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GAO

Report to the Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate and the Chairman, Committee on Banking, Finance and Urban Affairs, House of Representatives

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BANKING SERVICES

Changes in Fees and Deposit Account Interest Rates Since Deregulation

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The Honorable William Proxmire
Chairman, Committee on Banking, Housing
and Urban Affairs
United States Senate

The Honorable Fernand J. St Germain
Chairman, Committee on Banking, Finance
and Urban Affairs
House of Representatives

This report presents our observations on issues related to basic banking services. It discusses changes since 1977 in fees and deposit account interest rates, the effects of these changes on consumers, and issues related to "lifeline" banking.

Copies of this report are being sent to the Chairman, Board of Governors of the Federal Reserve System; Comptroller of the Currency; Chairman, Federal Deposit Insurance Corporation; Chairman of the Board, National Credit Union Administration; Chairman, Federal Home Loan Bank Board; and other interested parties. Craig A. Simmons may be contacted on 275-8678 if you have any questions about the report.

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Executive Summary

Purpose

Concern over the rising cost of banking services has been expressed in the Congress and by consumer groups. GAO wanted to determine the extent to which basic banking fees and interest rates have changed and the impact of changes on consumers since certain bank and savings and loan activities were legislatively deregulated in the early 1980s.

Background

The Depository Institutions Deregulation and Monetary Control Act of 1980 and the Garn-St Germain Depository Institutions Act of 1982 included provisions to phase out regulatory limits on deposit interest rates offered by banks and savings and loan institutions (thrifts) and permitted the latter to provide services previously limited to banks. These changes allowed the institutions to pay higher interest rates and offer new interest-bearing accounts. It is generally agreed that, to compensate for their higher interest expenses, depository institutions increased service charges.

To examine issues related to the provision of basic banking services, GAO reviewed:

- changes in banking fees and interest rates between 1977, before deregulation, and 1985;
- the effects of current fees and interest rates on consumers at various income levels;
- steps taken by banks and thrifts to provide essential banking services at little or no cost to low-income consumers; and
- consumers' other options for obtaining essential banking services, such as use of credit unions.

To gauge the extent of these changes, GAO sent a questionnaire to a random sample, stratified by asset size, of 1,662 banks and thrifts. The questionnaire was administered between August 1985 and March 1986 and received a 67 percent overall response rate. The questionnaire requested data on fees and interest rates for year-end 1977 (before deregulation) and 1983, and mid-1985. GAO adjusted the fees to account for price level changes. To judge the impact on consumers, GAO used data from a study sponsored by the Federal Reserve Board of the use of banking services by a representative group of households.

Results in Brief

GAO found that fees associated with changes in savings and checking accounts and other banking services, such as check cashing, have generally increased since deregulation. Such fee increases have been offset to varying degrees for some consumers by interest they now receive on account balances. The type of main checking account used and the balance in the account determined whether consumers gained or lost as a result of changes related to deregulation. (See ch. 3.)

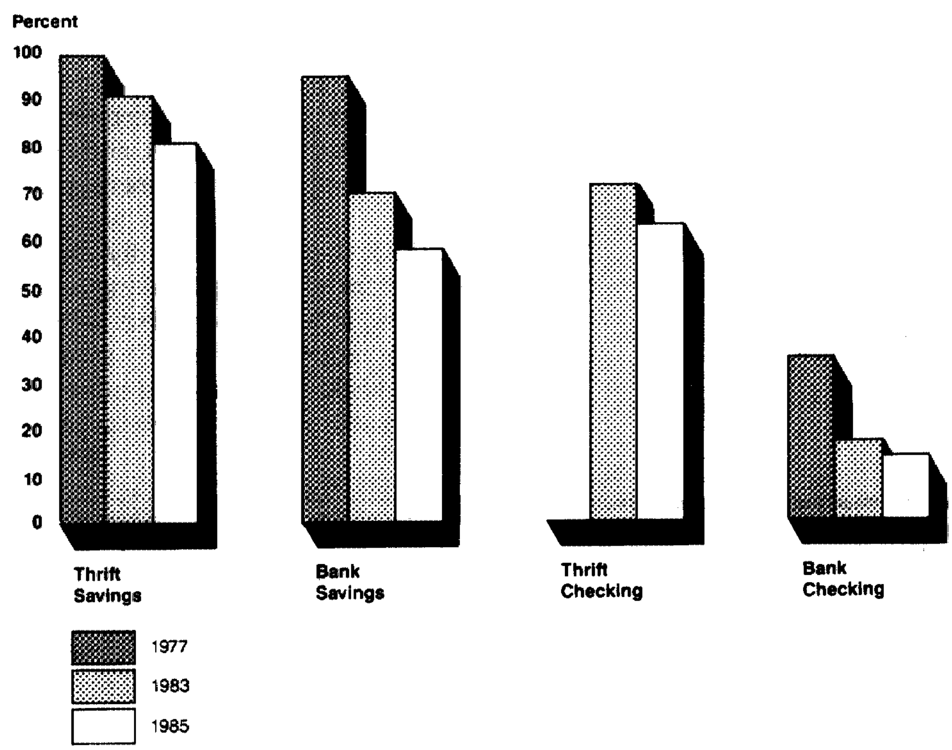
In addition, while various efforts have been made to provide low cost alternatives for certain consumers, these services are not available to all. (See chs. 4 and 5.)

GAO's Analysis

Fees for Services

Banks and thrifts responding to GAO's questionnaire increasingly charged account maintenance fees or required a minimum balance to avoid fees. Figure 1 shows the percent that did not require a minimum balance to avoid a fee for statement savings accounts and that did not have a service charge for noninterest-bearing checking accounts. Median values for some common fees increased. For example, the fee for a returned check at banks rose from \$8.87 in 1977 to \$10.00 in 1985. (See pp. 24, 25, 35, 36, 39, and 40.)

Figure 1: Accounts Offered at No Charge, With No Minimum Balance



Effect on Consumers

Consumers who paid fees on noninterest-bearing checking accounts (32 percent of those surveyed by the Federal Reserve Board) typically paid $41 to $57 a year in 1985, depending on income level. Those who paid fees on interest-bearing checking accounts (9 percent) had an average net cost (fees minus interest) of $12 to $57 if their annual income was less than $50,000, but net earnings (interest minus fees) of $17 if such income was $50,000 or over. (See p. 49.) Under 1977 fees and rates—assuming that their banking habits were the same—consumers who paid fees for checking typically would have paid from $22 to $37 (in 1985 dollars) annually. (See p. 50.)

Consumers who in 1985 earned interest on their checking accounts and did not pay fees (24 percent of those surveyed) typically earned from $28 to $103 annually, an amount that generally increased with income. Thirty-five percent of the consumers neither earned interest nor paid fees. (See p. 50.)

About 75 percent of the consumers surveyed had an account in addition to their main checking account. Fifty-one percent of those with annual incomes under $10,000 had such an account, increasing to 92 percent of those with incomes $50,000 and over. In 1985, consumers surveyed earned from $86 to $396 interest on these accounts. (See pp. 51 and 52.)

Alternatives for Low Income Consumers

Almost 75 percent of the depository institutions surveyed offered low-cost or free ("lifeline") accounts to senior citizens, about 40 percent offered them to students, and about 15 percent offered discounted, "no-frills" checking to the general public in 1985. (See pp. 60 and 61.)

In 1985, there were no fully comparable alternatives to banks and thrifts for obtaining banking services. Credit unions typically offered services at a lower cost but were not as accessible to the general public. Money orders were widely available but appeared to be more costly than checking accounts if more than three to five money orders were purchased per month from a bank or thrift, respectively. (See ch. 5.)

Recommendations

GAO is making no recommendations.

Agency Comments

GAO requested official comments on a draft of this report from the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), the Federal Home Loan Bank Board, and the National Credit Union Administration. Federal Reserve officials notified GAO the Board would not have comments. Letters from the other agencies are included in appendixes II through V.

In general, the agencies agreed with the observations and conclusions in the report. FDIC said that our draft report failed to account in some fashion for the implicit cost of foregone interest (no interest or interest at less than market rates) and, as a result, believes that comparisons between accounts maintained in 1977 and after deregulation are quite possibly inaccurate and misleading. (See app. IV.) FDIC's letter also indicates that the level of fees levied on deposit accounts in 1977 reflects compensation to consumers for the foregone interest on those accounts due to regulatory constraints on levels of interest payable.

Interest received and fees paid by consumers in 1977, in effect, were both understated by the amount of foregone interest. GAO's calculations of the difference between interest received and fees paid are not understated by foregone interest as suggested by FDIC. Adding some estimate of the cost of foregone interest to both interest earned and fees paid (which is effectively what the pricing of 1985 services does) would not change the difference between earnings and costs. Therefore, the calculations in 1977 can be legitimately and meaningfully compared with the net costs of banking services in 1985. (See p. 52.) FDIC was also concerned that the report did not account for the level of interest rates at times other than the years used in the report. GAO does not attempt to account for all such changes nor to project the impact of future changes. The report presents interest and bank fees associated with selected depository accounts at three points in time. (See pp. 52 and 53.)

Comments raised by the other regulators related, for the most part, to methodology and data presentation; where appropriate, clarifications have been made. (See pp. 44, 45, 52, 53, 63, and 68.)

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Abbreviations

ABA	American Bankers Association
CFA	Consumer Federation of America
CUNA	Credit Union National Association
FDIC	Federal Deposit Insurance Corporation
FHLBB	Federal Home Loan Bank Board
FRS	Federal Reserve System
GAO	General Accounting Office
MMDA	Money Market Deposit Account
NCUA	National Credit Union Administration
NOW	Negotiable-order-of-withdrawal
OCC	Office of the Comptroller of the Currency
SuperNOW	Super negotiable-order-of-withdrawal

Introduction

Financial deregulation began transforming the traditional financial marketplace in the early 1980s by starting the phase-out of interest rate controls on depository institutions[1] and introducing new interest-bearing deposit accounts. Depository institutions, which once were the only providers of these accounts and offered them at much the same prices or rates, began to offer an array of products, prices, and rates and to engage in direct product line competition with other financial institutions, such as insurance companies and money market funds.[2]

During this period, many banks and thrifts began paying market-determined rates of interest on certain accounts with unrestricted interest rates and higher rates of interest on regulated deposit accounts. To offset these higher costs, depository institutions began imposing or increasing fees for some services formerly provided at little or no cost—such as passbook and statement savings accounts, regular checking accounts, and the cashing of U.S. Treasury checks. Consumers, unaccustomed to the new pricing of traditional banking services, questioned whether financial deregulation had provided a net public benefit. Some Members of Congress and consumer groups expressed particular concern about the effects of these changes on low-income consumers.

Conditions That Prompted Deregulation

The Banking Act of 1933 (P.L. 73-66) prohibited the payment of interest on any deposit which was payable on demand in banks that were members of the Federal Reserve System; the prohibition was extended to federally insured banks that were not members in 1935. Likewise, the interest that could be paid on savings accounts was limited. Before that time, banks attracted deposits by offering high interest rates. It was believed that excessive competition for deposits had contributed to the numerous bank failures of the 1920s and early 1930s. The new restrictions on banks were encompassed in Federal Reserve Regulation Q.

Thrift institutions became subject to regulatory rate control with the passage of Public Law 89-597 in September 1966. This legislation granted the Federal Home Loan Bank Board explicit power to fix the

[1] A financial institution that accepts deposits. In this report, commercial banks and savings banks regulated by the Office of the Comptroller of the Currency, the Federal Reserve System, or the Federal Deposit Insurance Corporation are referred to as "banks." (About 13 percent of the banks included in our survey were not supervised by the federal regulatory agencies.) Savings and loan institutions and savings banks regulated by the Federal Home Loan Bank Board are referred to as "thrifts."

[2] A money market fund offers its securities to the public and invests its assets in a number of different securities. These funds offer an investment which functions like an interest-bearing checking account.

maximum rate that might be paid by thrifts on different types of savings accounts.

In the 1970s, these restrictions limited banks and thrifts from competing for funds with entities like money market funds that paid market rates of interest considerably higher than that permitted by Regulation Q. As a result, funds were attracted away from depository institutions by firms able to offer higher rates on accounts similar to those offered by depository institutions. Congress reviewed the effects of such restrictions and found they were

- discouraging savings,
- denying small depositors the opportunity to receive a market rate return on their savings, and
- impeding depository institutions' ability to compete for funds.

Legislation to Deregulate Interest

These findings led to a relaxation of the restrictions imposed by Regulation Q. The cornerstone of interest rate deregulation was the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221), which called for the orderly phase-out of deposit account interest rate ceilings and authorized new types of interest-bearing accounts, such as negotiable-order-of-withdrawal (NOW) accounts. A second important law was the Garn-St Germain Depository Institutions Act of 1982.

The Garn-St Germain Act (P.L. 97-320) accelerated the phase-out of Regulation Q and introduced the money market deposit account (MMDA), which required a minimum balance of $2,500 and limited transactions to six per month, but offered unrestricted interest rates.

This was the first time depository institutions were allowed to offer a deposit account that could compete with shares offered by private money market mutual funds. Subsequent to the Garn-St Germain Act, super negotiable-order-of-withdrawal (SuperNOW) accounts were authorized for depository institutions beginning January 1983. Basically, the SuperNOW account is a combination of the traditional NOW account and MMDA.[3]

[3]The SuperNOW account has the following MMDA features: initial and average balance of at least $2,500; no interest rate ceiling, except that no more than 5.25 percent can be paid when the average balance falls below $2,500; and a possible requirement of a 7-day notice of withdrawal. In addition, the MMDA has unlimited deposit and withdrawal transaction account capability. It is available only to those depositors eligible for NOW accounts (except for-profit businesses).

Effects of Deregulation

Deregulation was passed during an era of high and volatile interest rates. Therefore, an effect was that financial institutions increased the interest paid on deposits so they could continue to attract depositors' dollars. This practice led to an increase in fees for certain types of banking services that had formerly been implicitly paid for by customers through acceptance of below market interest rates or no interest on savings and transactions accounts, such as checking accounts. Other factors, such as price level changes and changes in general economic conditions, may have also contributed to the increase in banking fees.

When interest rates payable on deposits were limited under Regulation Q, financial institutions tried to attract depositors by offering certain services, such as account maintenance, check cashing, and cashier's checks, at little or no charge. This nonprice competition resulted in "implicit pricing" of accounts and services; in other words, depositors paid for services by lending banks and thrifts money at relatively low interest rates.

In testimony before the Senate Banking Committee during June 1979 hearings, the Secretary of the Treasury said that the cost to the depository institution of providing the extra services frequently exceeded the value the depositor placed on the services he or she received. Many depositors, he argued, would prefer to receive interest income, which they can spend as they choose, rather than having to accept this "implicit interest."

Deregulation began the process of eliminating the ceiling on interest rates and, by March 31, 1986, phased out interest rate limitations on accounts held in depository institutions. Also, new types of financial institutions began to get involved in the traditional banking market. For example, brokerage firms started to offer check-writing privileges on some of their accounts, while other companies opened financial service centers in retail stores.

In this new environment, banks and thrifts began paying higher interest rates to attract consumer and commercial deposits. To compensate for their higher interest expenses, depository institutions began to price formerly free services and increase the prices of other traditionally low-cost services.

Objective, Scope, and Methodology

We conducted this review to measure changes in the cost and interest rates of certain deposit services, changes over which Members of Congress have expressed concern.

The report covers

- changes in service fees and interest rates,
- effects of these changes on the consumer,
- depository institutions' responsibility to provide basic banking services at little or no cost to certain segments of the population,
- state legislation requiring the provision of basic banking services at a nominal cost, and
- consumers' options for obtaining basic banking services.

To identify changes in service fees and interest rates, we sent questionnaires to 1,662 banks and thrifts selected at random throughout the country. Federal regulatory agencies supervised about 87 percent of the banks in our sample. These institutions were directly affected by the federal deregulation legislation.

For sampling purposes, we stratified banks and thrifts into three groups based on their asset size (under $100 million, $100 million to $1 billion, and over $1 billion). For each institution type, we sampled different percentages of small, medium, and large institutions. These institutions were asked to provide data on interest rates and service fees for December 1977, December 1983, and June 1985. The dates of the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Garn-St Germain Depository Institutions Act of 1982 influenced the selection of the first 2 years. We chose 1985 to cover recent changes in fees and rates.

We compiled the information provided us into an overview of the price and interest rate changes in selected banking services for the three dates noted above. Banking fees in 1977 and 1983 were adjusted for changes in inflation so as to have figures comparable to 1985 fees. Because of the wide range of responses to some of the questions in our questionnaire, all figures reported from it are medians. The only exception is table 5.1, which presents average values for purposes of comparing them with available credit union data. The median is the midpoint value of a set or group of values; in other words, the value above which half the observations fall and below which half fall. The median is less influenced by unusually large values than is the more commonly used mean or average value. We also show the range of the center 50 percent of all responses:

that is, values falling in the lowest and highest 25 percent of the responses were eliminated. Throughout this report, median values and frequencies given for banks and thrifts are weighted values projected to the universe.

It should also be noted that when discussing minimum balances to open an account or to maintain it without a fee, we excluded those accounts requiring a balance of $1 or less.

Appendix I describes the methodology we used in selecting the sample and the responses to the questionnaire. Although we received a 67 percent overall response rate on our questionnaire, many respondents did not completely answer all questions. Response rates varied by question and by time period. In general, 1977 response rates were the lowest. In those cases where the response rate was not adequate, we do not show values and so state. Copies of the bank and thrift questionnaires showing the number of responses to each question are available upon request.

