BIG BANKS, BIGGER FEES:
The 1999 PIRG Bank Fee Survey

SUMMARY

Over 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 1998 banks recorded nearly $62 billion in profits, an eighth straight record year. According to the Federal Deposit Insurance Corporation (FDIC), deposit account and ATM surcharge fee income are important parts of those increased profits.

This 1999 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 and 1997 national surveys[1]. The disturbing trend of more, and higher, fees is continuing. Data from 1999 are compared on a state by state basis and to 1997 national averages[2].

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 findings show a continuing cost spread (or, "big bank fee gap") between big banks and small banks, although small banks are beginning to narrow the gap somewhat. Our results are substantiated by the results of the Federal Reserve Board's annual fee reports to Congress, which find that multi-state banks impose higher fees than locally owned banks. The best deal, for consumers who qualify for membership, is at member-owned credit unions. Others can find lower fees at small, locally-owned community banks.

The survey results are profoundly disturbing. Bankers are punishing low- and middle-income consumers with unjustifiable fee increases while bank profits soar to new records each year.

Meanwhile, a bank-friendly Congress continues a massive rollback of critical laws that protect consumers, communities and taxpayers. 1994 legislation promoting interstate branching has contributed to the merger frenzy that is leading to more higher-cost, multi-state banks. In 1996, the Congress weakened the Truth in Savings Act and other consumer laws, making it harder for consumers to compare fees. This year, both the House and Senate have already overwhelmingly approved so-called Financial Modernization legislation that would expand bank powers to sell insurance and investment products, without concomitant consumer safeguards. The legislation, now in a conference committee, would encourage the growth of bigger, higher fee banks, leading to less consumer choice and higher fees for all Americans. It needs numerous amendments, including the following:

- a requirement that banks offer low-cost lifeline accounts to offset rising bank fees,
- protection from privacy invasions caused by information sharing by mega-banks,
- stronger protections when uninsured investment and insurance products are offered to consumers, and
- protection of the right of states to enact stronger consumer laws.

NATIONAL FINDINGS -- THE 1997 PIRG BANK FEE SURVEY

State PIRGs and CFA members surveyed 526 banks in 33 state and the District of Columbia in 1999 and compared the results to PIRG's 1997 survey of 419 banks in 30 states. In 1999, we also surveyed 69 member-owned credit unions, for comparison. The survey results are representative of the fees most consumers would pay, since the sample includes 235 of the country's 300 largest commercial and savings banks. The nation's 300 largest banks hold over two-thirds of the deposits held by the nation's 10,000 banks and thrifts, according to the FDIC[3].

- **REGULAR CHECKING ACCOUNTS:**

Meeting A Balance Requirement Avoids Fees

Nationally, in 1999, consumers who couldn't meet account balance minimums paid an average of $217.32 to maintain a regular checking account at banks surveyed. When banks are broken down into big banks and smaller banks, big bank consumers paid $234.87, or an average of 16% more, ($32.08), than small bank consumers, who paid $202.79. The big bank fee gap increased by $4.14, or 15%, from 1997, when consumers paid an average of 15% more ($27.94), to maintain a regular checking account at a big bank than at a small bank.

By comparison, the survey found the average annual regular checking account cost at credit unions to be only $111.59 in 1999, or less than half of the big bank cost.

In nearly every state, consumers can find lower costs at smaller banks or credit unions.

REGULAR CHECKING--BALANCES TO AVOID FEES: Most banks surveyed (63%) required a minimum balance to avoid paying fees on a regular checking account. It is harder to meet a minimum than an average balance, used by only 9% of banks. The remaining 28% of banks allow consumers to meet either a minimum or average balance.

Although smaller banks continued to require lower balances to avoid paying account fees, the gap between big and small banks narrowed in 1999. While both big and small banks increased balance requirements slightly, small banks increased balance requirements more.

-- MINIMUM BALANCE: The minimum balance required to avoid fees at big banks decreased slightly by 4% to an average of $616 in 1999, from $642 in 1997. At small banks, the minimum to avoid fees increased by 6% to $519 from $492 in 1997.

-- AVERAGE BALANCE: The average balance required to avoid fees at big banks increased 3% to $1357 in 1999, up from $1321 in 1997. At small banks, the average balance to avoid fees increased 9% to $1093 in 1999, up from $1007 in 1997.

