

Sick of Fees? Here Are Some Other Banking Options

By Bruce Watson, *Daily Finance*
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When people talk about the American dream, banks are usually somewhere in the background. Whether the goal is buying a house or going to college, starting a business or taking a vacation, the bank is where people save their pennies and get the loans that make everything happen. But what if – instead of making your dream come true – your bank relationship actually costs you money?

Ideally, banks are supposed to provide a secure place to store money and a steady stream of compounded interest to make the pile bigger. But, between falling interest rates and rising fees, many bank customers have found that, instead of getting richer, they're actually losing money. Part of the problem is the government: Traditionally, banks invest their deposits and pay interest to their customers. But with the Federal Reserve lending money at 0% interest, there's no reason for banks to pay interest to their customers. At the same time, 2009's CARD Act cut many of the hidden fees that banks were using to boost revenue from credit cards; in response, many banks created new fees to help them ensure a steady stream of income. Many banks have added or increased fees for online bill pay, online account transfers, coin deposits, and dozens of other services that used to be relatively cheap, or even free.

Put It on the Card

One increasingly popular alternative for stashing cash is refillable debit cards, which resemble credit cards but are not attached to bank accounts. Customers can buy the cards, deposit their cash onto them, and use them in much the same way that they would use a credit card. Most cost a few dollars to buy and carry a small monthly fee. For households that spend most of their monthly income, these cards offer a convenient way to handle their money.

Unfortunately, many of these cards, which are offered by banks, come packed with the same brutal fees that plague traditional bank accounts. In fact, thanks to a loophole that banks lobbied to have placed in the CARD act, banks are able to hit refillable debit card users with fees that are illegal for more traditional credit card accounts.

Walmart offers a promising solution to the debit card problem: its money card costs

\$3 per month to use, but doesn't have any automatic fees. Customers can directly deposit their paychecks onto the cards, can use them like credit cards, and can even get their cards – and their money – replaced if the cards are stolen. For many users, the cards are a lot cheaper than traditional bank accounts.

Credit Unions

For people who want a full-service bank, but don't want to pay huge fees, credit unions are a great choice. Basically not-for-profit, member-owned banks, they follow fairly close to the traditional banking model: Most of their money comes from loans, not investments, and much of their profit goes back to members in the form of compounding interest and lower-rate loans. Because their profit model doesn't rely on fees, credit unions don't have many of the charges that banks commonly tack on. In fact, some credit unions even reimburse the fees that their customers pay for using other banks' ATMs!

Admittedly, there are some drawbacks to credit unions. To begin with, most only have a few branch offices, and they don't have as many ATMs as major banks. Then again, with many banks tacking on or increasing fees for ATM usage, the benefit of large numbers of ATMs may be fairly limited. For that matter, many credit unions belong to CO-OP, Cashpoint, or other ATM networks that vastly increase the number of places where customers can access their money.

Given the choice between high-cost banks and lower-cost credit unions, it's not surprising that many customers are moving their money. According to the World Council of Credit Unions, more than 91 million people – almost 44% of the economically-active population – had accounts at credit unions in 2010. Since then, the numbers have risen even higher: On "Bank Transfer Day," a widespread protest in November against high-fee banks, an estimated 40,000 bank customers moved their accounts to credit unions. According to the Credit Union National Association, approximately 650,000 customers did the same over the course of the preceding month.

For some bank customers, refillable debit cards are a simple, safe way to handle money; for others, credit unions offer the best option for cash management. Regardless, one thing is pretty consistent: for many customers, traditional banking is a waste of money.

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