Information obtained from the questionnaire was then combined with information developed from the Currency and Transaction Account Usage Survey sponsored by the Federal Reserve and conducted by the Survey Research Center of the University of Michigan.[4] During May through July 1984, this telephone survey interviewed 1,993 families selected to be representative of the continental United States. The data from this survey established how a representative group of households used selected banking services. For example, the survey examined the type of deposit accounts maintained and the purpose for which they were used. We did not independently verify the data provided.

We used this information on consumer behavior to determine how these individuals would have fared under the 1977 and 1985 median fees and interest rates that we obtained from banks and thrifts. This analysis does not reflect changes in consumer behavior in response to changed prices of services and to the nationwide introduction of interest-bearing checking accounts.

To determine depository institutions' responsibility to provide minimum banking services, we researched applicable federal and state law and court interpretation. Our legal research covered two periods: 1) 1975 to 1986, involving recent legislation, and 2) 1900 to 1933, when much of

[4]The Board of Governors of the Federal Reserve System, Currency and Transaction Account Usage Survey, (1984).

today's banking framework, including deposit insurance, the Federal Reserve System, and restricted interstate banking, was created.

We telephoned individual state governments to determine what actions they had taken or were considering in relation to the provision of low cost basic banking services. We contacted 32 states, which together held 90 percent of the U.S. population.

To identify various options for obtaining basic banking services, we conducted a literature search. To determine the feasibility of specifically using credit unions as an alternative to basic banking services, we conducted a telephone survey of nine credit union trade associations and five credit unions, and we reviewed a 1985 Credit Union National Association (CUNA) study which addressed available credit union accounts and services, interest rates, and service fees.

We contacted the federal agencies—the Federal Deposit Insurance Corporation (FDIC), the Federal Home Loan Bank Board (FHLBB), the Board of Governors of the Federal Reserve System (FRS), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA)—responsible for regulating banks, thrifts, and credit unions. In addition, we contacted various trade associations representing banks and thrifts, including the American Bankers Association (ABA), the Independent Bankers Association, the Consumer Bankers Association of America, and the U.S. League of Savings Institutions.

Our work was performed between June 1985 and June 1986 in accordance with generally accepted government auditing standards.

Changes in Interest Rates and Banking Service Fees

Since financial deregulation, banks and thrifts have changed the array of products and services they have traditionally offered depository customers, as well as some of the conditions and terms associated with them.

Our questionnaire results for December 1977, December 1983, and June 1985 show that since deregulation more institutions are charging for various services that were previously free, and that fees, adjusted for increases in the general level of prices, have increased in many cases.[1]

General Trends

Banks and thrifts have changed their traditional pricing and interest rates on products and services they offer. Institutions in our survey

- have increased interest rates in some cases and introduced new interest-bearing demand deposit accounts;
- are less often providing services at no charge;
- have increased fees for many services, while reducing fees on others;
- are more often requiring a minimum balance to open an account or avoid fees; and
- are giving depositors incentives to maintain higher balances, a practice known as tiering.

This chapter discusses changes at banks and thrifts in five types of accounts—passbook and statement savings, noninterest-bearing checking, NOW, and SuperNOW.[2] For each account we describe the interest rate paid for deposits, the median minimum balance required to open an account, and median fees required to maintain an account or minimum daily balance required to avoid fees. For transaction (checking) accounts, per check charges and other related fees are included. Finally, the chapter discusses fees for depositors and nondepositors for other financial services, such as cashing U.S. Treasury checks or purchasing money orders.

[1]To make yearly comparisons meaningful, fees and other account features cited in this chapter, such as account balances, have been adjusted to 1985 dollars, based on the Consumer Price Index. Interest rates were not adjusted for inflation.

[2]The rates of responses to our questions on Money Market Deposit Accounts, which pay market rates on interest but put limits on numbers of transactions, were too low to provide statistically valid data. According to a monthly Federal Reserve survey of over 500 commercial banks and about 75 mutual savings banks, rates paid on these accounts ranged from 9.34 percent to 6.85 percent during January 1984 through June 1985.

Savings Account Interest and Fees

We collected data on two types of savings accounts—passbook and statement. A passbook account is a savings account for which transactions are recorded in a book that the depositor keeps and presents with each deposit or withdrawal. A statement account does not use a book; instead, transactions are reported to the depositor, usually by mail, in a periodic statement.

Our data indicated that banks and thrifts are increasingly setting minimum balances to open accounts and charging depositors if their accounts fall below a certain minimum.

Maximum Interest Paid on Savings Accounts

During the 3 specific years covered by our survey, over 95 percent of our thrift respondents offered the maximum interest rates that federal regulation allowed for savings accounts. Banks were not as consistent. For example, 90 percent of the bank respondents paid the maximum rate in 1977, while in 1985 the percentage had declined to 62 percent. These maximums are shown in table 2.1.

Table 2.1: Maximum Interest Rates Allowed by Regulation on Passbook & Statement Savings Accounts

	1977	1983	1985
Banks	5.00%	5.25%	5.50%
Thrifts	5.25	5.50	5.50

Source: Annual Statistical Digest, Board of Governors of the Federal Reserve System, (1983); and Federal Reserve Bulletin, (May 1986).

Minimum Balance to Open a Savings Account

In 1977, 45 percent of the banks and 55 percent of the thrifts we surveyed required a minimum balance of over $1 to open a statement savings account. By 1985 about 75 percent and 80 percent, respectively, had such requirements. (See tables 2.4 and 2.5.) For both banks and thrifts, minimum balances required to open savings accounts rose between 1977 and 1985, although they have generally been less at thrifts than at banks. (See tables 2.2 through 2.5.)

Maintenance Fees for Savings Accounts

In 1977 the vast majority of bank and thrift survey respondents did not charge a monthly maintenance fee for passbook or statement savings accounts. By 1985 about 40 percent of banks were charging maintenance fees or imposing minimum balance requirements to avoid fees. In contrast, about 18 percent of the thrift institutions were charging maintenance fees or imposing minimum balance requirements. In those cases where fees were charged in 1985, the median minimum balance requirement to avoid fees at both banks and thrifts was $100 and the median assessed fee for falling below the minimum was $1.00 per month.[3]

Table 2.2: Characteristics of Passbook Savings Accounts Offered by Banks—Balance Requirements & Fees (1985 Dollars)

	1977	1983	1985
Banks offering this account:			
Percent Requiring a Minimum Balance to Open	42.0%	61.1%	69.0%
Minimum Balance to Open			
Median	$18	$27	$50
Range	$18-44	$11-81	$10-100
Percent Charging Unless Minimum Balance is Maintained	7.8%	26.4%	37.3%
Minimum Balance to Avoid Fees			
Median	[a]	$54	$100
Range		$27-108	$50-200
Monthly Fee			
Median	[a]	$1.08	$1.00
Range		$1.08-2.16	$1.00-2.00

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Median value not shown because response rate was too low to provide statistically valid data.

Table 2.3: Characteristics of Passbook Savings Accounts Offered by Thrifts—Balance Requirements & Fees (1985 Dollars)

	1977	1983	1985
Thrifts offering this account:			
Percent Requiring a Minimum Balance to Open	65.0%	75.8%	81.2%
Minimum Balance to Open			
Median	$18	$11	$20
Range	$9-18	$5-27	$10-50
Percent Charging Unless Minimum Balance is Maintained	1.0%	7.9%	17.7%
Minimum Balance to Avoid Fees			
Median	[a]	$54	$100
Range		$11-108	$50-100
Monthly Fee			
Median	[a]	$1.08	$1.00
Range		$1.08-1.08	$1.00-1.50

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Median value not shown because response rate was too low to provide statistically valid data.

[3]In some cases, maintenance fees varied depending on the balance maintained. In those cases we used the lowest fee in identifying the median.

Table 2.4: Characteristics of Statement Savings Accounts Offered by Banks—Balance Requirements & Fees (1985 Dollars)

	1977	1983	1985
Banks offering this account:			
Percent Requiring a Minimum Balance to Open	45.5%	62.4%	73.6%
Minimum Balance to Open			
Median	$89	$108	$100
Range	$18-177	$27-108	$25-100
Percent Charging Unless Minimum Balance is Maintained	4.0%	26.8%	39.9%
Minimum Balance to Avoid Fees			
Median	[a]	$108	$100
Range		$54-216	$100-200
Monthly Fee			
Median	[a]	$1.08	$1.00
Range		$1.08-1.62	$1.00-2.00

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Median value not shown because response rate was too low to provide statistically valid data.

Table 2.5: Characteristics of Statement Savings Accounts Offered by Thrifts—Balance Requirements & Fees (1985 Dollars)

	1977	1983	1985
Thrifts offering this account:			
Percent Requiring a Minimum Balance to Open	54.9%	72.0%	79.4%
Minimum Balance to Open			
Median	$18	$27	$50
Range	$9-18	$11-108	$10-100
Percent Charging Unless Minimum Balance is Maintained	0.5%	8.7%	19.3%
Minimum Balance to Avoid Fees			
Median	[a]	$54	$100
Range		$54-108	$75-200
Monthly Fee			
Median	[a]	$1.08	$1.00
Range		$1.08-2.16	$1.00-2.00

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Median value not shown because response rate was too low to provide statistically valid data.

Tiered Pricing

Figures 2.1 and 2.2 depict changes in the incidence of tiered pricing schedules at banks and thrifts. By 1985 this approach to setting maintenance fees on passbook and statement savings accounts based on account balance had become more widespread than it was in 1977, although it still had not been adopted by a majority of banks and thrifts.

Checking Account Interest and Fees

Before the 1980s, noninterest-bearing checking accounts were the only transaction accounts offered throughout the country, and then only at banks and some state-chartered thrifts. Deregulation authorized new, interest-bearing checking accounts, such as NOW and SuperNOW accounts, and allowed federally chartered thrifts to offer checking services.

Our data on checking accounts show the following:

- The interest rates paid on NOW accounts between 1983 and 1985 remained the same, while rates for SuperNOW accounts increased. (See table 2.6.)
- The percentage of banks offering a noninterest-bearing account at no charge to the consumer declined from 1977 to 1985. (See fig. 2.3.)
- The median inflation-adjusted maintenance cost of noninterest-bearing checking accounts increased, for the most part, at both banks and thrifts. The median maintenance cost of NOWs and SuperNOWs, on the other hand, generally decreased at both banks and thrifts from 1983 to 1985. (See tables 2.7 through 2.12.)

Figure 2.1: Banks With Tiered Pricing: Passbook and Statement Savings

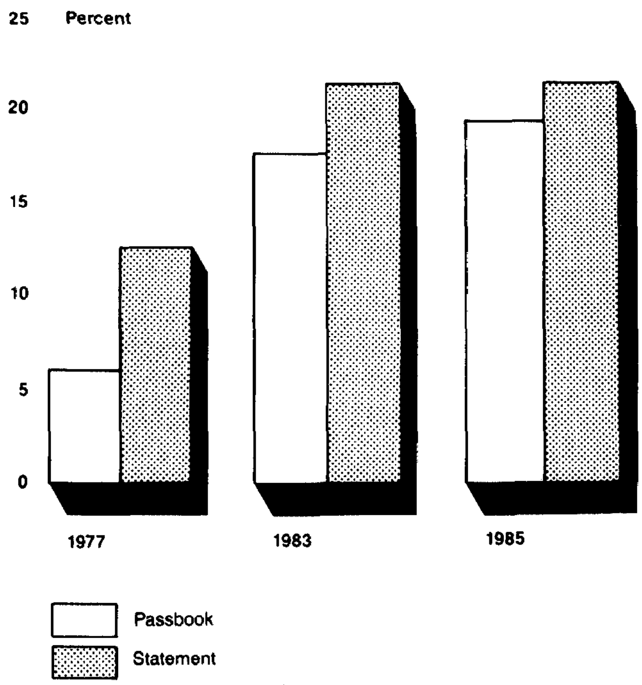
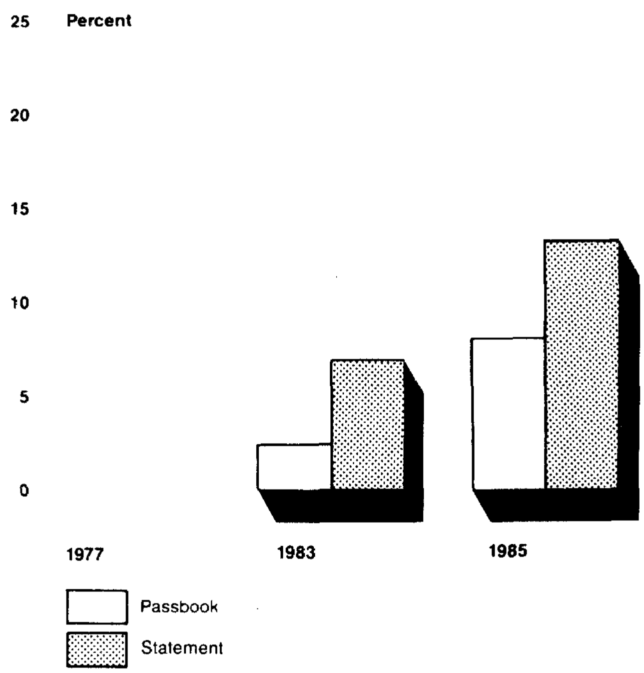


Figure 2.2: Thrifts With Tiered Pricing: Passbook and Statement Savings



- The median minimum balance that banks required to open a noninterest-bearing checking account increased between 1977 and 1985. At thrifts, the median minimum balance decreased between 1983 (the first year in our survey in which thrifts could offer such accounts nationally) and 1985. (See tables 2.7 and 2.8.)
- The median minimum balance to avoid fees on noninterest-bearing checking accounts decreased. The median minimum balance requirements for NOWs and SuperNOWs also declined between 1983 and 1985. (See tables 2.7 to 2.12.)

Interest Rates Paid

Until January 1986, regulatory restrictions limited the rates that could be paid on NOW accounts. Table 2.6 shows the median bank and thrift interest yield for NOW and SuperNOW accounts.

Table 2.6: Median Interest Yield for NOW and SuperNOW Accounts

	1983	1985
Banks		
NOW	5.25%	5.25%
SuperNOW	5.38	5.50
Thrifts		
NOW	5.38	5.38
SuperNOW	5.39	5.43

Noninterest-Bearing Checking Accounts

In 1977, 45 percent of banks in our survey required a minimum balance of more than $1 to open a noninterest-bearing checking account. By 1985 the percentage had increased to 63 percent. In 1985 about 75 percent of the thrifts required minimum opening balances of more than $1.

Among those banks that did require a minimum balance to open a noninterest-bearing checking account, the median minimum balance increased between 1977 and 1985. In 1977, thrifts were not authorized nationally to offer this account. Between 1983 and 1985, thrifts' median minimum balance to open an account slightly decreased.

In 1977 about 35 percent of banks offered a free noninterest-bearing checking account. Another 59 percent carried no fees if a minimum balance was maintained. By 1985 the proportion of banks that offered free accounts declined to about 15 percent and the proportion offering accounts at no charge if a minimum balance was maintained increased to 82 percent. In 1985 over 60 percent of all thrifts were offering free checking. Another 35 percent did not charge if a minimum balance was maintained. (See figs. 2.3 and 2.4.) Median minimum balance requirements to avoid fees declined at banks between 1977 and 1985 and at thrifts between 1983 and 1985. (See tables 2.7 and 2.8.)

Fees for noninterest-bearing checking accounts are assessed in several ways. Checking account holders may pay a monthly maintenance fee, a charge per check, or both. Banks, more often than thrifts, had noninterest-bearing checking accounts that were priced using both a monthly fee and a per check charge. At some institutions, fees depended on whether a minimum balance was maintained; others charged regardless of balance.

For banks levying fees, median monthly maintenance fees increased between 1977 and 1985 when the account was charged for both a per check charge and a monthly fee. When price was based on a monthly fee only, the median monthly fee approximately doubled. Monthly maintenance fees were higher at thrifts than at banks and also rose between 1983 and 1985. For thrift accounts that had both a maintenance fee and per check charges, the monthly maintenance fee declined between 1983 and 1985. In those cases where charges per check were the only fees charged, results were mixed. (See tables 2.7 and 2.8.)

Fees for NOW Accounts

By 1985 about 11 percent of banks and about 17 percent of thrifts were offering NOW accounts free. An additional 88 percent of banks and almost 83 percent of thrifts offered accounts at no charge when a minimum balance was maintained. Accounts carried a monthly maintenance fee and/or a charge per check that could sometimes be avoided by maintaining a minimum balance. The median minimum balance to avoid fees was much higher at banks than at thrifts. This balance declined somewhat at both banks and thrifts between 1983 and 1985. Monthly maintenance fees also decreased for both between 1983 and 1985. (See figs. 2.5 and 2.6 and tables 2.9 and 2.10.)

