MARKETS

Banks' Fee Bonanza Dries Up

Changes in Rules and Customer Behaviors Squeeze What Was a Key Source of Revenue

By JAMES STERNGOLD

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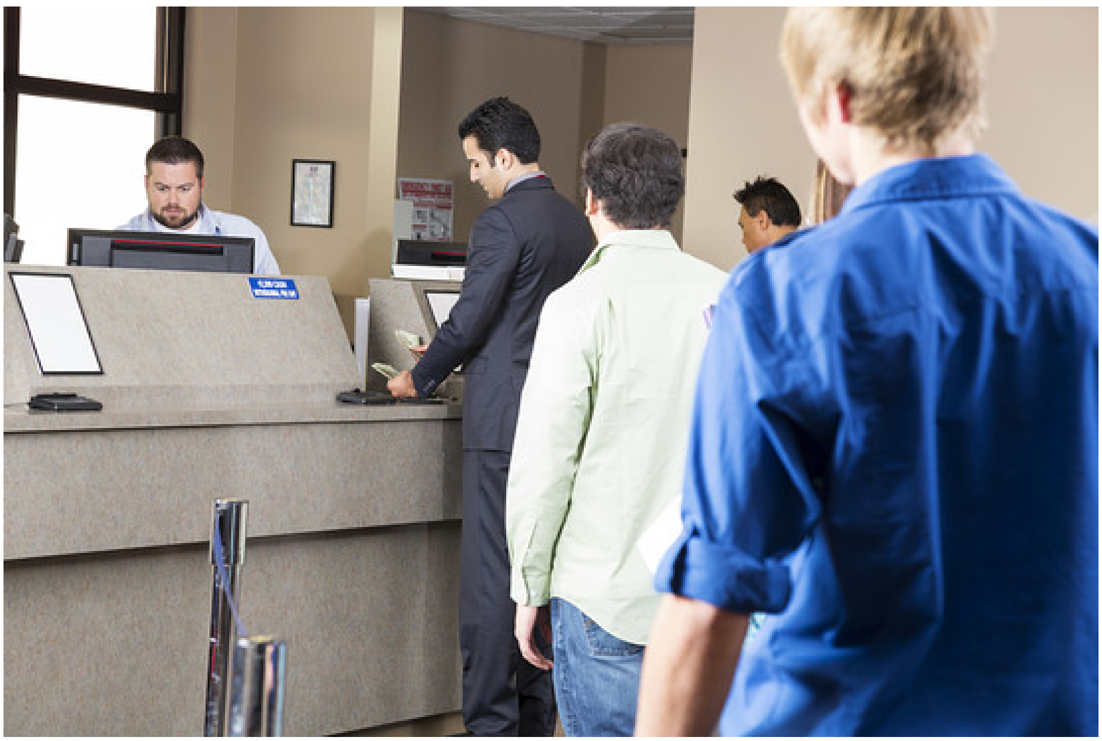

Banks no longer see customer-account fees as an easy way to boost their bottom lines. *Getty Images*

Banks are making less of their money from customer-account fees than at any time in the past seven decades as strict government rules and changing consumer behavior squeeze a major source of revenue.

After peaking in 2009, the annual account fees collected at U.S. commercial banks have declined markedly, even as the volume of bank deposits has swelled, according to the Federal Deposit Insurance Corp. The fees have dropped nearly 21% to $32.5 billion last year from $41.1 billion in 2009. The total fees had climbed every year since 1942, when the FDIC started collecting the data.

As a result, such fees are making up a smaller share of profits. As a percentage of total noninterest income, deposit-account fees dropped to 14.1% in 2013, the lowest level since 1942, according to the FDIC data. From 2000 through 2009, those fees accounted for an average of 17% of such income.

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The turnaround is an example of the ways the regulatory clampdown that began after the financial crisis, as well as the fast-growing popularity of online and mobile banking, are changing behavior at U.S. banks, bankers and analysts say.

The upshot is that banks no longer see these account charges as an easy way to boost their bottom lines. "I don't see anybody looking at fees as a way of growing their business," said Jefferson Harralson, a banking analyst at Keefe, Bruyette & Woods.

Bouncing a check used to get customers kicked out of their bank. But in the 1980s, banks' view of those people began to change, Mr. Harralson said. "They started to realize that these were the most profitable customers of the bank and they actually went after them," he said. "Bankers saw these fees as important ways to make their profit numbers."

