Retail Fees of Depository Institutions, 1994–99

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The fees that depository institutions charge customers for the use of checking and savings accounts, automated teller machines, and other retail services have received substantial attention over the past decade. When the Congress in 1989 established assessment rules that were likely to raise the premiums that depository institutions paid for deposit insurance, a particular concern was that institutions might markedly increase retail fees or eliminate some services to offset their higher premiums. As a result of this concern, the Congress directed the Board of Governors of the Federal Reserve System to report annually on changes in the availability of retail banking services and in the level of the associated fees. The first survey on retail fees and services commissioned by the Board under the new law was conducted in 1989, and the results were reported in 1990; the most recent report, covering 1999, was released in July 2000.

The reports presented estimates each year of the proportion of all depository institutions that were offering various services, the proportion that were charging a fee for these services, the average level of the fees, and the changes in these estimates from the previous year. This article reports a selection of the estimates for each of the years from 1994 through 1999.[1]

Several findings for the 1994–99 period are noteworthy:

- Only a few of the fees and minimum balances associated with various types of checking and savings accounts changed over the period by statistically significant amounts
- Fees associated with several special actions—stop-payment orders, customer-written checks returned for insufficient funds, and overdrafts—increased by statistically significant amounts that exceeded the rate of inflation during the period
- The level of the most common types of transaction fees imposed for the use of automated teller machines (ATMs) increased by statistically significant amounts that substantially exceeded the inflation rate between 1994 and 1999, and the proportion of depository institutions assessing a fee (“surcharge”) for use of their ATMs by nondepositors increased dramatically over the period for which the surcharge was tracked (1996–99).

The results of two other analyses, for banks alone, are also reported: (1) a comparison of fees charged by multistate banks (banks that are part of organizations with banking operations in two or more states) with those charged by single-state banks and (2) a comparison of fees charged by banks of different sizes. Such comparisons for each year of data give results that are broadly similar across the years. For ease of presentation, these comparisons are reported here for a single year (1999, the year of the latest survey):

- In a selection of the most common services and actions, multistate banks charged, on average, higher fees than single-state banks for almost all items. In most cases, the differences were statistically significant after controlling for the size and general location of the sampled banks
- Large banks charged higher fees, on average, than small banks did. The differences were statistically significant after controlling for the location of the sampled banks and for their status as either multistate or single-state banks.

Background

In section 1002 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the Congress directed the Board to report annually on changes in the availability of retail banking services and in the level of the associated fees. Section 1002 further specified that the reports be based on annual surveys of samples of insured depository institutions that are representative of all such institutions in terms of size and location.

1. For an examination of the results from the 1989–93 surveys, see Timothy H. Hannan, “Recent Trends in Retail Fees and Services of Depository Institutions,” *Federal Reserve Bulletin*, vol. 80 (September 1994), pp. 771–81. The reports covering the years 1996–99 are available at www.federalreserve.gov/boarddocs/RptCongress/

The sampled institutions were members either of the Bank Insurance Fund, a group consisting mostly of commercial banks (hereafter referred to as banks), or of the Savings Association Insurance Fund, a group consisting mostly of savings and loan associations (hereafter referred to as savings associations). For all the surveys, the institutions were picked randomly from different regions of the country encompassing all fifty states and the District of Columbia and from a comprehensive range of asset-size groupings (see the appendix for more detail on the design of the sample). All of the surveys were conducted by telephone with the same procedures and by the same private survey organization operating under contract with the Federal Reserve Board. To improve the accuracy of the results, each telephone interview typically covered only one product category.

Statistical analysis of the survey results produced estimates for the entire population of banks and savings associations in the United States. Each report after the first gave the change in fee amount and in service availability between the time of the preceding survey and the most recent one, along with an indication of the statistical significance of any changes.[2]

Legislation in 1994 and 1996 required that trends be reported in more detail. Section 108 of the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994 required that data be reported not only nationally but also by geographic region and size class of institution and according to whether institutions engaged in multistate activities. To meet these additional requirements, the Board in 1994 substantially expanded the number of institutions surveyed, from approximately 330 (about 150 banks and about 180 savings associations) to approximately 1,050 (650–700 banks and 350–400 savings associations).

Under section 2608 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, the geographic detail in the annual reports was increased from regional coverage to coverage for each state and each consolidated metropolitan statistical area. The first survey under these expanded terms was conducted in 1996.

Because of numerous differences that can exist between members of the Bank Insurance Fund and members of the Savings Association Insurance Fund, including differences in deposit insurance premiums, results were reported separately for banks and savings associations. Using data obtained from the 1999 survey, this article also examines the differences in the estimates between large and small banks and between multistate and single-state banks.

