done a better job of giving consumers the information they need to shop around?

CONCLUSION

In our view, the rise in fees and the increasing complexity of the fee system have created a burdensome and consumer-unfriendly banking system that places huge costs on the middle class and prices lower-income people out of the federally-insured banking market. For these consumers, the only alternative may be even higher-priced check cashing stores. Profits from rising bank fees accrue unfavorably to big banks, which fuels their anti-competitive growth. Ultimately, all consumers face higher bank fees as the big, fee-gouging banks get bigger.

The future holds many concerns. The rapid rise in electronic banking -- computer home banking, smart cards, and Internet commerce -- offers opportunities for banks to lower costs. Will they pass those savings on to consumers? Watch for future PIRG reports.

RECOMMENDATIONS FOR CONSUMERS

1) Bank at a credit union, not at a bank, if you qualify. Otherwise, look at smaller, community banks.

2) Shop for financial services. This should be an ongoing process because banks are constantly changing their fee structures. See our brochure -- "Consumers Shop Around For Banks" available at http://www.pirg.org/consumer.

Compare the costs of your accounts to those of other banks in your area. Know what types of transactions you regularly make and evaluate accounts with your needs as a yardstick. You may find a better deal at a different bank.

If you can't find "totally-free checking," look for banks that offer free checking or free checking with a "linked" or "relationship" balance in another account. Linking accounts is a cheaper way to avoid bounced check fees than paying a monthly fee for the various forms of "bounced check protection" banks now offer.

Look for banks that offer free checking with direct deposit, if you qualify for it. Other banks offer a discount of $1-3.

Consider check safekeeping or check imaging. Banks are increasingly making check "safekeeping," the default, charging more, as much as $1-4 extra, to return cancelled checks. If you do choose check safekeeping, be sure that the bank provides a certain number of free check copies per year, in case of audits or disputes with creditors. Imaging, which provides a statement with photocopies of your checks, is an in-between cost alternative.

However, some consumers may want to bank at big banks due to their multi-state ATM networks. For now, most big banks generally allow free ATM use across state lines, although that may change. Some banks, such as Bank One, have established dual ATM networks. Even if you are a Bank One accountholder, you pay a surcharge at “Rapid Cash” machines.

Take a look at small banks and credit unions first. We are encouraged by the growth of selective surcharge networks that help consumers avoid ATM surcharges. The SUM Program has expanded from Massachusetts throughout the entire NYCE network and includes banks in other New England states, New York, Ohio and even Puerto Rico. The credit union no-surcharge system is multi-state as well.

3) Beware of interest bearing NOW accounts. If you cannot maintain high minimum balances, stay away from NOW accounts. The high fees on NOW accounts may cost you more than it's worth to earn the extremely low interest they pay on your balance. Put your money in a higher-interest account if you can.

4) Explore no-frills checking options. If you write few checks each month, look at no-frills flat fee checking accounts. However, watch out for no-frills accounts with punitive over-the-check-limit and bounced check fees for no-frills accounts.

RECOMMENDATIONS FOR CONGRESS AND STATES

1) Enact Basic Lifeline Banking Laws.

All banks should be required by federal law to offer one low-cost account for consumers who write few checks per month. Banks also should provide governmental check-cashing for non-accountholders. Only two states require lifeline accounts available to all consumers -- New Jersey and New York -- and some national banks, and even state banks, ignore the law. Some other states, such as Massachusetts, require low or no-fee accounts for senior citizens and teenagers. The government's answer to the need for low-cost accounts is a program called Electronic Transfer Accounts (ETAs). Consumers who qualify must have their electronic benefit check electronically deposited. They then receive an ATM-only (no human teller transactions) account for a maximum of $3 a month. So far, the number of banks offering ETAs is extremely small, although some of the biggest institutions are now offering ETAs. Although the Treasury Department allows banks to charge additional fees after only 4 transactions, we are encouraged that some institutions are providing unlimited "on-us" withdrawals rather than imposing allowable fees.[14]

2) Create Financial Consumers Associations (FCA).

The largest consumer group in Illinois is its Citizen Utility Board, which fights utility rate increases and practices. Illinois CUB is a privately funded non-profit group, but an innovative state law allows it to insert its fundraising brochures directly into state motor vehicle and income tax mailings to citizens. This piggybacking lowers fundraising costs and is a legitimate role for government in addressing the failure of the marketplace to provide competition and protect consumers.

Financial Consumers Associations (FCAs) would take the CUB model to the financial services marketplace. Inserts in the account statements of federally insured financial institutions would provide a similar funding mechanism. If FCAs could be established, they could conduct many financial products surveys and put competitive pressure on banks and other providers to do a better job. The Internet offers an outstanding opportunity for an FCA to offer consumer shopping guides to financial services.

3) Impose account rate caps, improve disclosures and eliminate other fees.

In return for guaranteeing the safety of deposits and the liquidity of the financial system, the federal government imposes modest public interest burdens on the banking industry. It's time to reform those laws, not roll them back.

Unjustified fees, such as deposit-item-returned fees and human teller fees, should be outlawed.

