Doug Myers'

BANK SECRETS

You Need To Know.

Thank you for your purchase please read carefully to obtain all information.

Banks are squeezing customers with historically high fees and penalties, from overdraft charges to account service fees to new surcharges on foreign debit transactions.

But the pressures that have prompted the fee war with consumers started well before the financial meltdown, according to Jo Preuninger, a former management consultant who spent more than a decade in the consumer banking arena.

I asked Preuninger for a little history, as well as some of the tricks of the trade that banks would prefer to keep secret.

Secret #1:

For many banks, the most profitable customers aren't the mass affluent -- they're "Joe Ordinary."

In 1999, the Gramm-Leach-Bliley Act allowed banks, insurers and securities firms to merge, breaking down barriers that had been in place since the 1930s. Following the new law, "if you took all the (deposit) checks written for $10,000 and above, most were written to institutions such as Charles Schwab, Fidelity or Merrill Lynch," says Preuninger. "They took the best customers. The banks were becoming more like Laundromats, where you put money in for a short period because you still needed to pay with a check or (get cash)."

At the same time, loans provided little profit as interest rates remained relatively low, prompting banks to seek consistent, non-interest income. "The focus was on how banks could not only identify fees they could charge, it was how to do a better job of collecting their fees," says Preuninger.

Middle-income customers presented the greatest potential to harvest fees. "There's certainly a customer segment that could be called 'Joe Lunchbox,' who expect to be nickeled and dimed," says Preuninger. "They are managing money from paycheck to paycheck. It's someone who would prefer to pay an overdraft fee to get their mortgage covered rather than get hit by a mortgage provider with a late fee and a ding on their credit score."

Last year, overdraft and insufficient-funds charges totaled nearly $35 billion and comprised about 90 percent of banks' consumer-fee income, according to a study by the consulting firm Bretton Woods Inc. Three-quarters of banks automatically enroll consumers in their "overdraft protection" programs without formal permission, and more than half of banks manipulate the order in which checks are cleared to trigger multiple overdraft fees, according to a Federal Deposit Insurance

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Corporation study.

"They are going to try to turn the best profit they can, which is why they post in the most attractive way they can while avoiding and minimizing legal exposure," says Preuninger.

Someone who overdraws a checking account a few times a year should choose a bank with a program that makes it easy (and free) to shift funds from savings to checking to protect against overdrafts.

Secret #2:

Banks hope frequent overdraft customers don't understand the alternatives.

The banks deemed overdraft protection to be a customer service convenience that provides an alternative to payday lenders, says Preuninger. And yet some of those customers might almost fare better with loan sharks. The Bretton Woods study found 80 percent of overdraft fees are incurred by 20 million households, who paid an average of $1,374 in overdraft fees.

These customers should consider ditching traditional checking account in favor of a prepaid debit card, which typically cost $70 to $80 a year ($10 upfront with a $5 monthly fee). Users direct-deposit their paychecks onto the cards (the money is FDIC-insured) and can do point-of-sale transactions and pay bills online. There are no overdraft fees; the purchase is declined if the card is empty.

Secret #3:

Those helpful new customer set-up kits, designed to make it easy to switch banks, also try to make the account "sticky."

"I did a lot of work in customer attraction and retention," says Preuninger. "The biggest barrier to new accounts was switching. There's a higher tolerance; a bank may have a lot of long-term customers -- that doesn't mean they love (the service)."

Most banks have a kit to assist customers in switching services. But do it yourself instead. Enter your regular bills in the bank's online billpay site, rather than signing up with each biller's website. If your new banking relationship goes sour, the account is more transportable. You won't have to log into a dozen different biller sites and change the account and routing numbers.

Secret #4:

Long-term relationships matter."Know what you want in the way of a bank and stay as long as you can because tenure does matter," Preuninger says. "If you've been with a bank three to five years, they treat you differently than if you are there

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six months. If you direct-deposit your paycheck and have a (savings) relationship, they think of you differently than if you have free checking with $100 in it. Tenure and relationship does matter."

