Consumer Federation of America

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NEW REPORT SHOWS THAT BASIC SAVINGS ACCOUNTS REMAIN IMPORTANT SAVINGS VEHICLE FOR AMERICANS, ESPECIALLY FOR LOW- AND MODERATE-INCOME FAMILIES

Savings Account Disclosures, Balance Requirements, Fees, Interest Rates, and Restrictive Practices Vary Widely Among Banks With Some Engaging in Anti-Consumer Practices

Washington, DC – In a new report released today, the Consumer Federation of America (CFA) revealed that basic savings accounts remain an important savings vehicle for most Americans, especially for low- and moderate-income (LMI) families, but that these accounts vary widely in terms of pro- and anti-consumer characteristics.

"Bank savings accounts remain the most useful way for most lower-income families to save for a rainy day, but some of these accounts are far more pro-consumer than others," noted Stephen Brobeck, CFA Executive Director and author of the report, *Savings Accounts: Their Characteristics and Usefulness*. "Bank regulators could play a critical role in improving access to these accounts and eliminating unfair practices," he added.

The report was based on analysis of two new sources of data – unpublished data on traditional savings accounts from the Federal Reserve Board's 2010 Survey of Consumer Finances (SCF) and research of the websites of the 50 largest banks (by number of branches), 50 typical medium-size banks, 50 typical small banks, and 10 largest credit unions, supplemented by phone calls to many of the institutions.

Basic Savings Accounts Important for Lower-Income Families

Research by Professor Catherine Montalto of Ohio State University for CFA using the Fed's SCF distinguished, for the first time to our knowledge, between money market accounts and "traditional savings," mainly statement savings but also passbook savings. Money market accounts – with their higher balance requirements, higher fees, and higher interest rates – are basically statement savings accounts on steroids, so are not available to a large majority of LMI families.

Nearly half of all families (49%) had a "traditional" (or basic) savings accounts with a median balance of $2,400. More than one-third of all LMI families (37%) had one of these accounts with a median balance of $800. That represented 16 million LMI families with total balances exceeding $13 billion.

As the report notes, these basic savings accounts represent the best source of funds for LMI, and even many middle-income, families to pay for unexpected expenses such as car repairs and many medical and dental bills. Basic savings accounts are offered by nearly all of the more than 14,000 U.S. banks and credit unions; are guaranteed by the government; are easy to access because of low opening balances ($100 or less at 89% of the banks, and $50 or less at 39% of the banks) and the ubiquity of ATMs; and are free if minimum balances requirements are met or, at many bank branches, if automatic deposits of as little as $25 are made monthly. Other alternatives, including payday loans, are almost always more costly financially or socially.

Some Savings Accounts Are More Pro-Consumer Than Others

Because of differences in account characteristics, some savings accounts are much more pro-consumer than are others. These characteristics include disclosure of rates and fees, minimum balances to avoid fees, the level of monthly fees, interest rates and yields, limiting conditions, and incentives to save.

- Disclosure: More than half (51%) of banks did not disclose interest rates or yields on their websites. Twenty percent (20%) did not disclose monthly fees (when balance requirements are not met).
- Minimum Balances: There were great differences in minimum balance requirements to avoid monthly fees. Fourteen percent of the banks had monthly minimums of $25 or less, while 34 percent of the banks had minimums of at least $300. At half the banks, these minimums ranged from $200 to $300.
- Monthly Fees: There were great differences in monthly fee levels, with 30 percent of the banks charging $2 or less while 35 percent of the banks charged at least $5.
- Fee Avoidance: Sixteen of the large banks waived monthly fees for savers who authorized monthly transfers, typically $25 or more, from checking to saving. A few banks waived fees for savers who also maintained a checking account.
- Interest Rates: Almost all banks are using the low-interest rate environment as an excuse to pay very little interest. The 17 percent of banks paying 0.01 percent interest or less pay no more than ten cents in interest annually on a $1000 balance. And only four percent of our banks pay more than 0.25 percent on basic savings accounts.
- Incentives to Save: Nevertheless, some banks offer financial incentives to savers who meet special conditions, often authorization of monthly transfers from the bank's checking to savings. For example, for autosavers, High Plains Bank offers a 0.70 percent rate, and BankCorp South Bank and CapOne Bank offer a 0.50 percent rate. Incentives at other institutions take the form of bonuses – for example, one percent at SunTrust Bank and $50 at Commerce Bank. And some

banks pay higher interest rates to online savers – for example, 0.75 percent in CapOne Bank's online 360 Savings account.

