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EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE

Current Law

Section 127 provides that an employee's gross income and wages do not include amounts paid or incurred by the employer for educational assistance provided to the employee if such amounts are paid or incurred pursuant to a qualified educational assistance program. This exclusion is limited to \$5,250 of educational assistance with respect to an individual during a calendar year. The exclusion applies whether or not the education is job-related. In the absence of this exclusion, educational assistance is excludable from income only if it is related to the employee's current job.

The exclusion applies with respect to undergraduate courses beginning before June 1, 2000. The exclusion does not apply to graduate level courses beginning after June 30, 1996.

Reasons for Change

Well-educated workers are essential to an economy experiencing technological change and facing global competition. Extension of section 127, including reinstatement of its application to graduate courses, will expand educational opportunity and increase productivity. In addition, these provisions will encourage the retraining of current and former employees to reflect the changing needs of the workplace. The extension of section 127 also will simplify the rules for employers and workers by eliminating the need to distinguish between job-related expenses and other employer-provided educational assistance.

Proposal

The current law exclusion would be extended by one year to apply to undergraduate courses beginning before June 1, 2001. In addition, the exclusion would be reinstated for graduate education, effective for courses beginning after June 30, 1998 and before June 1, 2001.

initiated by a consumer at an electronic terminal operated by such operator.'

SEC. 3. DISCLOSURE OF POSSIBLE FEES TO CONSUMERS WHEN ATM CARD IS ISSUED.

Section 905(a) of the Electronic Fund Transfer Act (12 U.S.C. 1693c(a)) is amended--

(1) by striking 'and' at the end of paragraph (8);

(2) by striking the period at the end of paragraph (9) and inserting `; and'; and

(3) by inserting after paragraph (9) the following new paragraph:

`(10) a notice to the consumer that a fee may be imposed by--

`(A) a host electronic terminal operator (as defined in section 904(d)(2)(D)(ii)) if the consumer initiates a transfer from an electronic terminal which is not operated by the person issuing the card or other means of access; and

`(B) any national, regional, or local network utilized to effect the transaction.'

SEC. 4. FEASIBILITY STUDY.

(a) IN GENERAL- The Comptroller General of the United States shall conduct a study of the feasibility of requiring, in connection with any electronic fund transfer initiated by a consumer through the use of an electronic terminal--

(1) a notice to be provided to the consumer before the consumer is irrevocably committed to completing the transaction, which clearly states the amount of any fee which will be imposed upon the consummation of the transaction by--

(A) any host electronic terminal operator (as defined in section 904(d)(2)(D)(ii) of the Electronic Fund Transfer Act) involved in the transaction;

(B) the financial institution holding the account of the consumer;

(C) any national, regional, or local network utilized to effect the transaction; and

(D) any other party involved in the transfer; and

(2) the consumer to elect to consummate the transaction after receiving the notice described in paragraph (1).

(b) FACTORS TO BE CONSIDERED- In conducting the study required under subsection (a) with regard to the notice requirement described in such subsection, the Comptroller General shall consider the following factors:

(1) The availability of appropriate technology.

(2) Implementation and operating costs.

(3) The competitive impact any such notice requirement would have on various sizes and types of institutions, if implemented.

(4) The period of time which would be reasonable for implementing any such notice requirement.

(5) The extent to which consumers would benefit from any such notice requirement.

(6) Any other factor the Comptroller General determines to be appropriate in analyzing the feasibility of imposing any such notice requirement.

(c) REPORT TO THE CONGRESS- Before the end of the 6-month period beginning on the date of the enactment of this Act, the Comptroller General shall submit a report to the Congress containing--

(1) the findings and conclusions of the Comptroller General in connection with the study required under subsection (a); and

(2) the recommendation of the Comptroller General with regard to the question of whether a notice requirement described in subsection (a) should be implemented and, if so, how such requirement should be implemented.

SEC. 5. NO LIABILITY IF POSTED NOTICES ARE DAMAGED.

Section 910 of the Electronic Fund Transfer Act (15 U.S.C. 1693h) is amended by adding at the end the following new subsection:

'(d) EXCEPTION FOR DAMAGED NOTICES- If the notice required to be posted pursuant to section 904(d)(2)(B)(i) by a host electronic terminal operator has been posted by such operator in compliance with such section and the notice is subsequently removed, damaged, or altered by any person other than the operator of the **automated teller** machine, the operator shall have no liability under this section for failure to comply with section 904(d)(2)(B)(i).'

SEC. 6. EFFECTIVE DATE.

This Act and the amendments made by this Act to other provisions of law shall take effect at the end of the 6-month period beginning on the date of the enactment of this Act.

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***Commercial POS
and
ATM Transaction Fees***

A Compilation of Publicly Available Information

***The EBT Council
January 1997***

COMMERCIAL POS AND ATM TRANSACTION FEES

The EBT Council during its meeting on September 27, 1996, asked NACHA to conduct a literature search relative to the commercial EFT infrastructure and fees and to prepare a paper compiling publicly available information. This paper is submitted by NACHA to the EBT Council in response to this request. The paper is divided into two major sections:

- 1) Participants in the Commercial EFT Environment - This section describes the roles and relationships of the various EFT participants. It is intended to provide background information and build a foundation for the next section, which discusses fees.
- 2) Commercial EFT Transaction Fees - This section discusses the fee structure currently applied to ATM and POS transaction processing. It begins on page nine.

PARTICIPANTS IN THE COMMERCIAL EFT ENVIRONMENT

There are five primary categories of participants within the commercial EFT environment. They are:

- issuers,
- acquirers,
- third party processors,
- networks, and
- merchants.

The roles and relationships of each of these participants are briefly described below. It is important to note that individual participants in the commercial environment may perform multiple roles depending on the range of services they provide.