So if you incur the rare fee now and then, always call customer service and ask (politely) for it to be removed. Emphasize your long-term relationship with the bank and ask for a supervisor if the initial effort fails.

Most customers aren't profitable until they've been with a bank a few years because of the high cost of customer acquisition -- sales compensation to branch managers, IT infrastructure, documentation and account setup. "It's a long time before they break even, especially if they goose it with $100 to you to open the account," Preuninger says.

Secret #5:

Banks want you to enjoy the "advantages" of paying with credit, debit, check and cash -- because it will make you more likely to lose track of your money.

"One of most dangerous things going on with consumers is they are not paying attention to the variety of ways they are paying. They are balancing money back and forth because it's too hard to account for," Preuninger says. "If you pay seven different ways, you've just added complexity to your life. Consumers shouldn't say to the bank 'you're responsible to tell me what I'm doing with my money.'"

But more banks are moving in that direction. PNC Bank, for instance, launched an account called Virtual Wallet that presents account information in calendar form, focused between today and the account holder's next payday. A "danger day" appears on the calendar in red if the account is at risk of an overdraft. The user can either move bills later in the month, or shift money immediately from the savings portion of the account at no charge (the account does it automatically if the consumer doesn't). Statements are only available online and the bank charges 50 cents per check for writing more than three a month.

Best bet? Simplify. Get a free checking account with no fees and a low minimum balance requirement, pay major household bills online, and then stick to cash. You'll think twice about purchases, and avoid getting caught in the widening web of bank fees.

1. "We're in survival mode."

Banks may still be a safe place to stash your cash, with the FDIC now insuring up to $250,000 per depositor. But after years of lending money to just about anyone with a pulse, the industry is paying a steep price. Losses on bad loans issued during the

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credit bubble could top $1.4 trillion, according to the International Monetary Fund. With their balance sheets in tatters and stock prices in the gutter, some of America's biggest banks have been forced to merge to survive. And even with the U.S. government infusing money into the system to get banks lending again, "the days of easy credit are gone," says Greg McBride, senior financial analyst with Bankrate.com.

Customer service also seems to be a casualty of the credit crunch. With less money coming in, many big banks are cutting jobs, closing branches, and scaling back their call-center operations, says Mike Moebs, a bank industry consultant in Chicago. Moreover, employees left on the job now have to handle more customers and may have less flexibility to ease up on fees for overdrafts or other services. "Customer service is waning at the big banks," says Moebs. "It's a downward spiral."

2. "Our fees will only go up."

Don't look now but punitive fees—for overdrawing your account, say, or using a competitor's ATM—are increasing. The average ATM service charge doubled between 1998 and 2007, and overdraft fees brought in $17.5 billion in revenue in 2006, up from $10.3 billion in 2004, according to the Center for Responsible Lending. Rubecca Hegarty, a married mother of three in Woodridge, Ill., says she often pays upwards of $100 a month in overdraft fees to Chase, since, like most banks, it changes the order of purchases so that large debts get paid first—increasing the likelihood of incurring fees on smaller purchases. JPMorgan Chase says it does this because big payments like a mortgage are more important to consumers, so they get priority.

Revenue from penalties can be addictive for banks, says Harvard Business School Professor Gail McGovern, but "They're going to face problems from angry customers, which leads to big callcenter bills, employee dissatisfaction, and turnover."

3. "We change our interest rates all the time."

Regardless of what your credit card agreement says, you can never be sure how much interest banks will charge you. For example, nearly all cards have a default rate—as high as 30 percent— which banks apply when you've done something wrong, usually after two late payments in 12 months. But some banks have cut that to one, says Curtis Arnold, founder of CardRatings.com.