REGULAR CHECKING MONTHLY MAINTENANCE FEES: In 1999, the average monthly maintenance fee for big bank consumers who fail to meet a minimum balance is $7.76, up from $7.65 in 1997. Small bank consumers paid $7.12 in 1999, up from $6.90 in 1997.

Banks hide fee increases by unbundling services formerly included in 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.

In 1999, when fees for return of cancelled checks and monthly ATM card use are added to monthly maintenance fees, the increases are dramatic. In 1999, big banks charged a fully loaded monthly maintenance fee of $8.56 and small banks charged $7.46.

CREDIT UNIONS: In 1999, the regular checking annual cost index at credit unions was only $111.59, or less than 50% of the cost at big banks, up slightly from $108.65 in 1997.

- **NOW ACCOUNTS:**

Regular Checking Accounts That Earn Interest

Findings for NOW accounts were similar to checking accounts, although balances to avoid fees and maintenance fees were higher.

NOW ACCOUNTS: ANNUAL COST, EXCLUDING INTEREST: For all banks, the average annual cost of maintaining a NOW checking account was $232.58 in 1999. The average annual cost of a NOW account at a big bank increased to $239.00 in 1999 from $230.87 in 1997. At small banks, the average annual cost increased to $225.19 in 1999 from $203.17 in 1997. The cost gap between big and small banks narrowed by more than 50%, to $13.81 in 1999 from $27.71 in 1997.

NOW ACCOUNTS: BALANCE REQUIRED TO AVOID FEES:

-- MINIMUM: Minimum daily balance requirements to avoid fees for NOW accounts at big banks averaged $1342 in 1999, up from $1252 in 1997. At small banks, minimum balance requirements in 1999 increased to $1062 in 1999 from $949 in 1997. The cost gap between big and small banks narrowed slightly to $280 in 1999 from $303 in 1997.

-- AVERAGE: At banks using the average balance method, daily balance requirements to avoid fees for NOW accounts at big banks averaged $2459 in 1999, down slightly from $2613 in 1997. At small banks, average balance requirements in 1999 increased to $2054, up from $1741 in 1997. The cost gap between big and small banks narrowed by more than 50% to $405 in 1999 from $872 in 1997.

NOW ACCOUNTS: MONTHLY MAINTENANCE FEES: The average monthly NOW account maintenance fee increased at big banks, to $9.28 in 1999 from $8.86 in 1997. At small banks, the fee increased to $8.42 from $8.10 in 1997.

In 1999, when fees for return of cancelled checks and monthly ATM card use are added to NOW Account monthly maintenance fees, the increases are dramatic. In 1999, big banks charged a fully loaded monthly maintenance fee of $9.90 and small banks charged $8.69.

- **NO FRILLS CHECKING:**

Fee Charged Regardless of Balance, Limited Checkwriting

NO FRILLS ANNUAL COST: The average annual cost to consumers to maintain a no-frills account all banks was $148.30 in 1999. At big banks, no frills costs rose 5% to $161.16 in 1999 from $152.80 in 1997. At small banks, the cost increased 1% to $135.65, from $134.43 in 1997. The cost gap between big and small banks increased 39%, to $25.51 in 1999 from $18.37 in 1997.

-- NO FRILLS MONTHLY FEE: Consumers at big banks paid $4.14 on average, for monthly no-frills account maintenance fees in 1999, up from $3.73 in 1997. At small banks, the monthly fee decreased slightly to $3.34 in 1999 from $3.49 in 1997.

-- NO FRILLS PER CHECK FEE: At both big and small banks, the average number of checks included in the monthly fee remained at about 9 checks per statement period. Fees per check over the limit decreased slightly at big banks to 57 cents in 1999 from 60 cents each in 1997. At small banks, fees per check increased slightly to 49 cents in 1999 from 46 cents in 1997.

-- NO FRILLS PENALTY FEES: Further, particularly in New York, where banks responded angrily to the 1994 enactment of mandatory low-cost lifeline banking legislation, some banks charge punitive fees on consumers who go over the check limit. Nationally, 10 big banks, 6 from New York, impose a penalty averaging $5.20 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.