Issuers

The issuer role is performed by financial institutions that issue debit and/or credit cards, maintain consumer accounts and provide ongoing cardholder services.¹

To process transactions through a commercial EFT network, a card issuer must have agreed to abide by the network operating rules. Currently all branded commercial networks require card issuers to be financial institutions.² This policy requirement is imposed by the networks to ensure that the card issuer is qualified under federal and state banking laws and deposit insurance requirements to fulfill any obligations it may incur from cardholder transactions.

Participation in the commercial EFT infrastructure through membership in a branded regional and/or national network, provides an issuer both brand recognition through the use of a network mark³ and widespread card acceptance wherever the network mark is displayed.

Issuers that wish to provide card access beyond the boundaries of a single network may contract with multiple regional networks for transaction processing services. Access to multiple networks may be obtained by installing direct links to each network, obtaining access from a third party or expanding an existing network agreement to include gateway-access provisions if the network has agreements which enable it to serve as a gateway.

¹Many of the functions and services of an issuer may be outsourced to independent service providers. For example, card issuance, account maintenance, transaction authorization and reporting functions are customarily outsourced to independent processing firms that are designated by and acting as agents of the issuer.

² Credit card associations also require issuer to be financial institutions.

³ Federally registered service mark owned and promoted by a network and used to designate network access locations.

Acquirers

Acquirers are financial institutions that are responsible for warranting the capture of ATM and POS transactions and the transmission of requests to networks.⁴ An acquirer may or may not process the transaction it warrants. For example, the ATM and POS terminals that a non-financial institution (e.g., merchants and third party processors) deploys and/or operates must be sponsored by an acquiring financial institution in order to accept and process transactions through commercial EFT networks, therefore, the acquirer warrants the transaction, but the merchant or third party processor actually processes it. Acquirers must warrant that all terminals for which they are responsible accept and process all transaction requests initiated by cards that participate in the network. They also warrant that the terminals for which they are responsible interface with the network using technical and operational specifications outlined in the network operating rules.

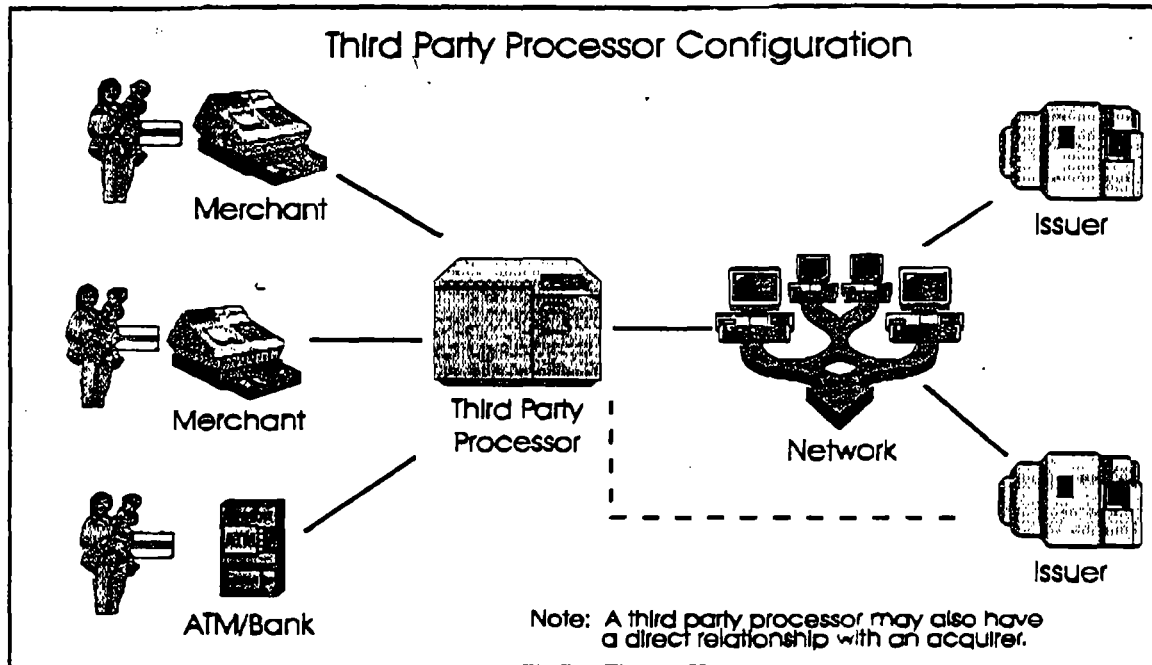
Third Party Processors

Third party processors provide services to both acquirers and issuers. For acquirers they provide front-end transaction processing services necessary to support terminal operations. For issuers, they provide transaction authorization services. A third party processor may own the ATM and/or POS terminal it operates. A merchant that owns its own terminals may contract with a third party processor to support its terminal operations.

— To participate in a commercial network, a third party processor must: ensure that financial institutions are members; ensure that its merchants are sponsored by an acquirer; execute a processor agreement with a commercial network; and meet the technical and operational requirements specified in the network operating rules.

⁴As with issuers, many of the functions and services provided by an acquirer may be outsourced to independent processing firms.

Both third party processors and networks, which are discussed below, also provide Gateway services, whereby they serve as an interface or switch to access one or more networks.



