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Testimony by

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of the Committee on Banking, Finance and Urban Affairs

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**SURVEY INFORMATION ON RETAIL FEES AND SERVICES OF DEPOSITORY
INSTITUTIONS**

I am pleased to be here today to discuss the trends in retail fees and the availability of retail services at depository institutions. The information that I will describe today was obtained from annual surveys sponsored by the Federal Reserve System.

Before presenting the results, let me first note the original purpose of the surveys and explain how they are conducted. The Board instituted this effort to meet the requirements of Section 1002 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Congress required the Board to report annually on discernible changes in the cost and availability of a wide variety of retail banking services in order to assess the extent to which increased deposit insurance premiums might be passed on to retail customers in the form of reduced availability of services or increased service fees. Congress further specified that these annual reports be based on annual surveys that use samples of insured depository institutions that are representative in terms of size and location. Surveys meeting these requirements have been conducted for each of the last five years. Copies of all the resulting reports to the Congress, which contain substantially more information than I will have time to present today, have been made available to the Committee.

The most recent of these reports found that the availability of the majority of retail services examined did not change appreciably between 1992 and 1993, with the few instances of improved availability outnumbering those of reduced availability. A general trend in the direction of increased fees was also observed, with 24 out of 44 estimated fee changes representing fee increases greater than the rate

of inflation and the remainder representing either increases less than the rate of inflation or, in a few cases, fee decreases. These observed changes in fees are similar to those found and reported in earlier years.

Deposit insurance premiums have increased over the years, so that these fee increases do correspond with an increase in deposit insurance premiums. It is, however, difficult to determine with any certainty the extent to which the increase in deposit insurance premiums caused fees to increase, since changes in other factors could also have played a role.

The survey data were obtained through telephone interviews conducted by a private survey organization under contract with the Board. The number of institutions surveyed each year has been approximately 150 banks and 180 savings associations, with some minor changes from one year to the next. These institutions are chosen randomly each year from each of seven different geographical regions of the country and from five different size groupings. The results reported in tables 1 through 4 are not simply averages of the fees and service availability observed for the sampled institutions. Instead, they are weighted averages, where the weights are determined by the region of the country and the size classification from which each institution is drawn. This procedure is analogous to that typically used in public opinion polling. The result in this case, we believe, is a better estimate of what is true of the entire population of banks and savings associations.

In assessing observed changes from one year to the next, it is important to note that institutions surveyed were not in general the same in each of the years covered. In addition, changes observed from one year to the next may reflect differences in the sample drawn,

as well as the true trend over time. This problem tends to be more severe in the case of data items for which few financial institutions are observed. If, for example, only 10 percent of financial institutions offer a particular retail service, then there will be few observations of financial institutions in the sample that can be used to estimate the average fee for that service, and the sampling error will be large. In general, however, we think that this problem is not significant for most of the items of interest.

SERVICE AVAILABILITY

Table 1 focuses solely on the issue of service availability and how it has changed over time. Service availability can be measured in a number of different ways. For the purpose of this table, it is measured as the percentage of banks or savings associations that offer a particular service. Estimated percentages are presented for each year from 1989 to 1993, and results are reported separately for banks and savings associations. The table also indicates the change in the percentages that occurred between 1989 and 1993 for both banks and savings associations. The services included in the table are some of the most important retail services offered by depository institutions. These include noninterest checking accounts, NOW accounts (Negotiable Orders of Withdrawal, which are basically checking accounts that pay interest), savings accounts, money orders or cashiers checks (which are aggregated because they are substitutes for each other), and ATM services. Because of the importance of assessing the availability of basic banking services, we have also included information on the percentages

Table 1

**THE PERCENT OF BANKS AND SAVINGS ASSOCIATIONS
OFFERING VARIOUS RETAIL SERVICES**

Service	Banks						Savings Associations					
	1989	1990	1991	1992	1993	Change 1989-93	1989	1990	1991	1992	1993	Change 1989-93
Noninterest Checking	96.8	99.4	98.8	97.0	98.6	1.8	37.1	48.9	48.0	52.2	51.3	14.2
No-fee account	3.2	4.4	4.9	3.0	8.4	5.2	6.0	9.7	7.4	12.8	12.0	6.0
Now accounts	83.6	81.5	81.6	91.3	90.7	7.1	88.8	85.9	75.5	83.8	84.7	-4.1
No-fee account	2.5	1.4	1.5	3.3	2.0	- .5	6.7	3.4	3.1	2.0	3.7	-3.0
Savings accounts	100.0	99.8	99.8	98.3	99.9	- .1	99.7	98.3	92.6	99.1	99.4	- .3
No-fee account	12.8	7.1	3.5	8.4	11.1	-1.7	15.6	6.4	7.9	1.3	1.5	-14.1
Money orders or cashiers checks	95.2	100.0	98.8	99.6	99.9	4.7	93.2	96.9	94.5	90.3	91.0	-2.2
ATM services	56.9 ^a	63.6	62.3	58.4	73.2	16.3	44.7 ^a	45.0	56.6	57.9	45.4	.7

^a Indicates 1988 data.

of institutions that offer those types of noninterest checking accounts, NOW accounts, and savings accounts that carry no fee.

