10 Things Your Bank Won't Tell You

by Jim Rendon Monday, August 18, 2008 provided by SmartMoney.com

1. "Our branches are there to sell you, not serve you."

In the late 1990s bank branches were considered outmoded relics soon to be replaced by ATMs and Internet banking. But just the opposite happened: In 1998 there were 89,000 bank branches in the U.S.; by 2007 there were 97,000. Why? The industry realized consumer banking was profitable and that despite the predictions of Silicon Valley wonks, the main criterion consumers use in choosing a bank is proximity, says SNL Financial analyst Jennifer Payne.

But branches aren't just about convenience; they're a bank's primary sales floor. Brochures for services as varied as retirement accounts and home loans are on display, and everyone from the teller on up is trained to make a sale. That's because in the current low-interest-rate climate, it's harder to generate revenue from interest alone.

Many players in the industry have been trying to boost fee- and service-based income, so if a teller sees you have a mortgage, he might suggest you meet with a loan officer to discuss a home-equity loan. Says Greg McBride, a senior financial analyst at Bankrate.com, "The more products a customer has with a bank, the more likely he is to stay with that bank."

2. "Our fees will only go up."

With the economy slowing and big losses looming in the mortgage market, banks are looking for reliable revenue streams. Hence 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 call-center 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 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 even 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 Web site.

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, anattorney 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 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 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 overseas-transaction 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. Last year the Government Accountability Office 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 info on their Web sites.

Nessa Feddis, senior counsel at the American Bankers Association, 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 info on their site if terms change, she says. But without details on fees, consumers can't make informed 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. The average savings account, for example, pays 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 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; now they have 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 outless 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."