Networks

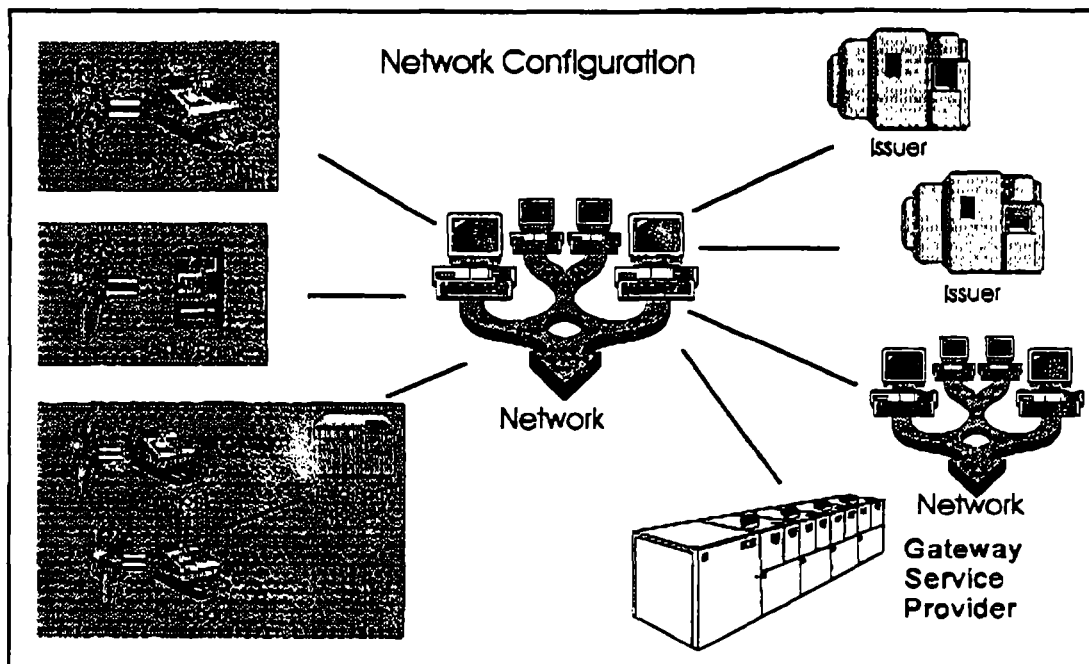
Commercial networks provide switching facilities for transaction routing between acquirers and issuers. These services facilitate both the transmission of transaction requests and transaction approval and denial messages between parties. By offering switching services, commercial networks eliminate the need for duplicate physical connections and contractual relationships between issuers and acquirers. This elimination of duplicate connections results in economies in transaction routing and administration. In addition to communication and switching functions, networks provide a variety of additional services including:

- development, establishment, and promotion of a network brand;
- settlement of transactions between issuer and acquirer clearing accounts;
- settlement of fees between issuers and acquirers;

- promulgation and administration of transaction processing and operating rules; and
- enforcement of compliance among network participants.

Most regional networks have access to the national ATM or POS networks. Some regional networks have established reciprocal relationships with other regional networks. Reciprocal relationships between regional networks provide extended geographical reach for each of the network's members without the members having to join a national ATM or POS program.

Networks process transactions over the course of the business day and settle the aggregate funds daily. Although the primary function of a network is to switch transactions between various network parties — including acquirers, third party processors, and other networks — some also provide transaction authorization services for member issuers.



Issuers may opt to participate in more than one network and, therefore, issue cards with multiple network marks. Acquirers may also participate in multiple networks and display multiple network marks on their ATM and POS terminals. The orderly and efficient

interchange and processing of transactions is ensured by network operating rules. When one common mark appears on both a card and an ATM or POS terminal, the transaction is routed through the network of the common mark. However, when more than one common mark appears on the card and terminal, network operating rules may specify routing procedures. Some networks require the use of their network whenever their network mark is common to both the card and terminal, while other networks allow the acquirer to specify the routing requirements.⁵ When a regional and a national network mark are on both a card and the terminal where a transaction is initiated, the national network is generally the network of last resort. Prior to routing transactions through one of the national networks (i.e., Plus and Cirrus for ATMs and Maestro and Interlink for POS transactions), many of the regional network rules require issuers to route transactions via the regional network.

Merchants

Merchants must be sponsored into a commercial EFT network by a financial institution. The sponsoring financial institution is known as an acquirer, as discussed earlier in this paper. The acquirer is responsible for the actions of each merchant that it sponsors into the network.

Merchants have a number of options for obtaining access to a commercial EFT network. If the merchant has its own processing capabilities, it may obtain access by way of a direct connection to the EFT network. In this case, the merchant would own and operate its own system and drive its own terminals. Another option for a merchant that operates its own system is to contract with a third party processor to obtain access to a commercial network. In this situation the merchant links directly to the third party processor that is

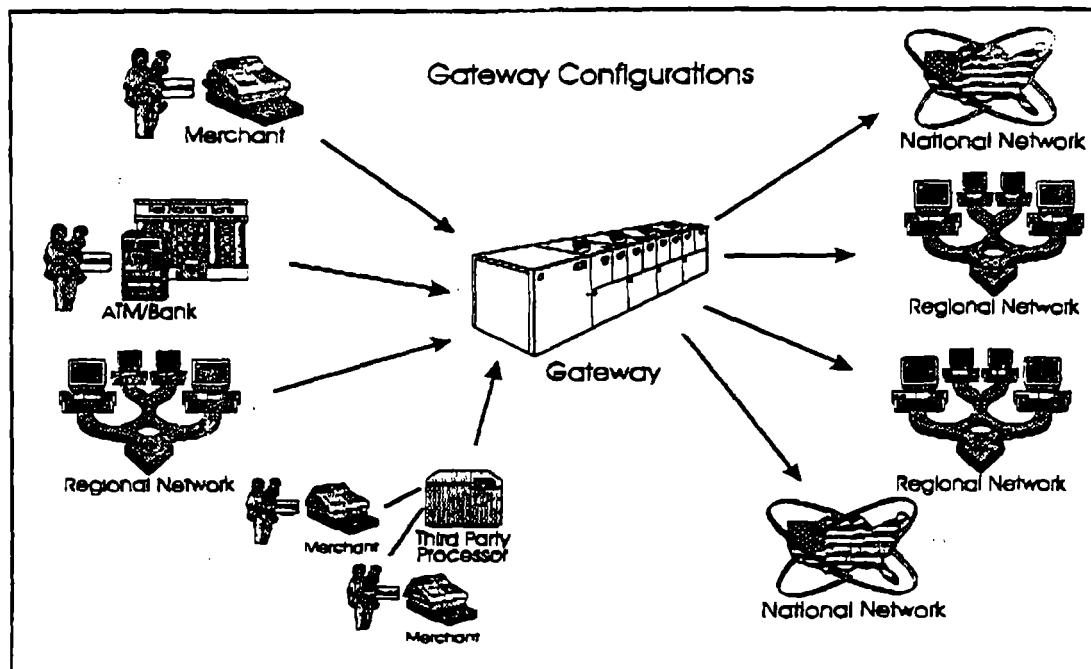
⁵ When more than one common mark is present for an ATM transaction, networks typically defer the routing rules to those specified by the issuer who is responsible for payment of the transaction interchange fee. However, when more than one common mark is present for a POS transaction, the routing rules may defer to those specified by the acquirer, if the acquirer is responsible for payment of the interchange fee.