Banks can also change the terms of your agreement, raising rates when they like (though you can opt out and pay off the balance at the old rate as long as you never use the card again). Bank of America did that recently, upping many cardholders' rates from 10 or 12 percent to 27 percent or more, even though they'd done nothing wrong. "There's no clarity on what criteria can lead a bank to raise interest rates," says Robert Manning, director of the Center for Consumer Financial Services at the Rochester Institute of Technology. "It's a black box." A Bank of America

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spokesperson says the company periodically reviews the credit risk of its accounts and adjusts rates accordingly, adding that in the past year 94 percent have had no increase.

4. “College campuses are a gold mine for us.”

Students are the customers of the future, and banks are increasingly courting them, sometimes right on campus. More than 120 universities have cut deals with banks to issue student-ID cards that are also ATM and check cards. Schools can make millions from these deals, sometimes even taking a small cut of individual purchases.

Students are also a hot market for credit card issuers; banks will make private deals with alumni associations to get contact info for students, parents, and ticket buyers to university athletic events. Card companies cut deals to set up booths on campus, and Chase even inked a deal with Facebook to display ads and set up a Chase group on its website.

The problem? Mounting credit card debt among college kids, for one. “Universities don’t negotiate on behalf of students,” says Manning. “They’re negotiating the best deal for the university.” A spokesperson for the National Association of Independent Colleges and Universities says don’t blame schools—banks would market to students anyway, and universities at least try to get the best rates they can for students.

5. “In debt? The courts won’t help.”

Since the late 1990s, banks have been including mandatory arbitration agreements in their contracts for many of their products, including auto loans, checking accounts, home-equity loans, and credit cards. Such agreements prohibit you from suing and instead require you to use an arbitrator— someone picked by the arbitration firm named in your credit card contract to hear the dispute and decide the outcome.

While these clauses were originally designed to thwart class-action suits, the banks have also been using them for debt collection, says Paul Bland, an attorney with consumer-advocacy group Public Justice. There are even times when consumers, often victims of identity theft and unaware of the debt, aren’t present when awards are handed down against them.

A recent suit against an arbitration firm brought by the San Francisco city attorney noted that arbitrators ruled in favor of banks in 100 percent of the 18,045 California cases brought against consumers from January 2003 through March 2007. “From the consumer perspective, it’s a nightmare,” says Bland. If a bank brings arbitration against you, hire a lawyer and request a hearing—in person.

6. “We’re excited about your trip to Europe, too!”

It’s not bad enough that the dollar is hovering near historic lows against most major

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currencies, but when you travel overseas, every transaction comes with big fees attached. Take out cash from an ATM in London, and you'll get hit with a foreign-transaction fee, plus a fee for using a competitor's ATM. All told, it can cost up to $7 just to withdraw $200. Credit card purchases aren't much better. Visa and MasterCard each charge 1 percent of the purchase for converting currency. And the issuing banks may take another cut, which can bring the total to 3 percent of your purchase price, says CardRatings.com's Arnold. "If people don't travel overseas very often, they just don't think about it," he says.

The best thing to do is see which of your cards charges the lowest overseastransaction fee. If you travel a lot, Arnold recommends a Capital One credit card, which charges no overseas-transaction fees (even refusing to pass on Visa and MasterCard's 1 percent fee to customers). Also, ask your bank about partnerships with foreign banks. Bank of America, for example, partners with Barclays Bank, saving its customers $5 per withdrawal from the latter's ATMs in the U.K.

7. "For all the fine print, we don't disclose very much."

Bank documents come loaded with small type, detailing terms and conditions. But good luck finding out exactly what you're signing up for when you open an account. In 2007 the Government Accountability Office (GAO) sent investigators to see how well banks explained their fees and other conditions to potential customers. Though banks are required by law to make this information available, the GAO found that one third of the branches it surveyed didn't provide the required information. Worse, more than half didn't have any fee information on their websites.