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 by failing to disclose the availability of low cost accounts.[4]

- **SAVINGS ACCOUNTS**

Lowest Cost Statement Savings Account

_ **ANNUAL COST, EXCLUDING INTEREST:** The average annual cost index of maintaining a statement savings account with a $200 balance at big banks increased to $36.11 in 1999, from $32.28 in 1997. At small banks, the cost increased to $31.59 from $26.64 in 1997. The gap between small and big banks decreased slightly to $4.52 in 1999, from $5.64 in 1997.

_ **MONTHLY MAINTENANCE FEE:** Monthly maintenance fees for savings accounts at big banks averaged $3.01 in 1999, up from $2.69 in 1997. At small banks, fees increased to $2.63 in 1999 from $2.22 in 1997. These fees are for failing to meet minimum balance requirements averaging $271 at big banks and $217 at small banks in 1999. Fees for excessive transactions may also apply.

_ **CREDIT UNIONS:** Since so few credit unions charge maintenance fees on savings accounts, comparisons are not meaningful.

- **ATM-ONLY ACCOUNTS FEES**

Extra fees for teller visits

In their efforts to discourage branch use, more banks are offering accounts that require use of ATM machines and charge a punitive fee for human teller visits. In 1999, PIRG examined ATM-only accounts and obtained the following findings:

_ In 1999, 26% of big banks and 3% of small banks offered an ATM only account. At big banks, monthly maintenance fees averaged $3.77 and at small banks $3.02. An additional $3.40 average fee at big banks and $2.33 at small banks was imposed for the first human teller visit each month. Some banks imposed the human teller fee for each visit.

In 1997, 12% of banks offered an ATM-only account. Monthly maintenance fees averaged $2.98. Of these, 82% reported an additional $3.46 average fee for the first human teller visit each month.

• SENIOR CITIZEN ACCOUNTS

And Other Low Cost Accounts Targeted At Older Americans

This year, PIRG examined the availability of low-cost accounts targeted at senior citizens and other older Americans. We found a wide variety of responses. Nearly all institutions target "club" or "relationship" accounts for Americans 50 (or 55) or older; however, fewer offer low cost or free accounts. Massachusetts is the only state surveyed that requires free checking for senior citizens (over 65 years old). Preliminary results of ongoing PIRG research into senior citizen/gold accounts include the following:

- At least 33% of banks surveyed offered accounts targeted at older Americans. Of these 45% were targeted at 50 year olds, 32% at 55 year olds, and 12% at 62 year olds.
- The average fee benefit increased with age. The average monthly fee decreased from $5.45 for 50 year olds, $3.32 for 55 year olds, to $0.39 for 62 year olds, and $0 for 65 year olds, where offered outside Massachusetts.

These data are preliminary and balance information and other results are still being examined for a future report.

• FREE CHECKING ACCOUNTS

Totally Free Checking and Free Checking With Direct Deposit

Free checking accounts remain rare. Only 92 banks (17.5%) of the 526 banks in the survey offer completely free checking accounts, with no fees and no restrictions, other than no return of canceled checks. By comparison, the survey found that 45% of credit unions offer free checking with no restrictions. An additional 17 (3%) offered free checking with direct deposit.

Under the terms of the 1991 Truth In Savings Act, an account advertised as “free” cannot include any regular account-related fees. Previous to the act, banks would advertise “free” checking, then in small print require a $1000 balance before the account would actually become “ free.”

• LOW COST AND HIGH COST STATES

PIRG ranked the states based on a combination of their rankings for the four PIRG Annual Cost Indexes (Regular, NOW, No-Frills Checking and Savings Accounts), as well as rankings for the availability of free checking and the balances needed to avoid fees on checking and savings accounts. (ATM fees, bounced check fees and monthly maintenance fees are included in the cost indexes).

Among banks surveyed in the 34 states, low cost states for consumers included Nebraska (best), Missouri, Utah, Colorado and Arkansas.

The highest cost states were New York (worst), Florida, Texas, Michigan and North Carolina.

Consumers who shop around can find low cost banks or credit unions in nearly every state.

- **BOUNCING CHECKS**

Writing Checks Against Insufficient Funds

-- Nationally, big banks raised their fees for bouncing a check to $23.08 in 1999, up 10% from 1997, when big bank customers paid only $20.91. At small banks, bounced check fees rose 4%, to $21.19 in 1999, from $20.35 in 1997.