linked to the network. A number of merchants use this option, particularly if the merchant participates in multiple networks. The merchant supports one interface to the third party and then contracts with the third party to "gateway" it to multiple networks, while supporting just the one interface to the third party. A merchant may also contract with a third party to drive its terminals as well as to access a commercial EFT network. In addition, merchants often obtain access to a network by purchasing or leasing the equipment from an Independent Sales Organization (ISO). In these cases the ISO usually has an agreement with a third party processor that is capable of driving the terminal and providing network access for the merchant.

There are two types of purchase transactions that a merchant may support. The most common is the "purchase," which is a single message transaction in which the merchant requests an approval for a specific purchase amount. If the request is approved, the transaction is completed immediately. The second type of purchase transaction is a "preauthorization." This transaction consists of two messages (a request which is typically for a predetermined amount and a completion messenger) and is often used in conjunction with a fuel purchase.

Gateway Service Providers

The role of a gateway is to provide access to networks. Gateway service providers are generally networks or third party processors. Acquirers, issuers, third party processors and networks may all contract directly with a gateway service provider for services. For example, an acquirer that wishes to accept cards with various network brands can either link directly to each of the networks, or contract with a gateway service provider that provides access to each network.



COMMERCIAL EFT TRANSACTION FEES

This section describes the types of fees charged by commercial EFT network participants, the costs or services included in the fees, and how the fees are applied (where and by whom). The data included in this section was gathered from a review of existing published data on EFT transaction fees and discussions with EBT Council members. A summary of branded network transaction fees is provided in Attachment A - *POS and ATM Transaction Fees*. In addition, the fees and fee flows for a variety of ATM/POS configuration options are graphically depicted in Attachment B - *ATM/POS Configuration Options and Fee Flows*.

Network Fees

As networks have evolved, there has been considerable concern regarding the potential antitrust implications of multiple financial institutions participating in a single, shared network and the potential for price fixing. Due to this concern, many networks established ATM fees based on detailed cost studies conducted by outside accounting firms. These studies determine the actual operating costs associated with the cost of processing an ATM transaction. ATM fees are then determined using the actual cost data.

Network fees are assessed and collected by the network and are paid either by the issuer or acquirer, or both, depending on the transaction type and network operating rules. Although the fee structure varies from network to network, networks typically charge four categories of fees:

- one-time initiation fee;
- annual membership fees;
- monthly service fees; and
- transaction fees (i.e., interchange and switch fees).

A general discussion of each of the four categories of fees and their cost components is provided below.

One-time Initiation Fee

A one-time initiation fee is customarily charged by networks to fund the administration and operational conversion expenses for a new member institution (the fee may include the cost to connect, test, and certify an issuer, acquirer, or third party processor's system). This fee may be based on a network member's participation classification (e.g., acquirer, issuer, or third party processor) and/or the number of network cards issued or terminals deployed by a member. In addition to the network initiation fee, a member institution that opts to include gateway services as part of its arrangement with a network may also incur a one-time initial set-up fee for these services.

Annual Membership Fees

Annual membership fees may be charged to cover administrative expenses of the network. These fees are often related to the member's average depository volume or the volume of cards issued by a member issuer. Not all networks charge annual fees; however, those that do not usually charge higher monthly service fees.

Monthly Service Fees

Monthly service fees may be charged to cover communications, settlement services, gateway access, third party processor connection, and/or stand-in processing costs. Although monthly service fees are commonly charged, the components included in this fee vary widely.

Transaction Fees

Network transaction fees include two components: switch and interchange fees. Switch fees are charged by the network for processing services and retained to fund the cost of services provided by the network. Interchange fees are collected by the network on behalf of either the issuer or acquirer, depending on the type of transaction and the fee structure specified by the network. For POS transactions, the interchange fee is generally paid by the acquirer/terminal operator to the issuer, whereas the issuer typically pays the acquirer/terminal operator an interchange fee for ATM transactions. A brief discussion of ATM and POS transaction fees is provided below.

ATM Transaction Fees. An ATM transaction fee is comprised of both a switch and an interchange fee.

Switch Fee. The switch fee for all ATM transaction types, both financial and non-financial, ranges from two to fifteen cents and is paid by the issuer to the network(s).

Interchange Fee. The ATM interchange is also paid by the issuer. This fee is collected by the network on behalf of the acquirer. ATM interchange fees vary based on transaction type, i.e., withdrawal, deposit, or non-financial transactions including account transfers, balance inquiries, and transaction denials. The median fee range for an ATM withdrawal ranges between thirty and sixty cents (\$.30 - \$.60); an ATM deposit ranges from fifty-five cents to a dollar twenty five (\$.55-\$1.25); and a non-financial transaction ranges from fifteen to thirty-six cents (\$.15-.36).

POS Transaction Fee. Debit POS transaction fees are also comprised of a switch and an interchange fee.