Nessa Feddis, senior counsel at the American Bankers Association (ABA), questions the report's methodology— banks failed the test if investigators waited more than 10 minutes for the information—and defends the lack of data online. Banks are afraid of leaving old, inaccurate information on their site if terms change, she says. But without details on fees, consumers can't make educated choices. "Banks are not complying with the law," says Ed Mierzwinski, consumer program director with the U.S. Public Interest Research Group. "People need more information so they can shop around for the best deal."

8. "Your money might be better off elsewhere."

Banks offer lots of ways to earn interest on your money—among them, simple savings, CDs, money-market accounts, and IRAs. But they don't always yield the best return. In early 2009, the average savings account, for example, was paying about 0.5 percent interest. But even in this low-interest-rate climate, you can do better—3 percent or more—if you shop around. "It pays to be a free agent," says Bankrate.com's McBride. "There is tremendous disparity in the returns available."

Banks have been expanding into other financial services for a decade or more, including comprehensive wealth management and financial planning, brokerage services, even insurance. The well-off customers who use these are a bank's most

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profitable; they keep the highest balances and are less sensitive to fees, says Maryann Johnson, senior vice president of wealth market management at the ABA. That's something to remember when you talk to a bank's investment advisers: Many are paid a commission on investment products, says Certified Financial Planner Craig DuVarney, meaning they often go for the easy sale. "They don't have the harder discussion about estate planning, tax bracket, and liquidity," says DuVarney. Johnson sees it differently; she says banks take a more holistic approach and that their wealth managers serve much the same purpose as financial advisers, with bonuses for not only sales but also dollars invested, new clients, and even customer retention.

9. "When it comes to banks, smaller is sometimes better."

Banks have been consolidating like crazy over the past decade. In 1990 the top 10 banks controlled 25 percent of the market; by 2008 they controlled half. This gives customers of large banks vast networks of free ATMs and branches across the country. But it hasn't been entirely good for consumers, says Arthur E. Wilmarth, Jr., a professor at George Washington University Law School. Though big banks offer many conveniences, they can come at a price: high fees. In 2006 the 10 largest banks generated 54 percent of revenue from fees and service charges; by contrast, the 10 smallest banks generated just 28 percent from those sources.

Not only do big banks bring in more fee income but they also pay out less interest. According to FDIC data, smaller banks generally pay higher interest on savings accounts and other products. For example, in 2006 the 10 largest banks paid an average 1.87 percent in interest for savings accounts, while the smallest banks paid 4.37 percent. "The largest banks are no longer worried about being undercut on price," Wilmarth says.

10. "Your online account info isn't necessarily accurate."

Online banking has changed the way people handle their finances. They can pay bills online, transfer funds, track payments, and get a more detailed view of their bank account than ever before. Unfortunately, it may not always show the proper balance. With electronic transactions, ATMs, check cards, and direct deposits, banking has gotten more complicated.

ATMs and online bank statements will show deposits available before the money is actually in your account. Using your debit card at a gas station or to reserve a hotel room, for example, can put a hold on funds. Some merchants may be slow to send in charges. And banks can sit on deposits—an out-of-state check may take up to five days to clear.

Add to that the constant reordering of debits, and your account balance can quickly become a moving target—hard to track accurately day to day. "Banks use different algorithms to process payments than what you see online," says Harvard's McGovern. "It gives you a false sense of security."

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EXACTLY HOW BANKS TAKE YOUR MONEY.

The number of ways banks can take your money is almost endless. Fees and service charges continue to increase each year and the consumer is often left wondering what they should do. Most consumers do nothing. They simply stay with their current financial institution thinking that it's too much trouble to switch. This is exactly the attitude that banks want to cultivate among their customers. They want their customers to believe that it's simply too difficult to switch banks so the customers stay and continue paying high fees and service charges. In an effort to make a more informed consumer, we present the top ten ways your bank is ripping you off.