- **DEPOSIT ITEM RETURNED (DIR)**

Depositing Someone Else's Bad Check

-- Nationally, big banks charged their innocent victim customers $5.12 in 1999 for receiving someone else's bounced check (a deposit item returned or DIR fee), up 5% from $4.87 in 1997. Small bank DIR fees declined slightly to $4.51 in 1999, down from $4.92 in 1997.

-- Nationally, big banks raised their fees for stopping payment on a check to $20.44 in 1999, up 11% from 1997, when big bank customers paid only $18.43. At small banks, stop payment orders rose 1%, to $18.24 in 1999, from $18.04 in 1997.

- **ATM FEES**

Off-Us Fees and ATM Surcharges

Nationally, off-us fees charged by big banks for their own customers to use other banks' ATM machines increased to $1.27 in 1999 from $1.19 in 1997. At small banks, off-us fees rose to $1.03 in 1999, from $0.91 in 1997.

Nationally, ATM surcharges imposed on other banks' customers were $1.35 at big banks and $1.08 at small banks in 1999. 93% of all banks imposed surcharges in 1999. In 1997, 45% of all banks imposed surcharges averaging $1.15.

- **OTHER MISCELLANEOUS FEES**

Early Account Closing Fees and Telephone Call Center Fees

This year, PIRG also looked at the incidence of two fast-growing fees.

EARLY ACCOUNT CLOSING FEES: An increasing number of banks are charging consumers a fee to close an account that has been open less than one year. Such fees discriminate against college students and other transient persons. These fees are also designed to discourage shopping for better deals.

-- In 1999, 46% of banks imposed early account closing fees averaging $12.60 for accounts closed within an average of 3.6 months.
-- In 1997, only 30% of banks imposed early account closing fees averaging about the same, or $12.56. The average number of months was slightly longer at 4.23 months.

TELEPHONE CALL CENTER FEES: An increasing number of banks are charging consumers who call to make balance inquiries. In addition, banks that had installed computer call centers as a low-cost alternative to operator-assisted calls are now implementing fees to call the computer, despite cost savings.

PIRG found that call center fees are among the most poorly disclosed of all bank fees. In both 1997 and 1999, about 15% of banks describe call center fees in brochures. In 1999, banks imposed higher fees ($1.57) to call human operators than to call computer centers (42 cents). Banks allow an average of 2.7 free calls per month to human operators and 3.9 free calls per month to computers before imposing these fees. Fees were higher at big banks (48 cents) than at small banks (26 cents) for computer calls. Calls to human operators were about the same at big and small banks.

BANK FEE INCREASE STRATEGY

Throughout the 1990s, banks have generated ever-increasing profits, setting a new record each of the last eight years. In 1998, profits were nearly $62 billion. Fee income represents a growing proportion of non-interest-income, which, according to the FDIC, "provides a growing proportion of net operating revenue to banks." 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. A recent Federal Reserve report[5] makes the following points:

-- Income from service charges on deposit accounts has risen every year from 1989 to 1998, from $10.3 billion in 1989 to $19.8 billion in 1998.

-- These data do not include ATM surcharge revenue, which is included in a sweeping category, "other non-interest income." That category has grown from $29 billion in 1989 to $77 billion in 1998. It also includes such profit centers as penalty fees on credit card accounts.

-- Total non-interest income, as a percentage of total revenue, has risen steadily and now represents over 40% of bank revenue. The category includes numerous other fees, including securitization fees.

In PIRG's view, some banks are raising fee income to offset the costs associated with their too-high merger costs, which are also rising according to the Federal Reserve report. A recent New York Times story on one of the nation's merger-frenzied (and fee-frenzied) banks, First Union, reports on lower than expected earnings at the bank, partly due to the cost of swallowing its expensive acquisitions, including Corestates (PA).[6]

Banks' fee-generating strategies include three attacks on consumers' wallets:

- **(1) Raise existing consumer account fees.**

Reports by PIRG and other consumer groups document a pattern of fee increases exceeding inflation. The Federal Reserve Board's Annual Reports to Congress[7] also show rising fees. Disappointingly, Federal Reserve Board Chairman Alan Greenspan recently wrote the Congress and argued that the cost of the annual reports was too high for their value, and urged Congress to sunset the fee report requirement. House Banking Committee Chairman James Leach (R-IA) has pledged to retain the critical reports.