Switch Fee. The POS switch fee is typically shared by the issuer and the acquirer or paid in its entirety by the acquirer.⁶ When the switch fee is shared, the amount charged to either party ranges from two to seven cents (\$.02-\$0.07) a transaction. If the fee is incurred solely by the acquirer, the fee ranges from five to eight cents (\$.05-\$0.08) a transaction.

Interchange Fee. Typically, a POS acquirer pays an interchange fee for each transaction processed. Like the discount fee charged to merchants for credit card transactions, an interchange fee is charged to the acquirer for each authorized debit POS purchase transaction.⁷ This fee ranges from two to ten cents (\$.02-\$0.10) a transaction and is collected by the network on behalf of the issuer.⁸ There is some variation to this fee structure. Some regional networks do not charge an interchange fee to the acquirer (which

⁶ Although this is true for most networks, a few networks have opted to charge the switch to the issuer. In these circumstances, the fee ranges between five and ten cents (\$.05-\$0.10).

⁷ Unlike a discount fee, which is a percentage of the total transaction amount, a POS interchange fee is a flat fee established by the routing network.

⁸ Due to the two part nature of pre-authorization POS transactions, the interchange fee incurred by the acquirer is slightly higher than that incurred for standard POS transactions. Although no specific data is public available at the time of this paper, it is assumed that interchange fees for this transaction type represent the high range of the fees reported in Bank Network News, *Shifting EFT Tides Tug at Network Prices*, Volume 14, Number 21, March 26, 1996.

is typically passed onto the merchant), while a limited number of networks collect the interchange fee from the issuer on behalf of the acquirer. Paying the acquirer is not the norm, but if an acquirer is paid the payment is made to provide acquirers with an incentive to deploy POS terminals.

Gateway Fees

Fees for gateway services are incurred by the EFT participant (e.g., issuer, acquirer, third party processor, or network) on whose behalf the services are rendered. This section first discusses ATM gateway fees and concludes with a discussion of POS gateway fees.

Informal discussions with one ATM gateway service provider places the fees in the range of \$.04 to \$.13 per transaction. The following is an example of a "gateway fee": Financial institution ABC contracts with a regional EFT network for access to a national network. A cardholder of that national network uses ABC's ATM. The national network pays the regional EFT network \$.50 for the approved withdrawal. The regional EFT network keeps \$.04 of the \$.50 to cover its gateway services (the "gateway fee") and passes on \$.46 to ABC financial institution. In another example, a third party processor might serve as a gateway to a regional network, or a national network might serve as the gateway to a regional network. In addition, a third party processor, issuer or another network - instead of a financial institution - might contract for the gateway service. There are many possible scenarios. In any scenario, however, the network whose cardholder initiated the transaction will pay the ATM gateway provider, which will retain its gateway fee before passing on the remainder of the interchange fee on to the acquirer/terminal owner. The network paying the fee will recoup it from the cardholder.

The range of gateway fees for ATM transactions is depicted below:

Example A: Gateway Fees for ATM Transactions

Type of ATM Transition	(A) Fee Received by a Gateway Provider	(B) Fee Retained by Gateway Provider	(C) Fee Paid by Gateway Provider to Acquirer/ Terminal Owner*
Withdrawal	\$.50	\$.04 - \$.13	\$.37 - \$.46
Non-Financial	\$.25	\$.04 - \$.13	\$.12 - \$.21

* Column A-B = C

Information provided to the EBT council reveals that POS gateway fee charges range from \$.04 to \$.06. An example of gateway fees charged an acquirer/terminal owner for national network access would be as follows:⁹ An acquirer contracts with a regional EFT network for access to a national network. A cardholder whose card bears the national mark makes a purchase at a store that is sponsored by the acquirer. The acquirer pays a gateway fee to the regional network and also pays a fee to the national network. In any scenario, the acquirer pays the POS gateway fee.

The range of gateway fees for POS transactions is depicted below:

Example B: Gateway Fees for POS Transactions

Type of POS Transition	(A) Fee Received by a Gateway Provider from Acquirer/ Terminal Owner	(B) Fee Received by National Network from Acquirer/ Terminal Owner	(C) Total Fee Paid by Acquirer/ Terminal Owner for This Transaction
Purchase	\$.04-.06	\$.125	\$.165-.185
Non Monetary	\$.04-.06	\$.03	\$.07 -.09

*Column A+B=C (The highest fee may not equal the highest fee in the previous two columns because both participants may not charge the maximum fee.)

⁹It is important to note that, for POS transactions, gateway fees are generally paid by the acquirer/terminal operator, whereas the acquirer/terminal owner receives payment for ATM transactions.

The preceding examples are based on limited information provided to NACHA on an informal basis. While additional information on other gateway fees was not made available to the council, it was felt that the foregoing examples would help explain the existing fee structure.

Third Party Processor Fees

The fees charged by third party processors are highly confidential. No published data was available regarding third party processor fee schedules.

Customer — Issuer Fees

Issuers recoup a portion of their network fees through consumer account service charges and transaction fees. Although most issuers do not charge a fee for EFT transactions processed at a terminal that it deploys and/or operates, many issuers charge a cardholder a fee for all "foreign" terminal transactions. This fee is charged to enable the issuer to cover the expense associated with EFT transaction, including fees paid to a network. For example, if the ATM interchange fee (collected by the network on behalf of the acquirer) is \$.45 and the network's switch fee is \$.05 for a given transaction, the issuer's direct network expense is \$.50. Additionally, the issuer incurs costs associated with the infrastructure required to support a network interface. The issuer's fees are stated in the cardholder's account agreement, reflected in the monthly account statement, and debited at the time of the transaction. Although no formal studies were available on foreign terminal transaction fees, it is generally believed that these fees range up to \$2.00 a transaction.