Figure 2.3: Characteristics of Noninterest-Bearing Checking Accounts Offered by Banks

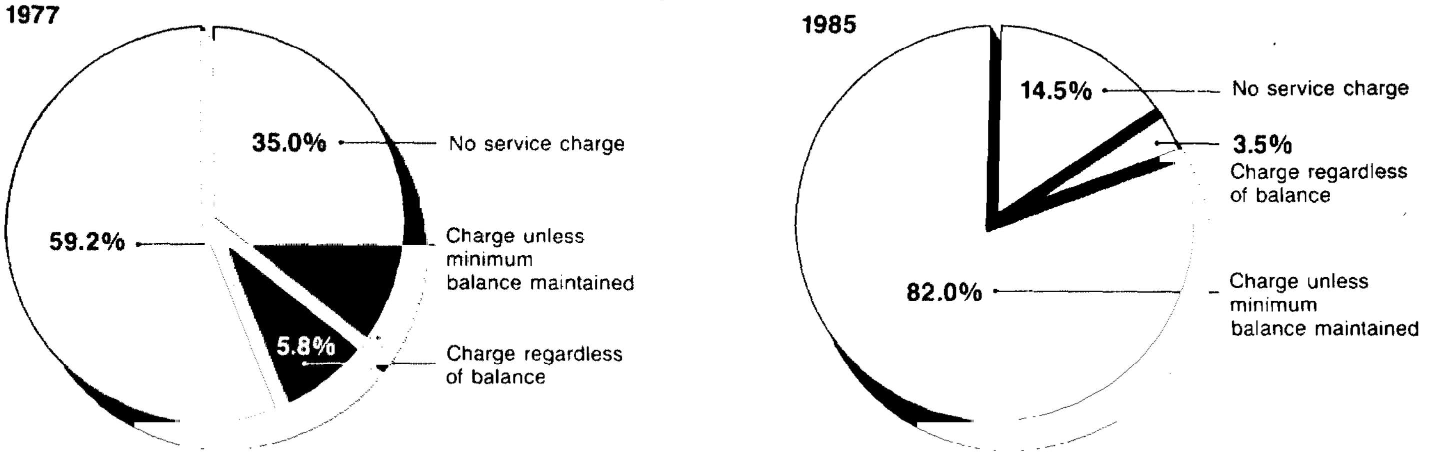


Table 2.7: Balance Requirements and Fees for Noninterest-Bearing Checking Accounts Offered by Banks

	1977	1983	1985
All Banks Offering Noninterest Checking:			
Percent Requiring a Minimum Balance to Open	44.7%	59.0%	63.2%
Minimum Balance to Open			
Median	$89	$108	$100
Range	$18-89	$54-108	$50-150
Banks That Charge Unless Minimum Balance is Maintained:			
Minimum Balance to Avoid Fees			
Median	$532	$432	$400
Range	$266-709	$324-540	$300-500
Fees:			
Per check only			
Median	$0.18	$0.09	$0.14
Range	$0.18-0.18	$0.04-0.15	$0.09-0.23
Monthly fee only			
Median	$1.77	$2.16	$3.50
Range	$1.77-3.55	$1.08-4.32	$1.75-4.66
Combined pricing			
Per check			
Median	$0.09	$0.13	$0.17
Range	$0.09-0.18	$0.11-0.16	$0.12-0.23
Monthly fee			
Median	$1.77	$2.16	$2.91
Range	$0.89-2.66	$1.62-3.24	$2.33-3.50

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

Figure 2.4: Characteristics of Noninterest-Bearing Checking Accounts Offered by Thrifts

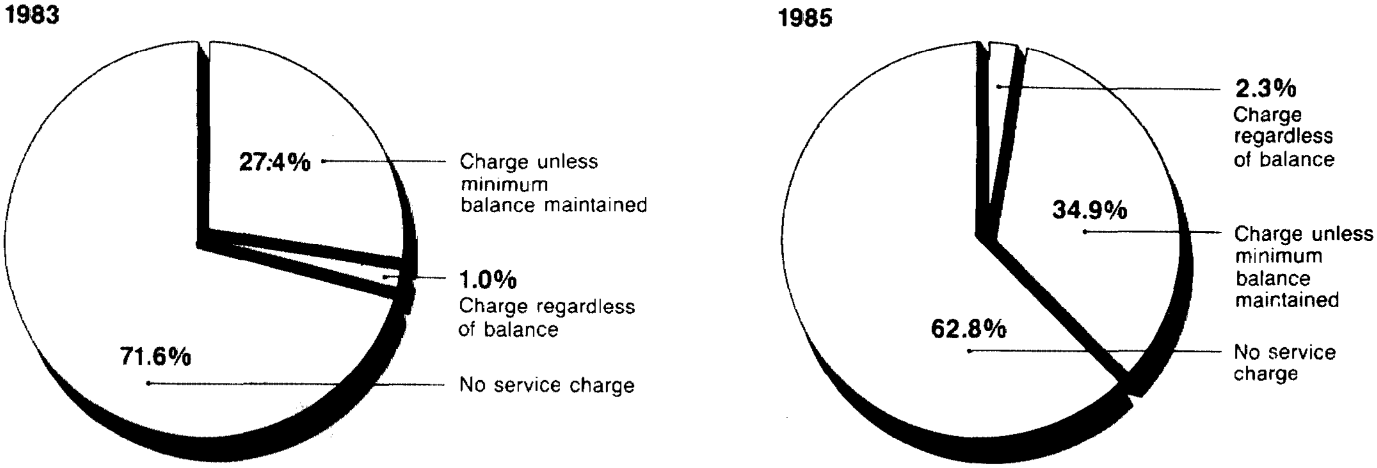


Table 2.8: Balance Requirements and Fees for Noninterest-Bearing Checking Accounts Offered by Thrifts

	1983	1985
All Thrifts Offering Noninterest Checking:		
Percent Requiring a Minimum Balance to Open	69.7%	75.4%
Minimum Balance to Open		
Median	$108	$100
Range	$54-540	$50-300
Thrifts That Charge Unless Minimum Balance is Maintained:		
Minimum Balance to Avoid Fees		
Median	$324	$300
Range	$216-540	$200-500
Fees:		
Per check only		
Median	$0.16	$0.23
Range	$0.16-0.16	$0.17-0.47
Monthly fee only		
Median	$5.40	$5.83
Range	$3.24-5.40	$3.62-7.00
Combined pricing		
Per check		
Median	$0.16	$0.17
Range	$0.11-0.22	$0.17-0.23
Monthly fee		
Median	$5.40	$3.50
Range	$2.70-6.48	$2.33-5.83

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

Figure 2.5: Characteristics of NOW Checking Accounts Offered by Banks

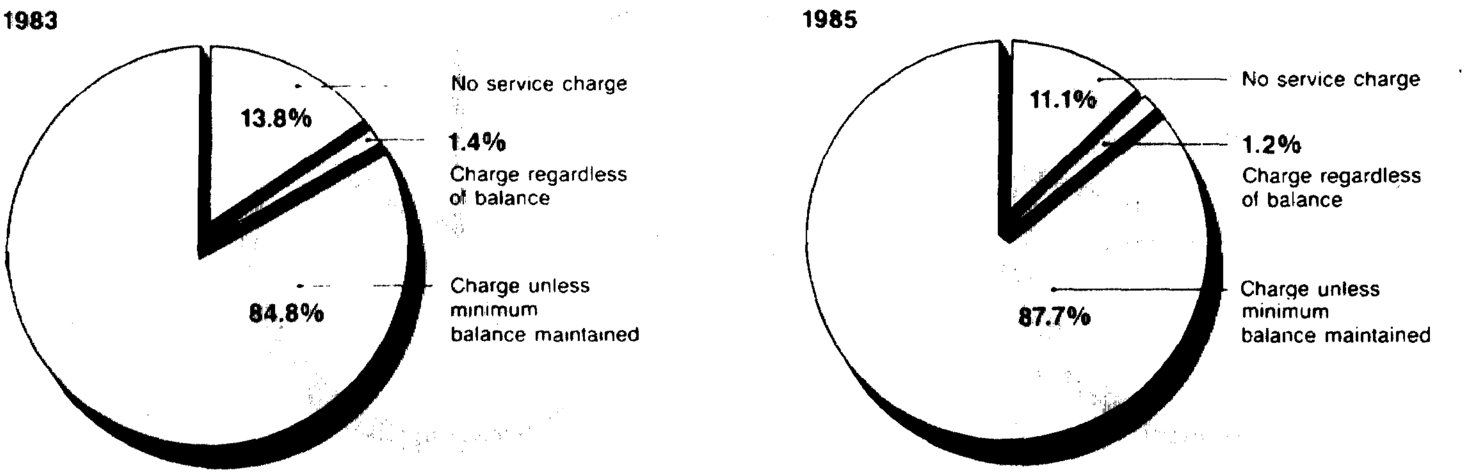


Table 2.9: Balance Requirements and Fees for NOW Checking Accounts Offered by Banks

	1983	1985
All Banks Offering NOW Accounts:		
Percent Requiring a Minimum Balance to Open	88.0%	90.2%
Minimum Balance to Open		
Median	$1080	$1000
Range	$540-1296	$500-1000
Banks That Charge Unless Minimum Balance is Maintained:		
Minimum Balance to Avoid Fees		
Median	$1080	$1000
Range	$540-1080	$500-1000
Fees:		
Per check only		
Median	$0.17	$0.16
Range	$0.17-0.23	$0.11-0.27
Monthly fee only		
Median	$5.83	$5.40
Range	$5.25-7.00	$5.40-6.48
Combined pricing		
Per check		
Median	$0.17	$0.16
Range	$0.17-0.23	$0.16-0.22
Monthly fee		
Median	$5.83	$5.40
Range	$4.66-5.83	$3.78-5.40

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

Figure 2.6: Characteristics of NOW Checking Accounts Offered by Thrifts

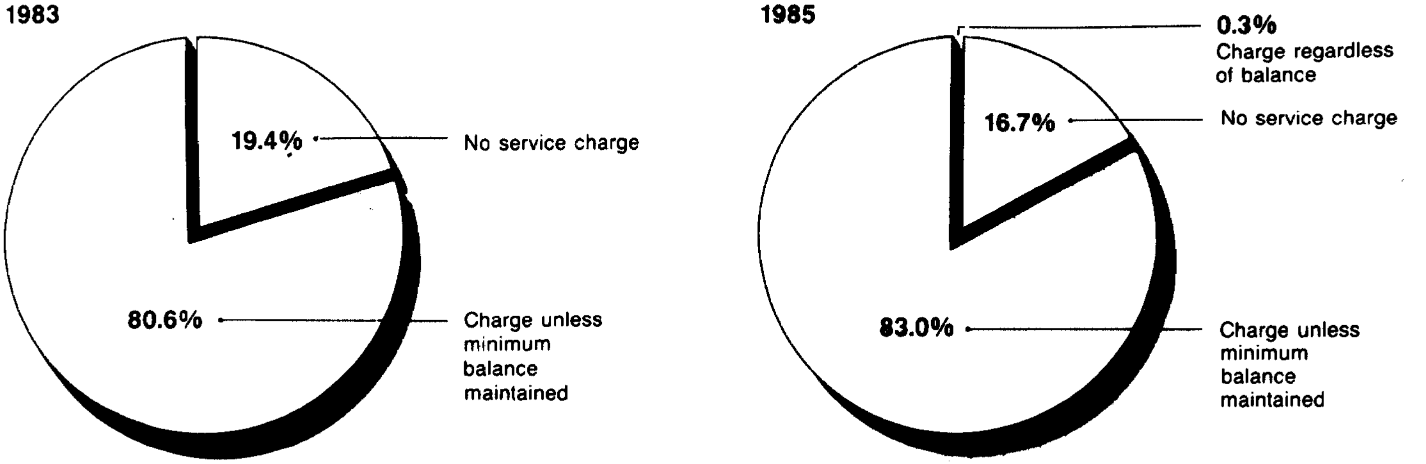


Table 2.10: Balance Requirements and Fees for NOW Checking Accounts Offered by Thrifts

	1983	1985
All Thrifts Offering NOW Accounts:		
Percent Requiring a Minimum Balance to Open	87.4%	88.9%
Minimum Balance to Open		
Median	$108	$100
Range	$54-270	$50-250
Thrifts That Charge Unless Minimum Balance is Maintained:		
Minimum Balance to Avoid Fees		
Median	$324	$300
Range	$216-540	$200-500
Fees:		
Per check only		
Median	$0.20	a
Range	$0.17-0.23	
Monthly fee only		
Median	$5.83	$5.40
Range	$3.50-5.83	$4.32-5.40
Combined pricing		
Per check		
Median	$0.17	$0.16
Range	$0.12-0.23	$0.16-0.22
Monthly fee		
Median	$4.66	$3.78
Range	$3.50-5.83	$3.24-5.40

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Median value not shown because response rate was too low to provide statistically valid data.

Fees for SuperNOW Accounts

For SuperNOW accounts, both banks and thrifts required a median opening balance of $2,700 in 1983. This amount declined to $2,500 for both banks and thrifts by 1985. The proportion of banks offering the account free declined from 18 to 12 percent, while the proportion of thrifts offering a free account decreased from 27 to 23 percent. At the same time, however, median balances required to avoid maintenance fees declined for both banks and thrifts. (See figs. 2.7 and 2.8 and tables 2.11 and 2.12.)

Tiering of Checking Accounts

Price tiering, the setting of fees based on account balance, was more common for bank checking accounts than for savings accounts in 1977. Figures 2.9 and 2.10 show the extent of tiering by banks and thrifts for noninterest-bearing checking, NOW, and SuperNOW accounts.

Figure 2.7: Characteristics of SuperNOW Checking Accounts Offered by Banks

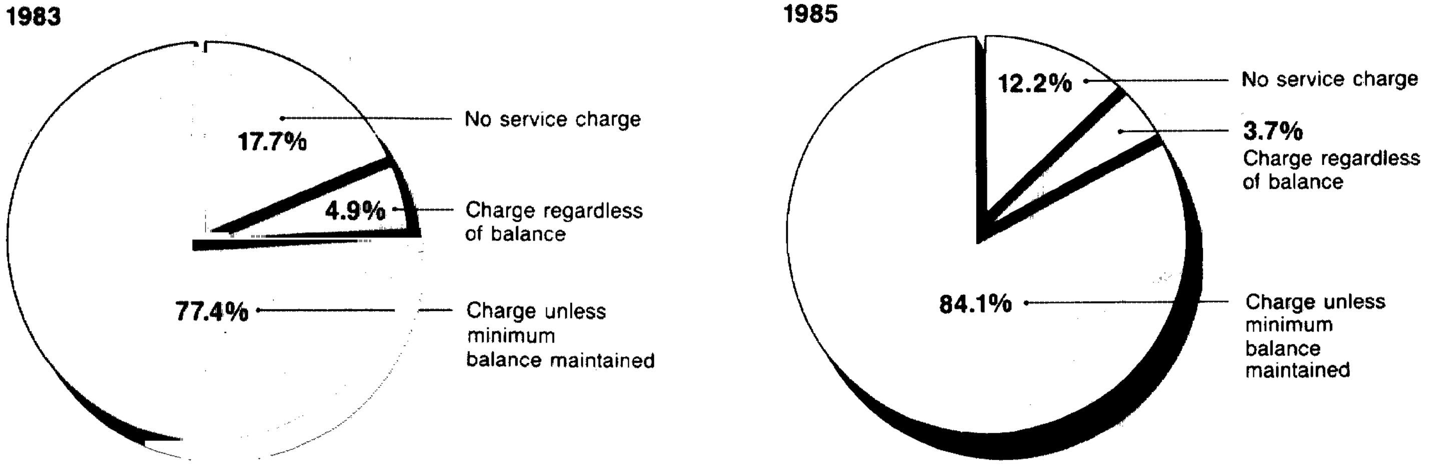


Table 2.11: Balance Requirements and Fees for SuperNOW Checking Accounts Offered by Banks

	1983	1985
All Banks Offering SuperNOW Accounts:		
Percent Requiring a Minimum Balance to Open	100.0%[a]	100.0%[a]
Minimum Balance to Open		
Median	$2700	$2500
Range	$2700-2700	$1000-2500
Banks That Charge Unless Minimum Balance is Maintained:		
Minimum Balance to Avoid Fees		
Median	$2700	$2500
Range	$2700-2700	$1000-2500
Fees:		
Per check only		
Median	$0.29	$0.22
Range	$0.23-0.58	$0.16-0.27
Monthly fee only		
Median	$7.00	$6.48
Range	$5.83-11.66	$5.40-10.80
Combined pricing		
Per check		
Median	$0.17	$0.22
Range	$0.14-0.23	$0.16-0.22
Monthly fee		
Median	$5.83	$5.40
Range	$4.66-7.00	$4.86-8.10

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Federal regulation required minimum balances to open SuperNOW accounts.