In assessing the trends in service availability presented in table 1, it is clear that results differ from one type of service to another. As a generalization, we do not find strong evidence of an overall reduction in the availability of services during this period. Indeed, the availability of some services (including NOW accounts and ATM services at banks and noninterest checking at savings associations) increased dramatically over the period.

As table 1 also shows, the availability of no-fee accounts at banks and savings associations is limited for all of the years examined. For example, only about 8 percent of the banks and 12 percent of savings associations offered no-fee noninterest checking in 1993, and only 11 percent of banks and 1.5 percent of savings associations offered no-fee savings accounts. Although still at a relatively low level of availability, no-fee noninterest checking became somewhat more available at both types of institutions over the period. However, no-fee NOW and savings accounts became less available at both banks and savings associations, with the availability of no-fee savings accounts dropping particularly sharply at savings associations. Finally, the availability of ATM services at banks has continued to increase in recent years, while estimates of the availability at savings associations over the period exhibit a volatile pattern.

SERVICE FEES

Tables 2, 3, and 4 focus directly on the level of fees charged by banks and savings associations for various services and how

the fees have changed over time. We have divided the presentation of this information into three different categories. Table 2 presents information on the average level of fees required to maintain and use various types of checkable accounts. Table 3 presents information on fees associated with various types of special actions, such as those associated with the return of checks for insufficient funds (NSF checks), deposit items returned, and stop-payment orders. Table 4 presents information on the various types of fees associated with the use of ATM services. Percentage changes in fees and balance requirements, where meaningful data are available, are presented for the period between 1989 and 1993, along with the corresponding change in the Consumer Price Index during the period.

Fees Charged for the Maintenance and Use of Checkable Accounts

Analysis of fees charged for the maintenance and use of checkable accounts over time is complicated by the fact that the terms of accounts can differ considerably. For example, different nonchecking services may be provided with the account; the balances that depositors must maintain to avoid fees may vary; and the mix of fees charged the account holder can differ widely. Depository institutions can, and frequently do, offer more than one type of account. So that fee information may be compared systematically over time, the focus in table 2 is restricted to four rather narrowly defined accounts. Nevertheless, the many dimensions of even these narrowly defined accounts make comparisons over time difficult.

The first of these accounts we have termed a "single-balance, single-fee, noninterest checking account." This is an account that pays no interest and imposes no fee if a minimum balance is

Table 2

**FEEs AND MINIMUM BALANCES ASSOCIATED WITH COMMON TYPES OF CHECKABLE
ACCOUNTS OFFERED BY BANKS AND SAVINGS ASSOCIATIONS (Dollars, except as noted)**

	<u>Banks</u>					<u>Percent Change 1989-93</u>	<u>Savings Associations</u>					<u>Percent Change 1989-93</u>
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>		<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	
NONINTEREST CHECKING												
Single balance and fee ¹												
Percent offering	30.5	27.1	50.9	54.4	38.0		12.4	15.9	25.4	16.6	22.9	
Average monthly fee	6.02	5.69	5.68	5.34	5.90	-2.0%	4.70	4.73	5.53	5.46	5.50	17.0%
Average minimum balance to avoid fee	499.76	463.41	461.85	455.36	426.68	-14.6%	440.62	305.96	564.17	482.15	335.35	-23.9%
Average minimum balance to open	232.48	147.37	125.06	245.70	125.91	-45.8%	111.41	125.94	128.08	176.39	101.85	-8.6%
Single balance, single fee, and a check charge)²												
Percent offering	28.8	29.3	11.4	8.2	23.7		1.6	4.2	1.8	5.0	3.9	
Average monthly fee	3.24	3.93	3.47	3.16	4.02	24.1%	...	4.99	...	...	...	...
Average check charge	.21	.20	.24	.21	.20	-4.8%	...	.20	...	...	...	...
Average minimum balance to avoid fees	382.74	362.53	312.59	416.13	421.64	10.2%	...	314.65	...	...	...	...
Average minimum balance to open	123.93	116.09	101.63	211.46	103.99	-16.1%	...	70.99	...	...	...	...
Fee-only³												
Percent offering	16.9	22.3	29.6	21.3	41.7		7.9	11.7	10.4	16.9	18.4	
Average monthly fee	3.32	3.09	3.75	3.60	4.81	44.9%	4.29	4.14	3.60	4.02	3.51	-22.2%
Percent charging a check charge	68.6	76.6	62.1	77.6	50.2		17.7	26.5	79.9	21.9	44.4	
Average check charge	.35	.27	.30	.37	.35	0.0%	...	...	.40	...	.45	...
Average minimum balance to open	60.13	65.42	79.68	80.17	73.86	22.8%	140.60	76.68	265.83	75.69	46.32	-67.4%
									