- **(2) Invent new fees.**

From human teller fees to debit card transaction fees, banks are inventing new fees. One area of rapid fee growth is now fees associated with ATMS, including not only the surcharge, but annual and monthly fee for cards and for obtaining ATM mini-statements. For example, First Union charges an $18 per year ($1.50/month ATM card fee). A second area is telephone balance inquiries. Originally, banks claimed that computer call centers would save them money, and urged consumers to call to check their balances. Now, banks such as Nationsbank, First Union and others are charging consumers who call not only human tellers but also computer call centers, fees ranging as high as $2. Nationsbank not only charges fees to call the computer, its software checks your PIN number, and queues your call to either the front or rear of the line depending on its analysis of your profitability[8].

- **(3) Make more consumers pay more fees.**

-- Raise minimum balances to avoid fees and more people are paying more, instantly.

-- Eliminate services that had been bundled, and charge more for them: charge consumers to call you on the phone, charge consumers to receive their cancelled checks, and charge consumers to use blank checking account deposit slips, or "counter items." Although we did not track this fee in this year's survey, we expect it to grow.

CHECK SAFEKEEPING: As this report finds, if you want your checks back, many banks now charge a fee, ranging between $1-5 each month. A growing number of banks offer "check imaging," or copies included with your statement, either at no cost or for a lower fee than getting your checks returned. Most banks provide a few copies of checks annually for free to those customers who have either elected or been given safekeeping. Some banks require safekeeping on all accounts; most require it on no-frills and free accounts.

BANKS SEEK EXPANSION, OPPOSE LIFELINE BANKING

In the Congress, Financial Modernization legislation has overwhelmingly passed both houses. The bills, HR 10 and S 900, are in a conference committee. In early October, Congressional leadership put the proposal on a fast track for passage by 20 October 1999, by demanding that House Banking Chairman Jim Leach (R-IA), House Commerce Chairman Tom Bliley (R-VA) and Senate Banking Chairman Phil Gramm (R-TX) write the bill themselves and present it to their conferees for approval. The proposal is severely flawed. It would grant new powers to banks to sell and underwrite uninsured deposit products, including insurance and investment products, without concomitant consumer protections. The bill allows mergers between banks, investment firms and insurance companies. Loopholes sought by industry could break down the long-standing wall between banking and commercial firms.

- **NECESSARY AMENDMENTS REQUIRED TO MAKE FINANCIAL MODERNIZATION FAIR TO CONSUMERS**

BILL MUST INCLUDE LOW COST LIFELINE BANKING: Although in 1997, Rep. Maxine Waters (D-CA), successfully authored an amendment requiring banks that take advantage of the proposed new structure to offer lifeline bank accounts, no such amendment was approved by either the House or Senate in 1999. Perhaps it is because both the ABA and the banks' friendly regulator, the Office of the Comptroller of the Currency (OCC), condemned the reasonable proposal in the last Congress.

BILL MUST INCLUDE PRIVACY PROTECTION: By expanding the number and types of affiliates of banks, the bill would expand the potential for privacy invasions. In June 1999, for example, the Minnesota Attorney General sued, and then settled with, U.S. Bank, over its alleged practice of sharing confidential customer records with a third-party telemarketer. Although HR 10 includes an industry-drafted "opt-out" for some third party information sharing, PIRG supports giving consumers an opt-in for all information sharing for secondary purposes, whether among affiliates or third parties.[9] In addition, the bill includes a flawed medical privacy provision that will do more harm than good and should be deleted.

OTHER CONSUMER PROTECTIONS NEEDED: The bill imposes only weak safeguards when uninsured investment and insurance products are sold by banks. Further, it includes a special interest "redomestication" provision worth billions of dollars to the mutual insurance industry that must be deleted.

PREEMPTION BY THE COMPTROLLER OF THE CURRENCY:

Actions by the Office of the Comptroller of the Currency (OCC) have hindered the ability of the states to regulate bank fees or enact low-cost checking accounts. In 1992, the OCC preempted (held that national banks do not need to comply with it) a New Jersey Lifeline Banking law, despite the absence of any federal law explicitly requiring banks to provide lifeline banking accounts. Despite a regulatory petition filed in 1995 to overturn that preemption, no Comptroller has taken action to do so[10]. The existence of the preemption determination (#92-572) has had a chilling effect on state legislative attempts to enact further lifeline laws or enact other pro-consumer laws. For example, while two states, Connecticut and Iowa, ban ATM surcharging, no other state has enacted a surcharge ban law. Although current federal law requires the OCC to meet a higher standard before preempting state consumer laws, the OCC has attempted an end-around that law and, in fact, its lawyers are in court in both Iowa and Connecticut supporting national bank efforts to overturn those laws.