Figure 2.8: Characteristics of SuperNOW Checking Accounts Offered by Thrifts

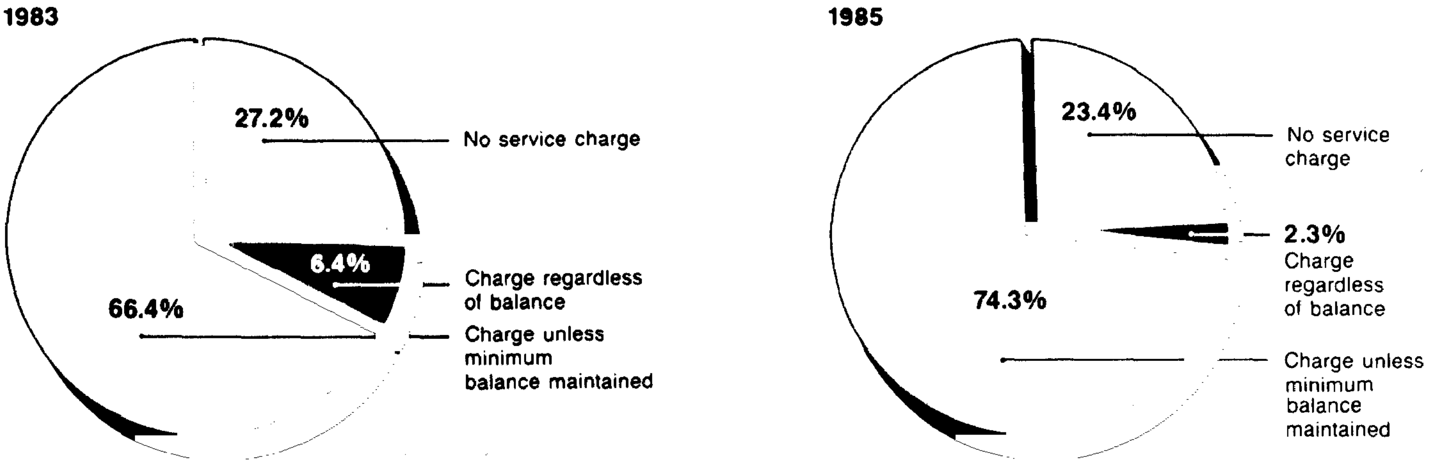


Table 2.12: Balance Requirements and Fees for SuperNOW Checking Accounts Offered by Thrifts

	1983	1985
All Thrifts Offering SuperNOW Accounts:		
Percent Requiring a Minimum Balance to Open	100.0%[a]	100.0%[a]
Minimum Balance to Open		
Median	$2700	$2500
Range	$2700-2700	$1000-2500
Banks That Charge Unless Minimum Balance is Maintained:		
Minimum Balance to Avoid Fees		
Median	$1620	$1000
Range	$540-2700	$500-2500
Fees:		
Per check only		
Median	$0.17	$0.16
Range	$0.17-0.23	$0.08-0.22
Monthly fee only		
Median	$5.83	$5.40
Range	$5.83-7.00	$5.40-8.10
Combined pricing		
Per check		
Median	$0.17	$0.16
Range	$0.17-0.23	$0.16-0.22
Monthly fee		
Median	$5.83	$5.40
Range	$4.08-5.83	$4.32-5.40

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Federal regulation required minimum balances to open SuperNOW accounts.

Figure 2.9: Percent of Banks With Tiered Pricing: Noninterest, NOW, and SuperNOW Accounts

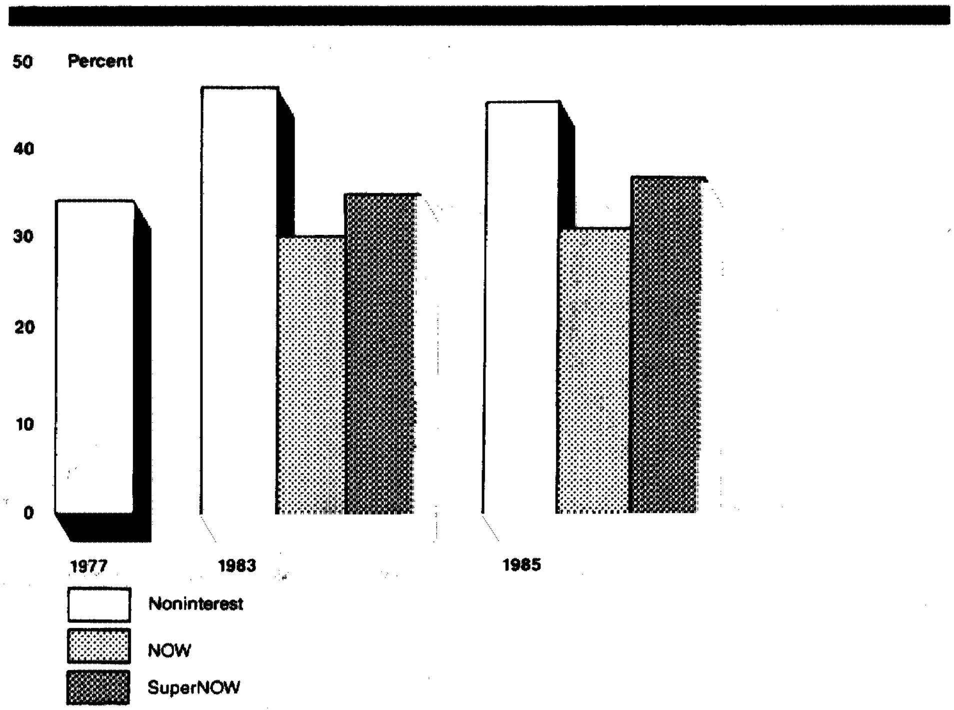
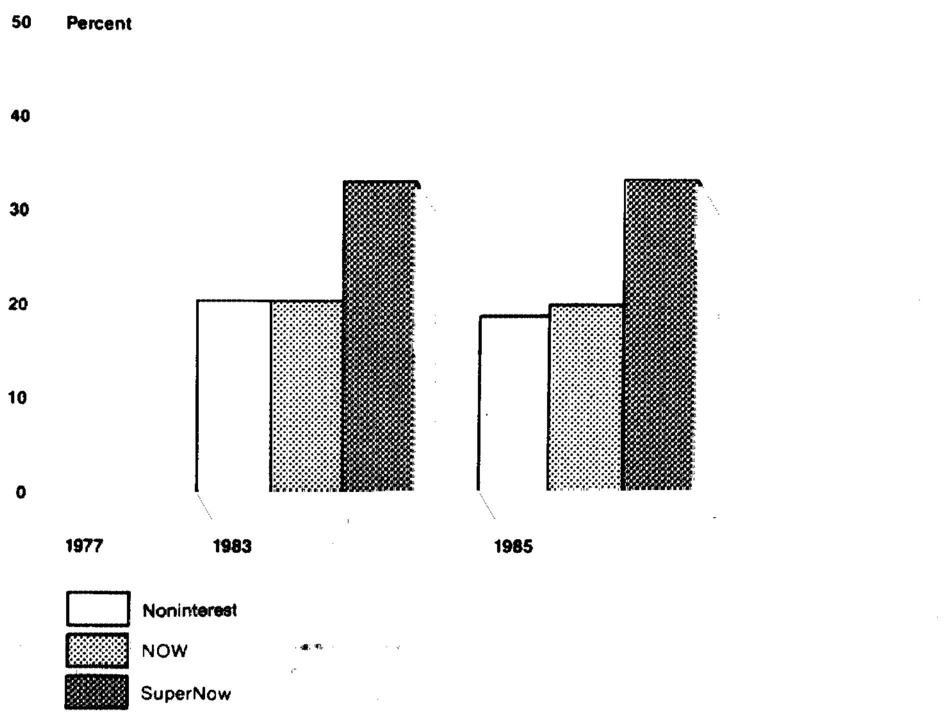


Figure 2.10: Percent of Thrifts With Tiered Pricing: Noninterest, NOW and SuperNOW Accounts



Other Checking-Related Fees

Besides maintenance and per check fees, depository institutions commonly charged checking account holders for such services as printing checks, stopping payment on a check, and returning a check when the account contained insufficient funds to cover it. Our survey showed that depository institutions charged more frequently for these services in 1985 than in 1977. (See figs. 2.11 to 2.13.)

Figure 2.11: No Charge for Stop Payment

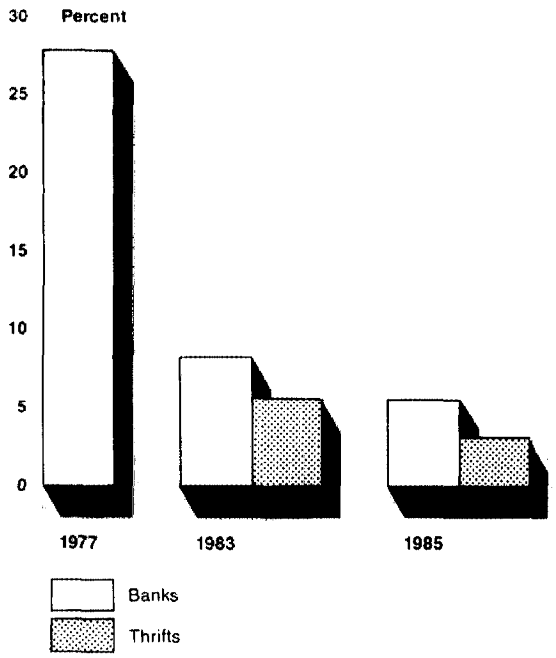


Figure 2.12: No Charge for Returned Check

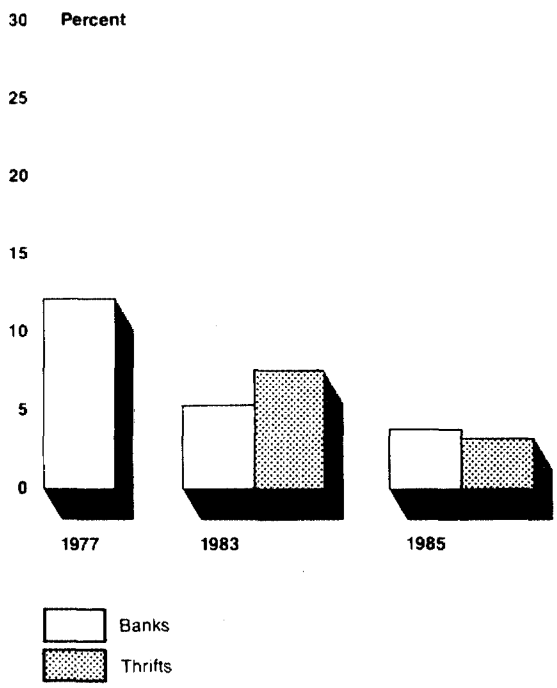
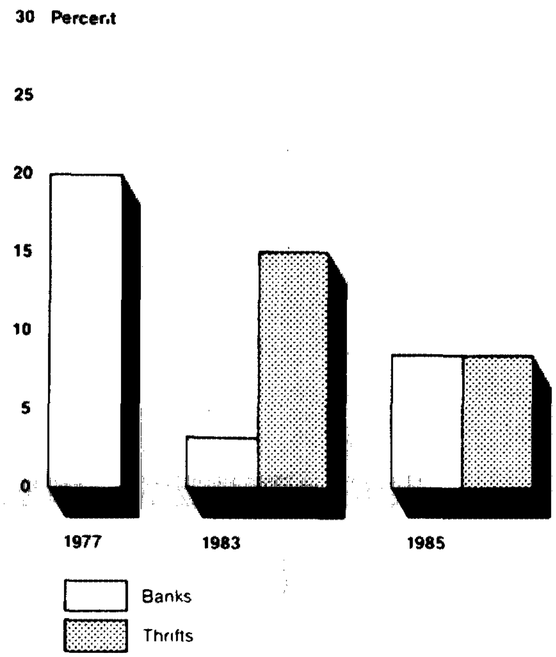


Figure 2.13: No Charge for Printing 200 Checks



Additionally, inflation-adjusted charges for checking-related services generally increased. (See figs. 2.14 to 2.16.)

Figure 2.14: Median Charges for Stop Payment

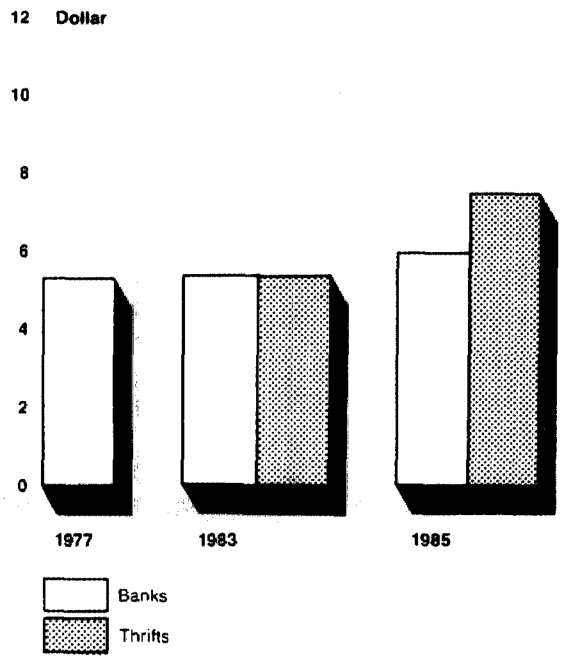


Figure 2.15: Median Charges for Returned Check

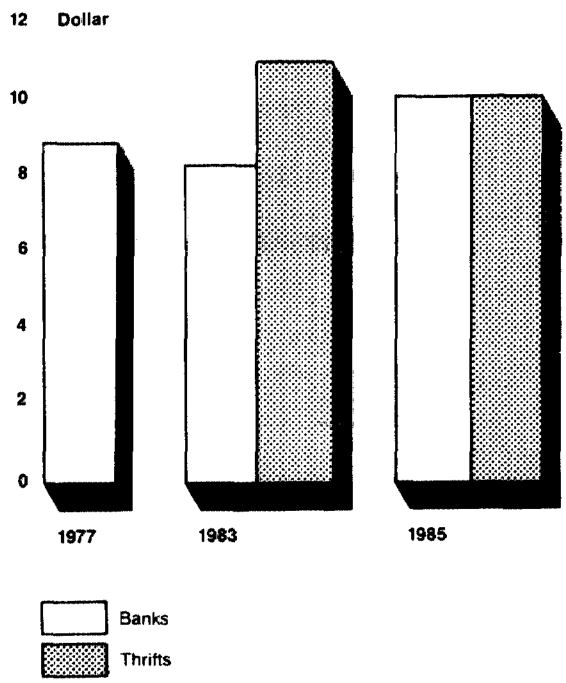
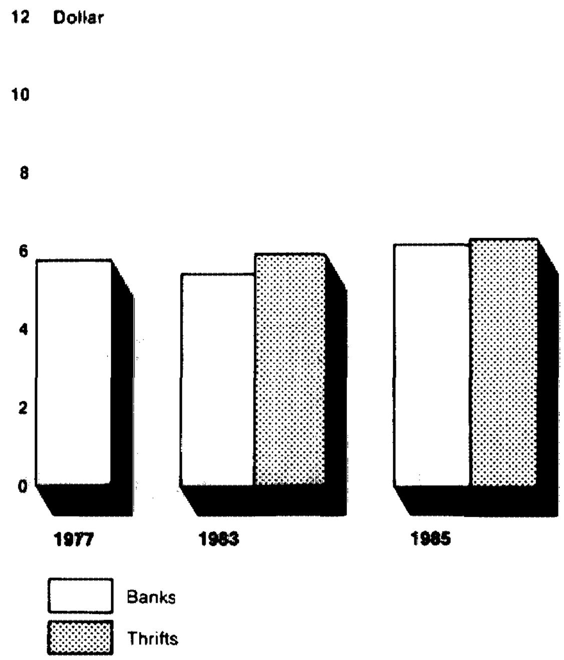


Figure 2.16: Median Charges for Printing 200 Checks



Fees for Other Services

Besides account-related services, banks and thrifts offered services such as cashing U.S. Treasury checks and issuing money orders and cashier's checks. Table 2.13 shows the percentage of banks and thrifts that provided such services to depositors. Table 2.14 shows the percentage that did so at no charge.

Table 2.13: Percentage of Banks and Thrifts Providing Other Services to Depositors

	Banks			Thrifts		
Service	1977	1983	1985	1977	1983	1985
Treasury checks	87.1%	95.0%	95.6%	88.8%	91.8%	92.6%
Cashier's checks	84.0	95.1	93.5	41.0	58.2	66.4
Money orders	68.5	82.1	85.7	69.6	82.6	82.7

Table 2.14: Percentage of Banks and Thrifts Providing Other Services at No Charge to Depositors

	Banks			Thrifts		
Service	**1977**	**1983**	**1985**	**1977**	**1983**	**1985**
Treasury checks	99.0%	98.8%	98.6%	100.0%	99.2%	100.0%
Cashier's checks	20.2	10.3	8.3	89.4	60.9	40.9
Money orders	12.6	6.6	5.5	39.6	31.2	20.3

Note: Percentages apply only to institutions that provide such services.

Tables 2.15 and 2.16 provide the same information with respect to nondepositors.

Table 2.15: Percentage of Banks and Thrifts Providing Other Services to Nondepositors

	Banks			Thrifts		
Service	**1977**	**1983**	**1985**	**1977**	**1983**	**1985**
Treasury checks	84.0%	85.6%	86.4%	54.2%	54.1%	54.9%
Cashier's checks	81.9	91.8	91.1	31.2	48.4	56.0
Money orders	68.6	81.7	85.4	63.8	77.8	78.8

Table 2.16: Percentage of Banks and Thrifts Providing Other Services at No Charge to Nondepositors

	Banks			Thrifts		
Service	**1977**	**1983**	**1985**	**1977**	**1983**	**1985**
Treasury checks	98.5%	61.8%	55.6%	99.0%	92.6%	83.8%
Cashier's checks	9.4	2.1	1.2	75.5	38.4	20.0
Money orders	7.4	1.4	0.7	19.9	10.3	3.0

Note: Percentages apply only to institutions that provide such services.

The inflation-adjusted median fees associated with issuing money orders and cashier's checks at both banks and thrifts to depositors increased between 1977 and 1985. (See figs. 2.17 and 2.18.)

Similarly, median fees for cashing Treasury checks and issuing money orders and cashier's checks for nondepositors increased at both banks and thrifts. (See figs. 2.19 to 2.21.)