The Incidence and Level of Fees over Time

Depository institutions provide a large number of services with widely differing fees. Dividing service fees into three different types provides a manageable way to deal with the variations; these types are fees associated with (1) the maintenance and use of various kinds of deposit accounts, (2) special actions such as stop-payment orders and the handling of checks written with insufficient funds, and (3) the use of ATM services.

Deposit Accounts

Analysis of the fees charged in connection with deposit accounts must, at the very least, account for the distinctions among noninterest checking accounts, NOW (negotiable order of withdrawal) accounts, and savings accounts. Even within these categories, however, accounts can differ considerably. In the case of noninterest checking, for example, accounts can differ in terms of the nonchecking services provided, the minimum balances that depositors must maintain to qualify for various fee levels, and the mix of fees charged. In the case of savings accounts, fees can depend on whether the account is a passbook or statement account and on minimum balance requirements. Therefore, the characteristics of accounts must be specified when comparing the levels of fees over time. The following discussion presents information on two types of noninterest checking account, one type of NOW account, and two types of savings account. Data on the proportion of institutions offering each of these account types is included to indicate prevalence.

Financial institutions offer many other types of noninterest checking account not analyzed in this article, including the so-called basic banking account. Basic banking accounts impose low fees and minimum balances (or none at all), often in exchange for

2. Here and in the annual reports, statistical significance is represented with 90 percent and 95 percent confidence levels. With a 95 percent confidence level, for instance, the probability is less than 5 percent that a change was observed between two samples but did not occur in the population as a whole. The finding of a statistically significant change carries no implication about the size of the change in the population. The discussion in this article covers the statistically significant results, referring to them as such or simply as ''significant.'' Most of the nonsignificant changes shown in the tables are not discussed.

limitations in service, such as a cap on the number of checks that may be written per month.[3]

Noninterest Checking

The following two fee structures are reported for noninterest checking accounts: (1) ‘‘single balance and fee’’ and (2) ‘‘fee only’’ (table 1).

3. Although the surveys do not provide direct evidence on the extent to which such accounts are offered, they do cover certain no-fee accounts. In 1999, approximately 11 percent of banks and 30 percent of savings associations offered no-fee noninterest checking accounts, which entail no monthly or per-check fees (Board of Governors of the Federal Reserve System, *Annual Report to the Congress on Retail Fees and Services of Depository Institutions,* Board of Governors, 2000, p. 3, table 1).

Single balance and fee. Single balance and fee accounts involve no fee if a specified minimum balance is maintained; otherwise the account incurs a single monthly fee with no other charges. The estimated proportion of banks offering this account fluctuated between 29 percent and 41 percent over the 1994–99 period, while the proportion for savings associations varied between 14 percent and 24 percent. Neither the low-balance fee nor the minimum balances required to avoid the fee or to open the account changed significantly during this period for either type of institution.

Fee only. Fee-only noninterest checking accounts levy a monthly fee regardless of the account balance and may also impose a per-check charge. Because of the small number of sampled institutions that levied a per-check charge for this type of account, informa-

1. Selected checkable accounts at banks and savings associations, average low-balance fees and balance requirements, 1994–99
Dollars except as noted

Account	1994	1995	1996	1997	1998	1999	Percent change, 1994–99
BANKS							
Noninterest checking							
Single balance and fee[1]							
Percent offering	36.4	29.4	32.9	39.3	35.6	40.6	†
Monthly low-balance fee	6.14	6.61	6.34	6.09	6.43	6.15	.2
Minimum balance							
To avoid fee	503.62	479.22	480.26	479.41	498.61	515.62	2.4
To open	109.45	. . .	123.33	123.96	115.01	103.65	–5.3
Fee only[2]							
Percent offering	35.4	45.7	34.2	33.3	36.3	38.9	†
Monthly low-balance fee	4.39	4.61	5.02	4.49	4.73	5.17	17.8**
Minimum balance to open	79.88	81.62	82.15	61.43	76.34	65.20	–18.4**
NOW account							
Single balance and fee[1]							
Percent offering	40.2	43.9	44.0	56.7	50.8	54.2	†**
Monthly low-balance fee	8.02	8.49	8.11	7.81	8.07	8.39	4.6
Minimum balance							
To avoid fee	1,055.43	1,069.54	1,078.78	1,051.51	1,109.02	1,060.37	.5
To open	701.45	. . .	653.72	662.67	616.12	641.34	–8.6
SAVINGS ASSOCIATIONS							
Noninterest checking							
Single balance and fee[1]							
Percent offering	20.1	14.4	21.1	18.9	24.3	21.4	†
Monthly low-balance fee	5.58	5.95	5.76	5.78	5.94	6.00	7.5
Minimum balance							
To avoid fee	390.89	383.61	424.54	380.45	410.97	419.68	7.4
To open	131.74	. . .	152.71	122.16	101.42	129.87	–1.4
Fee only[2]							
Percent offering	19.0	22.1	26.9	21.0	24.0	24.6	†*
Monthly low-balance fee	4.28	4.04	4.13	4.48	4.97	4.30	.5
Minimum balance to open	92.33	72.38	68.80	70.44	119.97	53.98	–41.5**
NOW account							
Single balance and fee[1]							
Percent offering	31.8	38.5	42.5	46.3	50.2	49.3	†**
Monthly low-balance fee	6.54	6.84	6.54	6.65	6.64	6.94	6.1
Minimum balance							
To avoid fee	550.95	597.83	783.33	645.68	644.91	744.28	35.1**
To open	291.60	. . .	365.15	274.65	286.56	349.50	19.9