Explore Bank Fee Data

BANK OF AMERICA CORPORATION	CHARLOTTE, NC	$79.75	$518,152,000,000
WELLS FARGO & COMPANY	SAN FRANCISCO, CA	$50.85	$872,584,600,000
JPMORGAN CHASE & CO.	NEW YORK, NY	$91.58	$337,095,107,000
CAPITAL ONE FINANCIAL CORPORATION	MCLEAN, VA	$21.69	$141,260,277,000
CITIGROUP INC.	NEW YORK, NY	$8.42	$110,418,205,000
PNC BANK, NATIONAL ASSOCIATION	WILMINGTON, DE	$62.20	$109,690,786,000
U.S. BANK NATIONAL ASSOCIATION	CINCINNATI, OH	$76.04	$100,904,510,000
TORONTO-DOMINION BANK, THE	TORONTO	$138.28	$97,458,024,000
SUNTRUST BANK	ATLANTA, GA	$104.10	$69,369,588,000
BRANCH BANKING AND TRUST COMPANY	WINSTON SALEM, NC	$75.62	$62,102,172,000

Checking-account customers can be subject to a number of fees, including minimum monthly charges if balances fall below a certain level and fees for some ATM transactions or closing accounts. Banks have also charged overdraft fees of $35 or more each time customers write checks or use debit cards on purchases that exceed their available balances.

More than half of the account fees on average come from overdraft and bounced-check charges, according to a report from the Consumer Financial Protection Bureau in July.

The rise of such fees ended in 2010 when the Federal Reserve, concerned about abusive practices that burdened some consumers with hundreds of dollars in charges, put in place a new regulation requiring that customers had to explicitly opt-in for overdraft coverage on certain transactions, or the bank couldn't charge those fees.

In addition, the instant access consumers now have to bank balances online and with smartphones have made them less likely to spend more than they have in their accounts, bankers say. The Fed released a survey in March showing that the most common use of smartphone banking apps is checking balances and tracking transactions.

Despite the recent decline in these account charges, bank earnings have risen significantly since the recession as lenders have boosted new-loan volume. Meanwhile, they have benefited from lower expenses for loan losses. U.S. banks reported net income of $40.2 billion in the second quarter, according to data released by the FDIC Thursday. That was just below the record of $40.3 billion in the first quarter of last year.

Banks are having to adjust to declines in the account fees with new strategies.

First Tennessee Bank, based in Memphis, Tenn., has turned to a model where it pushes for customers to maintain higher balances in their accounts rather than trying to ramp up fee income. Its service-fee income has tumbled 36% from 2008, the high, to $114.4 million last year.

Before 2010 the bank offered free checking, said David Miller, executive vice president for consumer banking, and now it charges for most checking accounts and seeks to help customers avoid

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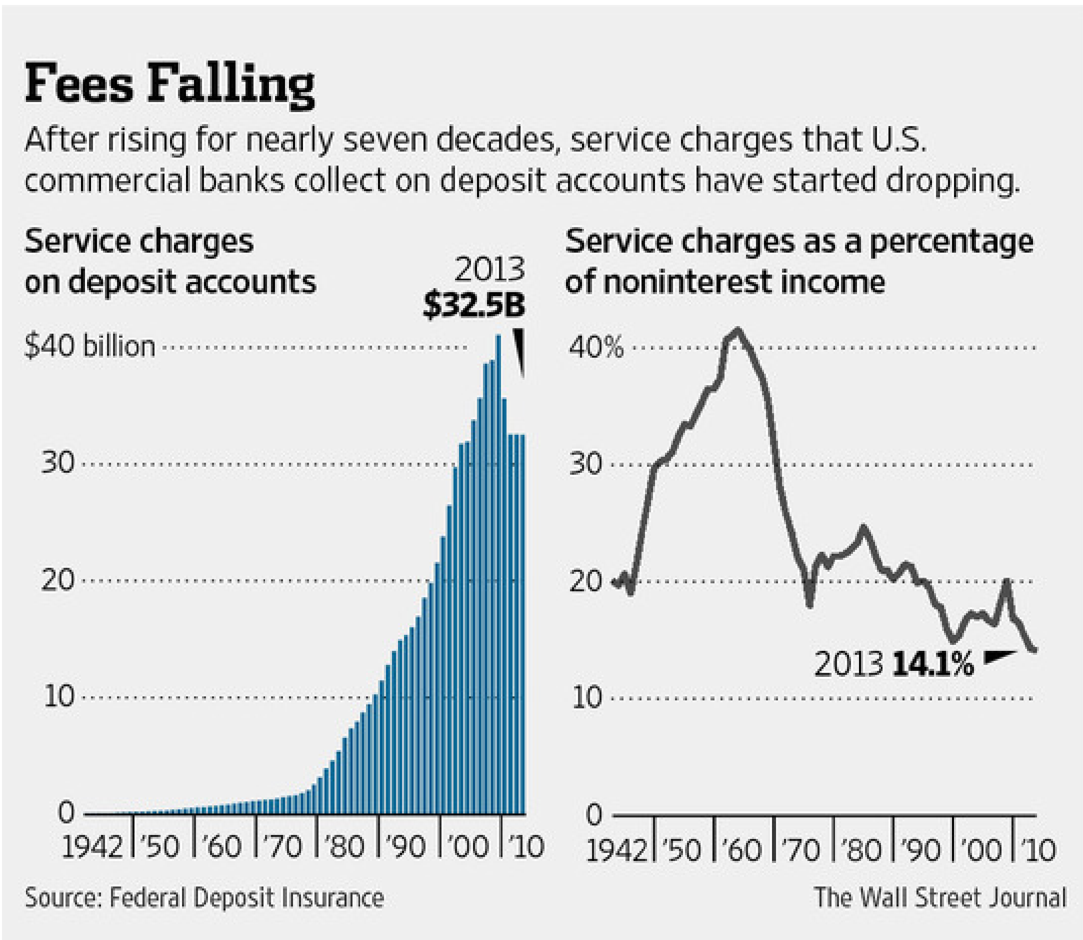
transactions that exceed their balances. "Now we offer four different checking products depending on the customer's needs," said Mr. Miller. "We call it making lemonade out of lemons."

