crc California Reinvestment Coalition

# Making the Grade:

## Are California's Biggest Banks Failing Consumers?

**Bank Report Card**

**March 2011**

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# EXECUTIVE SUMMARY

In this report, the California Reinvestment Coalition ("CRC") examines the six largest banks in California—Bank of America, JPMorgan Chase, Citibank, Union Bank, US Bank, and Wells Fargo—to evaluate the extent to which bank products and services are accessible to California's under-served communities. The combined impact of high fees, branch access, and intricate policies make maintaining bank accounts particularly complicated for low and moderate income ("LMI") communities. For these customers, the cost of a mistake is very expensive, and could determine whether or not they can pay for their basic living needs.

To evaluate the extent to which these banks meet the needs of low and moderate income customers, CRC graded each bank on six measures. These "subjects" are: Branch Placement in LMI communities, Basic Checking, Overdraft Protection, Electronic Benefit Transfer ("EBT") Surcharge Fee Waiver, Clearing All Transactions from Low to High, and Payday Advance Products. CRC created a tool to assess the effect of fees on a hypothetical LMI customer: Comparative Analysis of Monthly Fee Impact ("CAMFI"). Using CAMFI, CRC has compared how each bank's products and policies could affect the same customer on a monthly basis.

Each of the banks had areas where they did well and areas where there is room for improvement. Overall, the final grades for the banks reviewed are not encouraging for under-served communities. The highest final grade that any bank received was a C-, which US Bank and Bank of America received. Three banks: JPMorgan Chase, Citibank, and Union Bank all received a final grade of D+. Unfortunately, Wells Fargo received a final grade of D-. Despite the final grades, each bank had at least one subject where it received a grade of at least a B.

If there is a concerted effort to convince under-served communities that banks are a better economic option than predatory alternatives, the products and services reviewed in the preparation of this report do not necessarily support that argument.

Two recommendations were made to the consumer:

1. The Consumer Financial Protection Bureau ("CFPB") is available to help you. If you see a bank product or service that may be deceptive, abusive or unfair – report it to the CFPB. Learn more about the CFPB on their website, www.consumerfinance.gov.
2. Because the impact of fees can vary, it is important that the consumer educate themselves about the fees, terms, and conditions associated with an account before committing to the account. Mistakes are costly.

Three recommendations were made to the banks reviewed:

1. Reputational risk is as damaging to a balance sheet as an unprofitable product. There may be occasions when it is in the best interest of the bank to lose a relatively small amount of profit in

the short term so that you can gain tremendous good will in LMI communities over time. Waiving EBT surcharge fees and limiting overdraft fees are good examples of policies that create positive word of mouth for banks at a time when these institutions are increasingly regarded with suspicion and negativity.

2. Be transparent and concise. One of the challenges in preparing this report card was finding publicly available fee information about these products. Consumers should be able to comparison shop when looking for a bank in the same way that consumers' comparison shop when making any other significant purchase or investment.

3. Treat every customer with respect, regardless of their bank balance. Offer numerous innovative, safe and sound opportunities for economic growth to every income level.

This report card is the first in a planned series of report cards on consumer products offered by banks.CRC hopes these reports will inform the public dialogue around bank products and services. The goal of these reports is to advance efforts to bring under-served communities into the financial mainstream with fairly-priced products that are easily understood by the consumer. A simple report card analyzing products that could keep under-served communities from predatory alternatives is an important step in those efforts.

This report was prepared by the California Reinvestment Coalition. Alan Fisher, Kevin Stein, Kimberly S. Jones, Amelia M. Martínez C., and Kristina Bedrossian all made valuable contributions to the final report.  Helpful comments on earlier drafts were provided by Joseph Ridout of Consumer Action, Jean Ann Fox of Consumer Federation of America, Lisa Forti of Urban Strategies Council, and Gail Hillebrand of Consumers Union. James Zahradka of the Law Foundation of Silicon Valley, Lauren Leimbach of Community Financial Resources, and Eric Weaver of the Opportunity Fund provided valuable feedback on the "subjects" and the CAMFI assessment.

The California Reinvestment Coalition is a state-wide coalition of over 290 membership organizations. CRC has worked diligently for 25 years to provide fair and equal access to economic resources for California's low and moderate income communities and communities of color.

## INTRODUCTION

Over the past three years, not many aspects of the economy that have been predictable. In 2007, the house of cards of derivatives, mortgage-backed securities and other destabilizing and unregulated behavior began to collapse, bringing the American economy down with it. Then something predictable began to happen—increasing consolidation in the banking sector. As banks and thrifts, both large and small, began to fail, they were acquired by other financial institutions. In 2010, there were a total of 157 bank failures in the United States. According to the Federal Deposit Insurance Corporation ("FDIC"), 23 banks have already failed this year, including three California-based banks.[1] If the pace does not slow, 2011 could have more bank failures than last year.

When banks fail in the 21st century economy, they do not simply go out of business. Instead, a failed bank is usually acquired by a much bigger bank, which results in a financial sector where banks have become too big to fail. This has also created the luxury of being too big for competition. After the 2008 Washington Mutual Bank failure—the largest thrift failure in American history—and its subsequent acquisition by JPMorgan Chase, CRC staff and other consumer advocates predicted that the absence of competition would lead to a steady increase of bank fees. Alas, in early 2011, Bank of America, Citibank, JPMorgan Chase and Wells Fargo all began phasing in new or increased fees.[2] "Free Checking" was, and is, living on borrowed time.