NOTE. The change in the consumer price index between the dates of the 1994 and 1999 surveys was about 11 percent. Average fees and balance requirements are calculated only for those institutions that offer the account.

† Percent change for ‘‘percent offering’’ not reported, but instances of statistically significant change are noted.

. . . Data are insufficient to report or are not applicable across surveys.

* Significant at the 90 percent confidence level. For explanation of confidence levels, see text note 2.

** Significant at the 95 percent confidence level.

1. A monthly fee for balances below the minimum, no monthly fee for balances above the minimum, and no other charges.

2. A monthly fee, no minimum balance to eliminate the fee, and a charge per check in some cases.

tion on the incidence and level of the check charge is not presented.

The proportion of banks offering this type of account was typically between 33 percent and 40 percent during the 1994–99 period, and the proportion of savings associations offering it was between 19 percent and 27 percent. At both types of institution, the minimum balance required to open the account fell by statistically significant amounts, to about $65 at banks and about $54 at savings associations.

The trends in the monthly fees charged for this account differ considerably between banks and savings associations. At banks, the monthly fee rose a statistically significant 18 percent, from $4.39 in 1994 to $5.17 in 1999, compared with the roughly 11 percent rise in the consumer price index (CPI) in the same period.[4] At savings associations, however, the monthly fee, while fluctuating some in the intervening years, did not change significantly between 1994 and 1999.

4. The CPI used throughout is the urban index, all items. Comparisons with the CPI are intended to place changes in fees and minimum balances in the context of changes in the prices of other common consumer items.

NOW Accounts

Negotiable order of withdrawal accounts are checking accounts that pay interest to the account holder; presumably because they pay interest, NOW accounts have tended to have fees that are higher than those observed for noninterest checking accounts. Like noninterest accounts, they can differ considerably in terms of the balances that depositors must maintain to qualify for various fee levels and in terms of the mix of fees charged the account holder.

A common type of NOW account, both at banks and at savings associations, carries the ‘‘single balance and fee’’ structure defined above for noninterest checking accounts. The estimated proportion of banks and savings associations offering this type of account increased significantly at both banks and savings associations during the period. By 1999, 54 percent of banks and 49 percent of savings associations offered the account (table 1).

The monthly fee, the minimum balance to avoid the fee, and the minimum balance to open for the ‘‘single balance and fee’’ type of NOW account have long been higher at banks than at savings associations. The gap narrowed, however, during the

2. Selected ‘‘single balance and fee’’ savings accounts at banks and savings associations, average low-balance fees and balance requirements, 1994–99

Dollars except as noted

Account	1994	1995	1996	1997	1998	1999	Percent change, 1994–99
BANKS							
Passbook[1]							
Percent offering	29.6	36.6	36.1	32.0	32.6	26.5	†
Monthly low-balance fee	1.47	1.61	1.46	1.80	1.72	1.93	31.3**
Minimum balance							
To avoid fee	130.21	157.44	135.73	133.75	143.75	139.04	6.8
To open	86.27	81.86	88.36	87.61	87.54	80.65	–6.5
Statement[2]							
Percent offering	43.7	48.3	43.9	39.1	43.2	43.0	†
Monthly low-balance fee	2.11	2.39	1.97	2.18	2.25	2.31	9.5
Minimum balance							
To avoid fee	188.98	253.27	189.62	174.29	197.27	199.95	5.8
To open	118.21	183.60	137.96	106.10	107.66	98.87	–16.4
SAVINGS ASSOCIATIONS							
Passbook[1]							
Percent offering	39.8	39.6	39.7	39.5	38.4	37.1	†
Monthly low-balance fee	2.10	1.77	1.93	2.08	2.39	2.23	6.2
Minimum balance							
To avoid fee	146.62	176.89	199.94	146.47	169.03	184.50	25.8*
To open	102.27	81.22	104.78	80.45	113.71	92.00	–10.0
Statement[2]							
Percent offering	41.6	56.8	44.4	43.1	41.6	48.3	†*
Monthly low-balance fee	2.24	2.33	2.10	2.28	2.54	2.42	8.0
Minimum balance							
To avoid fee	186.06	227.02	219.34	218.00	233.95	192.96	3.7
To open	126.81	135.63	114.59	134.81	187.46	109.29	–13.8

NOTE. See notes to table 1.

