

# DCC DOLLARS & SENSE

Volume II, Issue I

March I, 2006

## “Free” Checking, or “Fee” Checking

Avoiding Banking Pitfalls for your checking and credit card accounts

### *Special points of interest:*

- How increases in credit card and checking fees, can affect you.

Credit card late fees and punitive interest rates are aimed at penalizing credit card holders who miss payments, sometimes making it impossible for a debtor to get debt free regardless of their diligence or desire to pay. These fees have more than doubled in the past ten years, and while they remain a significant (and grow-

ing) obstacle, there is another hazard that consumers need to be aware of. That is banking fees, aimed not only at those who have missed payments, but also everyone else.

In the last ten years banking fees have increased at an incredible rate. Though most consumers are aware that there can be fees associated with their checking and credit card accounts, the nature of these fees and the impact that they have is often misunderstood. Fees are becoming an ever-greater source of bank revenue. Consumers Union, a non-profit publisher of consumer reports, has found that banking charges have been rising at more than double the rate of inflation. Liz Pull-

man, a correspondent for MSN Money, revealed in her March 2006 article that in 2005 alone, credit card fees increased 18% to \$24 billion, and at the current rate bank fees will top \$55 billion in 2006.

These fees are designed to most greatly affect those in the least optimal position to pay them, specifically lower income families who cannot afford to maintain the minimum monthly balances of premium checking accounts. In fact, the US Public Interest Research Group, or US PIRG, a consumer advocate and industry watchdog, reports that the average annual fees for basic checking accounts nominally labeled as “Free” total \$152, and are assessed for services included in premium accounts such as:

- Using a teller
  - Making a balance inquiry by phone
  - Writing more than a limited number of checks each month
- Closing an account early

The term “Free Checking” is misleading, as these basic accounts are hardly low cost.

Large banks often employ another revenue generating device in the form of courtesy overdraft protection, which often

## “Free” Checking, or “Fee” Checking Cont.

does more harm than good. While bank representatives argue that this service protects individuals who are a little short on funds, consumers can unwittingly and rapidly end up with several \$30 fees for only a few dollars worth of purchases. Says Eric Harper, of the Center for Responsible Lending, in a USA Today.com article by Kathy Chu, “What concerns us most is that often with the debit of ATM transaction, the institution knows that you don’t have the money, and they have the ability to stop it. The smaller the dollar amounts of these transactions are, the costlier the loan.” And worse still, this is not a service a customer need sign up for, so a customer may assume that because the transaction was approved by the bank the funds were available, when in fact this is far from the truth.

This increase in fees is, of course, not limited to checking accounts. Banks know that they have an even greater potential payday with fees associated with credit accounts. Cash advance costs, while always present, have increased sharply in the recent past as well. Whereas ten years ago a 2% fee with a \$10 maximum was the norm, today, “the fee is 3% with minimums ranging from \$5 (at most issuers) to \$15 (at HSBC) with no maximums,” writes Liz Weston, an MSN Money correspondent.

Linda Sherry, spokeswoman for Consumer Action, a non-profit consumer advocacy group, examined another troubling practice, known as “Universal Default.” Many banks are now in the practice of examining their customer’s credit reports, and if a payment is late or missed for a different creditor, they will raise their own interest rates as well. Says Sherry, “We just don’t think that’s fair. People should have the

ability to choose who they are going to pay.” With “Universal Default,” interest fees can jump from single digits to over 20% overnight, without a payment ever having been missed to the creditor that is raising the rates. The prevalence of this practice is increasing as well, as reported by Bob Sullivan of MSNBC. COM, jumping from 39 percent to 44 percent of creditors using “Universal Default” in a single year.

What is a consumer to do when faced with monolithic banks that seem to attach a fee to every service? Turn away from the largest banks and look to smaller community banks and credit unions. Liz Pullman, of MSN Money, reports credit unions were less expensive than larger banks in services across the board, including credit card fees, with lower average late fees (\$25 vs. \$39) and over limit fees (\$17.90 vs. \$33.60). Robert Pregulman, Executive Director of the Washington Public Interest Research Group (WashPIRG) agrees. Says Pregulman, “Big banks lead the way in nickel-and-diming consumers with new fees for this and higher fees for that,” and urges consumers to, “shop around for bank fee deals. Your best bet is usually at a credit union or small bank.” However, the most important thing that you, the consumer, can do is to be vigilant by reading the fine print on any banking or credit agreement you enter into. In this way you can be aware of the practices outlined above, and stop the fees before they start.