Under these circumstances, the California Reinvestment Coalition ("CRC") decided to shine a bright light on banks' checking account products and score them in a way that resonates with everyone who spent a day in school – a report card. The grade scale is simple: outstanding performance will receive the grade of an A, while failing performance will receive the grade of an F. This report card examined six aspects of checking account products with an emphasis on the aspects that could have an economic impact on under-served customers. The six "subjects" are: Branch Placement in LMI Communities, Basic Checking, Overdraft Protection, Electronic Benefit Transfer (EBT) Surcharge Fee Waiver, Clearing All Transactions from Low to High, and Payday Advance Products. We examined six banks that consume a majority of the market share by deposits in California: Bank of America, Citibank, JPMorgan Chase, Union Bank, US Bank, and Wells Fargo. According to the FDIC, the six banks reviewed represent a staggering 69.3% of the market share of deposits in the State of California.[3]

At the beginning of 2011, we remain in a period of tremendous economic uncertainty. The recovery from the Great Recession has been sluggish and is not sustained by increased employment. If the overall economy is uncomfortable, the 47 million Americans living below the poverty level are in agony.[4] There have been encouraging developments in the legislative and regulatory fronts for consumers. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") was enacted, which created the Consumer Financial Protection Bureau ("CFPB"). Set to open its doors in July 2011, the CFPB is the first federal agency that is set up for the sole purpose of protecting consumer's financial interests. With this overhaul, the Federal Reserve Board ("The Fed") implemented a rule change that required consumers to affirmatively choose to participate, or "Opt-in," to Overdraft Protection Programs

[1] Federal Deposit Insurance Corporation (FDIC), February 2011, www.fdic.gov
[2] (Reckard, 2011)
[3] Federal Deposit Insurance Corporation (FDIC), June 2010, www.fdic.gov
[4] (Heuvel, 2011)

("ODP"). Although these changes help the consumer, they also have given the biggest banks the excuse needed to eliminate "free checking" and steadily increase the number and amount of fees.

Basic Checking and the waiver of surcharges for electronic benefit transfer ("EBT") recipients will be two facets of bank account products and services where there will be the most opportunity for banks either to offer aid or take advantage of consumers in the coming months.[5] Banks' claims that the increased fees are necessary as they struggle to "manage risk" strains credibility as they also announce billions of dollars in earnings every quarter. Banks and their industry consultants claim that free checking accounts cost the banks between $300 and $350 per year per checking account.

If consumers who used "free checking" accounts did not already pay fees that generated billions of dollars annually, then the banks could be applauded for their altruism. But the banks did charge fees. Since banks have been, and remain, extremely profitable, they seem discontent unless they are making the same super profits that banks enjoyed during the greed-filled, under-regulated period that pushed the American economy to the brink of destruction. It is our hope that the bank regulators, when joined by the Consumer Financial Protection Bureau, will become more aggressive in their enforcement of bank products and services.

The consumers' fight to have a bank account that is not pillaged by fees appears to be lost with the largest banks. The many fees and conditions that apply to checking accounts are often buried in pages of fine print. Every day, the banks are giving consumers pop quizzes on financial literacy and education in the form of overdraft fees, EBT surcharges and monthly maintenance fees. If the consumer fails these pop quizzes, bills are not paid and their living conditions are seriously diminished. Consumers have less costly alternatives at credit unions and smaller community banks. However, accessing these institutions requires an informed and active consumer who can access the right information and serve as their own best advocate.

This initial report card is primarily focused on the accessibility of basic checking accounts. The goal of this report card is to prevent banks from continuously and unnecessarily raising fees on consumers without scrutiny. This report consists of a summary of the final grades given, an overview that will explain the analysis that led to each grade, and a report card for each bank with grades on the six subjects.

## METHODOLOGY & DESCRIPTION OF "SUBJECTS"

To grade the six banks on their performance, CRC chose six subject areas that are of particular concern to low and moderate income ("LMI")[6] customers because of the impact they have on their financial stability. The six subject areas are: Branch Placement in Low to Moderate Income Communities, Basic Checking, Overdraft Protection, EBT Surcharge Fee Waiver, Clearing All Transactions from Low to High, and Payday Advance Products. These subjects and the grading rubric for each subject are defined below, along with a description of why each subject is important to LMI consumers.

[5] (LA Times, 2011) In an effort to cut costs, states like California are moving away from issuing checks and loading benefits onto debit cards.
[6] (San Luis Obispo County Housing Trust Fund, 2010)

***Branches Located in Low to Moderate Income Areas***

*Best Outcome for Consumers: Branches in low and moderate income census tracts, other than downtown business districts.*

Numerous studies have shown that proximity is an important factor for consumers. In many LMI communities, there are numerous predatory financial service providers (i.e. pawn brokers, check cashers, and payday lenders) that have chosen to place their businesses close to the homes of LMI families. Unfortunately, bank branches are often not represented as strongly in these communities. In order to assist consumers in the transition from "unbanked" to "banked", bank branches need to be located close to where a person works and/or lives. It is easy to profess a commitment to underserved communities, but it is another to express that commitment through opening a place of business in such a community.