Figure 2.17: Median Charges for a Money Order, Depositors

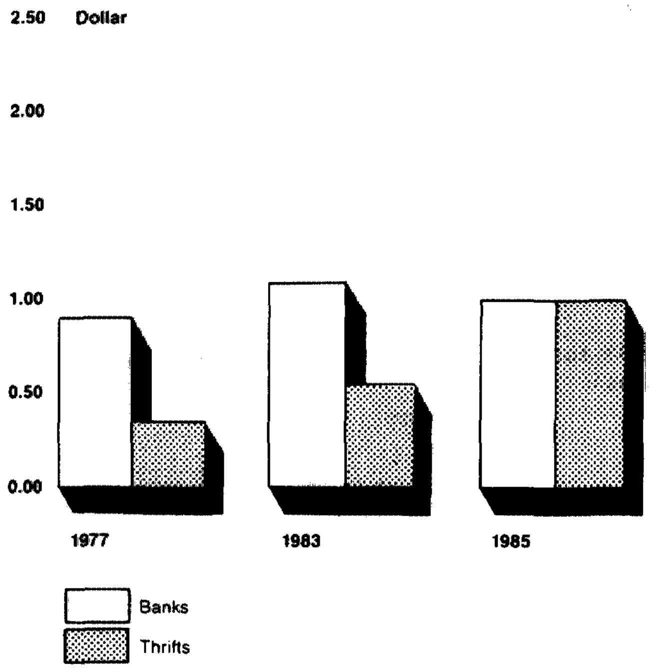


Figure 2.18: Median Charges for a Cashier's Check, Depositors

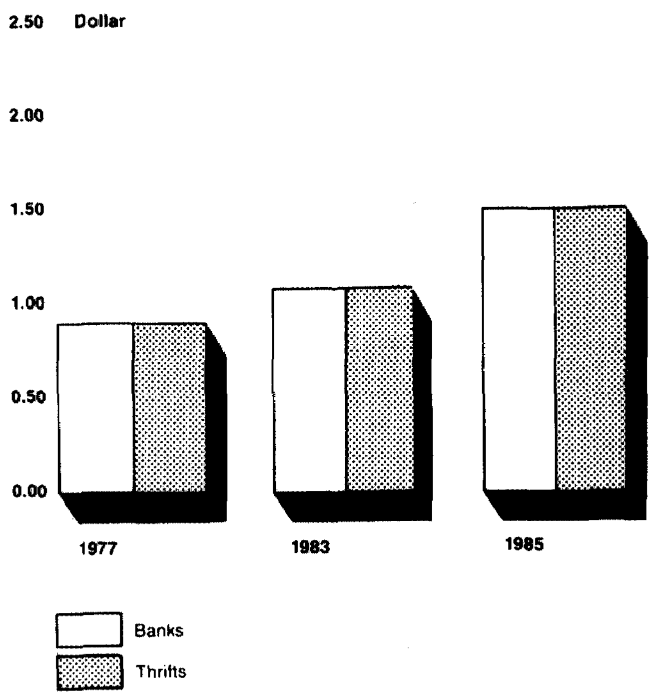


Figure 2.19: Median Charges for a Treasury Check, Nondepositors

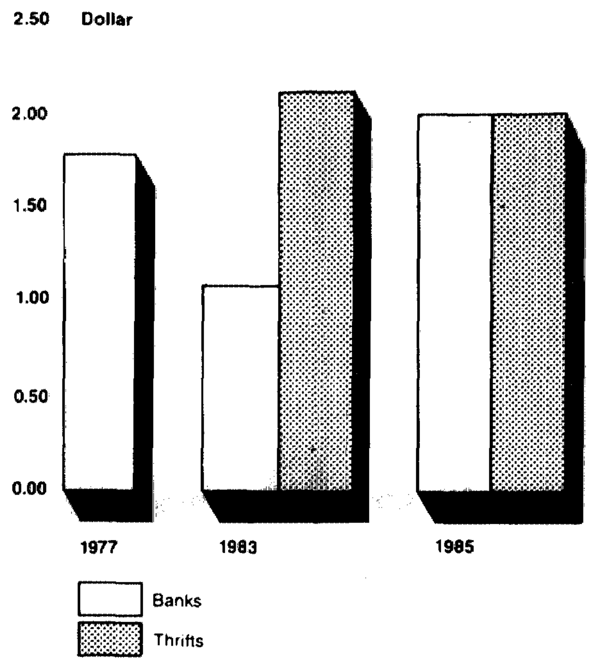


Figure 2.20: Median Charges for a Money Order, Nondepositors

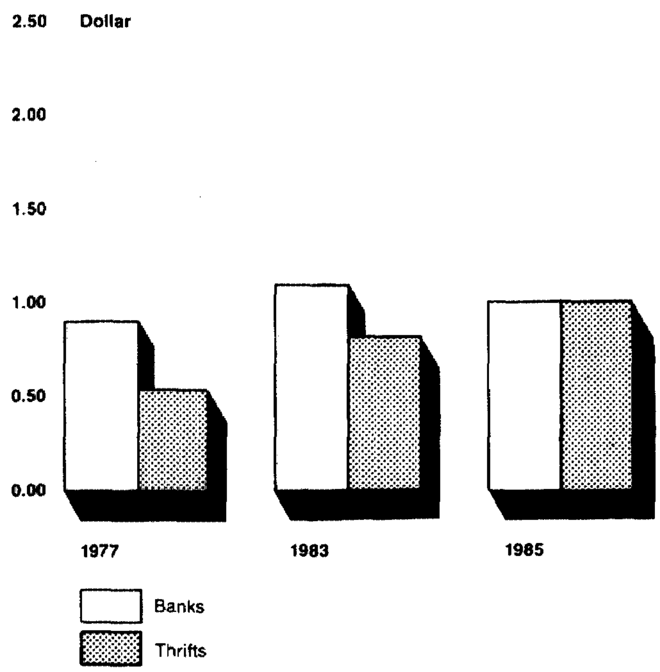
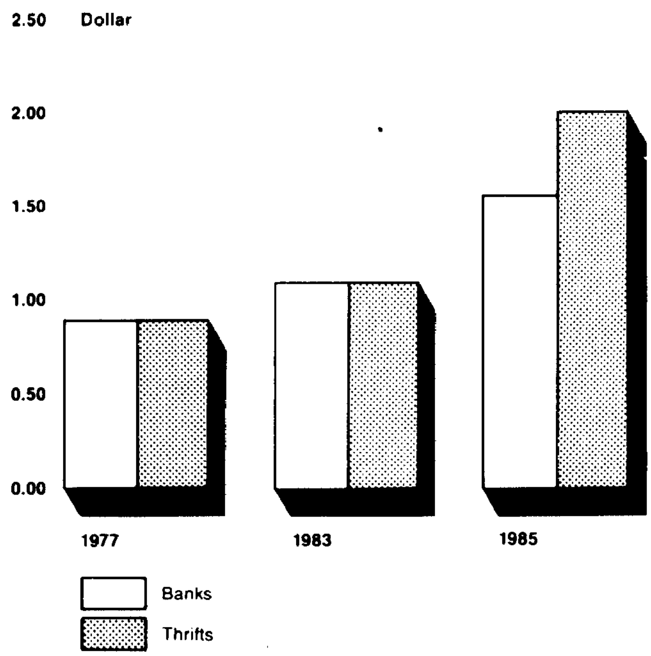


Figure 2.21: Median Charges for a Cashier's Check, Nondepositors



Pricing by Size and Location of Depository Institution

Our questionnaire responses indicated that there were no universal patterns among banks or thrifts based on their asset size, although large institutions as a group were more likely than medium and small institutions to offer their services to consumers for a fee. Tables 2.17 and 2.18 illustrate some of the differences in 1985 for banks and thrifts by asset size.

Table 2.17: Selected Characteristics for Banks by Asset Size for 1985

	Large	Medium	Small
Percent Charging Fees			
Statement Savings	83.2%	65.8%	38.9%
Noninterest Checking	98.8	92.8	93.4
NOW Accounts	99.4	96.3	91.2
For Depositors			
Money Orders	98.8	97.0	93.8
Cashier's Checks	95.5	95.8	90.7
Returned Check	97.8	98.8	95.7
Statement Savings Accounts			
Minimum Balance to Open			
Median	$100	$50	$100
Range	$50-100	$25-100	$25-100
Monthly Maintenance Fee			
Median	$1.00	$1.00	$1.00
Range	$1.00-2.00	$1.00-2.00	$1.00-2.00
Checking Accounts			
Noninterest-bearing			
Minimum Balance to Open			
Median	$100	$100	$100
Range	$50-200	$50-100	$50-150
Monthly Maintenance Fee			
Median	$3.00	$3.00	$3.00
Range	$2.50-5.00	$2.00-4.00	$1.50-4.00
Per Check Charge			
Median	$0.25	$0.20	$0.12
Range	$0.20-0.30	$0.15-0.20	$0.10-0.15
NOW Accounts			
Minimum Balance to Open			
Median	$400	$500	$1000
Range	$100-1000	$100-1000	$500-1000
Monthly Maintenance Fee			
Median	$5.00	$5.00	$5.00
Range	$4.00-6.00	$4.00-6.00	$5.00-6.00
Per Check Charge			
Median	$0.25	$0.20	$0.15
Range	$0.20-0.29	$0.15-0.25	$0.15-0.20

(continued)

	Large	Medium	Small
Nonrecurring Charges to Depositors			
Money Orders			
Median	$1.50	$1.00	$1.00
Range	$1.25-2.00	$1.00-2.00	$0.75-1.10
Cashier's Checks			
Median	$3.00	$2.00	$1.25
Range	$2.00-3.50	$1.50-3.00	$1.00-2.00
Returned Check			
Median	$14.00	$12.00	$10.00
Range	$10.00-15.00	$10.00-15.00	$6.00-12.00

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

Table 2.18: Selected Characteristics for Thrifts by Asset Size for 1985

	Large	Medium	Small
Percent Charging Fees			
Statement Savings	67.0%	26.8%	6.4%
Noninterest Checking	83.6	48.0	36.1
NOW Accounts	91.2	98.9	83.5
For Depositors			
Money Orders	88.5	83.5	74.8
Cashier's Checks	70.5	63.6	52.8
Returned Check	100.0	97.8	95.1
Statement Savings Accounts			
Minimum Balance to Open			
Median	$100	$50	$50
Range	$20-100	$10-100	$10-175
Monthly Maintenance Fee			
Median	$1.00	$1.00	[a]
Range	$1.00-2.00	$1.00-1.00	
Checking Accounts			
Noninterest-bearing			
Minimum Balance to Open			
Median	$100	$100	$225
Range	$100-200	$50-100	$50-500
Monthly Maintenance Fee			
Median	$4.00	$5.00	$5.00
Range	$3.00-5.00	$3.00-5.00	$3.00-10.00
NOW Accounts			
Minimum Balance to Open			
Median	$100	$100	$100
Range	$50-100	$50-200	$50-300
Monthly Maintenance Fee			
Median	$5.00	$5.00	$5.00
Range	$4.00-5.00	$4.00-5.00	$3.00-5.00
Per Check Charge			
Median	[a]	[a]	[a]
Range			
Nonrecurring Charges to Depositors			
Money Orders			
Median	$1.00	$1.00	$0.75
Range	$1.00-1.25	$0.50-1.00	$0.50-1.00

(continued)

	Large	Medium	Small
Cashier's Checks			
Median	$2.00	$1.50	$1.25
Range	$1.00-2.50	$1.00-2.88	$1.00-2.00
Returned Check			
Median	$11.00	$10.00	$10.00
Range	$10.00-15.00	$10.00-15.00	$10.00-15.00

Note: Minimum balances do not include values of a dollar or less. The range data presented is for the center 50 percent of the responses.

[a]Median value not shown because response rate was too low to provide statistically valid data.

Our survey also showed that banks and thrifts in the four census regions of the country (Northeast, South, Midwest, and West) priced their accounts and services differently. While we found no clear pattern of higher fees in any one part of the country, our sample was not stratified by region and we therefore could not generalize the results.

Conclusions

A number of general trends were evident in the questionnaire responses. Between 1977 and 1985, interest rates offered by banks and thrifts on deposits increased and the variety of savings and checking accounts expanded. Fees generally increased, although some decreased. At the same time, financial institutions tended to initiate fees for services they once provided free of charge.

Agency Comments and Our Evaluation

In its comments on a draft of this report, OCC questioned the use of the terms "range" and "median." (See app. II.) OCC questioned the results for all thrifts in table 2.3, which show that the range and the median values for the monthly fee charge for passbook savings accounts in 1983 were the same. As explained on pages 13 and 14, we show the range of minimum and maximum values for the center 50 percent of the responses. (Values falling in the lowest and highest 25 percent of the responses were excluded.) This was done so that the reader, by comparing the median value with the center 50 percent range values, can better see the dispersion pattern of the responses. To ensure that our range presentation is clear, we have added an explanatory note to all tables displaying such range data and expanded the related discussion on pages 13 and 14.

OCC, surprised to note that almost 80 percent of thrifts provided free cashier's checks to nondepositors in 1977, said that the fee structure in our report appeared to be unconventional. The data in question applies only to those thrifts that provided cashier's checks. In this case, 75.5 percent of those that provided such checks did so at no charge. (In 1977, a majority of thrifts did not provide cashier's checks.) We have revised the data presentation to make this clear. (See p. 37.)

The FHLBB commented that, given the generally acknowledged steadily rising costs of operating a thrift, the increase in cost of funds, and increased operating costs, it would expect a countervailing increase in other areas, including fees for maintaining an account. (See app. III.) FHLBB was surprised that 80 percent of thrifts in our study still did not charge for maintaining an account. Evidently, FHLBB was referring to the statement savings account. Table 2.5 (see p. 19) shows that about 80 percent of thrifts in 1985 did not charge fees for statement savings accounts if a minimum balance was maintained. We do not view this finding as unusual, particularly in light of minimum balance requirements to open that type account and to avoid fees. Table 2.5 also shows, for example, that while the percentage of thrifts charging fees for statement savings accounts rose from 0.5 percent to 19 percent between 1977 and 1985, the percentage requiring a minimum balance to open such an account increased from about 55 percent to 79 percent and the minimum balance to avoid fees increased.

The FHLBB also commented that it appeared to be a generally safe and sound practice for institutions faced with rising costs to find ways to offset such costs, including, within reasonable limits, charging for certain banking services. Our objective was to report on changes in fees charged and interest paid depositors, not to assess the cause or reasonableness of the changes. In concept, however, we would not disagree with this comment.

Effects of Changes in Banking Fees and Interest Rates on Consumers

Changes in interest rates, accounts offered, and fees charged for banking services from 1977 to 1985 affected consumers in different ways. Whether consumers gained or lost as a result of these changes depended on their banking habits as well as their bank balances.

Consumers select depository institutions where they maintain their primary checking and/or savings accounts for a number of reasons, according to a 1985 Federal Reserve staff study.[1] Factors considered by consumers include convenience, availability of many services, interest rates, and service fees. This chapter focuses on the effects of the latter two factors—changes in interest rates and fees associated with selected depository accounts.

We combined the FRS-sponsored study, Currency and Transaction Account Usage Survey,[2] that covered the banking habits and average balances of various consumer income groups during 1984, with our questionnaire results for 1985 on fees and interest rates to determine, for typical consumers in each of these groups, the cost or income resulting from maintaining a checking account. We focused on the main checking account [3] because it is the account consumers use for most of their transactions.

Consumers fell into two basic categories, those who normally paid for their accounts and those who normally did not. Our results show that for consumers with annual incomes under $50,000 who paid fees for checking, the net explicit cost of banking services (the difference between fees paid and interest earned) ranged between $12 and $57 a year. Consumers with incomes of $50,000 or more earned $17 more in interest than they paid in fees on their main account. Consumers who avoided fees and had an interest-bearing account as their main checking account—about 24 percent of all checking account holders—typically earned from $28 to $103 a year. About one-third of the account holders neither paid fees nor earned interest.

In addition to the main checking account, about 75 percent of account holders had at least one other account and typically earned from $86 to $396 interest income on these accounts in 1985. (We did not calculate

[1] Glenn B. Canner and Robert D. Kurtz, Staff Study: Service Charges as a Source of Bank Income and Their Impact on Consumers, Board of Governors of the Federal Reserve System (1985).

[2] Our use of this study is further discussed on page 14.

[3] The main checking account is basically a consumer's primary transaction account used to transfer deposits by either checks or orders of withdrawal, depending upon the type of account.

the associated costs, if any, on these accounts because certain data were not available.)

Since adequate data on consumers' 1977 banking habits were unavailable, we were not able to measure the change in banking habits resulting from changes in fees and the increase in types of accounts. Such data would be necessary to reach firm conclusions regarding changes in the general welfare of consumers of banking services due to changes in fees between 1977 and 1985. However, we calculated a hypothetical change in banking costs assuming consumers behaved the same way in 1977 as they were reported to behave in the 1984 FRS-sponsored study. The limitation of this analysis is due to the fact that it does not reflect changes that may have occurred in consumer behavior in response to new types of available accounts and changes in prices.

The results of this comparison showed that

- account holders who paid fees for their main checking account were in a few cases better off, but, for the most part, they incurred net costs in 1985 that were greater than those incurred in 1977;
- consumers in all income groups who paid fees and had noninterest-bearing accounts paid more for similar services in 1985 than in 1977; and
- typical holders of other interest-bearing accounts, such as MMDAs and savings accounts, would have earned up to $39 more in 1985 from those accounts than they would have with the same balances in 1977.

We also compared the costs of obtaining additional services, such as requesting a stop payment and purchasing a money order, and found that these additional services would result in an increased net cost for most main checking account users, except for those consumers who maintained an interest-bearing account and did not pay for banking services.

How Consumers Fared Using 1985 Fee and Interest Data

Using 1985 fee and interest data, we found that:

- About two-thirds of the consumers sampled for the FRS survey had a noninterest-bearing account as their main account. Those who paid fees typically paid from $41 a year (annual income under $10,000) to $57 a year (annual income of $50,000 and over).
- Consumers who had interest-bearing checking as their main account and paid fees (almost one-tenth of the Federal Reserve's survey sample) typically incurred average net costs between $12 and $57 a year if their

annual income was under $50,000. Those with annual incomes of $50,000 and over typically had net earnings of $17 a year on their account.