1. Institution records transactions and balances in document kept by the account holder.

2. Institution mails to the account holder a periodic statement showing transactions and balances.

* Significant at the 90 percent confidence level.

** Significant at the 95 percent confidence level.

1994–99 period for the minimum balance to avoid the fee, which increased a statistically significant 35 percent at savings associations.

Savings Accounts

The two major types of savings account are the passbook account and the statement account. In passbook accounts, transactions and balances are recorded in a passbook kept by the account holder; in statement accounts, periodic statements of balances and recent activity are mailed to account holders. The most common fee structure is of the "single balance and fee" type.

Throughout the period, savings accounts with this fee structure were more commonly offered by banks and savings associations as statement accounts than as passbook accounts, and the proportion of savings associations offering the statement account increased significantly during the period (table 2). The other statistically significant changes were for passbook accounts: The low-balance fee increased 31 percent at banks, and the estimated minimum balance required to avoid the fee increased 26 percent at savings associations. Both of these increases were well in excess of the change in the CPI during the period.

Summary of Deposit Account Results

Only a limited number of balance requirements and fees changed significantly for the five types of deposit account surveyed over the 1994–99 period. Among the three checkable types of deposit account, statistically significant change was concentrated in fee-only noninterest accounts: The monthly fee increased at banks, and the minimum balance to open decreased at both institution types. The only other significant change was in NOW accounts at savings associations—an increase in the minimum balance to avoid a fee.

Among the two savings account types, passbook accounts had two significant changes: an increase in the low-balance fee at banks and an increase in the minimum balance to avoid a fee at savings associations. Although a significant increase in the proportion of savings associations offering the statement

3. Fees for selected special actions—incidence and average level at banks and savings associations, 1994–99

Dollars except as noted

Item	1994	1995	1996	1997	1998	1999	Percent change, 1994–99
BANKS							
Stop-payment orders							
Percent charging	99.8	99.0	99.4	99.2	99.7	99.9	†
Fee	13.29	13.68	13.68	13.97	14.35	15.29	15.0**
NSF checks							
Percent charging	100.0	100.0	100.0	100.0	100.0	99.9	†
Fee	15.33	15.71	16.36	16.55	16.96	17.71	15.5**
Overdrafts							
Percent charging	99.4	98.4	100.0	97.6	98.0	99.9	†
Fee	14.92	15.67	16.28	15.73	16.65	17.45	17.0**
Deposit items returned							
Percent charging	81.7	59.0	59.3	55.7	61.7	57.1	†**
Fee	6.89	4.95	5.50	5.15	5.49	6.28	–8.9
SAVINGS ASSOCIATIONS							
Stop-payment orders							
Percent charging	99.6	100.0	100.0	100.0	99.8	99.6	†
Fee	13.33	14.09	14.08	14.68	14.74	15.28	14.6**
NSF checks							
Percent charging	99.7	99.8	99.9	100.0	100.0	99.7	†
Fee	16.30	17.06	17.62	18.01	17.98	18.80	15.3**
Overdrafts							
Percent charging	97.4	99.3	99.4	97.5	96.6	97.6	†
Fee	15.43	16.75	17.53	17.67	17.82	18.97	22.9**
Deposit items returned							
Percent charging	93.5	78.2	80.5	74.4	78.3	78.6	†**
Fee	8.36	6.85	7.62	7.38	7.84	7.65	–8.5

NOTE. NSF (not sufficient funds) checks are those written without sufficient funds in the account to cover them; they are not honored by the paying bank or savings association. Overdrafts are checks written without sufficient funds but are honored by the paying institution. See also notes to table 1.

* Significant at the 90 percent confidence level.
** Significant at the 95 percent confidence level.

account was observed, no significant change in statement account fees was found at either banks or savings associations.

Special Actions

The evidence on fees associated with special actions is more uniform than that on deposit accounts. With one exception, average fees for the four types of special action covered by the surveys rose by statistically significant amounts between 1994 and 1999 and faster than the change in the CPI (table 3).

Stop-Payment Orders

Throughout the period, virtually all banks and savings associations charged for a stop-payment order, which is a request by a customer that the institution not pay a particular check previously written by the customer. The average charge rose from about $13.30 to about $15.30 at both banks and savings associations, a statistically significant increase of about 15 percent.