According to data for 2009, 32.2% of the total population in California lived in LMI census tracts.[7] For the purposes of this evaluation, a financial institution that has less than 15 % of their California branches in LMI areas received an "F". Banks that have between 15% and 20% of their branches in LMI areas received a "D"; between 21% and 25% received a "C"; between 26% and 30% received a "B," and banks that have more than 30 % of their banks in LMI areas received an "A."

**Basic Checking**

*Best Outcome for Consumers: Lowest monthly fees possible.*

The grade for basic checking accounts is an assessment of the common fees that tend to drain the average checking account of an LMI customer. For this purpose, CRC developed a the Comparative Analysis of Monthly Fee Impact ("CAMFI")—an analysis that evaluates the impact of bank fees on a consumer's account balance. The CAMFI assumes a hypothetical consumer who does not have direct deposit, online banking or linked accounts between checking and savings. This hypothetical also assumes an average monthly balance of $250.

To compare bank fees in an objective manner, the CAMFI analysis examines the impact of three (3) non-bank ATM transactions, two (2) point of sale debit card transactions which left the account overdrawn by more than $20, one (1) check returned NSF (not sufficient funds) per quarter, and a monthly maintenance fee, if charged. A low CAMFI score would signify a more negative impact on the consumer, whereas a high CAMFI score would indicate that fees have less of an impact on consumers. The formula for CAMFI is:

***CAMFI= [$250- (3*Non-bank ATM fee)-(2*Overdrawn POS transactions)-(1*NSF fee)-(Monthly Fee)]/$250***

**Overdraft Protection Programs**

*Best Outcome for Consumers: New bank account holders access a product that cannot be overdrawn.*

An overdraft fee is incurred when a customer completes a transaction that results in the account being overdrawn, or when there are not enough funds in the account to cover the transaction. In July 2010, the Federal Reserve implemented an "Opt-in" requirement for Overdraft Protection Plans ("ODP") that had previously been given to customers without their consent or knowledge about the fees involved. Many

[7] (Fisher, 2011)

banks acted preemptively and changed their overdraft protection plans. In the review of this policy, CRC recognizes that a consumer affirmatively chooses to participate in an Overdraft Protection Plan. However, if consumers did not "opt-in" to these plans, their payment would simply be rejected—saving the consumer from paying outrageous overdraft fees. Unfortunately, many consumers are not aware of this and opt-in to ODP plans without knowing the true consequence of the product.

To grade banks overdraft policies, CRC used the following methodology. 1) Any ODP starts with the grade of C due to the presumption that these programs do not operate to the advantage of the consumer; 2) One-third of a letter grade is awarded or subtracted if banks revised their ODP to limit the number of times a customer can be overdrawn to no more than three times per day; 3) One-third of a letter grade is awarded or subtracted if the ODP has fees that are lower than $30 per overdraft; if a bank has a fee under $30, it is almost certain to be part of a sliding scale of overdraft fees; 4) One-third of a letter grade is awarded or subtracted if banks waive the overdraft fee for transactions that overdraw the account by $20 or less; 5) The total amount of fees that can be charged in one day is evaluated, and a full letter grade is given as a bonus if the total possible amount that a bank can charge a customer under their ODP is under $100 per day. A line of credit for credit-worthy individuals with the ability to repay the overdraft is the best option, but often is not an alternative for under-served bank customers.

### Electronic Benefit Transfer Fee Waiver Policy

*Best Outcome for Consumers: Waiver of fees for ATM transactions.*

More families than ever are relying on some form of public assistance to support their families. The news is filled with reports of families having to choose between housing and food. Those who now receive food stamps and/or unemployment due to the economic downturn are added to the number of individuals who receive benefits, such as Social Security Insurance or Social Security Disability. There is an increasing practice of loading these electronic benefit transfers ("EBT") onto a debit card because processing debit cards is cheaper for states than issuing checks. The EBT debit card holder incurs fees because he or she must use an ATM machine to access their benefits in cash if they are unbanked. Some banks limit the waiver of the EBT fee to the states in which the bank provides the debit card. This practice is inadequate for most of these customers. Due to the increasing use of debit cards for the issuance of state benefits, an "A" was given to banks who waive the fee to all EBT cardholders in California; and an "F" was given to those who do not.

### Order in which Transactions Clear Checking Accounts

*Best Outcome for Consumers*: *Clear all transactions from low to high.*

Banks choose the order in which they clear, or deduct, money from the consumer's account. The industry practice is to clear checks from highest dollar amount to lowest dollar amount. Banks claim that this procedure is in the customers' best interest. However, this procedure usually contributes to poor outcomes for individuals with limited financial knowledge who are living from paycheck to paycheck. Clearing transactions from high to low has resulted in customers being overdrawn for small dollar transactions, such as buying a cup of coffee; as a result, a $3 purchase can end up costing as much as $38 dollars when any fees are added. It is important to make sure that consumers have as much information as possible about how transactions clear their accounts. The approach that banks take on this subject is confusing and would benefit from uniformity and clarity.

