

# Manage Your Bank and Save Fees



Learn the secrets of managing your banking relationship, which will reduce your fees. Understand how banks pay less interest on CD rollovers, you can stop them!

# Manage Your Bank, Don't Let It Manage You



## Information You Need to Know to Manage Your Money and Your Bank

Bank fees are remarkably high; most banks would not exist if they could not charge fees. According to the *Public Interest Research Group*, in the first three quarters of 2020 overdraft fee revenue accounted for an average of 8.1 % of banks' net income.

Why would anyone agree to have their property stolen? Believe it or not, it happens every day all day. It occurs when you sign up for any bank service or any securities purchases. The agreement you sign shows what fees and expenses you will be exposed to with any transaction. Banks provide you with a list of services and charges, but they can change (increase) without your permission; they simply notify you of fee and expense increases.

Want an example of how banks use fees and expenses to generate obscene profits? Let us focus on two simple tools they use to increase their bottom line.



If you have a checking account with a bank and overdraw your account, a fee is charged and added to your deficit. On the surface, that seems reasonable; after all, you spent money you did not have. The bank paid your check with their money and charged you a fee, an overdraft fee. Most banks limit the amount of total overdraft on any one account; once that is reached, the bank continues to add more fees but does NOT pay the checks; they are returned as insufficient funds.

The history of this fee is interesting. It originated to help bank customers by covering an occasional mistake; naturally, an expense was incurred, and to charge a fee seemed reasonable.

In 1980, the fee for an overdrawn account was \$5 per incident; last year, the average was nearly \$45.

\$5 to \$45 over 36 years in an increase of 6.5% per year. Compare this to inflation for the same time period, \$5 in 1980 would have a value of \$15.50 in 2019. Bank fees of \$45 compared to an inflation rate of \$15.50. The difference is **322%** higher.

How much does this add up to for additional fee revenue for banks? In 2019 a study by the *Center for Responsible Lending* estimated it to be \$11.6 billion annually. <https://www.nytimes.com/2020/06/03/business/banks-overdraft-fees.html?>

As of July 1, 2010, banks must ask new customers if they wish to opt-in to overdraft protection. That legislation extended to existing customers on August 15, 2010. There is no legislation regarding how much money can be charged for overdraft fees, meaning customers who opt-in to the program could still pay up to \$45 for transactions that take them even \$5 into overdraft. While this law was well-intended, it was spun by the banks as a benefit:

*"let us help you not to have returned checks."*

(this was the lead focus of a national bank's advertising campaign.)

## The Four Types of Overdraft Fees

*Value Penguin* is a trustworthy source for information regarding banks as well as other financial topics. Sourced: <https://www.valuepenguin.com/banking/bank-overdraft-fees>

While most banks charge similar amounts for each fee, they sometimes apply slightly different rules to how each fee works and is charged. The multiple fees involved in an overdraft represent some of the highest checking accounts that banks charge. Besides the standard overdraft fee, you may encounter the nonsufficient funds (NSF) fee, the overdraft protection fee, and the extended overdraft fee.

### Overdraft Fee

The most obvious fee involved in an overdraft is the simply named overdraft fee, which occurs each time the bank approves a transaction that exceeds your available balance. Typically, banks do not charge the overdraft fee when you overdraw by less than \$5.

Every bank and credit union has its own limit on the number of overdraft fees it will charge in one day. You can commonly expect banks to charge a maximum of 4 to 6 overdraft fees per day per account, though a few outliers do allow as many as 12 in one day.

### NSF Fee

The nonsufficient funds (NSF) fee occurs each time the bank chooses to reject a transaction that overdraws your balance. Practically every bank charges the same amount for overdraft and NSF fees, and the two are often printed as one figure in your schedule of fees.

Since a bank must choose between approving and declining an overdraft, a single overdraft will cost you either an overdraft fee or an NSF fee, but never both. However, a few banks do distinguish between the two fees when they count the daily maximum. *For example, U.S. Bank* will only charge up to 4 overdraft fees per day but counts the limit on NSF fees separately so that you can end up paying **eight** separate penalties in a day.

### Overdraft Protection Fee



Also called the overdraft transfer fee, the overdraft protection fee is charged every time the bank arranges a transfer from another one of your accounts —usually a savings account —to cover the overdraft. Legally, banks cannot include overdraft protection as automatic account service, so customers must opt into activating the feature.