Consumers who avoided fees on their interest-bearing main checking account (about one-fourth) earned from $28 (annual income under $10,000) to $103 (annual income of $50,000 and over) a year.

Table 3.1: Data on the Federal Reserve Respondents' Main Checking Account

		Paid Service Fees		Did Not Pay Fees	
Annual Income	Respondents[a]	Earned Interest	Did Not Earn Int.	Earned Interest	Did Not Earn Int.
Under $10,000	102	13%	30%	22%	35%
$10,000 to $19,999	219	8	35	23	34
$20,000 to $29,999	217	11	36	20	33
$30,000 to $39,999	176	7	36	23	34
$40,000 to $49,999	88	9	35	21	35
$50,000 and over	130	6	14	38	42
Overall	932	9%	32%	24%	35%

[a]Number of respondents with a main checking account at a bank or thrift that provided adequate information to be categorized into one of the above four categories.

Source: We computed these values from data in the Federal Reserve's Currency & Transaction Account Usage Survey.

The FRS survey responses for the main checking account showed that of those respondents with annual incomes under $50,000, 43 to 47 percent paid service fees and 30 to 35 percent earned interest income. Thus, there is very little variation among this income range. On the other hand, consumers with an annual income of $50,000 or more appeared to fare better than other consumers, since only 20 percent paid service fees and about 44 percent earned interest.

Table 3.2: Net Annual Earnings or Costs Incurred for Main Checking Account 1985 Fees and Interest Rates[a]

	Paid Service Fees		Did Not Pay Fees		
Annual Income	Earned Interest 9%[b]	Did Not Earn Int. 32%[b]	Earned Interest 24%[b]	Did Not Earn Int. 35%[b]	Weighted Average[c]
Under $10,000	$-55	$-41	$+28	0	$-11.34
$10,000 to $19,999	-57	-48	+52	0	-8.06
$20,000 to $29,999	-49	-49	+59	0	-5.93
$30,000 to $39,999	-12	-49	+96	0	+6.27
$40,000 to $49,999	-40	-47	+71	0	-1.62
$50,000 and over	+17	-57	+103	0	+8.06

[a]Negative numbers indicate a net cost to the consumer, while positive numbers indicate net earnings.

[b]Percentages are overall proportion of respondents from table 3.1.

[c]The weighted average is calculated by multiplying the net annual income or costs incurred by the percentage of respondents in each of the four account groupings. The noted weighted averages in the table may be slightly different due to rounding.

Source: We computed these values from data in the Federal Reserve's Currency & Transaction Account Usage Survey and our questionnaire "Survey of Commercial Banks' & Thrift Institutions' Interest Rates, Service Charges & Fees for Retail Consumers."

As shown in table 3.2, consumers who paid fees for checking accounts, except for those with annual incomes of $50,000 or more, incurred a net annual cost of between $12 and $57, regardless of whether or not they had an interest-bearing account. Those who did not pay fees and earned interest—24 percent—earned from $28 to $103 a year. The remaining respondents—35 percent—neither paid fees nor earned interest. When the data in table 3.2 are weighted by the percentage of respondents in each of the four account categories, the cost of services is greatest for those with incomes under $30,000.

1985 Compared to 1977

To illustrate how the same groups of respondents would have fared prior to deregulation, we applied 1977 fees and interest rates to their banking habits reported in the 1984 Federal Reserve survey. Specifically, we assumed that the same groups had the same kind of accounts, wrote the same number of checks, carried the same average balances (adjusted for price level changes), and either paid or did not pay service fees as in 1984. In other words, we have assumed that the distribution of account types and activity by income level shown in table 3.2 for 1985 also prevailed in 1977.

This analysis has significant limitations. It does not reflect changes in consumer behavior either in response to changed prices of services or, more importantly, in response to the nationwide introduction of interest-bearing checking accounts. Because of this, differences in net banking cost between 1977 and 1985 would tend to be less. Furthermore, the comparison does not reflect the changing degree to which institutions offered free checking accounts in 1977 versus in 1985. Because of this, differences in net banking costs between 1977 and 1985 would tend to be greater. For example, our questionnaire showed that the proportion of banks offering free checking declined from 35 percent in 1977 to 15 percent in 1985, and by 1985 thrifts were offering checking accounts, 63 percent of them at no charge. (In 1977 checking accounts at thrifts were not offered nationally.)

Table 3.3 builds on table 3.2 and shows how the same 1984 consumer groupings would fare using 1977 service fees and interest rate data and assuming the same usage patterns. (Service fees in 1977 were adjusted for inflation.) Since interest-bearing checking accounts were unavailable nationally in 1977, we assumed that no interest was earned.

Table 3.3: Differences in Annual Earnings or Costs Incurred for Main Checking Account: 1977 and 1985[a]

	Consumers Who Paid Service Fees					
	Earned Interest 9%[b]			Did Not Earn Interest 32%[b]		
Annual Income	**1977**	**1985**	**Difference**	**1977**	**1985**	**Difference**
Under $10,000	$-25	$-55	$-30	$-22	$-41	$-19
$10,000 to $19,999	-28	-57	-29	-25	-48	-23
$20,000 to $29,999	-31	-49	-18	-30	-49	-19
$30,000 to $39,999	-26	-12	+14	-30	-49	-19
$40,000 to $49,999	-33	-40	-7	-26	-47	-21
$50,000 and over	-31	+17	+48	-37	-57	-20

	Consumers Who Did Not Pay Service Fees					
	Earned Interest 24%[b]			Did Not Earn Interest 35%[b]		
Annual Income	**1977**	**1985**	**Difference**	**1977**	**1985**	**Difference**
Under $10,000	$0	$+28	$+28	$0	$0	$0
$10,000 to $19,999	0	+52	+52	0	0	0
$20,000 to $29,999	0	+59	+59	0	0	0
$30,000 to $39,999	0	+96	+96	0	0	0
$40,000 to $49,999	0	+71	+71	0	0	0
$50,000 and over	0	+103	+103	0	0	0

[a]Negative numbers indicate a net cost to the consumer, while positive numbers indicate net earnings.

[b]Percentages are overall proportion of respondents from table 3.1.

Source: We computed these values from data in the Federal Reserve's Currency & Transaction Account Usage Survey and our questionnaire "Survey of Commercial Banks' & Thrift Institutions' Interest Rates, Service Charges & Fees for Retail Consumers."

This comparison shows that most consumers who paid service fees for their main checking account paid from $7 to $30 more per year in 1985 than they would have in 1977, assuming the same behavior and level of account activity. The exceptions are those consumers who maintained interest-bearing checking accounts in 1985 and had an annual income of between $30,000 and $39,999 or $50,000 or more.

Effects on Consumers Using Additional Banking Services

Some banking services used by consumers were not included in the Federal Reserve survey. To demonstrate the potential impact of these services on consumers, we adjusted the figures in table 3.3 by these additional costs. For example, the additional impact on consumers who wrote one check that is returned, requested one stop payment, purchased one money order, and purchased one cashier's check during the year was $16 in 1977 and $19 in 1985. For the low-income consumer (less than $10,000 annual income) who paid service fees, the costs for maintaining a checking account and using these additional banking services in 1985 ranged from $60 to $74.

Effects of Interest From Other Accounts

Although the main checking account was the most widely held bank account, about 75 percent of the Federal Reserve respondents also reported having other accounts, such as savings accounts, MMDAs, and "other" checking accounts. We calculated the interest earned on these accounts by income group for 1985. We could not, however, calculate the costs of these accounts because consumers were not asked whether they incurred fees on these accounts.

In calculating interest income, we multiplied the consumer balance for each account by the average annual interest rates from our survey. We assumed that the "other checking" accounts were interest-bearing and applied a median NOW and SuperNOW interest rate for these accounts. Because we did not receive enough responses on the MMDA questions in our survey, we used an average MMDA interest yield taken from a monthly 1985 FRS survey.

For comparison, we calculated 1977 savings account interest yields for the median combined balance (adjusted for inflation) in these other accounts. Table 3.4 shows the resulting information and the percentage of consumers with such accounts.

Table 3.4: Interest Earned on Accounts Other Than Main Checking Account

	Interest from Other Accounts			Percent of Respondents with Other Accounts[a]
Annual Income	1977	1985	Difference	
Less than $10,000	$102	$107	$5	51
$10,000 - $19,999	83	86	3	64
$20,000 - $29,999	119	124	5	80
$30.000 - $39,999	194	203	9	80
$40,000 - $49,999	243	257	14	88
$50,000 or more	357	396	39	92
All income levels				75

[a]Percent of respondents having at least one other account (i.e., savings accounts, MMDAs, and other checking accounts) in 1984.

Source: We computed these values from data in the Federal Reserve's Currency & Transaction Account Usage Survey and our questionnaire "Survey of Commercial Banks' & Thrift Institutions' Interest Rates, Service Charges & Fees for Retail Consumers."

Agency Comments and Our Evaluation

FDIC said that our draft report failed to account in some fashion for the implicit cost of foregone interest (no interest or interest at less than market rates) and believes as a result our comparisons are quite possibly inaccurate and misleading. (See app. IV.) FDIC's letter also indicates that the level of fees levied on deposit accounts in 1977 reflects compensation to consumers for the foregone interest on those accounts due to regulatory constraints on levels of interest payable. In effect, the rates that consumers earned in 1977 and the fees that they paid are both understated by the amount of foregone interest. Our data on the difference between interest received and fees paid are not understated by foregone interest as suggested by FDIC. Adding some estimate of the cost of foregone interest to both interest earned and fees paid (which is effectively what the pricing of 1985 services does) would not change the difference between earnings and costs. Therefore, our calculations in 1977 can be legitimately and meaningfully compared with the net costs of banking services in 1985. (It is also noteworthy that data are not available to make any meaningful estimate of the influence of foregone interest separately on either the pricing of interest paid or fees charged.)

FDIC was concerned that we did not account adequately for the level of interest rates at different times. It said that, for example, the breakeven threshold for consumers would no doubt occur at a significantly lower income level than that shown in our study if interest rates returned to the high levels of a few years ago. We did not attempt to account for all interest-rate-levels but present interest and bank fees associated with certain depository accounts in 1977, 1983, and 1985. Generally speaking, we would not disagree with FDIC's example, but note that as interest rates paid on deposits rose, institutions would no doubt charge higher interest rates on loans and might also raise the level of fees on depository accounts if that were necessary to maintain a target level of profitability.

FDIC suggested that a significant limitation in our report be made more prominent. This limitation results from our assumption, necessary for analysis, that consumer banking habits in 1985 were the same as in 1977, despite the changed banking environment. We discuss this limitation on pages 47, 49, and 50 and have given it more prominence by also noting it on page 14 and expanding the discussion on page 47.

Consumer Access to Low-Cost Basic Banking Services

Since deregulation, there has been considerable debate over "lifeline" banking, which is the provision of affordable basic banking services to low-income consumers. The lifeline concept was first developed in connection with public utilities and stems from a belief that society should guarantee low-income citizens, particularly senior citizens, basic human and social services. Some Members of Congress have taken steps to address this concern. In 1985 and 1986, four bills regarding the availability of basic banking services were introduced in Congress.

Some representatives of bank trade associations have argued that legally mandated lifeline banking services are unnecessary and may even be potentially harmful. They assert that, in some cases, absorbing costs for providing free or nominally priced services may reduce a bank's profit margin and may affect its overall safety and soundness.

Although depository institutions do not generally see themselves as public utilities that should be required to subsidize services to the poor, a few trade association representatives have acknowledged some social responsibility to provide basic banking services at a minimal cost to consumers without eroding profitability. They point to voluntary efforts to provide "lifelines," such as special accounts for selected consumer groups and no-frills, discount banking services for the general public, as evidence of bank and thrift efforts to meet their social responsibility.

Defining Basic Banking Services

Basic banking services may be defined as those financial services needed to allow the average consumer to engage in necessary day-to-day banking activities. The OCC, which regulates national banks, refers to basic banking services as simple transaction or savings account programs with low fees. In a 1985 banking circular (BC-206),[1] OCC acknowledged that the explicit pricing of some basic banking services has had a marked impact on certain segments of the consumer market, especially low- and moderate-income consumers. OCC, therefore, encourages national banks to voluntarily provide basic banking services and suggests that policies covering basic banking services consider

"—a basic transaction account with no or limited minimum balance requirement and commensurate overdraft charges and related service fees;

—low-cost or free cashing of government checks . . .;

[1]Comptroller of the Currency, Banking Issuance, "Basic Banking Services," (August 1985).

—shorter delays in funds availability (check-hold policies);

—customer access, on a convenient basis, to bank employees for advice and other help related to basic banking services; and

—plain-English, written disclosure of all fees, services, and terms . . . ."

Do Depository Institutions Have a Public Responsibility to Provide Lifeline Services?

Although nothing in federal law specifically requires lifeline banking, both the federal government and the states have the authority to impose such a requirement on the banks they regulate. In the 99th Congress, four bills that specifically addressed the issue of basic banking were introduced and considered by the House Committee on Banking, Finance and Urban Affairs; however, none of the four bills were reported out of committee.

Federal Authority to Require Lifeline Banking

Federal law does not require depository institutions to provide low-cost basic banking services to the public. Congress could, however, amend the law to require national banks and federally insured state banks to provide such services.

A national bank is a commercial bank organized with the approval of the OCC, required to be a member of the Federal Reserve System, and operated under the supervision of the federal government. A state bank is organized according to state laws, and it is chartered and subject to regulation by the state in which it is located. State banks may also be regulated by the federal financial regulatory agencies. For example, most state-chartered banks participate in the federal insurance program and are therefore subject to supervision by the Federal Deposit Insurance Corporation (FDIC) or by the Federal Reserve if they are members of the Federal Reserve System.

Quasi-Public Status of Banks

The quasi-public status of banks and congressional authority over national banks have been well established. For example, the courts have held that the business of national banks is "so intimately connected with the public interest that the Congress may prohibit it altogether or prescribe conditions under which it may be carried on."[2] It follows that should Congress decide, as a matter of public policy, that national banks should take on a particular responsibility—such as providing low-cost

[2] Smith vs. Withero, 102 F2d 638 (3rd Cir. 1939).

basic banking services—it generally may prescribe that responsibility as a condition under which banks do business. Thrifts are of a similar quasi-public character and subject to regulation.

An example of Congress' use of its authority to impose particular responsibilities on federally regulated financial institutions is the Community Reinvestment Act of 1977 (P.L. 95-128). Specifically, the act requires federal agencies that supervise financial institutions to encourage those institutions to help meet the credit needs of their communities, including the needs of residents in low- and moderate-income neighborhoods. It also requires the supervisory agencies to assess each institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, during examinations and to consider that record when reviewing an application for federal deposit insurance, certain new charters, office relocations, mergers, and acquisitions.

During a 1985 press conference, the Chairman of the House Committee on Banking, Finance and Urban Affairs said that if a bank is charging unreasonable fees and placing burdens on the less affluent, perhaps it can be argued that the institution is not serving the "convenience and needs" of the community as required by its charter. He added that such questions should be weighed heavily by federal regulators when they are asked to approve the expansion of a depository institution.

Legislation Has Been Proposed

Four bills that would have specifically addressed consumer access to low-cost basic banking services were introduced in the 99th Congress. H.R. 15 would have amended Title VIII of the Community Reinvestment Act to include the "provision of essential services to low and moderate income consumers" as a factor to be considered in determining whether financial institutions are meeting the credit needs of their entire communities. H.R. 2661 would have required all federally insured depository institutions to offer a "basic consumer checking account." A third bill, H.R. 290, would have directed federal regulators to identify and estimate the cost of providing basic banking services.

Finally, H.R. 2011, the "Financial Services Access Act," would have expressly required all federally insured depository financial institutions to offer accounts that provide minimum banking services to low-income consumers. This bill would have required federally insured banks, savings and loan associations, and credit unions to offer customers having deposits of less than $1,000 an account that

- does not require a minimum balance,
- allows 10 transactions per month without a service charge, and
- does not restrict customers to using automatic teller machines or other nonteller services.

State Basic Banking Laws

States have authority over the banks they charter regardless of whether or not such banks are FDIC insured. A few state legislatures have passed laws directly related to the provision of access to basic banking services.

In Massachusetts, state chartered banks must provide checking and savings accounts without fees for persons 65 or older and 18 or younger. In Rhode Island, banks may not charge fees on savings accounts with a balance of less than $500 for persons 17 or younger.

A recent FRS-sponsored study noted that three other states—Illinois, Pennsylvania, and Minnesota—have adopted similar basic banking laws.[3] Illinois requires institutions to offer basic checking accounts to those 65 years and older, while Minnesota and Pennsylvania require institutions involved in interstate banking to offer low-cost services.

What Actions Have Been Taken to Encourage Basic Banking Services?

Regulatory agencies, the American Bankers Association (ABA), and consumer advocates are encouraging the development of affordable basic banking services through various strategies. In some instances the groups have worked together to address the issues.

Federal banking regulators have also attempted to address the issues in various ways. In August 1985, OCC issued the policy statement on basic banking services cited earlier in this chapter. According to officials in OCC's Customer and Industry Affairs Division, OCC determined through hosting community outreach meetings that many consumer groups were concerned about affordable basic banking services. Additionally, an official noted that, in some instances, banks had a basic banking account but did not actively market it to the general public.