The bank has no control over items that are presented for payment on different business days. Some merchants and billers deposit payments immediately and some batch them to clear over the course of a number of days. There is nothing inherently notable about the order the checks come in that can be clearly tied to consumer intention.[8] Therefore, the criteria to receive an “A” is that the bank should try to clear as many checks/payments for a consumer within a single business day and NOT clear them in the order received. In other words, the bank can line up the checks for an individual—lowest to highest—and clear as many as possible in that business day. This would minimize NSF, or non-sufficient funds, fees. A “C” is given to a bank that sorts the high impact transactions (e.g., mortgage/rent, car payments and tuition) from low to high. An “F” is given to a bank that sorts all transactions from high to low.

### Payday Advance Loans

*Best Outcome for Consumers: Small dollar, low interest loans for a short term.*

Payday loans create a cycle of debt due to their triple digit interest. The banks with deposit cash advance products could cost about the same as a payday loan if the customer holds the debt for the same length of time. Since this is set up as open end credit, the banks only have to disclose the APR if the cash advance were used for an entire billing cycle instead of the length of time the borrower has the money. So a deposit cash advance advertised as costing 120% APR really costs 260% APR if used for two weeks or 520% APR if used for one week. A bank that does not offer payday loans received an “A.” Due to the predatory nature and exorbitant interest rates of these products, a bank that offers its own payday product received an “F”. Just because a bank does not offer a payday loan product does not mean the bank is not financing payday providers. However, the financing of payday providers that a bank may provide is outside of the reach of this report.

[8] (Leimbach, 2011)

## SUMMARY OF BANK GRADES

| | Bank of America | JPMorgan Chase | Citibank | Union Bank | US Bank | Wells Fargo Bank |
|---|---|---|---|---|---|---|
| **Branches in LMI Communities** | A | C | B | C | C | A |
| **Basic Checking** | F | F | F | C- | F | F |
| **Overdraft Protection** | C | B- | C | F | A | F |
| **EBT Fee Waiver** | F | F | F | F | A | F |
| **Clear All Transactions Low to High** | F | D | F | F | D | F |
| **Not Offer Payday Loan Products** | A | A | A | A | F | F |
| **Final Grade** | **C-** | **D+** | **D+** | **D+** | **C-** | **D-** |

## **Overview: Bank of America, N.A.**, Charlotte, North Carolina

*Branches:*

Bank of America, N.A. ("BofA") is headquartered in Charlotte, North Carolina. According to figures provided by the bank, there are 985 branches located in California. However, 320 of BofA's branches are located in an LMI area, which means that 32.4 percent of BofA's branches are in an LMI area.[9] Since optimal branch saturation in LMI areas is 30%, BofA received a grade of A, which outperformed all but one of its peers. **Grade: A**

*Basic Checking:*

BofA's basic checking fees are: Non-bank ATM fee=\$2.00; Overdraft Fee=\$35.00; Fee for a Check Returned NSF=\$35.00; monthly maintenance fee=\$8.95.

Applying the CAMFI analysis with data provided by Bankrate.com, the equation is:

250-(3x\$2)-(2x\$35)-35-8.95=130.05/250=52.02%

By this analysis, the monthly impact of fees on the hypothetical consumer would be quite severe, almost taking half of the monthly balance. 52.02% is an "F."[10] **Grade: F**

*Overdraft Protection:*

At first glance, it appeared that Bank of America was going to outshine its competitors in this category. In some ways, it does. The "Standard Overdraft Setting" is to refuse transactions when there aren't sufficient funds in the account. However, overdraft protection plans are still available to BofA customers. If the account will be overdrawn by \$10 or less, the bank will not charge a fee. Otherwise, the bank charges a fee of \$35 per item, with a maximum of 4 items per day, which could result in \$140 in fees. Since the default setting for customers is not to extend overdraft protection, potential fees are eliminated for customers in the "Standard Overdraft Setting," which is the equivalent of opting-out. When a customer does opt-in, BofA's ODP does receive credit for setting a limit on the number of overdrafts that can be charged in one day and for waiving the fee if the account is overdrawn by \$10 or less. **Grade: C**

*EBT Waiver:*

Bank of America does not waive ATM surcharges for EBT recipients because the state's contractor, ACS, did not make such arrangements. According to information provided by the bank, "the state didn't insist on [fee waiver] in the RFP." **Grade: F**

*All Transactions Clear From Low to High:*

BofA posts credits to the account first, and then processes debits from high to low. This response is less thorough than the responses provided by the other banks However, the essential information is given: transactions are cleared from high to low. **Grade: F**

*Not Offer Payday Products:*

Bank of America does not offer payday products to consumers. This does not mean that BofA does not provide financing for payday providers, but the financing of payday lenders is outside the reach of this report**. Grade: A**

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[9] As of September 30, 2010

[10] (Reckard, 2011) It is reported that Bank of America will begin to charge \$9 if a customer uses a teller for a transaction instead of Online Banking or ATM transactions.