Customer — Acquirer Fees

In April 1996, bans on surcharges were lifted by the national ATM networks, thereby allowing ATM owners to impose a transaction fee directly on a cardholder. Prior

to April, surcharges were limited to a number of regional networks, which generally only allowed surcharging if all cardholders were charged a fee. For example, an ATM owner that wanted to surcharge cards displaying a regional mark would not be allowed to accept national network cards at its ATMs since fees could not be charged on transactions initiated with the card displaying the national mark. It is also noteworthy that a number of states passed laws enabling ATM owners to surcharge all cardholders using terminals in those states.

Surcharges are currently coming under close scrutiny by Congress and imposition of the fees is the subject of intense debate. The outcome of this debate could affect existing EFT fee structures. Because the practice of surcharging is fairly new, little information has been compiled on the current rates being charged. However, surcharge fees generally appear to range from \$.25 to \$2.00, with fees between \$5.00 to \$8.00 having been reported at gaming or resort locations.

In a typical scenario involving a surcharge, the ATM owner charges a flat fee of \$1.50 set charge per transaction. If a cardholder requests a \$300 withdrawal, the cardholder will receive \$300 and his/her account will be debited \$301.50. The terminal owner will be paid \$301.50 for the transaction. Additionally, the terminal owner will receive the appropriate network interchange fee. If the interchange fee is \$.50, the terminal owner will receive a total of \$2.00 for the transaction, \$1.50 directly from the cardholder and \$.50 from the issuer by way of the network interchange fee.

ATTACHMENT A:
POS AND ATM TRANSACTION FEES

ATTACHMENT A**Branded Network ATM Fees¹**

	Interchange Fee Paid by Issuer to Network	Switch Fee Paid by Issuer to Network	Total Paid by Issuer ²
ATM Withdrawal	\$.30 - \$.60	\$.02 - \$.15	\$.35 - \$.70
ATM Non-Financial (includes denials and balance inquiries)	\$.15 - \$.36	\$.02 - \$.15	\$.18 - \$.50

Source: Bank Network News

Branded Network POS Fees³

	Interchange Fee Paid by Acquirer/Terminal Owner to Issuer	Switch Fee Paid to Network ⁴	Total Interchange and Switch Fee Paid by Acquirer/Terminal Owner ⁵
POS Purchase ⁶	\$.02 - \$.10	\$.0 - \$.10	\$.07 - \$.125
Non-Financial	\$.0	\$.0 - \$.10	\$.0 - \$.08 ⁷

Source: Bank Network News

¹Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.

²ATM interchange fees are collected by networks on behalf of the acquirer. The total fee paid, as specified in the last column, may be higher or lower than would be derived by adding the first two columns because: (a) the network charging the lowest interchange fee does not also charge the lowest switch fee; or (b) the network charging the highest interchange fee does not also charge the highest switch fee.

³Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.

⁴The switch fee is typically split between the terminal owner and the card issuer.

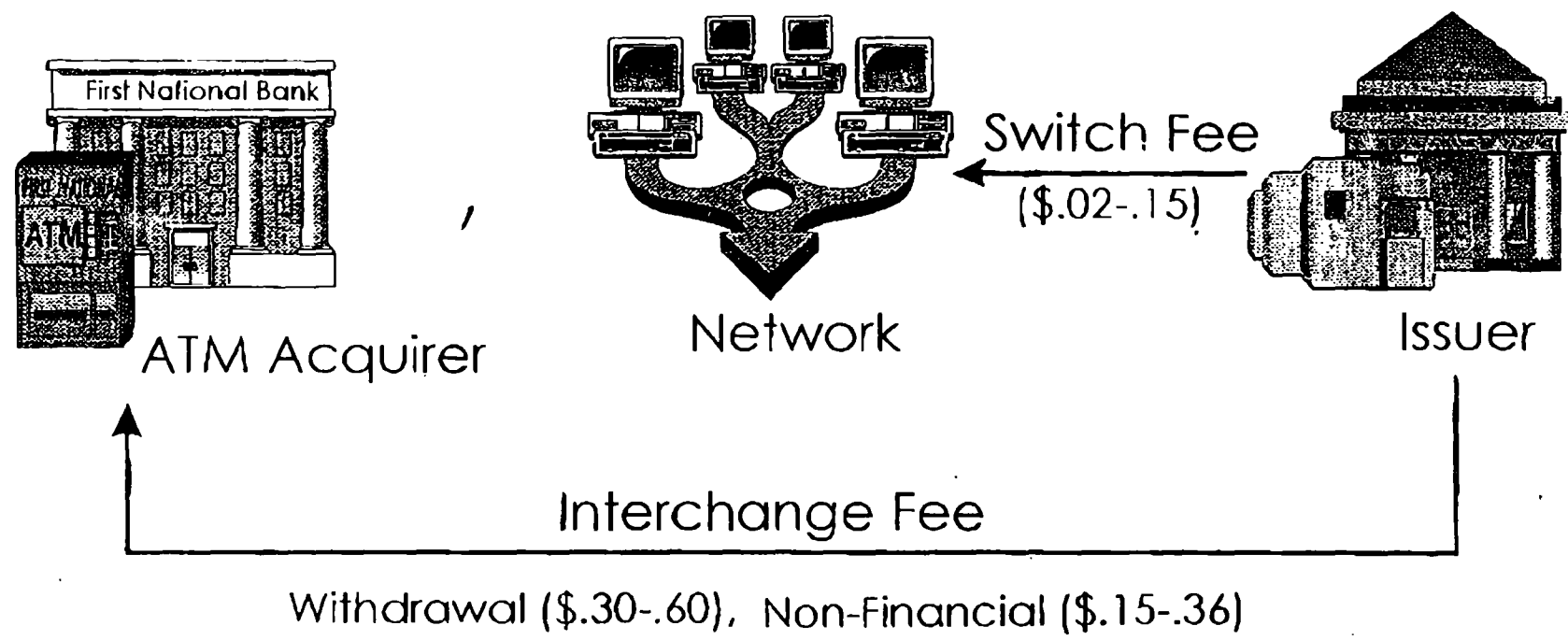
⁵POS interchange fees are collected by networks typically on behalf of the issuer. The total fee paid, as specified in the last column, may be higher or lower than would be derived by adding the first two columns because: (a) the network charging the lowest interchange fee does not also charge the lowest switch fee; or (b) the network charging the highest interchange fee does not also charge the highest switch fee.