NSF Checks and Overdrafts

A check drawn on an account with insufficient funds may or may not be honored by the paying bank. When not honored, it is called an NSF (not sufficient funds) check; when honored, it is called an overdraft and represents an extension of credit. Throughout the period, nearly all depository institutions charged for NSF checks and overdrafts, and the fees were generally $2 to $3 higher than for stop-payment orders. The increases in the fees charged for these actions at both banks and savings associations over the period were statistically significant and ranged from 15 percent to 23 percent.

Deposit Items Returned

When a customer deposits a check that is returned by the paying bank (because of insufficient funds, for example), the bank in which it was deposited may charge the customer a fee. The levying of such charges is controversial. Many have argued that it is not the depositor's fault that the check is drawn on insufficient funds, and charging the depositor in such cases is therefore unreasonable. Others argue that such fees may provide a useful incentive for depositors to refuse checks thought likely to be returned for insufficient funds and that depository institutions have a right to recover their costs in ways available to them.

Perhaps because of the controversy surrounding this fee, the proportion of institutions charging it (generally about 60 percent of banks and about 80 percent of savings associations) has been smaller than the proportion charging for stop-payment orders, NSF checks, and overdrafts.[5] Of those institutions that levied a fee, the average charge at banks and at savings associations was typically less than half of the charge for NSF checks.

ATM Services

Many fees may be assessed for services rendered by automated teller machines (ATMs). A depository institution may levy an annual fee on depositors who use its ATMs as well as impose separate fees on both customers and noncustomers for various types of ATM transactions. Fees that the institution levies on its own customers for use of ATMs may differ depending on whether the transaction is a withdrawal, a deposit, or a balance inquiry; further, the fee may vary depending on whether the institution's customer uses the institution's own ATM (an ''on us'' transaction) or another institution's ATM (an ''on others'' transaction). From the outset, the surveys elicited information on all of these aspects of ATM fees. Beginning with the 1996 survey, information was also obtained on the incidence and level of the ''surcharge,'' which is the fee that ATM owners levy on users who do not maintain an account with the depository institution operating the machine.

Annual Fee

Survey results indicate that a small minority of institutions charged their customers an annual fee for the use of ATM services during the 1994–99 period (table 4). The incidence of the fee varied between 13 percent and 19 percent at banks; at savings associations, it declined significantly, from 18 percent to 8 percent. In addition, the average fee declined a significant amount at banks and in 1999 was about $8 at both types of institution. Clearly, the annual fee,

5. Indeed the incidence of this fee actually decreased during the period by statistically significant amounts, from 82 percent to 57 percent at banks and from 94 percent to 79 percent at savings associations. Some caution is in order in assessing this trend, however, because it reflects unusually high estimates obtained from the 1994 survey. Overall, the readings on the incidence of the fee for deposit items returned were quite stable for the last four years of the period.

while still charged by a minority of institutions, became less of a factor for ATM customers during the period.

“On Us” Fees

Another type of ATM fee that appears to have become, if anything, less important over the years has been the “on us” transaction fee, or the fee that the institution charges its own customers for use of its own ATMs. Never exceeding a small proportion of institutions, the incidence of this type of fee declined by statistically significant amounts at both banks and savings associations between 1994 and 1999. By 1999, only 6 percent of banks charged for withdrawals “on us” and 2 percent charged for deposits “on us.” In 1999, only 2 percent of savings associations charged for “on us” withdrawals and less than 1 percent charged for “on us” deposits. Because so few institutions charge for “on us” ATM transactions, sufficiently reliable information on the level of fees charged by those institutions that do levy the fee is not available for many of the years covered.