Online banks often provide overdraft protection for free, but you can expect to pay anywhere from \$10 to \$12.50 per transfer if you are at a standard bank. (some banks allow a free number per month, then fees will begin when the limit is reached) While this can save you money in comparison to paying overdraft or NSF fees, if the bank's policy does not include mandatory notifications for each overdraft transfer, you may end up draining your savings before you realize what's happening.

### **Extended Overdraft Fee**

The final fee in the arsenal of overdraft penalties is the extended overdraft fee. This fee is sometimes called a sustained overdraft or extended overdrawn balance fee, and it comes into play when you leave your account balance in the negative for a certain number of days. In most cases, you have 5 business days or 7 calendar days to fix your balance before the extended overdraft fee takes your account even deeper into the red.

Some banks charge this fee once every 5 days, while others go so far as to assess the fee every day until you bring your balance back above zero. The maximum number of extended overdraft fees you can incur varies by bank.

### **Help Yourself by Reading the Fine Print and Asking Questions**

Try to understand your bank's overdraft policies. The deposit account agreement and personal schedule of fees you receive when you open your account should cover fee limits, recurring fees, and other quirks in the bank's rules. You can obtain extra copies of these documents either online or directly through your bank.

These are a few of the points you might want to investigate:

- Does the bank notify you when an overdraft occurs, or is the overdraft fee a "silent" charge that might end up surprising you?
- Does the overdraft fee apply only to written checks and automatic transfers, or does it also cover debit card swipes and ATM withdrawals?

- How long can your account stay overdrawn before the extended overdraft fee kicks in, and how long before that fee is charged a second or third time?

If you cannot find the answers to such questions in the documents, you should ask a bank representative by phone or in person to clarify your situation.

### **Use Overdraft Protection with Caution (Overdraft protection can be a loan that charges interest)**

Overdraft protection is not a way to avoid fees. Still, careful management can help you reduce them: paying the typical \$10 to \$12.50 per protective transfer is still preferable to get hit with a \$35 (or more) overdraft or NSF charge. Also, using overdraft protection will ensure that your transaction is not rejected, as it may be if the bank decides to decline a normal overdraft.

However, overdraft protection services can be costly if you overuse them. The service itself costs a fee each time it is activated, and you are also spending money out of your savings account or a line of credit to cover the overdraft. In extreme cases, you may even run into savings account fees: use overdraft protection more than 5 or 6 times a month, and the bank may charge you a penalty for exceeding the federal limit on savings account withdrawals.

Banks are legally required to offer overdraft protection as an opt-in service rather than an automatic feature, so if such an arrangement appeals to you, you will need to contact your bank to set it up.

## **Be cautious for Savings Account Fees.**

### **Savings Account Fees: What They Are and How Much They Cost**

Typical savings accounts come with a monthly maintenance fee and an excessive withdrawal fee; both can be avoided if you meet certain conditions in using your account. Incidental fees, which are charged for specific services, often hide in the fine print of fee schedules, which not all banks make readily available. Bank fees may vary from monthly service fees of around \$5 to stop payment and insufficient fund fees of as high as \$35. Avoiding fees on your savings account is vital if you wish to maximize the interest your money earns, especially with today's low interest rates. Even a

small deduction from your principal can become a significant loss over time.

- Monthly Fees for Savings Accounts
- Online Saving Account Fees
- Withdrawal Fees
- Inactivity fees



**Certificates of Deposit (CD)** created an entirely new avenue for banks to **take advantage of depositors** not paying attention. (and you agreed to it when you opened your account)

How about a second fee charged by banks negotiated through Congress by the banking industry is called the **new money rate and the old money rate**. It is not a fee but abuse of depositor money. The less a bank must pay in interest for funds on deposit, the more margin it can make on your deposit

If you have a bank certificate of deposit and it matures, the bank will automatically roll over your **Certificate of Deposit** unless you tell them not to. If they do so automatically, you might be earning a lower rate than is offered, new depositors. This simple change in rules has allowed banks to earn a greater rate on the funds on deposit. This change allowing banks to rollover deposits occurred under the *Reagan Administration* when many bank's rules were affected.

