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Business

ENTERTAINMENT INSIDE

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Deregulation brings changes to banking industry

By Doug Funke
staff writer

This is the second article in an ongoing series about the banking industry in southeastern Michigan. This installment looks at consumerism.

Blame deregulation, bankers say, if you're weary of service fees on checking accounts, collection fees on utility bill payments and fees charged by some institutions on Automatic Teller Machine (ATM) transactions.

Stop grousing, they add, because shareholders aren't getting rich at your expense.

"What people think is rapacious gouging is not rapacious gouging, but reflective of changes that have taken place in our business," said Justin L. Moran, a consultant and spokesman for the Michigan Bankers Association.

"They don't realize banks are making 1 percent on their assests. Any bank that's been able to maintain profitability it's from service charges rather than spread," he said.

(Spread is the difference between interest received from borrowers and interest paid depositors.)

"Consumers are used to seeing prices increased annually in every other avenue they deal with," said Robert Heinrich, president of Metropolitan National Bank of Farmington. "They see it everywhere and yet have unreasonable expectations about banks. I think for too many years banks have been looked upon as quasi-public utilities."

FEDERAL DEREGULATION, implemented to help banks survive competition from money market funds, has changed the industry.

"When I was growing up, banks were very highly regulated," Moran said. "Two-thirds, three-quarters of savings were in checking accounts on which, until 1967 by law, no interest was paid.

"You gave everything away. You (banker) had to be an incompetent fool not to make money," he added. "We had the Rule of Three. Pay 3 percent on passbook, mark up loans by 3 percent and be on the golf course by 3 p.m."

Bankers say they now look at the cost of all their services because the spread has narrowed and is getting squeezed even more.

First of America, for instance, has informed business checking customers that it will pass along the current FDIC insurance fee of .195 percent on those accounts starting in April.

The FDIC fee, used to bail out failing banks and previously absorbed by First of America and other institutions, was .083 percent in 1989 and rises to .23 percent July 1.

"Postage is another example of something that has gone up and wages to employees," Heinrich said. "Somewhere along the line, we have to get that back."

Checking accounts are ripe targets.

"Over 50 percent of customers at a bank typically have only a checking account," Moran said. "They don't have certificates of deposit, money market accounts, savings accounts."

About half with checking accounts pay some kind of monthly service fee because they fail to maintain required monthly minimums in either the checking account or other accounts, Moran added.

The fees don't seem to vary much regardless of the size of the institution. For instance:

EYE on BANKS

- Comerica charges $3.50 per month plus 39 cents per check on non-interest bearing checking accounts unless a minimum of $1,000 is maintained in the checking account, a savings account or a CD.

That amounts to $89 per year based on 10 checks per month and doesn't include the printing costs of the checks.

- Metro National Bank of Farmington, with three branches, charges a flat $6.50 per month — $78 per year — unless the balance on its non-interest bearing checking account remains above $500 or averages $1,500 for the month.

MONTHLY FEES are even higher if minimums aren't maintained on NOW interest bearing checking accounts at most banks.

But banks lose money servicing checking accounts even with those monthly charges, Moran maintains.

He referred to a Federal Reserve study that showed Midwest banks incurred an average cost of $14 per month — $168 annually — to service a checking account in 1989.

"Checking accounts basically still are a loss leader for banks," Moran said. "You hope if they (consumers) get a credit card, they will get it through you, if they get a car loan, they get it through you; if they save to send their kids to college, they save through you."

Unit pricing also is the story behind changes for services formally offered free like utility bill payments.

"It used to be the utilities paid us to take the business," Moran said. "Now, they want to pocket that money. If the utility doesn't pay, we have to ask the customer."

A VARIETY of costs — personnel, computer charges, credit checks, bookkeeping and transaction fees also affect credit card and ATM operations.

"If you want a free credit card, it's not hard to get one," Moran said, citing Security Bank & Trust of Southgate.

That bank owns a computer company and is conservative about who is approved for credit, said William Davis, a credit manager for Security.

And what about the savings side?

Interest rates on deposits — savings accounts, CDs, money markets — are driven by both competition among banks and availability of money resulting from moves taken by the Federal Reserve System.

"Those are very competitively set," Heinrich said. "It's surveying the competition and seeing what other instruments are available like treasury bills."

Michigan Citizens Lobby expects to study banking fees and issue a report within the next few months, said Brian Johnson, economic policy director for the consumer group.

THAT ORGANIZATION has talked internally about examining such things as the fairness of charging fees to depositors on checks that bounce and changing the rules in the middle of the game on ATM transaction fees, he said.