# CALIFORNIA REINVESTMENT COALITION BANK REPORT CARD - 2011

| |
|---|
| BANK NAME: **BANK OF AMERICA, N.A.** |
| HEADQUARTERS: CHARLOTTE, NC<br>NO. OF BRANCHES IN CA: 985 |

| **SUBJECTS:** | |
|---|---|
| Branches in LMI Communities | A |
| Basic Checking | F |
| Overdraft Protection | C |
| EBT Fee Waiver | F |
| Clear all transactions low to high | F |
| Not offer payday loan products | A |
| **Final Grade** | **C-** |

## **Overview: JPMorgan Chase, N.A.**, New York, New York

*Branches:*

JPMorgan Chase, N.A. ("Chase") is headquartered in New York, New York. According to figures provided by the bank, there are 767 branches located in California. However, 198 of Chase's branches are located in an LMI area, which means that 25.8 percent of Chase's branches are in an LMI area.[11] Since optimal branch saturation in LMI areas is 30% and higher, Chase received a grade of C. Although Chase is a relatively new entrant to the California market, it is stepping into the Washington Mutual footprint and is a dominant force in the banking industry. It is our position that Chase could have a stronger presence in LMI communities than it currently does. There are media reports that Chase plans aggressive retail expansion in California within the next three years. We encourage Chase to engage LMI communities to ask where branches could be placed to improve their banking experience. We hope for improvement in this grade in upcoming report cards. **Grade**: C

*Basic Checking:*

Chase's basic checking fees are: Non-bank ATM fee=$2.00; Overdraft Fee=$34.00; Fee for a Check Returned NSF=$34.00; monthly maintenance fee=$10.00.

Applying the CAMFI analysis with data provided by Bankrate.com, the equation is:

250-(3x$2)-(2x$34)-34-10=132/250=52.8%

By this analysis, the monthly impact of fees on the average consumer would be quite severe, almost taking half of the monthly balance. 52.8% is an "F." **Grade**: F

*Overdraft Protection:*

Chase charges a $34 fee per overdraft with a maximum of 3 overdrafts in one day, which could result in $102 in fees, in addition to the cost of the purchase. Chase waives overdraft fees if the account is overdrawn by $5 or less. This caveat may provide help to some customers (we give credit for this accommodation). **Grade**: B-

*EBT Waiver:*

Chase does not waive fees for EBT card holders in states where the bank is not the issuer. Chase is not the issuer of the EBT card in California; therefore, fees are not waived for EBT recipients in California. **Grade**: F

*All Transactions Clear From Low to High:*

Chase's policy is to add deposits to accounts, then subtract wire transfers, debit card and online banking transactions, teller cash withdrawals, cashed checks and deposited checks drawn on Chase, which are processed in the order in which they were authorized, withdrawn or deposited. All other transactions are deducted from highest to lowest dollar amount. **Grade**: D

*Not Offer Payday Products:*

Chase does not offer payday products to consumers. This does not mean that Chase does not provide financing for payday providers, but that issue is outside the reach of this report. **Grade**: A

[11] As of September 30, 2010.

# CALIFORNIA REINVESTMENT COALITION BANK REPORT CARD – 2011

| | |
|---|---|
| BANK NAME: **JPMORGAN CHASE, N.A.** | |
| HEADQUARTERS: NEW YORK, NY<br>NO. OF BRANCHES IN CA: 767 | |

| **SUBJECTS:** | |
|---|---|
| Branches in LMI Communities | C |
| Basic Checking | F |
| Overdraft Protection | B- |
| EBT Fee Waiver | F |
| Clear all transactions low to high | D |
| Not offer payday loan products | A |
| **Final Grade** | **D+** |

## **Overview: Citibank, N.A.**, New York, New York

*Branches:*

Citibank, N.A. ("Citi") is headquartered in New York, New York. According to figures provided by the bank, there are 376 branches located in California. However, 104 of Citi's branches, or 27.6 percent, are located in an LMI area.[12] Since optimal branch saturation in LMI areas is 30% and higher, Citi only received a grade of B. There is room for improvement, which is possible for a bank with Citi's community commitment. **Grade**: B

*Basic Checking:*

Citibank's basic checking fees are: Non-bank ATM fee=$2.00; Overdraft Fee=$35.00; Fee for a Check Returned NSF=$34.00; monthly maintenance fee=$8.00.

Applying the CAMFI analysis with data provided by Bankrate.com, the equation is:

250-(3x$2)-(2x$35)-34-8=132/250=52.8%

By this analysis, the monthly impact of fees on the average consumer would be quite severe, almost taking half of the monthly balance. 52.8% is an "F." **Grade**: F

*Overdraft Protection:*

Citi does not allow overdrafts at ATMs or through debit point-of-sale transactions if the customer does not have sufficient funds. Citi does not assess continuous overdraft charges that can lead to additional costs for consumers. **Grade**: C

*EBT Waiver:*

Citi does not waive fees for EBT fees for non-Citi consumers who use EBT cards at Citi ATMs. **Grade**: F

*All Transactions Clear From Low to High:*

The information provided by the bank was that it processes checks from high to low. This response does not provide information about how the bank processes other forms of transactions such as debit card or online banking, which it may process in a different order. Nonetheless, the most important information about their clearing, or posting, process is provided: the bank processes at least one form of transaction from high to low. It is CRC's position that all transactions should be cleared from low dollar amount to high dollar amount. **Grade**: F

*Not Offer Payday Products:*

Citi does not offer payday products to consumers. This does not mean that Citi does not provide financing for payday providers, but that issue is outside the reach of this report. **Grade**: A

[12] As of September 30, 2010.