Fee disclosures should be standardized. Just as the Fair Credit and Charge Card Act of 1988 requires all key credit card disclosures to be made in a standard easy-to-read box format, banks should provide deposit account disclosures in the same way. Those brochures should be available to prospective customers, not only accountholders. Congress should enact legislation renewing the requirement that the Federal Reserve Board provide the Congress with annual fee reports.[15] Rep. John LaFalce has introduced legislation, HR 1061, to continue and to improve the quality of these reports.[16]

METHODOLOGY:

In the spring, summer and fall of 2001, we obtained the data for the survey from the fee brochures of 521 banks and 144 credit unions from 32 states and the District of Columbia. Brochures were collected by PIRG and Consumer Federation of America affiliates. Data were collected in-person, by mail, by telephone, by email and by visiting bank Internet sites. Wherever possible, data were updated to reflect any changes noted since spring surveying. However, all fees are subject to change at any time.

For the purposes of averages, we counted a bank as 2 banks if we have data from 2 states even if those data are the same. We also count a bank as 2 banks if it has different fee structures in one state. We may list several branches of one bank in a state but count it only once if the fees are the same. We also used data obtained from the FDIC's web site (www.fdic.gov), to calculate percentages of total deposits on 30 June 2001 and to code banks as either Top 300 "Big" banks or otherwise as "small banks. Some banks operating in multiple states may be structured as several banks. We coded these banks with the highest size rank reported for one of the bank's affiliates. Due to the unavailability of volunteers in every state, the sample includes only 32 states and DC, but we believe results are representative of those consumers would pay anywhere, since we have a mix of large, small, urban and suburban states. Some states surveyed have a concentration of big, multi-state banks; others are dominated by community banks.

Lowest Cost Accounts In Each Class Available Without Restriction

Banks offer many more accounts than we surveyed. We sought to report on the lowest cost accounts in each class (regular checking, NOW, no-frills checking and statement savings) that were available to any customer, without income (means tests) or age restrictions, except for the inclusion of senior or older American accounts. At many banks, you may pay higher or lower fees depending on the account you select. For regular and interest bearing NOW checking, we always selected a "balance-option" account, where a consumer would avoid fees if a certain balance was maintained. We always report the balance required to avoid all fees and the highest fee (lowest balance) if an account is tiered. A “no-frills,” basic or flat fee account generally has either a monthly fee regardless of balance, a per check fee after a limited number of checks, or both. We avoided money market interest-bearing accounts, which generally restrict transactions. We avoided "club" accounts with additional bells and whistles. We did not attempt to report on additional ways of avoiding fees on "linked" accounts, where savings or other accounts (including presence of a mortgage) may offset checking account balance requirements. We avoided any account that had fees for fewer than 3 “human teller” transactions. Many banks are now offering “ATM only” accounts with lower fees for consumers who choose not to visit tellers. You could save money with one of these if you choose to restrict your transactions.

ATM CARD RENTAL FEES: We list a bank as imposing a fee if it imposes a fee for either a debit card or a regular ATM card. If it imposes fees for both, we list the higher. You may be able to avoid fees or pay lower fees by choosing the other. Some banks trigger a monthly fee whenever a consumer uses her ATM card at point of sale (POS). We presume consumers want to use cards at Point of Sale, so we count these banks as imposing annual fees, even though they may claim they do not.

ASSUMPTIONS FOR FREE CHECKING AND BASIC CHECKING: We do not include “teaser” free checking accounts, lasting one year or less. We do not include “free” accounts where consumers must pay a fee to use a human teller, unless the consumer gets at least 3 human transactions each month.

Calculation Of PIRG Annual Fee Index Or Annual Account Costs:

To illustrate the costs of banking in a high fee, high minimum balance world, we determine the amount that an average consumer who failed to meet balance requirements might pay in annual fees.

For regular and interest bearing NOW checking accounts: We take the full monthly maintenance fee (including cancelled check return and ATM card maintenance) x 12 months, plus 16.3 checks average x 12 months x per check fee. Then we add the group fees below.

For no-frills accounts: We take the monthly maintenance fee (NOT including check return and ATM card maintenance) x 12 months, plus 6.5 checks average x 12 months x per check fee.

For all accounts, we then add the following group fees: 25 x ATM Off-US fee + 5 x national network ATM transaction fees, plus one bounced check and one deposit item returned per year.

The average number of checks cashed and the average number of "off-us" ATM transactions per account were obtained from published banking industry surveys. This calculation is intended as an index and we have maintained its identical methodology (eg, average number of checks = 16.3) throughout our surveys for comparison purposes. Other indexes will yield similar, but not identical, results.

Savings: The cost of savings accounts includes only an average monthly maintenance fee.

Bounced check, Stop Payment and DIR fees: We use the lowest reported fee if reported as a range. Many banks impose higher fees for multiple or continued bounced checks or for longer stop payment requests. Additionally, some impose higher fees if an overdraft check is paid, rather than returned unpaid. We report the higher in that case.

