

FEELING LIKE WILE E. - BANK FEES

by [Steve Brown](#)

We always felt sorry for Wile E. Coyote. This guy's parents didn't do him any favors by giving him that name, or rearing him in a part of the country where rocks are unstable and road runners have nothing to do with their time but harass coyotes. A coyote of modest means, Wile was athletic, hard working and a super genius. He was able to jerry-rig rope, birdseed, levers and rockets together like no one else, for the sole purpose of trying to catch a meal. Unfortunately, the only dinner available was a spoiled road runner that was able to muster huge resources like trains and warp time/space at the last minute as he escaped in a ring of smoke. The coyote was just trying to survive.

Bankers are a little like Mr. Coyote, in that the cameras seem to roll when we everyone is in the middle of trying to put food on the table. We always hate to feel sorry for Bank of America, but they are a good example of being vilified at every turn. Last week they were inept because they couldn't make enough money to satisfy their equity holders. Yesterday, they instituted a \$5 monthly fee for debit card usage for non-premium accounts and it turns into the first headline on CNN. Fees are something bankers and the public need to come to terms with, as instant access to cash is a major service that largely goes unheralded. It wasn't too long ago that the public had to go into a branch every week to cash their paycheck and take out a wad of money to carry around. Now we have the huge infrastructure of ATMs and point of sale terminals that need to be paid for and regulatory constraints on how to do just that. Despite the press, bankers need to continue to review fees, in an effort to pay for infrastructure, since net interest margins will remain compressed.

Depending on how you look at it, the good news is that the latest fee survey from Bankrate.com came out this week and it shows that fees across the board are hitting new highs (which have also hit the press). The average fee to use a non-network ATM is now \$2.40, up 3% from last year. In addition, customers may be charged by their own bank to use an out-of-network ATM and that average fee for 2011 came in at \$1.41 (unchanged YOY). Denver, San Diego, Houston, Seattle and New York had the highest fees at around \$2.75; while Cleveland (at \$2.06), Minneapolis, Tampa, Chicago and Cincinnati were the lowest. The average bounced check fee, meanwhile, is now \$30.83, a new record. High fees like those in Denver, Miami, Houston Dallas and Philadelphia hit around \$33; while San Francisco, Chicago, Cincinnati, Minneapolis and Los Angeles were low at an average of \$28 per bounced check.

For basic checking accounts (many that used to be free), the average monthly fee is \$4.37, up from \$2.49 last year. The balance needed to avoid the fee averages \$585, about double that from last year. Only about 45% of banks still have free checking, down from 76% last year. For interest-bearing accounts, the average fee jumped to \$14.15 from \$13.04 last year. The balance needed to avoid the fee rose to \$5,587 from \$3,883. That said, it should be noted that banks have become better at house-holding accounts and taking related account balances into consideration to offset fees.

Reviewing your basic fees for 2012 is a good use of resources to make sure you remain in-line with peers. Given the state of interest income, reworking your deposit account fee structure is probably the fastest way to positively impact the bottom line. While the public may not like it, your shareholders will appreciate you managing your bank to miss the falling anvil of red ink.

BANK NEWS

Equity Change

McGraw-Hill is in advanced talks with CME Group to combine the Dow Jones Industrial Average and S&P 500 into a joint venture. The move would allow the new entity to offer a wider package of index data to clients (such as hedge funds and financial-information publishers) given indexes are favored as benchmarks for institutional trading.

M&A

Wells Fargo has purchased a small insurance company in NV, its 5th insurance acquisition in the past year. Wells will buy ISU Stetson-Beemer, which provides P&C; employee benefits; workers' comp; auto; auto, home and life insurance.

Loan Growth

2Q GDP was revised slightly higher to 1.3% from a 1.0% annual rate. While still weak, it is a welcome trend as it roughly approximates loan growth expectations for banks.

Branch Value

FDIC data shows the median deposits-per-branch was \$42mm for banks with assets of \$100mm or more. Experts say branches need to have at least \$40mm in deposits to be consistently profitable.

Bank Equity

Larger banks are trading at about 1.0x tangible book, 0.7x book and 7.6x projected 2012 EPS.

Delinquencies

The OCC reported performance of first-lien mortgages serviced by large national banks worsened slightly, as 88% of loans were performing at the end of 2Q (down from 88.6% at the end of 1Q).

Shrinking

Seeking to boost capital ratios to comply with Basel III and improve efficiency, Bank of America has reduced risk-weighted assets by about \$80B.

Cheery Guy

The CEO of Deutsche Bank says recent data suggests the world's economy is on the brink of recession and that Europe and the US will feel the effects of the current crisis for quarters to come.

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