NOW ACCOUNTS												
Single balance and fee ⁴												
Percent offering	43.7	43.2	49.0	52.0	50.4		44.5	55.0	45.0	44.2	49.5	
Average monthly fee	7.05	7.67	7.84	7.32	7.78	10.4%	5.31	6.00	6.99	6.26	6.50	22.4%
Average minimum balance to avoid fee	1,098.62	1,111.03	1,090.70	1,307.69	971.10	-11.6%	498.44	493.16	865.34	648.67	633.54	27.1%
Average minimum balance to open	803.53	606.62	711.85	1,037.98	686.41	-14.6%	289.78	278.74	340.03	315.34	306.55	5.8%

Change in CPI (Aug. 1989 to Dec. 1993): 16.1%

...Indicates that data is insufficient to report or not comparable across surveys.

1. Defined as a noninterest checking account with a monthly fee for balances below a defined minimum, no monthly fee for balances above the minimum, and no other charges.

2. Defined as a noninterest checking account with a monthly fee for balances below a defined minimum, no monthly fee for balances above the minimum, and a charge per check.

3. Defined as a noninterest checking account with a monthly fee, no minimum balance to eliminate the fee, and a charge per check in some cases.

4. Defined as an interest bearing checkable account with no fee if a minimum balance is maintained, one monthly fee if the minimum balance is not maintained, and no check charges.

maintained; otherwise the account incurs a single monthly fee but no charge per check. About 38 percent of banks and 23 percent of savings associations offered this account in 1993. The monthly fee charged by banks averaged about \$5.90 in 1993 and does not seem to have changed much during the period. Neither the average minimum balance needed to avoid the fee nor the average minimum balance required to open the account at banks increased during the period, and in fact both exhibit slight declines. For savings associations, the monthly fee averaged \$5.50 in 1993 and rose over the period by about 17 percent. Although that fee has stabilized over the last three years, the entire increase over the full period is roughly equivalent (as indicated at the bottom of the table) to the change in the CPI between the dates of the 1989 and 1993 surveys.¹ As with banks, the minimum balances associated with this account at savings associations exhibit, if anything, slight declines.

The second type of noninterest checking account presented in table 2 differs from the first in that failure to maintain a minimum balance results in a charge per check as well as a monthly fee. Only 10 to 25 percent of banks and no more than 5 percent of savings associations offered accounts with this fee structure. Because of the existence of a charge per check, average monthly fees charged by banks (about \$4 in 1993) are lower than those charged for the first type of account, thus illustrating the need for separate reporting of these different account types. In contrast to the first type of account, the average monthly fee charged by banks for this account rose 24 percent between 1989 and 1993. This was substantially higher than the change in the CPI during the period, although there was considerable

1. The CPI used throughout is the urban index, all items.

variation exhibited in the estimates of this fee. The average charge per check of about 20 cents, however, did not increase.² Because so few savings associations offered this type of account, reliable fee and minimum balance information cannot be reported for savings associations for four of the five years surveyed.

The third noninterest checking account reported is a fee-only account, defined as an account in which the customer is charged a monthly fee regardless of the account balance; a per-check charge may also be assessed, but not necessarily. The proportion of banks and saving associations offering this type of account increased substantially over the period, with about 42 percent of banks and 18 percent of savings associations offering the account in 1993. The average monthly fee charged by banks increased by about 45 percent, about three times the increase in the CPI during the period. This increase, however, exaggerates the overall increase in fees charged holders of this account, because, as indicated, a smaller percentage of the banks surveyed in 1993 included a charge per check, and the per check charge was roughly constant. Similarly, the substantial decline (22 percent) in the monthly fee registered for savings associations offering this account is offset by the fact that check charges were more common in 1993 than in 1989.