1. ATM Fees

Americans paid $4.3 billion in ATM fees in 2005. These fees are assessed in one of two ways. They can be charged by your bank when you use an ATM not in their network. They can also be charged by the owner of the ATM. In some cases, you can be charged twice, once by your bank and also by the owner of the ATM. When you consider that these fees can be $3 per transaction or more, these fees can add up fast. Be sure to check with your bank to find out their ATM fee policy. Ask the charge for using an out of network ATM. If you do need to withdraw money from an ATM that's going to charge you, take out the maximum amount possible. That reduces the fee on a percentage basis. After all, the fee is the same whether you withdraw $20 or $100. A $3 ATM fee on a $20 withdrawal is 15% while a $3 fee on a $100 withdrawal is only 3%.

You might also want to ask other places you shop if you can get cash back when using your debit card. Wal-Mart, for example, will allow you to get cash back on top of your purchase amount without a fee. That will save you from having to use the ATM and incur another fee.

2. "Free" Checking Accounts That Aren't Really Free

One of my pet peeves is the "free" checking account that, when you read the fine print, is anything but free. Minimum balances, direct deposit requirements or minimum usage requirements are all typically associated with these so-called "free" accounts. Typically banks will put a number of restrictions on these "free" accounts. Sometimes you'll need to have your paycheck or government benefit check direct

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deposited to the account. You may need to keep a minimum balance in the account to avoid a monthly maintenance fee or you may need to have a minimum number of transactions each month. A recent variation of this practice is the need to have a number of electronic services associated with your account for it to be free. You may need to have a debit card, electronic statements, online banking and no personal contact with bank personnel to get the "free" account. Each bank is different so be sure to check with your own financial institution.

3. Checking Account Penalty Fees

In addition to the fees mentioned above, many banks are implementing harsher and harsher penalty fees. The fees for bouncing a check, called NSF or insufficient funds fees by banks are skyrocketing. There are more ways than ever to incur these fees. Use your debit card at a store and you may unknowingly have insufficient funds in your account. Your transaction may still be processed but this could cause checks you have written to bounce. NSF fees themselves are now often $30 or more per occurrence. A recent variation on the NSF fee ripoff is the "tiered" NSF fee. Your bank may give you one free NSF fee per year. It sounds like a good deal until you realize that the second or third check you bounce bring a higher fee while the fifth or sixth bounced check bring an even higher fee. Many banks are now promoting their "courtesy overdraft" programs. With these programs they promise to cover your bounced checks so you will not be assessed a fee by the organization you wrote the bounced check to. For this service they charge you a fee or $30 or $35. In actuality, this is just a high priced short term loan at an astronomical interest rate. Since it's not classified as a true loan, they don't have to disclose the actual interest rate. Tell your bank you are not interested in courtesy overdraft protection.

4. High Credit Card Rates

It may sound simple and it often is. If you find yourself paying too high a rate, either ask your current credit card company to lower the rate or scan your mail for a lower rate offering. Many people are creatures of habit and will often stick with the first card the got after college. Credit Card companies know this and they'll often maintain higher rates when lower rate products are available. If you think your rate is too high, shop around and then vote with your feet. You can use one of several credit card comparison sites to get an idea of what's available. One of my favorite credit card web sites is www.cardweb.com. The site contains an extensive database of available credit cards and can prove to be a valuable resource.

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5. Credit Card Fees

One of the primary ways banks make money each year is through the fees they charge their customers. While some of these fees are understandable an unavoidable, like safe deposit box fees, others are totally within the control of the consumer. An example of a controllable fee is a late payment fee. Banks like it when people pay their bills but pay late. When I was in banking, we called people like this "sloppy payers". They paid their bills but incurred a fee allowing the bank to make more money with little effort. Late payment fees are bad for a number of reasons: Late payment fees are expensive – Typical late payment fees on credit cards can now top $39. If you pay your credit card late, it's like throwing $39 out the window. Late payment fees can cause the interest rate on your credit card to rise – If you look at the small print on the agreement you received from your credit card company, you may notice that the credit card company has the right to raise the interest rate on your credit card if you pay as little as one day late. This could make a credit card which seemed like a good deal at 9.9% a very bad deal at 21% or more. Read the fine print and chose your cards carefully. Late payment fees can affect your credit rating – While one or two late payments may not affect your credit rating significantly, a pattern of late payments can seriously impact your credit rating. This can affect your ability to get other credit or it could cause your other creditors to raise the rate on the loans you have with them as well.