## CALIFORNIA REINVESTMENT COALITION BANK REPORT CARD - 2011

| | |
|---|---|
| BANK NAME: **CITIBANK, N.A.** | |
| HEADQUARTERS: NEW YORK, NY<br>NO. OF BRANCHES IN CA: 376 | |

| **SUBJECTS:** | |
|---|---|
| Branches in LMI Communities | B |
| Basic Checking | F |
| Overdraft Protection | C |
| EBT Fee Waiver | F |
| Clear all transactions low to high | F |
| Not offer payday loan products | A |
| **Final Grade** | **D+** |

## **Overview: Union Bank, N.A.**, San Francisco, California

*Branches:*

Union Bank, N.A. ("Union Bank"), which is headquartered in San Francisco, California, has a presence in California, Oregon, Washington, and Texas. According to figures provided by the bank, there are 342 branches located in California. However, 93 of Union Bank's branches, or 27.1 percent, are located in an LMI area.[13] Since optimal branch saturation in LMI areas is 30% and higher, Union Bank only received a grade of C. As Union Bank continues to grow, Union Bank and California would both benefit from branches placed directly in low and moderate census tracts. **Grade**: C

*Basic Checking:*

Union Bank's basic checking fees are: Non-bank ATM fee=$2.00; Overdraft Fee=$22.00; Fee for a Check Returned NSF=$22.00; monthly maintenance fee=$0.

Applying the CAMFI analysis with data provided by Bankrate.com, the equation is:

250-(3x$2)-(2x$22)-22-0=178/250=71.2%

By this analysis, the monthly impact of fees on the average consumer would be notable, taking approximately 30 percent of the monthly balance. 71.2% is a "C-." It is worth noting that Union Bank's CAMFI score is markedly better than the other banks assessed in this report card. Union Bank's CAMFI score would go down considerably if the customer has six overdrafts in a 12 month period, which would raise the Overdraft fee to $34 per item. Although the loss of almost 30% of the account in fees is significant, it is better than the loss of half of the account to fees. **Grade**: C-

*Overdraft Protection:*

Union Bank varies the overdraft fee according to the number of overdraft occurrences in the previous 12 months. The fee structure is as follows: 1-2 occurrences at $22 per item, 3-5 occurrences at $30 per item, 6 or more occurrences at $34 per item. The consumer can have a maximum of 5 overdrawn items in one day. The maximum fees that a consumer could pay in one day would range from $110 to $170, depending on the consumer's history with overdrawn items. **Grade**: F

*EBT Waiver:*

Union Bank does not waive the fee for bank customers receiving EBT or using Electronic Access accounts. The fee for a customer with an electronic transfer account or an electronic access account who uses a non-Union Bank ATM is $2 for domestic ATMs. **Grade**: F

*All Transactions Clear From Low to High:*

Union Bank clears larger checks first. Debit transactions, which are posted prior to the clearing of any checking, are generally cleared from low to high. **Grade**: F

*Not Offer Payday Products:*

Union Bank does not offer payday products to consumers. This does not mean that Union Bank does not provide financing for payday providers, but that issue is outside the reach of this report. **Grade**: A

[13] As of September 30, 2010.

# California Reinvestment Coalition Bank Report Card – 2011

| | |
|---|---|
| Bank Name: **Union Bank** | |
| Headquarters: San Francisco, CA<br>No. of Branches in CA: 342 | |

| **Subjects:** | |
|---|---|
| Branches in LMI Communities | C |
| Basic Checking | C- |
| Overdraft Protection | F |
| EBT Fee Waiver | F |
| Clear all transactions low to high | F |
| Not offer payday loan products | A |
| **Final Grade** | **D+** |

## **Overview: US Bank, N.A.**, Minneapolis, Minnesota

*Branches:*

US Bank, N.A. ("US Bank") is headquartered in Minneapolis, Minnesota. According to figures provided by the bank, 146 of US Bank's 661 California, or 22.1 percent, are located in an LMI area.[14] Since optimal branch saturation in LMI areas is 30% and higher, US Bank only received a grade of C. US Bank experienced most of its recent growth by the acquisition of failed institutions; we hope the bank's plans for retail expansion will exceed the footprint it inherited. **Grade**: C

*Basic Checking:*

US Bank's basic checking fees are: Non-bank ATM fee=$2.00; Overdraft Fee=$33.00; Fee for a Check Returned NSF=$33.00; monthly maintenance fee=$0.

