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Banks Boost Customer Fees to Record Highs

Bounced Checks, Overdrafts And ATM Use All Cost More; Penalizing Repeat Offenders

By JANE J. KIM

Banks are responding to the troubled economy by jacking up fees on their checking accounts to record amounts.

Last week, [Citigroup Inc.](#)'s Citibank started charging some customers a new \$10 "overdraft protection transfer fee" to transfer money from a savings account or line of credit to cover a checking-account shortfall. Citibank had already raised foreign-exchange transaction fees on its debit cards and added minimum opening deposit requirements for its checking accounts. Over the past year, [J.P. Morgan Chase & Co.](#)'s Chase, [Bank of America Corp.](#), and [Wells Fargo & Co.](#) have boosted the fees they charge noncustomers who use their automated teller machines to as much as \$3 per transaction.

With all these changes, the average costs of checking-account fees, including ATM surcharges, bounced-check fees and monthly service fees have hit record highs, according to a new study by research firm Bankrate Inc.

Depositors are also paying more for extra services. In July, for example, [Comerica Inc.](#)'s Comerica Bank raised fees in Michigan for customers who want to stop payments or get a cashier's check. Last year, [PNC Financial Services Group Inc.](#)'s PNC Bank introduced a processing charge of \$3 for customers who use their debit card to get a cash advance at a teller window.

Along with the tough economy and higher credit costs, another factor prompting banks to cut costs and raise fees and loan rates is a Federal Deposit Insurance Corp. proposal to increase the rates banks pay for deposit insurance starting next year in order to help replenish its reserves. If that rule change is approved, experts say, banks will probably pass on more of those higher costs to consumers by raising fees and boosting the minimum balances required to avoid fees.

Consumers are likely to see the most pain from bounced-check and overdraft fees. "By the end of 2009, you will start to see fairly substantial increases in overdraft fees" for the big banks, potentially to as high as \$40 per occurrence from a current range of \$32 to \$35, says Mike Moebis, chief executive of Moebis

Services Inc., an economic research firm in Chicago.

Such fees are key contributors to banks' bottom lines. About 90% of banks' consumer-fee income comes from overdraft and insufficient-funds charges, which are expected to increase to \$42 billion this year from \$20.7 billion in 1999, says Mr. Moebs.

Though the government has helped banks with cash infusions, "banks don't want the government to be shareholders forever, so they're looking to generate earnings to recapitalize and pay the government back," says Sherief Meleis, managing director at Novantas LLC, a bank consulting firm.

Tiered-Rate Structures

Already, Bank of America, Citibank and [Washington Mutual Inc.](#) have raised their overdraft fees this year, while Wells Fargo raised its insufficient-funds fee in certain markets in July. Many banks are also adopting tiered-rate structures that assess a lower penalty for first-time occurrences but quickly ramp up the costs for repeat offenders.

In August, for example, Fifth Third Bancorp moved from a flat fee of \$33 per item to \$25 for the first overdraft, \$33 for the second through the fourth, and \$37 for the fifth occurrence and beyond. The bank also raised its returned-deposit-item fee to \$15 from \$10 earlier this year.

One thing consumers can do is sign up for services that will automatically tap a savings account or a line of credit in case there is an overdraft in the checking account, though they may pay a fee on this service as well. WaMu, which is being bought by J.P. Morgan Chase, recently raised its overdraft transfer service fees to \$12 from \$10 and increased the maximum number of overdraft/insufficient-funds fees that can be charged per day to seven from five.

Mergers and Higher Fees

Industry consolidation is also likely to result in higher fees. Banks with more than \$20 billion in assets charged an average of \$33.43 per overdraft, compared with \$24.28 for financial institutions with less than \$100 million in assets, according to a recent study by Moebs Services.

Next week, some checking-account customers at TD Bank Financial Group's TD Banknorth -- which acquired Commerce Bancorp Inc. earlier this year -- could see higher fees as the combined entity, TD Bank, adopts and rolls out Commerce's fee structure. Although some fees will disappear -- such as charges to use another bank's ATM -- some legacy TD Banknorth customers will face higher overdraft fees as the bank adopts a flat fee of \$35 per overdraft instead of the previous fee structure, which ranged from \$25 to \$35.

"Clearly, this is a very different operating environment for banks, and all banks have to be looking for ways to meet the requirements of shareholders," says Thomas Dyck, executive vice president at TD Bank. "That naturally has them looking for alternative sources of revenue." From the bank's perspective, he says, adopting Commerce's products and pricing structure "positions us to compete aggressively for new customers as our primary way to grow revenues."

No changes have been made to WaMu's checking account, which does not charge ATM fees, boasts free checks for life and has no monthly service charges, says Chase spokeswoman Christine Holevas, who notes that it's still too early. Chase, for its part, will change the name of its Chase Free Checking account to Chase Checking starting next week. "It is a more-accurate description of the account" because of its direct-deposit requirement, she says, and is not related to any changes in fees.

In the midst of all these fee changes, it's even more important for consumers to keep close tabs on how much money is in their accounts and to regularly check their accounts online. Many banks offer free phone and email alerts to notify customers when their account balances drop below specified levels.

PNC's new "Virtual Wallet" checking account -- which combines checking, savings and high-yield-savings accounts -- automatically calculates "Danger Days" that warn customers when their balances will dip into negative territory based on their schedule of online bill payments and upcoming paydays.

What to Avoid

It's a good idea to avoid interest-bearing checking accounts that require big balances in order to avoid monthly fees and invest the money elsewhere, says Greg McBride, a senior financial analyst at Bankrate.com. "Regardless of how high fees go, they're completely avoidable," he says. For example, consumers can sign up for overdraft protection linked to their savings accounts or use a debit card to get cash back at the point of sale to avoid ATM fees, he suggests.

Another option: Shop around. Both Fidelity Investments and Charles Schwab Corp. offer interest-bearing checking accounts with ATM-fee reimbursements and no minimum-balance requirements. With **ING Groep** NV's ING Direct's Orange checking account, which pays between 1.5% and 3.5% on deposits, customers get a debit card instead of a paper checkbook, although the bank will send paper checks for free on request.

Some community banks offer so-called reward checking accounts that pay high yields if you make a certain number of debit-card transactions and direct deposits, and agree to get your statements online.

Alternatives to Banks

Bhaskar Sarkar, a software engineer in Flower Mound, Texas, has stopped using banks altogether. Instead, he parks his cash in a brokerage account at Fidelity, where he is using a municipal money-market mutual fund as his core account. While most brokerage accounts have cash-management features, such as check writing and bill paying, Fidelity's checking-account equivalent, dubbed "mySmart Cash," also offers ATM-fee reimbursements and a no-fee overdraft policy.

By linking the two accounts, Mr. Sarkar is able to withdraw cash from any ATM and have the money pulled from his brokerage account -- all without fees. He aims to keep all of his cash in the money-market fund, where he's earning more interest, and a zero balance in his mySmart Cash account.

Compared to a traditional bank checking account, says the 38-year-old Mr. Sarkar, this arrangement is "more like a no-strings-attached account where I could keep as little or as much as I wanted in it."

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