FOOTNOTES

[11] See the PIRG reports “Big Banks, Bigger Fees 1999,” and "Big Banks, Bigger Fees: The 1997 PIRG National Bank Survey of 419 Banks in 30 States" at <http://www.pirg.org/consumer> Also see the print reports "Banks Think Fees, Not Free: The 1995 PIRG Bank Fee Survey of 271 Banks In 26 States," by U.S. PIRG and Janice Shields, August 1995, and "Crushing Consumers: The 1993 PIRG/CFA National Survey of 300 Banks In 23 States", jointly written by U.S. PIRG, the Consumer Federation of America and Janice Shields, Ph.D. Also see PIRG's series of annual reports on rising ATM surcharges, most recently, "Double ATM Fees, Triple Trouble,” March 2001, available at PIRG’s ATM fee website http://www.stopatmfees.com

[2] Our results are similar to data from numerous government, consultant and industry data on bank costs and fees for consumer deposit accounts. See discussion below o Federal Reserve studies. The author talks on a regular basis to investigative reporters who conduct their own local surveys, with confirming results.

[3] See Methodology, below. We obtained data on bank size and deposits from the FDIC's web site at <http://www.fdic.gov>

[4] National banks such as First Union are refusing to comply with the New Jersey law. These banks dispute the authority of states to impose restrictions on their activities and are buttressed in their arguments by the federal Office of the Comptroller of the Currency ()CC), their primary regulator. For a detailed discussion, see the April 2001 PIRG report “Double ATM Fees, Triple Trouble” available at < http://www.stopatmfees.com/report01/index.html> Also see PIRG’s OCC Watch page < http://www.stopatmfees.com/toppage3.htm>.

[5] A very small number of no frills accounts have a zero monthly fee, and allow 5-10 checks for “free” before imposing a fee for additional checks. A few other “no-frills” accounts may also allow consumers to avoid fees by meeting a balance.

[6] See “Buried Treasure Plus,” New York PIRG, June 2001, which found that 57% of banks did a “less than adequate” job of promoting basic bank accounts.

[7] Our analysis does not include “teaser” free checking accounts of one year or less duration in totals for free checking.

[8] See “Latest News” at PIRG’s ATM fee website http://www.stopatmfees.com

[9] Over the last five years, as plain, PIN-only ATM cards expired and needed to be replaced, banks quietly sent consumers ATM debit cards, which are cards with either VISA (Visa Checkcard) or Mastercard (Mastermoney card) logos and can be used with or without secret PIN codes. Consumers who do not want a debit card have complained to PIRG that many banks make it difficult to obtain a plain ATM card. While a plain ATM card can be used in some merchant transactions (local gas stations and grocery stores) with a PIN, an ATM debit card can be used virtually anywhere a credit card can be used in off-line, non-PIN, signature based transactions on the credit card network. Banks make much more money on merchant fees with off-line transactions. Consumers also face greater legal liability risk now that ATM cards can be used without PINs. Even though the banks have voluntarily, under pressure from PIRG and other consumer groups, limited liability, they have opposed changes to the laws to statutorily limit ATM card consumer liability to $50 or less, the same as credit card liability. Further, when someone steals your credit card, you then argue with the bank over whether you owe the bank money. When someone steals your ATM debit card, you need to argue with the bank about getting your own money back from your own checking account. The latter is more difficult and shows why the law needs to be strengthened.

[10] FDIC Quarterly Banking Profile, Preliminary Bank Earnings Profile, www.fdic.gov/news/news/press/2001/pr6101a.html

[11] See OCC Bulletin OCC 2001-45, "Uniform Standards for the Electronic Delivery of Disclosures, 1 October 2001.

[12] See the latest (and possibly last) Federal Reserve Annual Report To The Congress on Retail Fees and Services of Depository Institutions," Federal Reserve Board of Governors, June 2001, Submitted pursuant to Section 1002 of the 1991 Savings and Loan Bailout Act (FIRREA), as amended: http://www.federalreserve.gov/boarddocs/RptCongress/2001fees.pdf Previous reports in the series are available at http://www.federalreserve.gov/boarddocs/RptCongress/

[13] See . <http://thomas.loc.gov/cgi-bin/bdquery/z?d107:h.r.01061:>

[14] Unreleased ETA survey data, U.S. PIRG, 2001. You can search for banks in your area offering ETAs at <http://www.eta-find.gov> Of course, when you call the bank, you'll need to find someone who knows what you are talking about. Also see testimony on lifeline banking by Ed Mierzwinski of U.S. PIRG, before the U.S. House of Representatives Banking Committee, 27 June 2000, http://www.house.gov/financialservices/62700wit.htm

[15] See the latest (and possibly last) Federal Reserve Annual Report To The Congress on Retail Fees and Services of Depository Institutions," Federal Reserve Board of Governors, June 2001, Submitted pursuant to Section 1002 of the 1991 Savings and Loan Bailout Act (FIRREA), as amended: http://www.federalreserve.gov/boarddocs/RptCongress/2001fees.pdf Previous reports in the series are available at http://www.federalreserve.gov/boarddocs/RptCongress/

[16] See . <http://thomas.loc.gov/cgi-bin/bdquery/z?d107:h.r.01061:>