The final checkable account for which fee information is reported is a NOW account for which the institution charges no fee if a minimum balance is maintained; otherwise, the institution levies one monthly fee with no check charges. This type of account is offered by about half of all banks and savings associations. Presumably because the account holder receives interest for balances maintained in this

2. Estimates from the 1992 Functional Cost Analysis suggest that it costs banks between 22 and 26 cents to process "on us" debit items, which include checks.

type of account, average monthly fees and the average minimum balances required to avoid the fee and open the account are all higher than in the case of noninterest checking accounts. The monthly fees for this type of account averaged \$7.78 for banks and \$6.50 for savings associations. This fee increased at banks by somewhat less than the increase in the CPI during the period, while the average monthly fee increased by more than the CPI at savings associations.

In sum, fees charged for the maintenance and use of checkable accounts have gone up substantially in some cases. There is, however, a lack of uniformity in these results, since in other cases fees do not seem to have risen by much. Minimum balance requirements appear to have fallen in a number of cases, although results are not uniform and estimates exhibit substantial volatility from year to year.

Fees Associated with Specialized Services or Actions.

The picture appears to be quite different in the case of fees associated with specialized services or actions. As indicated in table 3, for these types of fees the recorded increases appear to be a good deal more uniform. For each item, information is presented both on the percentage of institutions that charge a fee and on the average fee calculated for those institutions that charge.

Between 1989 and 1993, the charge for money orders increased at banks by about the same percent as the increase in the CPI, and by substantially more than that at savings associations. Savings associations, on average, charged less than banks in 1989, but tended to catch up during the period.

At both banks and savings associations, the fees charged for stop-payment orders, checks returned for insufficient funds, and

Table 3

**SELECTED SPECIAL FEES CHARGED AT BANKS AND
SAVINGS ASSOCIATIONS (Dollars, except as noted)**

	<u>Banks</u>					<u>Percent Change In Fees 1989-93</u>	<u>Savings Associations</u>					<u>Percent Change In Fees 1989-93</u>
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>		<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	
Money orders												
For own customers												
Percent charging	96.3	98.2	95.9	99.1	99.4		92.5	92.5	96.3	92.1	93.3	
Average fee	1.56	1.63	1.74	1.74	1.80	15.4%	1.24	1.28	1.56	1.64	1.70	37.1%
For noncustomers												
Percent charging	100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.00	97.3	100.0	
Average fee	1.96	2.21	2.37	2.01	2.27	15.8%	1.47	1.49	2.02	1.91	2.31	57.1%
Stop-payment orders												
Percent charging	97.8	97.2	98.4	100.0	100.0		99.6	99.9	100.0	100.0	99.5	
Average Fee	10.88	11.21	12.35	11.81	12.91	18.7%	10.07	10.73	12.11	12.01	13.27	31.8%
NSF Checks¹												
Percent charging	98.4	100.0	99.0	100.0	100.0		99.8	98.7	99.7	100.0	100.0	
Average Fee	12.62	13.00	14.17	14.26	15.65	24.0%	13.23	14.25	15.41	14.95	16.36	23.7%
Overdrafts												
Percent charging	93.0	96.5	95.3	92.3	100.0		91.8	92.8	93.6	98.0	99.6	
Average Fee	12.06	12.49	13.87	14.27	15.54	28.9%	12.70	13.97	15.03	15.18	15.39	21.2%
Deposit items returned												
Percent charging	47.3	47.1	34.6	55.6	65.5		68.1	61.8	61.1	70.4	71.2	
Average Fee	5.38	4.61	5.49	4.97	6.08	13.0%	8.19	8.03	6.97	7.52	7.97	-2.7%

Change in CPI (Dec. 1989 to Dec. 1993): 15.7%

Average fees are calculated only for those institutions that charge.
1. NSF denotes not sufficient funds.

overdrafts all rose substantially more than the increase in the CPI during this period. Further, while not all banks and savings associations were charging these fees at the beginning of the period, virtually all institutions imposed these charges by the end of the period.

The case of the fee charged for deposit items returned is somewhat different. While average fees did not rise faster than inflation for the whole period between 1989 and 1993, there appears to have been a substantial jump between 1992 and 1993 at banks. Also, the proportion of institutions charging for returned deposit items seems to have increased, particularly at banks.

Taken together, and with the exception of money orders, I would conclude that, in general, these kinds of penalty fees have risen sharply over the last few years, and in most cases the rise has been greater than that accounted for by overall inflation. By contrast, the increases in money order fees appear to have kept pace with inflation at banks and increased at a faster rate at savings associations, although the latter started from a considerably lower base.