The OCC's recent preemptive history suggests that it would preempt any state law banning ATM surcharging, despite the absence of any federal law regulating ATM fees. Recently, the OCC has even proposed sweeping new rulemaking changes that would encourage national banks to partner with triple-digit payday lenders. In addition, the agency has proposed a change in its so-called "visitorial" powers, which would allow it to preempt any state law, even in the absence of competing federal laws.[11]

ATM SURCHARGING FUELS BIG BANK GROWTH

Banks argue that ATM surcharges are needed to cover the cost of remote ATMs. They claim that ATM growth is being spurred by ATM surcharges. ATM surcharging is part of the big banks' anti-competitive strategy to squeeze out smaller banks and credit unions by encouraging their customers to switch their accounts to banks with larger ATM networks. When confronted with the argument that, in fact, banks are surcharging at branches as well as in casinos and at ski areas, banks reply that, "consumers should pay for convenience" and "consumers have a choice between ATMs that surcharge and those that do not."

The real question of choice in the marketplace is not between surcharge and no-surcharge ATMs. It is between high-cost and low-cost banks and credit unions. If surcharging helps the big banks get bigger, all consumers lose, since big banks have higher fees. When only big banks are left, consumers will have no choice, except to pay higher fees, whether or not they want the "convenience."

In an effort to combat the banks' stranglehold on Congressional action to ban ATM surcharges, the PIRGs have turned not only to state legislatures, but also to local government. In November, citizens of San Francisco will have an opportunity to vote to ban ATM surcharges. CALPIRG has qualified a ballot initiative, Amendment F, which would ban surcharges in the city. Other California city councils are considering banning surcharges by rule.

FEE DISCLOSURES ARE COMPLICATED AND CONFUSING

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.

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. Truth-In-Savings also explicitly prohibited certain onerous bank practices, such as the payment of interest on less than a customer's full balance and the use of the term "free" for checking and other accounts that require minimum balances or other conditions to avoid fees.

However, our survey of bank fee brochures reveals that comparisons are still difficult and additional remedial legislation may be necessary, despite the banks' concerted attempt to weaken Truth-In-Savings. 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 in brochures to describe the same fee often varies from bank to bank.

Bank brochures are worse in 1999 than in 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. Some banks have introduced tiered account balances with multiple fees for different balances. Others waive some fees with one balance, other fees with others. Fees change often and many banks insert cryptic addendum sheets listing only changes into longer, out-of-date pre-printed brochures, instead of printing new brochures. Banks have not taken advantage of the Internet to post better fee descriptions and disclosures.

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. Else, 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."

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, and charging $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.

3) Beware of 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 low interest on your balance.

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.

Despite all of our concerns about their abuse of market power, big banks may make sense for some consumers because of their multi-state ATM networks. For now, most big banks generally allow free ATM use by their customers across state lines, although that may change in the future. If you are a consumer who relies on ATMs, and cannot find enough non-surcharging ATMs, an account at a big bank may make sense.

• 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 should also 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, offer low or no-fee accounts only for senior citizens and teenagers. While many banks purport to offer accounts for older Americans, the benefits of most of these accounts are modest at best.

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.

(4) Oppose all attempts to roll back existing laws that protect consumers and taxpayers and ensure that if modernization legislation is enacted, safeguards are imposed.

Banks have a sorry history of misleading consumers about whether non-deposit investment products are insured by the FDIC (they are not). Banks have also grown fat selling unnecessary over-priced credit life insurance to loan consumers. If bank powers are broadened and walls between banking and commerce lowered, strong consumer, depositor and taxpayer protections must be enacted. Current consumer laws must not be weakened. In addition to requiring lifeline banking in the one-sided financial modernization (HR 10/S900) legislation now in Congressional conference committee, other changes should be made:

-- Strong privacy protections guaranteeing consumers the right to opt-in if banks are going to share confidential customer information with **either** affiliates or third parties should be added to the bill.