6. Consumers' Lack of Knowledge

Banks depend on the uninformed customer to earn much of their profit. They hope that consumers will not do even basic research to compare their products, services, rates or fees. And, they're usually correct. Much of the time, if consumers simply did some basic research on the Internet or by telephone, they could find lower loan rates, lower fees or higher savings rates. Rather than do this simple research, however, consumers will simply go to their nearest local bank for their financial needs. As a result, they'll pay higher loan rates or higher fees than they need to. They typically will receive lower rates on their savings. I urge you to visit financial web sites or make a few telephone calls before you make a major financial decision, you'll be glad you did.

7. Confusing Consumer Disclosures

It can be a challenge to wade through all of the terms and conditions that banks throw at the average consumer. In fact, a recent study found that, lacking a college degree, it can be nearly impossible to understand a bank's printed notices. Many, according to the study, are being written at a 3rd-4th year college reading level. In a recent speech, Julie L. Williams, Acting Comptroller of the Currency said "And it's reached that point not because consumers are getting too little information, but

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because they are getting too much information that's not what they're really after; and because the volume of information presented may not be informing consumers, but rather obscuring what's most helpful to understanding of financial choices,"

8. Savings Rates

The best advice when it comes to getting higher rates on your savings is simply to compare rates and watch the fine print. It is not uncommon to see a wide variety of rates for similar savings products within the same geographic area. Be sure to check the rates at local credit unions as well. Many have very attractive rates and are very easy to join. It also pays to shop online. Online banks like ING and Emigrant Direct offer high interest rate savings accounts via the Internet. If you're comfortable doing business online and don't need a branch office around the corner, this may be a good option for you. One other piece of advice would be to just pay attention to the products and services offered by your current financial institution. At one bank they introduced a new money market product at a rate higher than a similar product we had had for a number of years. Customers were able to shift money between the accounts at will. You would be surprised, however, at how many customers left the money in the original account earning lower interest when it would have taken only a few minutes to shift the money to a higher yielding account. A great place to compare savings rates, and loan rates as well is a web site called bank rate. Their web address is www.bankrate.com.

9. High Loan Rates

Shopping for a loan is just like shopping for anything else you buy. You'll want to compare the interest rates, other loan features and look for special loan promotions. Although the process can take time, the effort may save you a lot of money over the long run. Before you start looking for the best terms, you'll need to determine the kind of loan you need. The answer might not be obvious: If you're buying a home, for example, you'll be shopping for a mortgage. Sometimes, though, the choice isn't that clear-cut. If you're buying a car, for instance, you could take out a car loan, but you might use a home equity loan instead, which could provide you with a lower rate and some significant tax savings.

10. Long Term Mortgages

An important consideration is the length of your mortgage. It's true that with a longer-term loan you might have lower monthly payments, but you may very well end up paying more in finance charges over the life of that loan than you would on a shorter-term loan. In general, the longer the term, the more you will pay in interest. The best loan term is as short as possible, but long enough that the monthly

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payments are manageable. Ask each lender to provide you with the figures for loans of varying length so that you can compare total costs for longer-term and shorter-term loans. If there are no pre-payment penalties, it may be better to select a longer loan term and pay more than the minimum due each month. This, in effect, shortens the term of your loan but provides you the flexibility to pay less in months where money is tight. Another option to consider is bi-weekly mortgage payments. With this kind of mortgage, instead of paying monthly, you pay half of your payment every two weeks. By paying every two weeks, you essentially are making one extra monthly payment each year. This can serve to shorten your mortgage and significantly reduce the amount of interest you pay.

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