4. Fees for automated teller machine services—incidence and average level at banks and savings associations, 1994–99

Dollars except as noted

Fee	1994	1995	1996	1997	1998	1999	Percent change, 1994–99
BANKS							
Yearly fee							
Percent charging	18.1	18.9	13.4	16.7	15.1	17.4	†
Fee	9.92	13.07	7.94	11.51	13.12	7.90	–20.4**
Fee for transactions “on us”							
Withdrawals							
Percent charging	11.5	9.6	6.8	7.4	6.4	6.4	†**
Fee	.55	.61	.59	.65	.68	.54	–1.8
Deposits							
Percent charging	4.6	4.2	2.1	3.3	5.2	2.3	†**
Fee	.43	. . .	. . .	. . .	.71	. . .	. . .
Fee for transactions “on others”							
Withdrawals							
Percent charging	78.4	85.3	79.8	67.0	74.5	72.3	†**
Fee	.95	1.03	1.10	1.06	1.10	1.17	23.2**
Deposits							
Percent charging	52.7	70.0	64.7	56.8	70.7	49.1	†
Fee	.91	1.03	1.08	1.03	1.10	1.26	38.5**
Surcharge [1]							
Percent charging	n.a.	n.a.	44.8	60.1	77.9	82.9	†**
Fee	n.a.	n.a.	1.19	1.14	1.20	1.26	5.9**
SAVINGS ASSOCIATIONS							
Yearly fee							
Percent charging	17.7	11.7	10.1	13.7	16.6	7.9	†**
Fee	11.85	11.71	12.86	11.37	14.56	8.10	–31.6
Fee for transactions “on us”							
Withdrawals							
Percent charging	9.1	8.8	11.3	6.2	3.9	2.1	†**
Fee	.79	.65	.86	. . .	.85	. . .	. . .
Deposits							
Percent charging	7.8	3.0	7.2	4.6	1.4	.3	†**
Fee	.79	. . .	.85	. . .	. . .	. . .	. . .
Fee for transactions “on others”							
Withdrawals							
Percent charging	73.8	83.1	79.2	67.6	77.6	70.3	†
Fee	.91	.97	.98	.98	1.05	1.11	22.0**
Deposits							
Percent charging	54.8	62.7	66.5	63.7	66.7	50.8	†
Fee	.84	.92	1.00	.99	1.07	1.05	25.0**
Surcharge [1]							
Percent charging	n.a.	n.a.	31.7	39.7	56.8	70.2	†**
Fee	n.a.	n.a.	1.00	1.04	1.15	1.18	18.0**

NOTE. For transactions “on us,” the machine used is that of the customer’s institution. See also notes to table 1.

1. Fee levied by ATM owners on users who do not maintain an account with the depository institution operating the ATM. Surveys of this charge began in 1996.

* Significant at the 90 percent confidence level.

** Significant at the 95 percent confidence level.

. . . Data are insufficient to report or are not applicable across surveys.

n.a. Not available.

‘‘On Others’’ Fees

Fees for transactions ‘‘on others’’ are quite common. By 1999, about 70 percent of banks and savings associations charged for withdrawals in which the institution’s customer used another institution’s ATM, while about 50 percent of banks and savings associations charged for deposits made through another institution’s ATM. Nonetheless, the proportion of banks charging their customers for withdrawals ‘‘on others’’ declined a statistically significant amount between 1994 and 1999.

The most dramatic change observed between 1994 and 1999 for ‘‘on others’’ transactions, however, was in the average fee charged for such transactions. At banks, the ‘‘on others’’ fee rose 23 percent for withdrawals and almost 40 percent for deposits. At savings associations, the average ‘‘on others’’ fee increased 22 percent for withdrawals and 25 percent for deposits. All of these increases are statistically significant and substantially exceeded the increase in the CPI during the period.

Surcharges

Even more dramatic has been the increase in the incidence of surcharging since 1996, the first year that data were collected on this fee. The proportion of banks charging noncustomers a surcharge for use of their ATMs increased from 45 percent in 1996 to 83 percent in 1999, while the proportion of savings associations charging the fee increased from 32 percent to 70 percent. Each of these increases is statistically significant.

Estimates of the average surcharge levied by those institutions that imposed the fee also increased significantly at both banks and savings associations. The estimated average charge at banks increased 6 percent over the 1996–99 period, to $1.26 per transaction, while the charge at savings associations increased 18 percent, to $1.18. The increase at savings associations substantially exceeded the 5 percent increase in the CPI between the dates of the 1996 and 1999 surveys.

Comparisons between Single-State and Multistate Banking Organizations

Under the terms of of the 1994 Riegle–Neal legislation, the Board’s annual reports have included separate analyses of the fees charged by banks engaged in multistate banking activities. Beginning with the 1996 survey, banks were designated as multistate if they were part of banking organizations that conduct banking operations in more than one state; all other banks were designated as single-state.[6] In each of the surveys from 1996 onward, fees charged by multistate banks tended to be significantly higher than those charged by single-state banks, even after controlling for some factors (institution size and general location) that may account for some of the observed difference.

A more detailed look at these comparisons is reported here for seven of the most common services or actions for the most recent year of data (1999): noninterest checking accounts and NOW accounts (the ‘‘single balance and fee’’ versions), stop-payment orders, NSF checks, deposit items returned, ATM withdrawals ‘‘on others,’’ and ATM surcharges.

