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BUYERS ALERT

Bank Fee Burdens ~ ATM Bait and Switch Tactic

By Community Lawyer Charlene LaVoie

The fees assessed by banks affect nearly every consumer. Several banking fee topics will be covered in a series of articles intended to assist bank customers and to encourage questions to area bankers on the fees charged by local banks. The first article in the BUYERS ALERT series on the banking industry addresses automated teller machine (ATM) banking and the costs to consumers.

Federal regulations permit banks to establish service charges for maintaining an account. These bank fees are skyrocketing, helped along by the deregulation of the banking industry which began in the early 1980's. The Consumer Federation of America (CFA) and the Public Interest Research Groups (PIRGs) have conducted many studies which document the ever increasing fees for consumer savings and checking accounts, automated teller machine (ATM) use and unfair and deceptive bank practices.

These findings are based upon information from industry publications such as the *Fee Income Report for Financial Institutions*, the *Nilson Report*, *Bank Network News*, and *American Banker*, as well as data compiled by the American Bankers Association and reports to Congress from the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board.

In 1993, commercial banks earned a record $43.4 billion in profits. This is a 36% increase over the 1992 record of $32 billion. In 1992, the median compensation for chief executive officers of banks was $750,000.

These record profits are based, in part, to the growing reliance of the banking industry on fee based sources of income, especially fees for retail deposit services.

Banks promote the use of ATMs to boost their bottom line. Bank Network News reports that consumers have come to rely so heavily on ATMs over the past twenty years that higher fees imposed by banks are not resulting in lower volumes of ATM transactions. At the same time, studies over the past two years also show that consumers believe they are paying too much to use ATMs.

ATMs are the cash cows of the banking industry. Banks make huge profits on transactions made on ATMs. In 1993, ATM transactions generated over $2.55 billion in fee revenue while saving banks $2.34 billion in teller costs. As a result, almost $5 billion in profits were created from ATMs alone. This equates into a 78 cent profit for every 1 dollar collected from consumers for ATM services.

But even as bank costs fall, ATM rates rise. The average cost of maintaining an ATM has decreased due to better mechanics, advances in technology and lower telecommunications costs and network fees. Other savings are realized by the banks in a reduction in the teller staff (22,000 from 1991-1993) and as existing or planned branches are replaced with ATMs (in 1992, 1659 new bank branches were opened and 2454 branches were closed - during the same period, 3785 ATMs were installed).

The cost effectiveness of the ATM technology has not trickled down to consumers.

Initially, few banks charged customers for using ATMs. The service was free and promoted as a convenience to customers. This successful effort attracted customers who became accustomed to the service and depended upon it. Annual fees for having an ATM card were more common than transaction fees. But as ATM use is increasing the trend is towards charging a transaction fee every time the ATM is used.

In addition, many consumers are now aware that there is a charge when they use ATMs at banks other than their own. The Federal Reserve reports that in 1988, 25% of banks imposed fees for using other bank ATMs. Now, over 90% impose this fee. American Banker puts it this way,

"the fact that ATM transaction fees are rising indicates that an increasing number of institutions are warming to the idea of profiting from their electronic banking devices."

In an attempt to channel more and more business into the ATM market, some banks now charge customers for withdrawing or depositing money at the teller window instead of using the ATM. Bank of America offers no-teller accounts that automatically add a monthly fee if a customer uses the teller instead of the ATM.

Banks are advised by consultants to select locations for their ATMs based on the potential for transactions by non-account holders, with only secondary consideration given to the convenience of their own customers.

Other new ATM fees to watch out for include dormant ATM card fees for customers who do not use their cards enough, fees for rejected transactions, empty deposit envelopes and deposit errors. Some banks also charge for ATM overdraws, ATM closings\cancellations, PIN reissuance and card issuance\replacement.

The Consumer Federation of America offers a number of recommendations to consumers who want to avoid being overcharged for bank cost saving ATM use.

1. Use your own bank's ATM. Only a few banks charge their own customers to use the ATM.
2. If you must use another bank's ATM regularly, withdraw larger amounts of money. This will reduce the number of times you are charged a fee. Fees are assessed per transaction, regardless of the amount.
3. Analyze your ATM use and shop for the bank that offers the best overall deal. Be sure to consider monthly account fees and per check charges in addition to ATM fees and free transactions.
4. For depositors, use the night deposit box rather than the ATM.
5. Check the notices that come in your bank statement (Shawmut just sent a notice to its customers informing them that the fee for withdrawals, balance inquiries, and transfers at non-Shawmut ATMs is increasing from $1.25 to $1.50 and that the fee for ATM transactions completed outside the US is $5!)
6. Consider banking the old fashioned way - use the teller.