The OCC policy statement to all national banks encourages them to voluntarily offer basic banking services at reasonable prices and indicates an agency awareness that many banks had already developed basic

[3]Glenn Canner and Ellen Maland, "Basic Banking," Federal Reserve Bulletin, Vol. 73, No. 4, pp. 255-269, Board of Governors of the Federal Reserve System, (April 1987).

banking services. The statement encourages others to develop such services, insofar as they are consistent with safe and sound banking practices, and notes that OCC encourages national banks to further develop creative cost-saving measures to be used in conjunction with basic banking accounts.

Federal Reserve staff have studied basic banking issues and released two summary reports entitled The Incidence of Service Charge Payments on Checking Accounts: Implications for Lifeline Banking Services[4] and Bank Service Charges and Fees: Their Impact on Consumers.[5] The Federal Reserve is involved in another survey, the June 1986 Survey of Consumer Attitudes, conducted by the Survey Research Center, University of Michigan. Preliminary results indicate that account ownership patterns have not changed significantly since 1984.

In October 1986, the Federal Financial Institutions Examination Council approved a federal regulators' joint policy statement on basic banking services. The joint policy encourages rather than mandates depository institutions to provide basic banking services. The policy encourages efforts to meet certain minimum needs of all consumers, particularly the need for a way to make third-party payments, for a way to obtain cash, and for a safe and accessible place to keep money. In addition to the five federal depository institution regulators, the policy has been endorsed by the Conference of State Bank Supervisors, the National Association of State Credit Union Supervisors, and the National Association of State Savings and Loan Supervisors.

The ABA, currently the largest bank trade association, has also formed an ongoing task force that is charged with addressing a wide range of consumer financial issues, including concerns regarding rising bank service fees and minimum balance requirements. Through its task force efforts, the association developed a "voluntary effort" package for its member banks to assist them in formulating action plans to address specific consumer concerns, including the provision of basic banking services. For each concern, the ABA package is designed to summarize current positions of consumer advocates, outline legislative activity, offer practical guidelines for implementing strategies, and supply sample materials to assist in communicating the bank's efforts in the area.

[4]The Board of Governors of The Federal Reserve System, The Incidence of Service Charge Payments on Checking Accounts: Implications for Lifeline Banking Services, (1985).

[5]The Board of Governors of The Federal Reserve System, Bank Service Charges and Fees: Their Impact on Consumers, (1985).

The Consumer Federation of America (CFA), in conjunction with other consumer groups, has conducted three annual surveys of selected bank and thrift institutions to determine the degree to which service fees and charges have increased. The number of institutions surveyed ranged from 91 in 1984 to 225 in 1986. CFA has also sponsored a national conference to bring together consumer advocates, industry representatives, and government officials to discuss consumer-related issues, including whether or not the market currently meets the banking needs of low- and moderate-income families and whether or not lifeline legislation is necessary.

To What Extent Are Banks and Thrifts Providing Basic Banking Services to the Public, Especially to Low-Income Consumers?

According to numerous financial industry articles, many bank and thrift representatives believe they already provide a lifeline service to those who cannot pay increasing bank fees. They point to (1) the proliferation of low-cost accounts primarily available to senior citizens and (2) the availability of discounted, no-frills checking accounts to the general public. Our survey found that in 1985, 63 percent of the thrifts surveyed offered noninterest-bearing checking accounts to the general public at no charge. However, 75 percent required a minimum balance to open and 35 percent charged unless a minimum balance was maintained. (See fig. 2.4 and table 2.8.) Only 15 percent of banks offered such an account at no charge to the public. (See fig. 2.3.)

Low-Cost Accounts for Special Groups

Responses to our questionnaire supported the industry's contention that a large percent of banks and thrifts provided discounted checking account services to senior citizens. Table 4.1 shows the percentage of responding depository institutions by asset size that provided discounted checking services to certain groups or planned to provide them by the end of 1986. It should be noted, however, that these types of targeted accounts do not necessarily serve all low-income consumers.

Table 4.1: Percentage of Institutions Providing or Planning to Provide Special Accounts to Targeted Groups by Asset Size[a]

	All	Large	Medium	Small
Banks				
Senior Citizens				
Provide	76%	67%	87%	75%
Plan to provide	1	6	1	1
Students				
Provide	45	24	36	48
Plan to provide	1	5	1	1
Minors				
Provide	26	14	21	27
Plan to provide	1	3	0	1
Thrifts				
Senior Citizens				
Provide	63	64	74	53
Plan to provide	3	6	4	1
Students				
Provide	17	7	14	21
Plan to provide	2	3	3	1
Minors				
Provide	7	5	10	6
Plan to provide	2	1	4	0
All				
Senior Citizens				
Provide	74	66	83	72
Plan to provide	2	6	2	1
Students				
Provide	41	17	29	45
Plan to provide	2	4	2	1
Minors				
Provide	23	11	18	25
Plan to provide	1	2	1	1

[a]Asset size categories are defined as follows: large (more than $1 billion), medium ($100 million to $1 billion), and small (less than $100 million).

No-Frills Accounts for the General Public

In addition to discounted accounts for senior citizens and other targeted groups, some depository institutions were beginning to offer no-frills banking services at a discount. Basically, these accounts represent a stripped-down version of checking accounts for those unable or unwilling to pay the fees for regular services. They are not targeted to low-income consumers or other defined consumer groups, but are available to the general public.

The no-frills account is a depository institution's means of reconciling the needs of certain consumers with its own need to provide services that are profitable—or at least pay for themselves. These accounts can be offered at a lower price because their cost to the institution is minimized. For example, no-frills accounts generally limit check writing and other privileges, may allow access to automatic teller machines while limiting contacts with human tellers, and sometimes do not automatically return checks to the depositor for verification.

Features Vary

Institutions we surveyed were asked whether they offered no-frills checking accounts and to indicate the basic terms, conditions, or limitations on these accounts. According to responses obtained from our survey, features of no-frills checking accounts varied considerably. For example, 26 percent of the accounts required a minimum balance to avoid fees. This minimum balance ranged from $50 to $2,500. Monthly service fees ranged from $ .50 to $10 while per check charges ranged from $.10 to $1.00.

Seventeen percent of the accounts allowed their depositors to write a specified number of checks before the per check charge was incurred; the number of "free" checks ranged from 3 to 30. Many of the thrifts offering the account did so with no noted restrictions or conditions. Table 4.2 shows the frequency of no-frills accounts at different-sized institutions.

Table 4.2: Percentage of Institutions Providing or Planning to Provide No-Frills Checking Accounts to the General Public by Asset Size

	All	Large	Medium	Small
Banks				
Provide	15%	32%	19%	13%
Plan to provide	3	24	10	1
Thrifts				
Provide	17	25	26	9
Plan to provide	4	11	6	1
All				
Provide	15	29	22	13
Plan to Provide	3	19	8	1

"No-Frills" May Not Be "Lifeline"

How widespread lifeline banking is depends to some extent on how it is defined. Some banks and thrifts believe their accounts are discount accounts because they are offered at a lower cost than other accounts.

While this may be the case, some of these accounts have fees or minimum balances to avoid fees that are higher than regular, nondiscounted accounts at other institutions. For example, one institution in our survey offered an account that cost $6 per month to maintain, while another required a minimum balance of $1,000 to avoid fees.

To determine the potential cost of using no-frills checking accounts to average low-income consumers, we applied their costs against the profile of a low-income consumer from the Federal Reserve survey used in chapter 3. That study shows that consumers with annual incomes of less than $10,000 who had an account maintained about $260 in their main checking account and wrote about 8 checks a month. We compared this data to the terms and conditions of no-frills discounted bank accounts noted in the responses to our questionnaire. Table 4.3 shows the resulting range of monthly costs incurred by this average low-income consumer and the percent of institutions providing no-frills checking that charged these amounts.

Table 4.3: Cost to the Average Low-Income Consumer of No-Frills Checking Accounts at Providing Institutions

	Percent of Institutions Offering No-Frills Checking		
Cost Per Month	**Banks**	**Thrifts**	**All**
Free	6%	41%	22%
0[a]	9	22	15
$0.01-.99	1	0	0
1.00-1.99	6	1	4
2.00-2.99	21	1	12
3.00-3.99	25	8	17
4.00-4.99	8	8	8
5.00 or more	11	6	9
Cannot determine	13	13	13
Total	**100%**	**100%**	**100%**

[a]Although the account was not free, the typical low-income consumer would not have incurred a fee.

Note: Ninety-seven banks and 82 thrifts responded to this question.

Table 4.3 shows that the typical low-income consumer was more likely to find a free account at a thrift rather than at a bank. Over 60 percent of the thrifts offering no-frills accounts, compared to 15 percent of the banks, provided an account at no cost to the low-income consumer either because they were free accounts or because our typical low-income consumer was able to meet the requirements for avoiding a fee.

Conclusions

As prices for basic banking services rise, consumer advocates contend that some consumers, especially those with low incomes, will lose access to banking services as they are priced out of the market. Depository institutions, on the other hand, point to special accounts for targeted consumer groups and no-frills bank and thrift accounts as evidence that the marketplace is providing access to all consumers. In addition, many thrifts offered noninterest-bearing checking accounts at no charge to the general public.

Although our survey indicated there were a large number of special accounts for certain consumers, primarily senior citizens, these accounts did not necessarily serve all low-income consumers. Low-cost, no-frills bank and thrift accounts may be a reasonable means of insuring access to the banking system for the general public, especially for those consumers with low to moderate incomes, but at the time of our survey they were not widely available.

Agency Comments and Our Evaluation

The FHLBB commented that our survey, reporting that almost 65 percent of thrifts provide free or no-cost "no-frills checking," appears to contradict our concluding statement that low-cost, no frills bank and thrift accounts were not widely available. (See app. III.) Table 4.3 (see p. 62) shows the costs of free or low-cost, no-frills checking accounts offered by institutions that provide such accounts. It reveals that 63 percent of thrifts offering these accounts did so, in essence, for free. We have retitled this table to make clear that it does not include all thrifts and banks. Table 4.2 (see p. 61) shows that 17 percent of thrifts and 15 percent of banks offered no-frills accounts to the general public in 1985, which is consistent with our concluding statement.

Alternative Providers of Selected Banking Services

While banks and thrifts are the most visible providers of banking services, other institutions provide some of the same products and services. Credit unions are the most notable, but check cashing services and other providers of money orders have also been mentioned in the debate over basic banking services.

Credit union prices for selected banking services, cited in a 1985 study by the Credit Union National Association (CUNA), were lower for the most part than the prices reported by the banks and thrifts in our survey. But credit unions may not be accessible to the general public. The other two types of providers also have limitations.

Credit Unions Provide Low-Cost Banking Services

Credit unions are nonprofit cooperative associations, owned and controlled by their members. Their purpose is to accumulate funds from members' savings in order to make loans to members at reasonable rates of interest. Their nonprofit, service-oriented philosophy encourages the provision of low-cost services. Among other services, many offer savings accounts similar to those offered by banks and thrifts and some offer "share draft" accounts, which are the counterpart of the NOW checking accounts offered by banks and thrifts.

Cost of Credit Union Financial Services

Data from a 1985 study[1] by the CUNA indicate that 1985 fees for typical banking services at credit unions were, for the most part, lower than the fees reported by the banks and thrifts we surveyed. CUNA, which represents over 90 percent of the nation's credit unions, surveyed its membership on credit union service fees. Among other objectives, this survey was intended to measure interest rates paid on share draft accounts, to determine which credit unions charged for services, and to ascertain how much they charged. Over 1,600 credit unions participated in the study, a response rate of 81 percent.[2]

A comparison of data from the CUNA survey with data from our survey of banks and thrifts indicated that credit unions paid higher interest yields and were less likely to impose fees or charge lower fees. (See table 5.1.)

[1] Credit Union Service Charges and Check Hold Policies, 1985, Economics and Research Department, Credit Union National Association.

[2] The CUNA survey involved two independent random samples: (1) a sample of 1,000 credit unions not offering share drafts and (2) a sample of 1,000 credit unions offering share draft accounts. While we did not verify the data presented in this survey, data for share draft credit unions had a reported error margin of 4 percent.

Table 5.1: Comparison of NOW Checking Account Costs With Share Draft Costs 1985

Account feature	Credit Unions	Banks[a]	Thrifts[a]
Average Minimum Balance to Open	$91	$815	$180
Average Minimum Balance to Avoid Fees	300	943	383
Average Fees or Service Charges when Assessed			
Monthly Maintenance Fee	2.80	5.20	4.77
Cost per Check	.15	.18	.17
Stop Payments	5.43	7.95	7.77
Returned Checks	9.24	9.94	11.02
Interest Yield	5.9	5.33	5.35

[a]For purposes of comparing data with credit union averages, bank and thrift values are average means from our questionnaire responses.

Source: CUNA's Credit Union Service Charges and Check Hold Policies survey and our questionnaire, "Survey of Commercial Banks' and Thrift Institutions' Interest Rates, Service Charges and Fees for Retail Consumers."

Credit unions operate differently from banks or thrifts and thus are able to provide members certain financial services at a lower cost. Credit unions' overhead costs may be minimized by a number of factors:

- They generally pay no salaries for their officers or committee members, relying instead on the voluntary efforts of their members.
- The space in which they reside may be donated by a sponsoring company or agency, along with services such as lighting, heating, electricity, telephones, and security systems.
- They are treated as nonprofit organizations, exempt from certain tax requirements.

Accessibility of Credit Union Financial Services

Chartering policies require that credit unions serve a specifically defined membership. The Federal Credit Union Act limits membership to groups who share some characteristic, known as a common bond, which simultaneously links them together and distinguishes them from the general public. Traditionally, credit unions are affiliated with a company or trade and are open only to workers in that company or trade. In 1984, 51.7 million people, or about 22 percent of the country's population, belonged to credit unions and had access to the services they provided. Although no precise figure is available on how many more people are eligible for membership, an official of CUNA estimated that a third more of the remaining population could be members of a credit union.

Beginning in 1982, the National Credit Union Administration expanded the definition of the common bond to allow credit unions to serve a broader field of membership. They were allowed to serve a community where there is regular contact among persons who reside or work in a well-defined neighborhood.

A second limitation to the use of credit unions as low-cost providers of basic banking services was that not all offered checking services to their members. According to the 1985 CUNA survey, 27 percent of the nation's credit unions offer a share draft account—the only form of checking account available to credit unions. At the time of our review, these credit unions had a membership of 34 million people, or 65 percent of the members belonging to credit unions. Credit union representatives cited some of the following reasons for not providing this basic banking service: a lack of resources and administrative sophistication, a lack of membership interest or demand, and a desire to keep operating expenses manageable.

Use of Money Orders in Lieu of Checking Accounts

Money orders may be viewed as another low-cost alternative for handling day-to-day financial transactions. However, while money orders are accessible to the general public, they are not always the most cost-effective option.

Access to Money Orders

Money orders are widely available through a number of sources, including post offices, retail stores, banks, thrifts, and other financial institutions. In 1985, a minimum of 34,000 postal locations and 85 percent of the banks and 79 percent of the thrifts in our survey provided money order services.

Cost of Money Orders

While money orders may be attractive because of their availability, their higher costs make them less attractive. Our comparison showed that money orders are a more costly method of making payments than using a checking account when more than three are purchased per month at a bank or more than five are purchased at a thrift.

We compared the average cost of money orders provided by various sources to that of a comparable number of checks written on a noninterest-bearing checking account at banks and thrifts. Table 5.2 compares the cost of writing checks to purchasing money orders. We selected eight transactions to coincide with the median number of checks written by a consumer earning under $10,000 per year according to the Federal Reserve's 1984 Currency & Transaction Account Usage Survey.

Table 5.2: The Cost of Money Orders Compared to Checks

	Cost of 1 Money Order or Check	Cost of 8 Money Orders or Checks
Money Orders Purchased at:		
Banks and Thrifts	$1.00	$8.00
Credit Unions	.56	4.48
Post Offices		
$.01 to $25. value	.75	6.00
$25.01 to $700. value	1.00	8.00
Noninterest-bearing Checking Account at:		
Banks	3.28	3.84
Thrifts	5.07	5.56

Note:Noninterest-bearing checking account costs were determined as follows:

Costs = Monthly maintenance fee + (Number of checks x Per check charge) + (Number of checks x Per check printing charge)

Use of Check Cashing Services

Another alternative to banks and thrifts for the purpose of cashing checks, including Treasury checks, is check cashing services. Little data was available regarding the average cost, accessibility, or other aspects of check cashing services.

Some data on usage, however, was gathered by the American Bankers Association.[3] In February 1985, the association commissioned a telephone survey of lower income households that did not have checking accounts. The study reported that 15 percent of these consumers used check cashing services and that nearly two-thirds paid nothing to have their checks cashed.

Little data was available on the cost of check cashing services. However, a representative of the Consumer Federation of America indicated that they may be too expensive to serve as a viable low-cost alternative to bank or thrift services. He said that the check cashing industry is, for

[3]Summary of Unidex Survey of Low Income Households Without Checking Accounts, 1985, American Bankers Association. We did not verify the statistical validity of the study; however, according to ABA, this telephone survey of 527 households had a 4-percent margin of error.

the most part, unregulated and outlets may in some cases charge up to 10 percent of the face value of the check. Another concern associated with the use of check cashing facilities is the risks associated with carrying large amounts of cash and dealing solely in cash.

Conclusions

While credit unions provide interest-bearing checking services at a lower cost than do banks and thrifts, public access to their services is limited—both by membership requirements and the availability of share draft accounts. Money orders, on the other hand, are much more accessible to the general public, but can be an expensive alternative depending on the number of money orders purchased. Finally, although some low-income households take advantage of check cashing services and find their fees reasonable, consumer advocates do not believe that their fees are always reasonable and do not view them as a viable alternative to low-cost banking services.