A statistically significant difference exists between single-state and multistate banks for six of the seven fees associated with these services or actions; for all six significant differences, the readings are higher at multistate banks (table 5). In addition, multistate banks were significantly more likely to charge for deposit items returned (the one item for which the fee itself did not differ significantly between single-state

6. The 1994 and 1995 surveys used a slightly different definition of multistate activity.

5. Fees for selected services and special actions at single-state and multistate banking organizations, 1999

Dollars except as noted

Item	Single-state (1)	Multistate (2)	Difference (2 − 1)
Single balance and fee account			
Noninterest checking			
Monthly low-balance fee	5.90	7.23	1.33**
Minimum balance to avoid fee	506.94	552.70	45.76
NOW account			
Monthly low-balance fee	8.21	9.62	1.41**
Minimum balance to avoid fee	1,002.05	1,413.79	404.74**
Special actions			
Stop-payment orders			
Percent charging	99.9	100.0	.1
Average fee	14.50	20.10	5.60**
NSF checks			
Percent charging	99.9	100.0	.1
Average fee	17.04	21.80	4.76**
Deposit items returned			
Percent charging	54.3	74.5	20.2 **
Average fee	6.31	6.15	−.16
ATM services			
Withdrawals on others			
Percent charging	71.4	77.0	5.6
Average fee	1.15	1.26	.11**
Surcharge			
Percent charging	82.2	86.7	4.5
Average fee	1.23	1.38	.15**

NOTE. Multistate banks are part of organizations that conduct banking operations in more than one state; all other banks are designated as single-state. See also notes to tables 1, 3, and 4.

* Significant at the 90 percent confidence level.

** Significant at the 95 percent confidence level.

6. Amount by which fees for selected services and special actions at multistate banks are higher (lower, –) than those at single-state banks after controlling for size and location of institution, 1999

Dollars

Item	Difference
Single balance and fee account	
Monthly low-balance fee	
Noninterest checking	.80**
NOW account	1.13**
Special actions	
Stop-payment orders	3.53**
NSF checks	2.99**
Deposit items returned	–.97
ATM services	
ATM withdrawals "on others"	.04
Surcharge	.14**

NOTE. See note to table 5. Weighted ordinary-least-squares regression.
* Significant at the 90 percent confidence level.
** Significant at the 95 percent confidence level.

and multistate banks). Further, the minimum balance to avoid a fee for NOW accounts at multistate banks was significantly higher than at single-state banks.

The observed differences in the fees charged by multistate and single-state banks may be due to conditions that simply accompany (correlate with) the distinction between single-state and multistate banking operations. For example, if one type of bank tends to be located in areas that entail higher operating costs, then the observed difference in fees between multistate and single-state banks might be due to differences in location rather than to any inherent difference between types of institution. Therefore, the possibility exists that, after statistically controlling for the influence of these factors on fees, the observed differences between the fees of single-state and multistate banks would decline substantially or even disappear.

Through a statistical procedure (multivariate regression analysis), the fees of single-state and multistate banks were compared after accounting for two of these possible underlying conditions—the general location of the bank (as indicated by the state or consolidated metropolitan statistical area in which the bank was located) and the size category of the bank. In the comparison, the fees of multistate banks were still higher than those of single-state banks but, indeed, by smaller amounts (table 6). That is, controlling for the size and general location of institutions reduced the importance of bank type in accounting for differences in fees. Nonetheless, in most cases statistically significant differences remained.[7]

The reasons for the remaining difference in fees between multistate banks and single-state banks may be speculated upon but are difficult to determine. One possibility is that multistate banking organizations

7. The possibility exists, of course, that locational and size differences fully account for the fee differences between multistate and single-state banks and that the data employed are not sufficiently detailed to reveal that result.

7. Fees for selected services and special actions, by asset-size class of bank, 1999

Dollars except as noted

Item	Small (1)	Medium (2)	Large (3)	Difference (3 – 1)
Single balance and fee account				
Noninterest checking				
Monthly low-balance fee	5.62	6.83	8.20	2.58**
Minimum balance to avoid fee	439.81	638.01	664.21	224.40**
NOW account				
Monthly low-balance fee	8.04	8.97	10.85	2.81**
Minimum balance to avoid fee	974.39	1,241.82	1,412.13	437.74**
Special actions				
Stop-payment orders				
Percent charging	99.9	100.0	100.0	.1
Average fee	13.92	17.71	21.50	7.58**
NSF checks				
Percent charging	99.9	100.0	100.0	.1
Average fee	16.48	19.85	23.51	7.03**
Deposit items returned				
Percent charging	51.3	67.0	86.2	34.9 **
Average fee	6.05	6.43	7.72	1.67*
ATM services				
Withdrawals on others				
Percent charging	67.7	79.2	88.2	20.5 **
Average fee	1.09	1.28	1.32	.23**
Surcharge				
Percent charging	77.4	92.4	87.8	10.4 **
Average fee	1.22	1.30	1.42	.20**

NOTE. Small banks are those with assets of less than $100 million; large banks are those with assets of more than $1 billion. See also notes to tables 1, 3, and 4.