Applying the CAMFI analysis with data provided by Bankrate.com, the equation is:

$$250-(3x\$2)-(2x\$33)-33-0=141/250=58\%$$

By this analysis, the monthly impact of fees on the average consumer would be quite severe, almost taking half of the monthly balance. 58% is a "F." It is due to the fact that US Bank charges a lower fee for items returned NSF that it has a CAMFI score comparable to its peers. The other fees examined are comparatively low, which almost resulted in US Bank passing this subject. **Grade**: F

*Overdraft Protection:*

According to information provided by the bank, US Bank's ODP policy is as follows: "Overdraft fees are eliminated if account is overdrawn by $10 or less; maximum of three overdrafts per day; a reduced fee ($10) for overdraft transactions of $20 or less; otherwise the overdraft fee is $33." The caveat in this overdraft protection plan is worth crediting because it will save some consumers from incurring a large number of fees in a day and/or fees for small purchases. A consumer could not incur more than $100 in overdraft fees in one day. The sliding scale for overdraft fee is one of the more fair approaches to the issue. It is due to the fee waiver, limit to the number of overdrafts, the lower fee, and the potential fee in one day being under $100 that US Bank receives an A in this subject. **Grade**: A

*EBT Waiver:*

US Bank does waive fees for EBT cardholders. We applaud this choice and encourage every other bank to make the same decision to help preserve benefits for the purpose intended by EBT—to provide resources for families and individuals in need. **Grade**: A

*All Transactions Clear From Low to High:*

US Bank uses a combination of real time posting (e.g. a debit is posted to the account at the time it is presented to the bank) and high to low posting, which is confusing to the average consumer. It would be simpler to clear all items from low to high. **Grade**: D

*Not Offer Payday Products:*

US Bank offers a payday product, Direct Deposit Advance, which functions like a traditional payday advance product. The bank claims that the APR on the US Bank product is approximately half that of the traditional payday product, but the impact on the consumer is the same. **Grade**: F

[14] As of September 30, 2010.

## CALIFORNIA REINVESTMENT COALITION BANK REPORT CARD - 2011

| |
|---|
| BANK NAME: **U S BANK, N.A.** |
| HEADQUARTERS: MINNEAPOLIS, MN<br>NO. OF BRANCHES IN CA: 661 |

| **SUBJECTS:** | |
|---|---|
| Branches in LMI Communities | C |
| Basic Checking | F |
| Overdraft Protection | A |
| EBT Fee Waiver | A |
| Clear all transactions low to high | D |
| Not offer payday loan products | F |
| **Final Grade** | **C-** |

## **Overview: Wells Fargo Bank, N.A.**, San Francisco, California

*Branches:*

Wells Fargo Bank, N.A. ("Wells Fargo"), has corporate headquarters in Minneapolis, Minnesota, but the operational headquarters are in San Francisco, California. According to figures provided by the bank, there are 1,207 branches located in California. However, 410 of Wells Fargo's branches, or 33.9 percent, are located in an LMI area.[15] Since optimal branch saturation in LMI areas is 30% and higher, Wells Fargo received an "A." Only Bank of America did as well in this subject. CRC applauds Wells Fargo's strong bank presence in underserved communities. **Grade**: A

*Basic Checking:*

Wells Fargo's basic checking fees are: Non-bank ATM fee=$3.00; Overdraft Fee=$35.00; Fee for a Check Returned NSF=$25.00; monthly maintenance fee=$5.00.

Applying the CAMFI analysis with data provided by Bankrate.com, the equation is:

$$250-(3x\$3)-(2x\$35)-25-5=141/250=56.4\%$$

By this analysis, the monthly impact of fees on the average consumer would be quite severe, almost taking half of the monthly balance. 56.4% is a "F." It is due to the fact that Wells Fargo charges a lower fee for items returned NSF that it has a CAMFI score comparable to its peers. The non-bank ATM fee and the overdraft fee are somewhat higher than that charged by the other banks assessed in this report. **Grade**: F

*Overdraft Protection:*

According to information provided by the bank, Wells Fargo's ODP policy is as follows: "Customer can "Opt-in" for $25 per item for the first occasion in the preceding 12-month period; any subsequent occasions incur a $35 fee per item." There is a limit of four items per day, which is helpful to the Wells consumer. But for the purpose of this report card, credit is given if a bank charges for a maximum of three overdrafts in one day. The worst case scenario for a customer would result in $140 in fees in one day. **Grade**: F

*EBT Waiver:*

Wells Fargo waives fees for EBT in states where they are the designated EBT card issuer. In California, they are not the issuer of the cards; as a result, they do not waive the fee for EBT recipients in California. **Grade**: F

*All Transactions Clear From Low to High:*

Wells Fargo generally sorts transactions from high to low. However, they sort types of transactions in the following order: 1) ATM and debit and card transactions; 2) account transfers, cashed checks and cash withdrawals; and 3) checks, Bill Pay, and other automatic payments. **Grade**: F

*Not Offer Payday Products:*

Wells Fargo offers a product, Direct Deposit Advance, which functions like a traditional payday advance product. The bank claims that the APR on this product is approximately half that of the traditional payday product, but the impact on the consumer is the same. **Grade**: F

[15] As of September 30, 2010.

# California Reinvestment Coalition Bank Report Card - 2011

| | |
|---|---|
| Bank Name: Wells Fargo Bank, N.A. | |
| Headquarters: San Francisco, CA<br>No. of Branches in CA: 1,207 | |

| **<u>Subjects</u>:** | |
|---|---|
| Branches in LMI Communities | A |
| Basic Checking | F |
| Overdraft Protection | F |
| EBT Fee Waiver | F |
| Clear all transactions low to high | F |
| Not offer payday loan products | F |
| **Final Grade** | **D-** |

## CONCLUSION

Each of the banks had areas where they did well, and had areas with room for improvement. However, the final grades for the banks reviewed are not encouraging for underserved communities. US Bank and Bank of America received the highest final grade among all of the banks—a C-. Three banks—JPMorgan Chase, Citibank and Union Bank—all received a final grade of D+. Unfortunately, Wells Fargo received a final grade of D-. Despite the final grades, each bank had at least one subject where it received a grade of a B or higher. Overall, this report card has demonstrated that these banks need to improve their Basic Checking products to serve their low to moderate income consumers.

