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Banks fiddle with fees

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Consumer Watchdog

Keep an eye on how banks charge you for using checks or plastic, because the fee landscape is shifting.

It's not clear what things will look like once the dust has settled — new fees? new kinds of accounts? tougher terms? — but one result, some analysts say, might be a swing back toward old-fashioned, know-your-customer lending and a new competitive edge for smaller banks in an industry long dominated by big ones.

Much of the change is being driven by the Credit Card Act of 2009, a congressional attempt to crack down on abuses. Most of its rules take effect Feb. 22. Their effect — combined with the recession and possibly a big-bank tax President Barack Obama has proposed to recoup bailout funds — will be to cut into bank revenue, so bankers are scrambling to compensate.

"The banks' challenge is how to make every customer at least somewhat profitable," said Ben Woolsey, an analyst for CreditCards.com.

Therefore, he said, banks not only have been raising interest rates — new credit card offers averaged 13.17 percent in mid-January, the highest since October 2007 — but also have begun experimenting with new fees. For instance:

>> Annual fees: Will customers stand for paying a yearly sum just to carry a credit card or a checkbook? "Some of the banks have been testing that," Woolsey said.

>> Inactivity fees: For consumers who carry plastic but rarely incur finance charges, this is "another fee monster that's rearing its ugly head." For the card-issuing bank, Woolsey said, such customers are money losers unless they spend about \$250 a month, enough to let the bank break even on its cut of the "interchange fee" that merchants pay on each transaction.

>> Over-limit fees: Imposed when you exceed your credit limit, these are likely to fade away, he said, because the coming rules require you to specifically approve the practice beforehand. Card issuers more likely will just enforce the limits, meaning your plastic would be rejected if you try to go over.

>> Late fees: They won't go away. You'll still be penalized for being tardy with the monthly payment. But the law says such fees must be "proportional" to your outstanding balance. That's not yet defined, Woolsey said, but you can probably expect to see a tiered structure of late fees.

>> Checking fees: You may see a variety of new charges on your trusty old checking account, the workhorse for most households, especially if it comes with a debit card. Checking has long been a "gateway" service, in effect a loss leader that banks use to attract your business, he said.

One main method by which banks get revenue from checking accounts — overdraft protection — will get new federal limits July 1, requiring that it be provided only to customers who explicitly agree.

Banks collect billions in overdraft fees, money that helps pay for the free checking that many consumers now expect. Last year, the average bank customer paid 12 overdraft or other insufficient-fund charges, often at \$25 or \$30 per transgression, G. Michael Flores of the Bretton Woods financial consulting firm told the New York Times.

To replace that revenue stream, some banks may revert to monthly checking fees. Or raise minimum-balance rules. Or raise the cost of safe-deposit boxes or stop payments. They might make such steps more palatable by throwing in extra features, such as identity-theft protection or low-balance alerts. Or they might go to a la carte checking, in which a bare-bones account is free but you pay extra for features you really want, say, the ability to use any ATM without charge.

Another option: Get retailers to foot more of the cost, by persuading debit-card holders to whip out their plastic and sign more often instead of using their PIN when they buy. That generally sends a bigger cut of the interchange fee to the bank. On the other hand, merchants might raise prices to cover their increased cost.

Alan Friesen, a consultant at marketing firm Haberfeld Associates in Lincoln, said a more-fees strategy can backfire with customers. He told the Wall Street Journal that he's advising smaller banks to preserve free checking to help differentiate themselves from big rivals.

What does this mean to consumers at wallet level?

Confusion, perhaps. A need for vigilance over financial mailings — those letters with the cellophane windows. Maybe even soul-searching over spending habits, say debt advisers.

"We've had a lot more people calling to say, 'What does this mean?' People are more aware," said Michaela Harper of Credit Advisors Foundation, an Omaha nonprofit that boasts of "helping people get out of debt with dignity for more than 50 years."

"I think people are reassessing their credit behavior," she said.

The industry changes will take a year to play out and will involve "some creative fees," Harper predicted. "I've seen a couple of strange things already." One company informed holders of its variable-rate cards that it reserved the right, without notice, to change the index on which the rate was based — to anything, she said.

Advice from Woolsey, whose online firm tracks industry practices and helps consumers comparison-shop for plastic: Understand your cards and any changes. Compare cards. And keep them paid off — it's the simplest way to steer clear of trouble — while realizing you may no longer be able to elude all fees.

Individuals — and the economy — would be better off if they lived within their means permanently, he said, but "I'm realistic. My take is that people react to the volume of easy credit."

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