* Significant at the 90 percent confidence level.
** Significant at the 95 percent confidence level.

tend to depend less on retail customers for funds than do single-state banks because they may obtain funds from other sources more cheaply; therefore, multistate banks may be relatively less inclined to hold down fees incurred by the retail customer. Another possibility concerns the services provided by multistate organizations; perhaps they are of better quality or more varied than those provided by single-state banks and would thus warrant the higher cost to the customer.

COMPARISONS BETWEEN LARGE AND SMALL BANKS

The 1994 Riegle–Neal legislation also required that the Board report its data on fees and services by size class of institution. Beginning with the 1995 report, results for banks and savings associations were reported for three asset-size classes. The reports showed changes from year to year by size class of institution, but they did not compare directly the level of fees and extent of availability across size classes in each year. Such a comparison has been made for this article (table 7), using the 1999 bank data for the seven services and actions employed in the comparison of multistate and single-state banks. The results are reported for large banks (assets of more than $1 billion), medium-sized banks ($100 million to $1 billion), and small banks (less than $100 million).

For all seven fees, the 1999 average level rose with the asset size of the bank, and the levels at large banks were significantly higher than at small banks. In the case of checking and NOW accounts, the minimum balance to avoid a fee at large banks was significantly higher than at small banks. And in the case of special actions and ATM services, the proportions of institutions charging a fee were also significantly higher at large than at small banks (except in the case of stop-payment orders and NSF checks, for which virtually all banks charge).

Regression analysis controlled for the general location of the bank (as indicated by the state or consolidated metropolitan statistical area in which the bank was located) and for organizational structure (single-state or multistate). The fee differences between large and small banks were then found to have declined, but in most cases they remained substantial and statistically significant (table 8).[8]

8. Amount by which fees for selected services and special actions at large banks are higher than those at small banks after controlling for organizational structure and location of institution, 1999

Dollars

Item	Difference
Single balance and fee account	
Monthly low-balance fee	
Noninterest checking	1.71**
NOW account	1.83**
Special actions	
Stop-payment orders	4.89**
NSF checks	3.66**
Deposit items returned	1.89
ATM services	
ATM withdrawals "on others"	.16*
Surcharge	.08

NOTE. Organizational structure refers to the distinction between multistate and single-state banks. See also note to table 7. Differences obtained with same weighted ordinary-least-squares regression employed for results in table 6.

* Significant at the 90 percent confidence level.

** Significant at the 95 percent confidence level.

SUMMARY

Under legislative mandate, the Federal Reserve Board has for many years sponsored annual surveys of the retail fees charged by depository institutions. Analysis of the data for the most recent six years (1994–99) shows that for the most common types of depository accounts surveyed, few of the fees and minimum balances changed significantly. However, the fees associated with three special actions—stop-payment orders, NSF checks, and overdrafts—rose significantly and by more than the rate of consumer price inflation over the period.

The levels of the most common types of ATM fees increased by statistically significant amounts that substantially exceeded the rate of inflation. In addition, the proportion of depository institutions imposing a surcharge for use of their ATMs by nondepositors increased dramatically in the period for which that feature was tracked (1996–99).

Finally, this article used the 1999 fees charged for seven common services and special actions to compare multistate banks with single-state banks and to compare small banks with large banks. For six of the seven items, banks that were part of multistate banking organizations charged, on average, significantly higher fees than single-state banks. For all of the items, large banks (assets of more than $1 billion) charged significantly more than small banks (assets of less than $100 million).

8. As in the case of the fee differences between single-state and multistate banking organizations, the fee differences between large and small banks could be due to additional factors—such as differences in the quality and variety of services offered—but, again, such reasoning is speculative. And again the possibility also exists that if the data were more detailed, the multivariate analysis would show that the factors being held constant (in this case location and organizational structure) fully account for the fee differences.

Although they narrowed, the differences remained statistically significant after analyses that controlled for the general location of the institutions, for size (in the case of the multistate versus single-state comparison), and for multistate banking operations (in the case of the large versus small comparison).

Appendix: Design of the Surveys

The data employed in this article were obtained through telephone interviews conducted by Moebs Services, of Lake Bluff, Illinois, under contract with the Board of Governors of the Federal Reserve System. Approximately 1,050 depository institutions were surveyed each year, with the institutions in the surveyed samples varying from one year to the next.

The statistical design of the survey consists of a stratified systematic sample, treated as a stratified random sample, with seven geographic regions and five size classifications serving as the strata. Because selection probabilities differ by region and size class, the inverses of the selection probabilities were employed as weights. These weights were then used to obtain the population estimates reported here. □