"CFA commends all those banks that encourage customers to save automatically," said CFA's Brobeck. "Automatic saving through retirement programs, other savings accounts, and even monthly mortgage payments have represented the most effective way middle- and upper-middle income families have saved. Low- and moderate-income families should be afforded the same opportunity and encouraged to utilize it," he added.

Some Banks Engage in Anti-Consumer Practices

A federal rule allows up to six withdrawals a month from savings accounts. But a minority of banks permit fewer withdrawals before charging fees. For example, both Claxton Bank (GA) and Queensborough National Bank and Trust (GA) permit only three withdrawals per quarter—an average of one per month -- then charge $5 for each additional withdrawal. Urban Trust Bank in Florida permits three withdrawals per month, then charges $10 for each additional withdrawal. "Limiting withdrawals to only one or two a month greatly limits the effectiveness of a savings account as an emergency fund," noted CFA's Brobeck.

Many banks charge a fee (often called a "dormancy fee") on savings account with no deposits or withdrawals over a period of time. Among a couple dozen banks studied, that period of time may be as short as six months and as long as three years with monthly fees ranging from $1 to $12. One Internet bank, for example, charges a $10 monthly fee after six months of inactivity, regardless of the balance level. "One problem with inactivity restrictions is that some savers want to build up an emergency fund then let it sit for emergencies," noted CFA's Brobeck. "If there are no emergencies, then they may be whacked with inactivity fees," he added.

Big Bank Practices Differ from Those of Medium-Size and Small Banks

Big banks are more likely than smaller banks to require higher minimum balance requirements (to avoid fees) and to charge higher fees. Over half (52%) of the 50 largest banks, but only 16 percent of the medium-size banks and 12 percent of the small banks, require minimum balances of at least $300. Moreover, 70 percent of the large banks, but only 42 percent of the medium-size banks and 24 percent of the small banks, charge monthly fees of at least $4.

On the other hand, big banks are most likely to disclose these fees and interest rates on their websites. Ninety percent of large banks, but only three-quarters of small and medium-size banks, disclose monthly fees. And 72 percent of large banks, but only 40 percent of medium-size banks and 34 percent of small banks, disclose interest rates paid.

The big banks are also the most likely to offer innovative accounts and savings incentives. They offer nearly all of the innovative accounts and incentives noted in an earlier section.

Compared to banks, credit unions tend to require much lower minimums to avoid monthly fees, often only $25, and tend to pay higher interest rates, though the latter are usually below one percent. One exception is the six percent interest on deposits up to $500 that Boeing Federal Credit Union pays on both savings and checking accounts. Navy Federal Credit Union promoted saving more widely than any other bank or credit union surveyed.

CFA Urges Banks, Regulators, and Congress to Consider Improvements

CFA urges banks to eliminate any anti-consumer practices and make customer saving a higher priority. "We commend those banks that promote automatic saving with incentives," noted CFA's Brobeck.

CFA urges regulators to take steps to eliminate anti-consumer practices but learn more about bank savings account experiences to identify model practices, then promote them. "Dozens of banks are experimenting with autosaves and incentives," noted Brobeck. "Regulators should communicate with institutions offering the most innovative accounts to learn more about bank perception and experience with these accounts, then promote the best practices," he added.

CFA urges policymakers to consider a new limited subsidy to "small savers." Such a subsidy, if it took the form of a 3-4% interest rate reimbursement to banks and credit unions on the first $500 of statement savings accounts would cost only several hundred million dollars, a small fraction of upper-income tax breaks, even when paid on tens of millions of accounts. "Low- and moderate-income families need meaningful and widely accessible savings incentives," said CFA's Brobeck. "Bank experience has shown that an interest rate well above market rates can serve as an attractive incentive, especially if coupled with automatic saving," he added.

For the report click here: www.consumerfed.org/pdfs/Traditional-Saving-Report.pdf