-- Preemption provisions in the bill should be clarified to state that stronger state consumer laws will continue to apply, including in the area of privacy.

-- Protections for consumers who purchase uninsured investment and insurance products must be improved.

-- A special-interest giveaway provision in the bill allowing so-called mutual insurance company redomestication must be deleted. The proposal would allow mutually-owned companies converting their ownership to a stock structure to take equity from ratepayer-owners without fair compensation.

-- The bill should explicitly order the Federal Reserve Board to continue conducting its annual fee surveys. The surveys should be expanded to report on individual banks as well as state averages. Results comparing individual banks should be posted on the Internet so that consumers can shop around.

FOOTNOTES

1. See the reports **"Big Banks, Bigger Fees: The 1997 PIRG National Bank Survey of 419 Banks in 30 States,"** "**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 reports on rising ATM surcharges, most recently, **"ATMs: Always Taking Money,"** April 1999. See <http://www.pirg.org/consumer>

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 (Footnote 7) of Federal Reserve studies. The author talks on a regular basis to investigative reporters who conduct their own local surveys, also confirming our results.

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

4. New York Times, July 30, 1999, “Group Says Banks Don't Push Low-Cost Checking Accounts,” by Terry Pristin.

5. Bomfim, Antulio, et al, "Profits and Balance Sheet Developments At U.S. Commercial Banks In 1998," Federal Reserve Bulletin, June 1999, pgs. 369-395.

6. See "Earnings Warning By First Union Draws A Heap of Scorn," Timothy O'Brien, The New York Times, 26 May 1999, Page C1. The story reports that First Union's rivalry with Bank of America extends to "dueling skyscrapers."

7. "Annual Report To The Congress on Retail Fees and Services of Depository Institutions," Federal Reserve Board of Governors, June 1999, submitted pursuant to Section 1002 of the 1991 Savings and Loan Bailout Act (FIRREA), as amended. Reporters who receive numerous regular press releases from the Fed, as PIRG does, may ask the Fed why no press release is issued pertaining to this report. These reports (1992-99) provide independent verification of PIRG's findings that bank fees have been rising dramatically throughout the 1990s. These reports are purposely designed to elucidate as little as possible and consist only of a sample, with no bank names or individual bank data disclosed. In the early 1980s, the Congress required a one-time bank fee study that had the potential to help consumers comparison shop for accounts. It would be useful, with all the data collected by the fed and other agencies, to consider requiring a more detailed, shoppers guide to bank fees to be published.

8. See "Bank will rank callers' worth," Bob Trigaux, Page 1, St. Petersburg Times, 25 April 1997.

9. See testimony on financial privacy of U.S. PIRG, Consumers Union and Consumer Federation of America by Edmund Mierzwinski, U.S. PIRG, before the House Banking Committee, 21 July 1999.

10. In response to the 1995 petition, the OCC did in 1996 meet the minimum requirements of the 1994 Riegle-Neal Act by issuing a Federal Register Notice (Docket #96-01) to obtain comments on overturning the rule, but has done nothing since, other than invite U.S. PIRG's Ed Mierzwinski and other consumer and community leaders to a small luncheon in 1997 to discuss the plight of the nation's 12 million unbanked families.

No regulatory policy of either the OCC, the FDIC or the Federal Reserve Board or any other agency explicitly requires financial institutions to provide any account or service in conflict with the New Jersey

Checking Account law. In the absence of conflicting federal law, it has long been the federal tradition of this country that the states proceed to protect their consumers, as New Jersey has correctly done. Over 700,000 New Jersey consumers have obtained New Jersey Checking Accounts.

11. The 1994 Riegle-Neal Act discussed above limits OCC's preemptive authority over consumer and community reinvestment laws. Even though OCC has failed to comply with that law, OCC, in a June rulemaking, seeks to (1) make it easier for national banks to make usurious payday loans and (2) expand its visitorial powers. In effect, the OCC would "take the field" over any state consumer law, and claim to be the only regulator over national banks. This de facto preemption is surely an abuse of Congressional intent. Contact U.S. PIRG's Ed Mierzwinski for copies of comment letters from consumer groups on payday lending and national banks and rulemaking changes on "visitorial powers" by the OCC.