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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS <sup>45E 01501</sup>

COMMITTEE ON GOVERNMENT OPERATIONS

U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our report on [automatic savings-to-checking transfer and negotiable orders-of-withdrawal ~~(NOW)~~ accounts]. That report, the result of your request, compared these alternatives to more traditional checking and savings plans.

We found that the minimum balance required by the banking institutions is the the key factor depositors should consider when deciding whether to use a transfer plan or regular checking and savings accounts. All but the lowest income depositors would usually benefit from transfer plans. But most consumers would find it difficult to compare various plans using

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the information currently available in advertisements or printed materials prepared by financial institutions.

On the basis of our work, our advice to consumers would be to (1) use transfer plans only when they can meet the minimum balance requirements and (2) ask bank officials for more detailed information on the frequency of interest compounding, impact of account activity on service charges, and calculation of the minimum balance requirement. Even with this information, the number of variables contained in the different forms of transfer plans would require a careful analysis by the consumer before selecting the plan that will result in the highest benefit.

HOW GAO MADE ITS STUDY

Before I discuss those findings in more detail, let me describe briefly how we did our study.

Using information provided by the Federal Reserve, *AGC00203*  
Comptroller of the Currency, *AGC00195* Federal Deposit Insurance Cor-  
poration, and the Federal Home Loan Bank Board, *AGC00402* we selected  
18 banks and savings and loans to use for comparisons. They  
were chosen, on the basis of the variety of plans they offered,  
from six major cities: New York, Washington, D.C., Boston,  
Chicago, Dallas, and Los Angeles. We used 12 institutions  
offering transfer services and six offering NOW accounts.

To uniformly evaluate all the alternative plans, we developed models of nine depositors in low-, middle- and moderately high-income brackets. We varied the amount of income available for deposit in checking and savings accounts. We also categorized the number of checks written per month as being low, medium or high. We defined low annual income as less than \$13,000, middle income as \$13,000 to \$30,000, and moderately high income as over \$30,000. We assumed low checking activity to be less than 20 checks written per month; medium, 21 to 29; and high 30 or more. Details on these depositor models, are, of course, included in our report.

Finally, we calculated net benefits for each type of depositor using each account alternative. The net benefits were based on 3 months of savings and checking activity for each model depositor using each of the plans offered by the institutions we selected.

#### BENEFITS VARY WIDELY AMONG DEPOSITORS

The benefits from transfer or NOW accounts for each of our model depositors varied widely. As shown on page 10, Enclosure III of the report, a middle-income, medium check-writer (Depositor E) in Washington could earn \$58, \$78 or \$164 per year depending on which of the three transfer services he or she chose. However, in only one bank would this

be an advantage over the regular checking/savings account combinations. Using all 18 institutions, differences in income gained from transfer or new accounts for Depositor E were more pronounced. The lowest net annual income was \$27.40; the highest \$173.76. Given the opportunity to choose among the 17 institutions offering transfer or NOW accounts and regular accounts, Depositor E would benefit from using transfer or NOW accounts instead of regular checking/savings accounts at 11 institutions. The amount of net benefit ranged from about \$16 to \$85 per year. Overall, the benefits from transfer or NOW accounts versus regular checking and savings accounts ranged from an average annual net loss of \$27.00 for a low-income depositor with high checking activity, to a net income of \$52.00 for a moderately high-income depositor with medium checking activity. The key factor in determining net benefits was whether the depositor could meet and maintain minimum balance requirements and, therefore, obtain free services.

The minimum balance requirements among the sampled plans varied. One plan was totally free of service charges and required no minimum balances. Other required balances ranged from \$200 to \$5,000, with some banks offering a choice of minimum balance in either the checking or savings account.

In general, we can say that depositors who are able to meet and maintain the minimum balance requirements can, indeed, benefit from automatic transfer plans. However, depositors who cannot do so would fare better with regular checking and savings accounts. In fact, one bank we studied would not have allowed our low-income model depositors to open transfer accounts unless they could deposit the minimum amount. However, in 16 of 18 cases, all of our depositors could open a transfer account even if it proved to be unec-  
nomical.

We want to emphasize that these general conclusions are just that--general. Depositors can shop around for the combination of minimum balance and service fee structures best suited for their needs. The point is that higher-income depositors have more flexibility in selecting a suitable transfer service.

#### SERVICE CHARGE STRUCTURES ARE CONFUSING

Although it is advisable for most people to shop around for the best plan, this may be a difficult task for many consumers. Applicable regulations permit banking institutions to decide on their own fee structures. As might be expected, service charges were not uniform in the institutions we studied, making straightforward comparison difficult. As shown in our report, the 18 institutions we contacted used various service

charge combinations. One bank used a flat fee, a per-check fee, and a per-transfer fee, offset by a credit for maintaining a specific balance in the transfer checking account. Other plans were much simpler, charging, for instance, only a flat fee if the depositor did not maintain the minimum balance. Confronted by so many different service charge arrangements, most depositors would probably have difficulty selecting a transfer plan to fit their particular checking and savings patterns.

Depositors need complete plan information to decide whether to use transfer account plans or continue with present checking and savings accounts. But they cannot always get enough information from the printed documents institutions may offer explaining their plans. Although information in the brochures was usually understandable, depositors would need to ask additional questions such as:

- How is interest compounded?
- How is the minimum balance calculated?
- How do service charges change when the depositor does or does not meet minimum balance requirements?
- How do monthly checking patterns affect service charges?

The answers to these questions were often needed to calculate the estimated income and expense for our simulated depositors. Usually we got the answers from discussions with bank officials rather than from advertisements or information brochures.

Banks could assist consumers in evaluating transfer plans if their brochures included a graphic presentation of some typical depositor examples and how they would fare under the transfer plan. The consumer could then match his or her activity to the closest typical depositor and estimate the potential benefits.

This concludes my prepared statement, Mr. Chairman.  
We will be happy to answer any questions you may have.