The number of branches that a bank has in low and moderate income census tracts is one way of displaying a commitment to under-served communities. The two banks with long histories in California performed the best in this category – Bank of America and Wells Fargo. It is worth noting that Chase has plans to improve its performance in this subject within the next three to five years due to a plan for aggressive retail expansion that will focus on Florida and California. Although most of the branch expansion of the past three years was due to the acquisition of failed banks, CRC hopes that each of the banks reviewed will make a commitment to build *de novo* branches in California's LMI communities.

CRC has developed a method of analyzing the impact of fees on a hypothetical LMI consumer, the Comparative Analysis of Monthly Fee Impact ("CAMFI") assessment. According to the CAMFI analysis, most of the banks reviewed took almost half of the monthly balance in fees. Union Bank was the stand-out in this "Basic Checking" category, receiving a grade of a C- since less than 30% of the monthly balance was lost to fees. With limited resources, a consumer's money should be left for them to spend on the cost of living, not bank fees. We encourage consumers to examine the impact of bank fees on their account balances, and make a determination about whether the services they receive are meeting their needs and are worth the cost.

The Overdraft Fee subject was also eye-opening. Bank of America made what appeared to be a significant change in its overdraft policy – the total elimination of overdraft and a return to the practice of items returned NSF (Insufficient Funds). However, upon closer inspection, there was more to the Bank of America Overdraft Protection policy, which could result in bank customers incurring large amounts of overdraft fees. US Bank did make the substantive changes that could lessen the economic burden that an overdraft fee would have on a consumer. US Bank was the only financial institution that received all of the credit possible in the Overdraft Fee subject.

EBT Fee Surcharge waiver was another subject where, for the most part, the results were disappointing. Most of the banks reviewed for this report card are unwilling to give up the fees they were taking from California's poor, elderly and disabled. But US Bank took the outstanding position that they would not charge fees for EBT transactions. We think that this is the right approach. We hope that US Bank will create an industry standard for banks in California and across the country in their approach to EBT fees.

The order in which a bank clears items presented for payment was universally disappointing. Most banks' explanation for the clearing process is confusing at best. But at the heart of each bank's procedure is the practice of clearing at least one type of transaction from high dollar amount to low dollar amount. The banks and consumer advocates are divided on whether the process of clearing items from high to low create in the best interest of the consumer. Further, does clearing items from high to low create the greater likelihood that the most important and highest dollar amount debits (e.g., rent or mortgage, insurance, tuition) could not be paid and generate the most fees? The issue is not simple. Consumers must be as informed as possible in order to protect themselves from policies and services that are abusive or unfair. Help is on the way in the form of the CFPB, which takes up enforcement duties in July 2011.

Payday Advance loans are not a good product for LMI communities that are already pushed to their economic limits. There were only two banks, Wells Fargo and US Bank that offered Payday Advance loans directly to their customers. CRC strongly encourages these two banks to reconsider and restructure these products. There is a need for a small dollar, short-term loan with low annual percentage rates, but that isn't what these banks are offering. Again, the CFPB will be able to reform or eliminate deceptive, unfair or abusive products. The consumer will have a new and important ally who will be able to stop the financial bullying that under-served communities experience.

If banks are trying to convince under-served communities that they are a better economic option than their predatory alternatives, then many of the products and services reviewed in the preparation of this report are not a winning argument. Banks have the ability to create innovative products and services that can reach underserved communities that are struggling during these very tough economic times. Low and moderate income communities are not looking for hand-outs. The amount of bank fees and the way that they are administered create hardships for those fighting their way through this very sluggish recovery filled with long-term unemployment, foreclosure, and other rising costs.

## RECOMMENDATIONS

Two recommendations are made to the consumer:

1. The Consumer Financial Protection Bureau ("CFPB") is available to help you. If you see a bank product or service that may be deceptive, abusive or unfair – report it to the CFPB. Learn more about the CFPB on their website, www.consumerfinance.gov.
2. Because the impact of fees can vary, it is important that the consumer educate themselves about the fees, terms, and conditions associated with an account before committing to the account. Mistakes are costly.

Three recommendations are made to the banks reviewed:

1. Reputational risk is as damaging to a balance sheet as an unprofitable product. There may be occasions when it is in the best interest of the bank to lose a relatively small amount of profit in the short term so that you can gain tremendous good will in LMI communities over time. Waiving EBT surcharge fees and limiting overdraft fees are good examples of policies that create positive word of mouth for banks at a time when these institutions are increasingly regarded with suspicion and negativity.
2. Be transparent and concise. One of the challenges in preparing this report card was finding publicly available fee information about these products. Consumers should be able to comparison shop when looking for a bank in the same way that consumers' comparison shop when making any other significant purchase or investment.
3. Treat every customer with respect, regardless of their bank balance. Attempt to offer numerous innovative, safe and sound opportunities for economic growth to every income level.

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