Fees Associated with ATM Services

The final table presents survey results for ATM fees. The surveys covering these fees differ from those covering other items in that the first survey was conducted in 1988 rather than 1989. Among other things, this series of surveys requested information from institutions on any yearly fees that they charge for the use of ATMs and on various types of transaction fees. These transactions include withdrawals, deposits, and balance inquiries made through the use of

Table 4

**FEEs ASSOCIATED WITH AUTOMATED TELLER MACHINES: BANKS
SAVINGS ASSOCIATIONS (Dollars, except as noted)**

	Banks					Percent Change In Fees 1988-93	Savings Associations					Percent Change In Fees 1988-93
	1988	1990	1991	1992	1993		1988	1990	1991	1992	1993	
Yearly fee												
Percent charging	12.4	5.8	10.3	19.5	14.1		5.3	16.1	23.0	15.6	8.6	
Average fee	19.45	10.95	9.97	8.10	10.52	-45.9%	...	17.96	11.41	9.39	11.64	...
Fee for withdrawals on us												
Percent charging	10.9	9.4	8.3	8.5	3.6		17.6	19.3	13.7	11.9	8.7	
Average fee	.27	.51	.39	...	...	...	.51	.64	...	...	...	...
Fee for withdrawals on others												
Percent charging	50.1	61.7	79.6	65.8	76.4		33.5	40.3	63.2	81.1	68.0	
Average fee	.85	.90	.92	.91	.92	8.3%	.69	.85	.87	.81	.89	29.0%
Fee for deposits on us												
Percent charging	3.9	5.7	4.7	3.4	2.8		12.2	18.5	9.4	8.5	7.9	
Average fee	...	...	.38	...	...	...	...	...	...	...	...	...
Fee for deposits on others												
Percent charging	34.5	50.2	67.0	42.7	71.0		23.6	34.9	46.5	66.6	49.1	
Average fee	.88	.87	.88	.93	.90	2.2%	.70	.81	.95	.79	.82	17.1%
Fee for balance inquiry on us												
Percent charging	...	3.3	6.3	3.2	2.8		...	14.1	10.4	8.5	6.2	
Average fee	...	...	.34	...	...	...	...	...	...	...	...	...
Fee for balance inquiry on others												
Percent charging	...	51.6	72.5	52.0	71.9		...	30.4	54.4	69.8	61.3	
Average fee	...	.87	.91	.84	.90	...	...	.74	.84	.82	.82	...

Change in CPI (July 1988 to Dec. 1993): 21.9%

... Indicates that data is insufficient to report or not comparable across surveys.
1. "On us" refers to a transaction using the institution's own ATM, while "on others" refers to a transaction using another institution's ATM.

ATMs. Because fees may differ depending on whether the customer uses the institution's own ATM (called an "on us" transaction) or another institutions's ATM (called an "on others" transaction), fee information is reported separately.

Results indicate that a small minority of banks and savings associations charge their customers an annual fee for the use of ATMs. In recent years, this fee has been in the neighborhood of \$10 to \$12 and in general appears to have decreased during the period.

The most important changes have occurred in the area of ATM transaction fees. The most striking change over the past few years has been the substantial increase in the proportion of institutions charging for "on others" transactions. The proportion of banks charging for withdrawals "on others," for example, increased from 50 percent in 1988 to about 76 percent in 1993, while it increased from a third to about two thirds for savings associations during the period. Other types of "on others" transactions exhibit similar increases. In contrast, it is relatively uncommon for institutions to charge for "on us" transactions, and, if anything, the percentage of institutions charging for such transactions seems to have declined over the period. This distinction between the fees charged for "on others" and "on us" transactions may be partly explained by the fact that "on others" transactions typically require a payment to the ATM network by the customer's institution (which can range from 3 to 20 cents) and a payment to the owner of the ATM (which can vary between 20 cents and \$1.20).

Except in the case of withdrawals "on others" at savings associations, average transaction fees do not seem to have risen as much as the CPI, which increased about 22 percent between the dates of the earliest and latest surveys. Savings associations appear to have

been catching up to banks for fees charged for withdrawals "on others."

It thus appears from these results that the most important change occurring in the area of ATM fees has been the sharp increase in the number of institutions charging customers for "on others" transactions.

In summary, the trends in fees seem to depend very much on the type of fee at issue. Fees associated with special actions clearly exhibit the most consistently large increases, while the picture for other types of fees is decidedly more mixed.