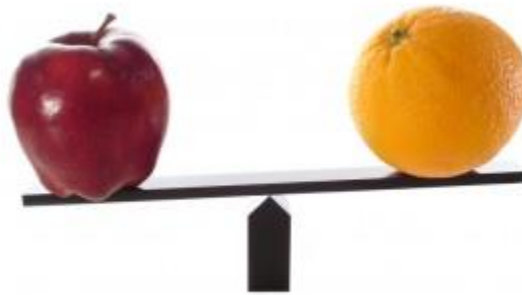
How much difference can an automatic rollover rate be? New money rates intended to attract new depositors can be as high as 2.5% for a 3-year CD, but the rollover rate can be as low as .8% (higher or lower depending on

current interest rates) for the same money on deposit in the same cd at the same bank.

Ask your bank for a list of fees, charges, and expenses for bank services. As an example, here is **Bank of America**, 16 pages long and small print. Sourced: <https://www.bankofamerica.com/smallbusiness/resources/business-schedule-fees.go>

Many people have found that buying a "**multiyear guarantee annuity**" can make more sense than a bank CD; here is more info: <http://www.annuity.com/should-you-choose-an-annuity-or-a-bank-certificates-of-deposit/>

If your important funds' safety and security are important, should you choose to hold your funds, banks, or insurance companies?



While there is no "**correct**" answer for everyone, both choices have benefits. Your decision should be based on your specific situation and goals.

Both banks and insurance companies are highly regulated and insured. The choice should be based on your specific needs.

1. The already low interest paid on **CDs is taxable** whether you use it or not. Do not be fooled. A 5-year CD still gives you a 1099 every single year. **Annuities are only exposed to tax liability when the funds are accessed**, either by the annuity owner or later to a named beneficiary
2. In many states, an annuity may have some level of exemption from creditor liens and judgment. The amount that can be protected varies based on your state of residence. A CD can be garnished or seized. In most situations, a Bank CD is an exposed asset to creditors.



3. Unless you specify **named beneficiaries**, your CD may be subject to probate expenses. Annuities are contracts, and you can name a beneficiary. Named beneficiaries may receive the proceeds without probate expense or time delay.
4. The interest on your CDs may reduce your **Social Security benefits**. Again, because you are given a 1099 each year, this interest on your CD is considered income. Therefore, this income may push you into a higher tax bracket, which could reduce your Social Security benefits because of the higher taxes you may be forced to pay. Unless you need the earned interest, consider an annuity; interest earned annually is not considered income until the funds are touched.
5. Your CD cannot give you triple compounding, but an annuity can. Again, because a **CD is taxed every year**, your money cannot grow on a tax-deferred basis. **Annuities are tax-deferred**, allowing you to defer the tax liability, earn interest on taxes you did not have to pay, and interest on the deferred interest.
6. **Income**. Annuities can provide income for any time period, even a lifetime. In the event you live longer than expected, an annuity can keep the income coming. Income from a bank cd can only provide income as long as there are funds available. When the account is diminished, the income stops. Unlike annuities, this vehicle cannot provide you with a lifetime income guarantee.
7. **Bank CDs have no catastrophic clauses**. For the most part, CDs will not let you liquidate without penalties; annuities have contractual guarantees that allow for access under specific conditions, such as a prolonged nursing homestay.
8. Bank CDs provide options for safety and security for a shorter time period than do insurance company annuities. Often a **combination of short (bank cd) and long positions (annuity)** may provide a higher yield overall.

I use bank CDs constantly to park money and to help my clients with short-term money rates. The best place to find the highest available bank Interest rates at [www.bankrate.com](http://www.bankrate.com)

### **More bank fee information provided by Investopedia:**

- [Monthly Account Maintenance Fees](#)
- [Minimum Balance Fees](#)
- [Overdraft/NSF Fees](#)

- [Overdraft Protection Fees](#)
- [Returned Deposit Fee](#)
- [Additional Checks Fees](#)
- [Cashier's Check Fees](#)
- [Paper Statement Fees](#)
- [ATM Fees](#)
- [Debit Card Transaction Fees](#)
- [Lost Card Fees](#)
- [Foreign Transaction Fees](#)
- [Wire Transfer Fees](#)
- [Savings Withdrawal Fees](#)
- [Inactivity Fees](#)
- [Account Closing Fees](#)
- [Negative Interest](#)
- [How to Limit Bank Fees](#)
- [The Bottom Line](#)