Minimum account balances to avoid monthly checking fees isn't a high priority, Johnson added.

Charges and interest rates shouldn't be — and aren't — the only factors in deciding to do business with a particular institution.

"Look at how the account provides value — ATM locations, hours open, how they resolve complaints," said Rick Hebard, director of product management for Comerica. "Ask, 'Are they interested in me as a person?'"

"Our surveys show that while rates and fees are important, people issues seem far more important," Hebard said.

Heinrich added: "The vast majority are interested in convenience."

clarification

Due to incorrect information supplied the Observer & Eccentric, the figure of non-performing assets to total loan portfolio for Metropolitan National Bank of Farmington was misstated in the March 14 issue.

The figure in the chart should have been .99 percent instead of 3.67 percent, said Jerry Wasen, *Metro vice president*.

Charitable trust has purpose

By Dan Boyce
and Alan Ferrara
special writers

Local financial planning experts reviewed the data of the family profiled here and made general recommendations based on the participants' resources and goals. The information is for educational purposes only; references are not intended as discrimination or endorsements by Observer & Eccentric Newspapers or the advisers. To receive a free financial planning brochure or to obtain a questionnaire to have your finances reviewed in this column, contact the Center for Financial Planning, Dept. 100, 26211 Central Park Blvd., Suite 604, Southfield 48076, or call 948-7900

"In the end, all you can take with you is what you've given away."

The focus of this month's financial profile is on a specific planning strategy that can work amazingly well in the right set of circumstances. The charitable remainder trust is a powerful tool with significant benefits to the donor and to the charity chosen by that donor.

Janet L. is a 63-year-old widow who lives in a comfortable Birmingham neighborhood. She is financially well off, with monthly expenses approximating $3,000 and regular income of $700 from Social Security and $1,500 from a pension. The $800 monthly shortfall is provided through income from several of her municipal bonds. The stock dividends and other interest income is reinvested.

Janet has one grown child, a son who owns a successful small business. He has two daughters, Janet's only grandchildren. Janet and her late husband were strong supporters of their church and also of two local arts organizations. They have made annual charitable contributions to these organizations for years. She would like to continue her support as long as possible.

Janet realizes that her estate will be subject to significant estate taxes upon her death. A calculation shows the estate tax due will be more than $140,000, and that she is in the 39-percent marginal estate tax bracket. This bracket will likely go higher as her assets increase.

In the early 1960s, Janet invested $25,000 of an inheritance she received into a solid blue chip stock issue. With splits in the stock and growth in the price per share, the stock has grown to almost $200,000 in value. She realizes she shouldn't have so much of her money in a single stock, particularly one that has had both ups and downs over the last 27 years. But she does not want to pay the substantial capital gains that she would incur upon sale. Almost one-third of the profit would be paid to the IRS in capital gains taxes.

ALL OF THESE factors make Janet a perfect candidate for considering a charitable remainder trust. In such a trust, the person setting up and funding the trust (the "grantor") typically receives a steady income for a period of time, perhaps for life. The remainder of the assets placed into the trust go to the charity or charities, usually at the death of the grantor.

The income paid can be a specified percentage of either the initial contribution made to the trust (an "annuity trust") or a percentage of the value of the trust at a specified date each year (a "unitrust").

This payment percentage is usually between 5 and 9 percent per year. Because the dividend yield on her stock is just 2.9 percent, she will obviously increase her income with the charitable trust strategy. Besides this income benefit, there are substantial income tax and estate tax benefits for Janet.

In the charitable remainder trust, the charitable beneficiaries are established by Janet when she first sets up the trust. She can allocate among the charities as she wishes at that time. But she should not act as trustee of the charitable remainder trust. In Janet's case, we have sug-

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Financial Position

ASSETS	
Invested Assets:	
Checking and Savings	$24,500
Money Market Funds	43,800
Certificates of Deposit	125,000
Municipal Bonds Funds	221,000
IRA	73,600
Individual Stocks	311,000
Stock Mutual Fund	12,200
Total Investments	$811,100
Non-Investment Assets:	
Home	$160,000
Florida Condo	60,000
Automobile	15,000
Personal Possessions	15,000
Total Non-Investment	$250,000
Total Assets	$1,061,100
LIABILITIES	
Home Mortgage	$93,900
Total Liabilities	$93,900
NET WORTH	$967,200

The Bottom Line

Charitable Remainder Trust Benefits

- ✔ [illegible]
- ✔ [illegible] $175,000 [illegible] savings of approximately $55,000
- ✔ [illegible] annual income by more than $12,000
- ✔ [illegible]
- ✔ [illegible] approximately $78,000

FAMILY FINANCES