Rather than relying on the account fees, First Tennessee is trying to persuade customers to buy stocks, mutual funds or other investment products that can be more lucrative than a simple checking account. Revenue from the bank's wealth-management business is up about 25% over the past two years, Mr. Miller said, and it is bringing in about $80 million a year in revenues. Also, he said, customers prefer the new approach.

"Even though we didn't replace overdraft fees with monthly charges, the customers are bringing more dollars to us," Mr. Miller said. "Customers have to do a little more work to learn about the accounts but the outcome is customer satisfaction is going up."



Bank of America also has shifted its approach. It agreed to pay $410 million in 2011, without admitting wrongdoing, to settle its part in a suit against a group of banks that allegedly had overcharged customers for overdrafts. Later that same year, a consumer outcry prompted the Charlotte, N.C., bank to reverse a planned $5 charge on debit-card transactions. Its fee income has plummeted from a peak of $10.9 billion in 2008, its top year, to $5.25 billion last year, according to FDIC data.

The bank now says it is better off forgoing some of that income. For one, it no longer allows customers to opt-in to the overdraft program on debit-card and certain ATM transactions, even though the regulations permit it. The bank still permits overdrafts on paper checks, but says it seeks to counsel customers to avoid spending more than bank balances.

Bank of America has said it can earn more by persuading customers to maintain more of their finances at the bank and its units, and that it is cheaper to have fewer overdrafters because about two-thirds of its call-center contacts are from customers with questions about fees and balances. Fewer calls means the bank can reduce call-center costs, said Thong M. Nguyen, a retail-banking executive at Bank of America.

"With those old rules you got the proverbial $35 cup of coffee," said Mr. Nguyen. "That model is not sustainable."

Some other banks also have embraced a strategy of minimizing fees and focusing on handling a broader range of customers' financial transactions, from bill payment to IRA investments such as mutual funds and bonds.

Still, the account fees and overdraft services have their defenders, who say the overdraft service helps customers as long as they don't overdraft excessively. They argue that the regulations have been misguided and may end up denying consumers short-term credit that many find useful.

"These rules hurt the consumer more than the banks," said Richard Hunt, president and CEO of the Consumer Bankers Association in Washington, an industry lobbying group. "We're always upfront with the consumer and we're completely transparent. Because of this jobless recovery people live paycheck to paycheck and this can be a real service."

Umpqua Bank in Roseburg, Ore., charges $35 for each overdraft, according to its website. But its fee income has declined 12% from a peak in 2008 to $21.3 million last year, according to the FDIC data.

"I think [overdrafts are] a great service if used properly, but I think the environment has changed considerably," said Raymond Davis, president and CEO of Umpqua. "The regulatory restrictions made a huge dent in our noninterest income and customer behavior has changed, too. Before, some banks could get away with less transparency on these fees. Those days are gone."

Some experts say community banks tend to be too generous and don't charge account fees because they prefer to maintain close customer relationships. The fee income is essential to the small banks' bottom line and should be maximized, said Scott Polakoff, executive managing director at FinPro Inc., a Liberty Corner, N.J., firm that advises community banks and whose partners invest in some banks.

"Community banks tend to waive the fees when they shouldn't, and that contributes to part of this problem for them," said Mr. Polakoff, a former regulator at the FDIC.

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