Agency Comments and Our Evaluation

The NCUA found the report's conclusions and findings interesting and said that they seemed to be an accurate representation of the cost of banking services since deregulation. In its letter (see app. V), NCUA quotes the report as stating that "Credit unions typically offered services at a lower cost . . ." and that "credit unions paid higher interest yields and were less likely to impose fees." (See pp. 4 and 64.) We believe it is important to note that these statements, when taken in their entirety, recognize that: (1) credit unions were not as accessible as banks or thrifts to the general public, and (2) their overhead costs may be minimized because they generally do not pay salaries for officers and committee members, may use donated space, and are exempt from certain tax requirements. (See pp. 4, 65 and 66.)

Questionnaire Methodology

To collect information on service fees, deposit account interest rates, and the availability and conditions of existing discount banking programs, we mailed a questionnaire to a randomly selected national sample of 1,662 commercial banks and thrifts, stratified by their total assets. (See table I.1).

We pretested the questionnaire by administering it to a subsample of banks and thrifts selected to represent both our national stratified sample and a diversity of environments. That is, a representative sample of urban, suburban, and rural institutions on the East and West coasts were pretested. During the pretests, we asked for comments and opinions on the questionnaire and we discussed respondents' answers with them to see if they understood the questions. We incorporated many of their suggestions into the final questionnaire, which we then mailed to the full sample of institutions in August 1985. Two followup mailouts to institutions that did not respond were made. Responses received by March 1986 were included in the original sample.

We reviewed the returned questionnaires for completeness and to evaluate whether respondents' answers indicated comprehension of the questions. Questionnaires containing optional written comments were also reviewed to gain a better understanding of the respondents' opinions. Finally, the reviewed questionnaires were keypunched and the resulting data base was checked to verify its accuracy.

Questionnaire Sample Selection and Response Rate

We obtained our sample from the Federal Reserve's June 1984 Reports of Condition and Income for banks and from the Federal Home Loan Bank Board's financial performance reports for thrifts. We stratified our samples of 911 banks and 751 thrifts into three groups each, according to total assets. All bank and thrift data from our questionnaire has been weighted by these three asset size categories. Institutions with more than $1 billion in assets are considered "large"; those with $100 million to $1 billion in assets are considered "medium"; and those with less than $100 million in assets are considered "small."

About 87 percent of the banks in our original sample were supervised by a federal regulatory agency and thus were directly affected by the federal deregulation legislation.

Our survey results are based on 1,013 responses from an adjusted sample population of 1,503, a 67 percent response rate. (See table I.1.) During our survey and subsequent telephone follow-up, we identified and excluded from our sample 159 depository institutions that were primarily or exclusively nonretail operations. Because of the length of this report, we did not include a questionnaire showing the number of responses to each question. However, a filled-in questionnaire is available upon request.

Table I.1: Questionnaire Sample Size and Response Rate Summary

	Population Universe	Sample Size	Sample Percent of Population Universe	Total Response
Banks:				
Large	326	323	99.1	194
Medium	2,323	294	12.7	184
Small	12,772	294	2.3	168
Total	**15,421**	**911**	**5.9**	**546**
Thrifts:				
Large	166	164	98.8	118
Medium	1,224	298	24.3	188
Small	1,768	289	16.3	161
Total	**3,158**	**751**	**23.8**	**467**
Total	**18,579**	**1,662**	**8.9**	**1,013**

Deletions From Original Sample and Responses
Original Sample 1,662
Less: Nonretail operations (159)
Sample Size 1,503
Actual Responses 1,013
Final Adjusted Response Rate 67.4%

Although we received a 67 percent overall response rate on our questionnaire, many respondents did not completely answer all questions for each time period. In those cases where the response rate was not adequate, we do not show values and so state.

It should also be noted that when discussing minimum balances to open an account or to maintain an account without a fee, we excluded those accounts requiring a balance of $1 or less.

Determining the Effects on Consumers of Changing Fees and Interest Rates

To determine the impact of changing bank fees and interest rates, we combined the results of our survey with those contained in the Federal Reserve survey of consumer banking behavior to obtain our results. For example, the Federal Reserve data specified whether the respondent's main checking account was held at a bank or a thrift and what basis of charging (per check, account balance, or both) applied. This information dictated which median maintenance charge we applied from our questionnaire. If no interest was indicated, we used average fees associated with noninterest-bearing accounts. If the respondent reported that the main checking account was interest-bearing, we applied NOW account interest rates and fees. (NOWs were used instead of SuperNOWs because the latter required a median minimum balance of $2,500 in 1985 and therefore were probably less frequently used by consumers than were NOW accounts.)

We calculated the net cost or income resulting from maintaining a main checking account at a bank or a thrift for each individual respondent to the Federal Reserve survey. Basically, the income calculation is the respondent's average account balance times the applicable interest rate. The expense calculation is dependent upon how the respondent indicated his/her service fee was based and was a function of the average number of checks written per month.[1]

Questionnaire Error Measurement

There are several possible sources of error in our questionnaire survey. These errors may be classified as follows:

- sampling error;
- errors introduced while editing, coding, and tabulating the questionnaire's responses;
- errors of measurement of a sampling unit; and
- nonresponse bias (i.e., errors stemming from the lack of a response from some of the sample banks and thrifts).

Sampling Error

The term "sampling error" refers to errors that are inherent in taking a sample instead of surveying all the members of a group. Since we were

[1]If the service fee was based on a per check charge, then the expense was calculated as follows:

Expense = (Number of checks written × Per check charge) + (Number of checks written × Per check printing charge)

If the service fee was based on a monthly fee, then the expense was calculated as follows:

Expense = Monthly fee + (Number of checks written × Per check printing charge)

If the service fee was based on both a per check charge and monthly fee, then the expense is calculated as follows:

Expense = Monthly fee + (Number of checks written × Per check charge) + (Number of checks written × Per check printing charge) unable to survey all banks and thrifts, we selected a stratified random sample of 1,662 institutions, of which 1,013 returned their questionnaires. Since we do not have responses for all banks and thrifts, the responses we received represent estimates of the results we would have received had all banks and thrifts responded. The difference between our results and the hypothetical results obtainable from surveying the full universe of banks and thrifts is the sampling error.

Editing, Coding, and Tabulation Errors

We carefully checked the returned questionnaires along with the subsequent editing, coding, and data entry. We are confident that we have minimized any errors originating from these sources.

Errors of Measurement

Errors of measurement can occur when a respondent marks an incorrect response or marks two boxes on a line while leaving the next response line blank. Or a respondent can simply forget to answer a particular question. When we could identify an error of this type, we excluded that response from our analysis of the question.

Nonresponse

Since we did not receive responses from all banks and thrifts in our sample, we have a potential nonresponse bias. Nonresponse bias can be a problem if the nonrespondents have a different opinion from the survey respondents, then the returned responses reflect only a subpopulation of the universe of banks and thrifts. Since we cannot know how those that did not respond would have responded, we confined our analysis to those banks and thrifts that did respond.

Data Presentation

After analyzing the data from the questionnaires, we made two decisions concerning its presentation. Both relate to the wide variation in responses. First, we decided to show the median value for the variables, that is the value above which and below which there are an equal number of values, rather than the more commonly seen mean value. The median is less sensitive to the influence of extreme values. Second, we show the range of responses between the 25-percent and 75-percent quartiles, which encompasses the middle 50 percent of responses grouped around the median value (i.e., the 50-percent quartile). By presenting these ranges the reader can see the degree of variability in the data, particularly in those accounts which required a minimum balance to open an account or to avoid a service fee.

Other Research

During our questionnaire development, we attempted to obtain data which could be used in an economic model comparing the changing costs of banking services to demographic characteristics of retail banking customers. One of the most important features of our regression-based model would have enabled us to estimate total service fees faced by banking customers at different income levels. Also, it would have allowed us to derive inferences about the effects on households of increases in bank service fees and interest rates paid on checking and savings accounts. However, we could not complete this analysis because adequate historical data on customers' use of banking services were unavailable at the time of our survey.

Comments From the Office of the Comptroller of the Currency

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

March 10, 1987

William J. Anderson
Assistant Comptroller General
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

We have reviewed your draft report on issues related to basic banking services titled "Banking Services: Changes in Fees and Deposit Account Interest Rates since Financial Deregulation." The report analyzes and presents the results of a GAO survey of more than 1600 financial institutions regarding the fees and interest rates on a limited number of deposit services offered in 1977, 1983 and 1985. The report makes no recommendations. However, we are pleased to offer some general comments about the draft.

See p. 44.

Now on pp. 13 and 14.

Much of the presentation of the survey results is in terms of the median and the range. The terminology may not be used correctly and it makes the data included in the tables difficult to interpret. For example, Table 2.2 contains three items where the median is equal to the minimum range element. As "median" is defined, this phenomenon would not seem possible. Table 2.3 shows the unlikely event of no variability in pricing by reporting the minimum and maximum range elements and the median as the same number. Page 17 of the draft explains the nature of the data that is reported. "Range" has been redefined so that it no longer provides minimum and maximum values. Instead, the boundaries are the 25th and 75th percentiles of the responses. The rationale for this adjustment is not clear. We are concerned that readers may be misinformed by using the tables out of context. We strongly suggest that either the data or the terminology be adjusted appropriately.

- 2 -

See comment 1.
Now on pp. 10, 13, 69.
See pp. 44 and 45.

"Bank" as used in the report, includes commercial and savings banks regulated by the OCC, the Federal Reserve or the FDIC (page 11). In contrast, pages 16 and 102 indicate that 87 percent of the sampled banks are federally regulated.

Now on p. 37.
See comment 2.
See comment 3.

Some of the reported fee structures appear to be unconventional. It is surprising that almost 80 percent of thrifts provided free cashier's checks to nondepositors in 1977 (page 44). It would also be helpful to know if some of the numbers have been calculated, for example, by converting annual fees into monthly fees. Many of the tables contain peculiar dollar values, such as $1.08 and $2.16.

Now on p. 62.
See comment 4.
Now on p. 44.

The report could be enhanced by providing cumulative totals and more information about the sampled institutions. For example, it would be nice to see at a glance that 68 percent of banks offer a no-frills account for less than four dollars per month (page 74). The geographic distribution of the institutions would be useful to explain variations pointed out at page 49, for example.

See comment 5.

Attached, for your consideration, is a page by page listing of technical adjustments and editorial suggestions.

Thank you for the opportunity to comment on the draft report.

Sincerely,

Judith A. Walter

Judith A. Walter
Senior Deputy Comptroller for Administration

Attachment

GAO Comments

1. OCC pointed out that the term "bank" was more broadly used on page 11 (now p. 10) than later in the report. "Bank" has been redefined on page 10 to agree with the term as used on pages 13, 69, and throughout the report.

2. OCC also noted that many of the tables contained peculiar dollar values and wondered if numbers had been calculated for monthly fees. Numbers in the survey questionnaires were requested on a monthly basis and were not mathematically computed. The peculiarity noted is due primarily to inflation adjustments for 1977 and 1983. For example, a $1 fee in 1983 would be adjusted for inflation by a factor of 1.077 and would appear in our report as $1.08. (See p. 18.) On other occasions, the peculiarity noted may result from calculating a median value by dividing the center two numbers when there were an even number of observations.

3. OCC suggested that the report could be enhanced by providing cumulative totals, noting that it would be nice to see at a glance that a certain percentage of banks offered a no-frills account for less than four dollars a month. (See table 4.3.) We agree this might help some readers but it would make the primary information harder to comprehend because twice as many percentages would have to be shown on each line.

4. OCC commented that inclusion of the geographic distribution of the institutions would be useful to explain variations noted on page 44. We did not include this data because the sample was not designed to obtain information by region and some response rates by region and type of account were too low to be representative. Since the results might be misinterpreted by the reader and incorrectly projected, we included only the general observation that there was little variation in the responses. We added information about the sample to this discussion.

5. OCC technical comments and suggestions were not included in the report; changes were generally made.

Comments From the Federal Home Loan Bank Board

Note: GAO comment supplementing those in the report text appears at the end of this appendix.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

EDWIN J. GRAY
CHAIRMAN

March 12, 1987

Mr. William J. Anderson
Assistant Comptroller General
United States General Accounting Office
General Government Division
Washington, D.C. 20548

Dear Mr. Anderson:

Thank you for the opportunity for the Federal Home Loan Bank Board to comment on the General Accounting Office's draft report entitled, "Banking Services: Changes in Fees and Deposit Account Interest Rates Since Financial Deregulation."

See p. 45.

While we do not have independent sources which could confirm or refute the survey results of this study, the Board has no reason to doubt them. Given the generally acknowledged steadily rising costs of operating a thrift, including the rise in costs represented by inflation, the increase in our member institutions' cost of funds (brought about in part by the deregulation of interest rates), and increased operating costs, we would expect a countervailing increase in other areas including fees for maintaining an account. We note, however, that by your study approximately 80 percent of thrifts still do not charge for maintaining an account. We find that figure surprising in light of the economic developments of the early part of this decade.

See p. 45.

Additionally, we find it hard to object to member institutions which are maintaining their profitability while paying higher interest rates to customers by charging fees for services formerly provided for free. It would appear to be a generally safe and sound practice, in our opinion, for institutions who are faced with rising costs to find ways to off set such costs, including, within reasonable limits, charging customers for certain banking services. Of course, the "reasonableness" of such charges can only be determined on a case-by-case basis. You can be assured that the Board through its normal examination, supervision and enforcement activities will continue to make such determinations.

See comment.

As your draft report relates, the Federal Financial Institutions Examination Council adopted a joint policy statement on basic financial services. The Board now has adopted that statement as its own policy. See Board Minute Entry of February 2, 1987. Judging from your survey which reported that 64

See p. 63.

Now on p. 63.

Mr. William J. Anderson
Page 2

percent of thrifts provide free or no-cost "no-frills checking," it would appear that our member institutions already provide, in large measure, basic banking services. Incidentally, that figure appears to contradict your concluding statement on page 75 of your draft report which says that, "[l]ow-cost, no frills bank and thrift accounts may be a reasonable means of assuring access to the banking system for the general public, especially for those consumers with low to moderate incomes, but at the time of our survey they were not widely available (emphasis added)." In our view, having such accounts available at 64 percent of thrifts would constitute wide availability.

If I may be of further assistance please do not hesitate to let me or Arlen Withers, of our Congressional Relations Office, know.

Sincerely,

Edwin J. Gray
Chairman

GAO Comment

The FHLBB noted that it has adopted the Federal Financial Institutions Examination Council joint policy statement as its own policy. The report recognizes on page 58 the five regulatory agencies have endorsed this policy.

Comments From the Federal Deposit Insurance Corporation

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF DIRECTOR - DIVISION OF BANK SUPERVISION

March 10, 1987

Mr. William J. Anderson
Assistant Comptroller General
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

Your letter of February 10 enclosed for our review and comment a draft report entitled "Banking Services: Changes in Fees and Deposit Account Interest Rates Since Financial Deregulation." The report discusses changes since 1977 in fees and deposit account interest rates, the effects of these changes on consumers, and issues related to "lifeline" banking services.

See p. 52.

Staff has reviewed the report and believes the results reported are seriously flawed by the failure to account in some fashion for the implicit cost of fore-gone interest (i.e., no interest or interest at less than market rates) on accounts maintained in baseline 1977 and similarly for non-interest bearing demand or other types of minimum balance accounts that carry an implicit interest cost to the consumer since deregulation. As a consequence, any cost or other types of comparisons between conditions before and after interest rate deregulation and indeed, between different types of accounts since deregulation, are quite possibly inaccurate and misleading. In our view, the fact that market rates could not be paid on deposit accounts in 1977 was largely responsible for the pricing and services structure then in existence just as that ability now is largely responsible for the "unbundling" of services and more explicit pricing that exists today.

See pp. 52 and 53.

The report also fails to account adequately for the level of interest rates at different times. For example, were interest rates to return to the high levels of a few years ago, the breakeven threshold for consumers (where account earn-ings match costs) would undoubtedly occur at a significantly lower income level than that reflected in the study.

See p. 53.
Now on pp. 49 and 50.

- 2 -

We lastly note the significant limitations of the study expressly recognized by the GAO on pages 56 and 57 of the draft report. In the final version, perhaps these might be made more prominent.

Sincerely,

Paul G. Fritts
Paul G. Fritts
Director

Comments From the National Credit Union Administration

NATIONAL CREDIT UNION ADMINISTRATION
WASHINGTON, D.C. 20456

March 2, 1987

OFFICE OF THE CHAIRMAN

Mr. William J. Anderson
Assistant Comptroller General
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Anderson:

See p. 68.

Thank you for the opportunity to respond to the GAO draft study on "Banking Services: Changes in Fees and Deposit Account Interest Rates since Financial Deregulation". It is well known in the financial community that NCUA was the first to completely deregulate federal credit unions on the liability side of the balance sheet. Federal credit unions were given the opportunity to provide checking, savings and deposit services under virtually any conditions of rate, maturity or structure. In essence, credit union members were provided the advantages of deregulation as soon as it was legally possible to do so. The uniquely positive effect on credit unions and their members become even more positive when balanced against some of the findings of the proposed GAO report. "Credit unions typically offered services at a lower cost. . .", ". . . credit unions paid higher interest yields and were less likely to impose fees. . ."

The basic report is for the most part about banks and savings and loans and how they have reacted to deregulation and the development of a pricing structure. Its conclusions and findings are interesting and seem to present an accurate representation of the cost of banking services since deregulation.

Sincerely,

ROGER W. JEPSEN
Chairman

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