⁶The interchange fee, which is paid to the card issuer, is only paid on an approved purchase or preauthorization.

⁷The highest fee is .08 instead of .10, as might be expected by adding the previous columns because the only reported .10 fee is paid by the issuer. Eight cents is the highest fee paid by an acquirer/terminal operator.

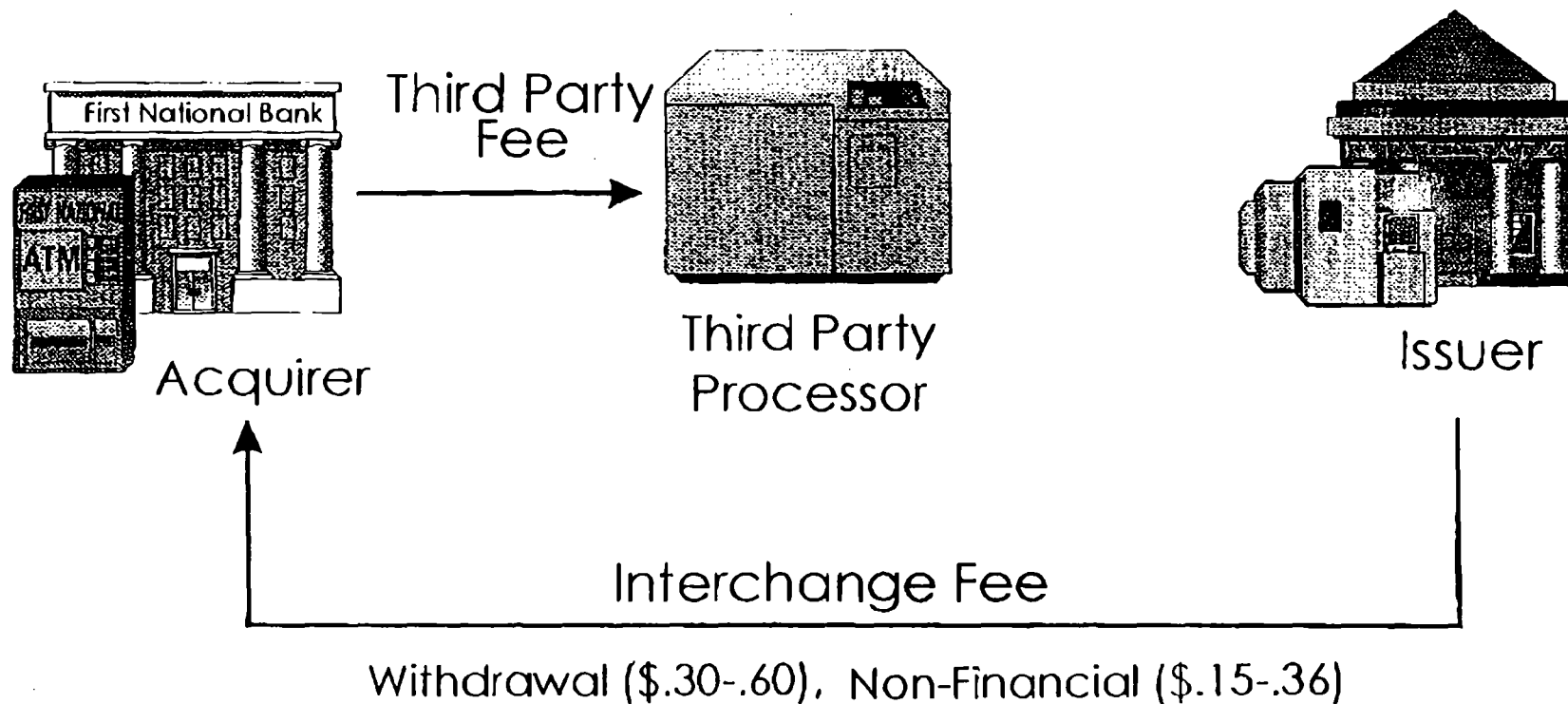
ATTACHMENT B:
ATM/POS CONFIGURATION OPTIONS AND FEE FLOWS

ATM Transaction Fees



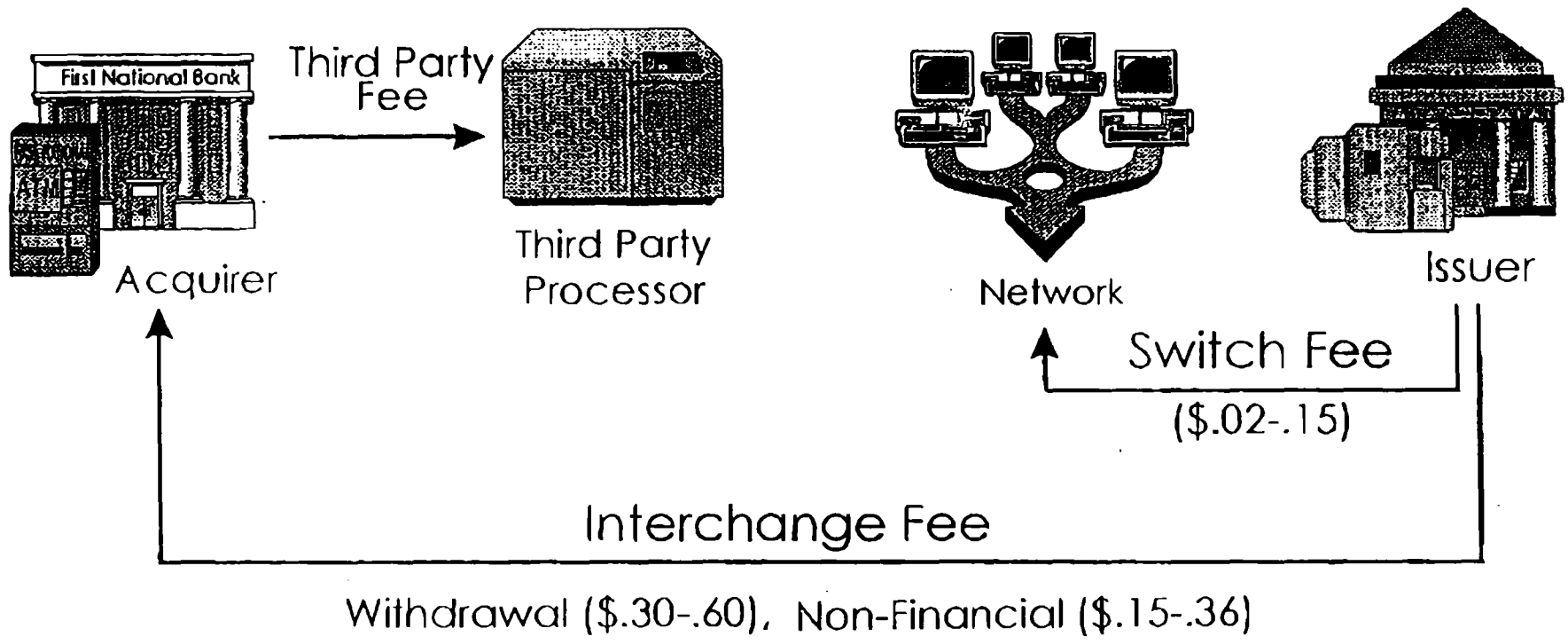
Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.

ATM Transaction Fees - Third Party Processor to Issuer

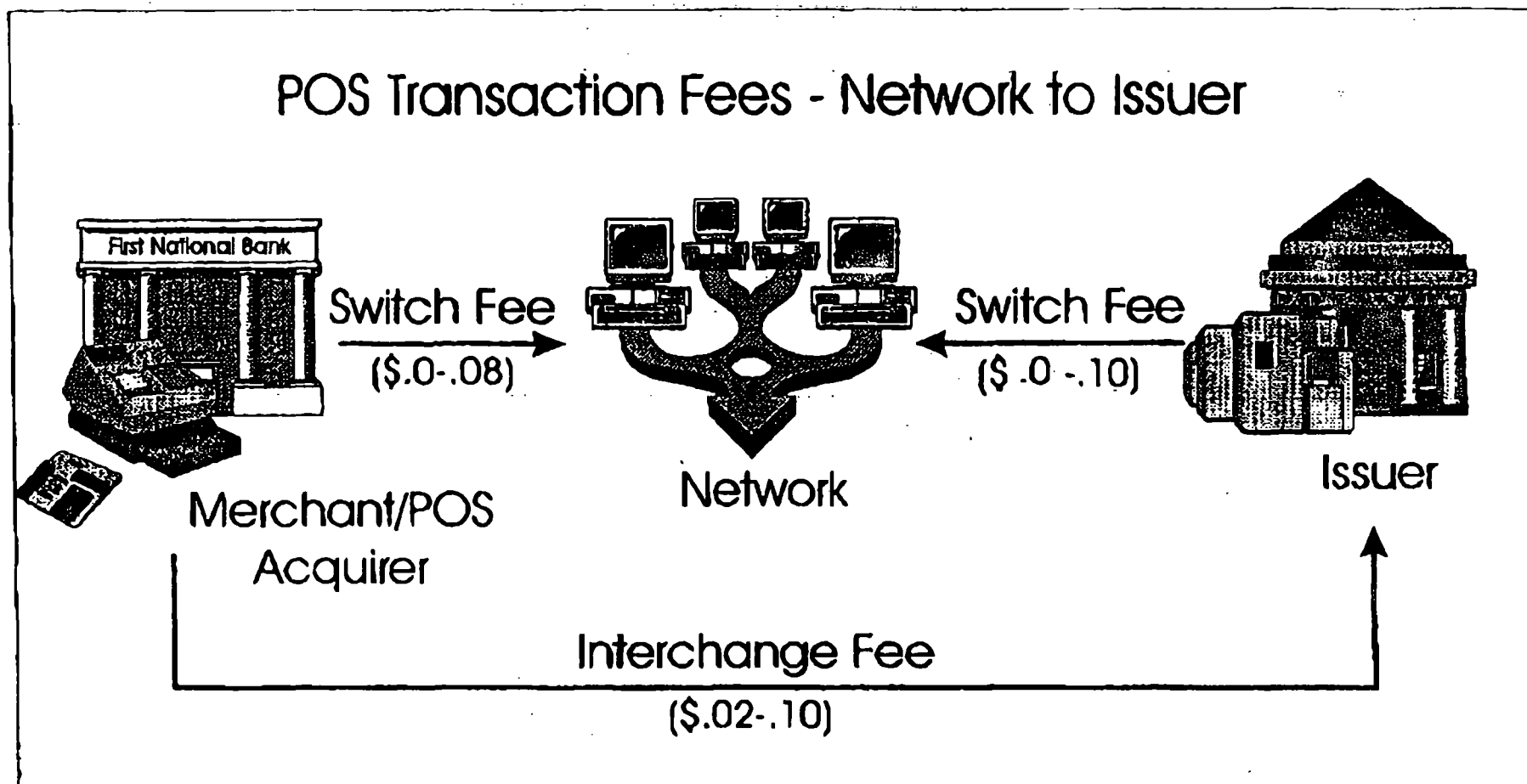


Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.

ATM Transaction Fees - Third Party Processor to Network

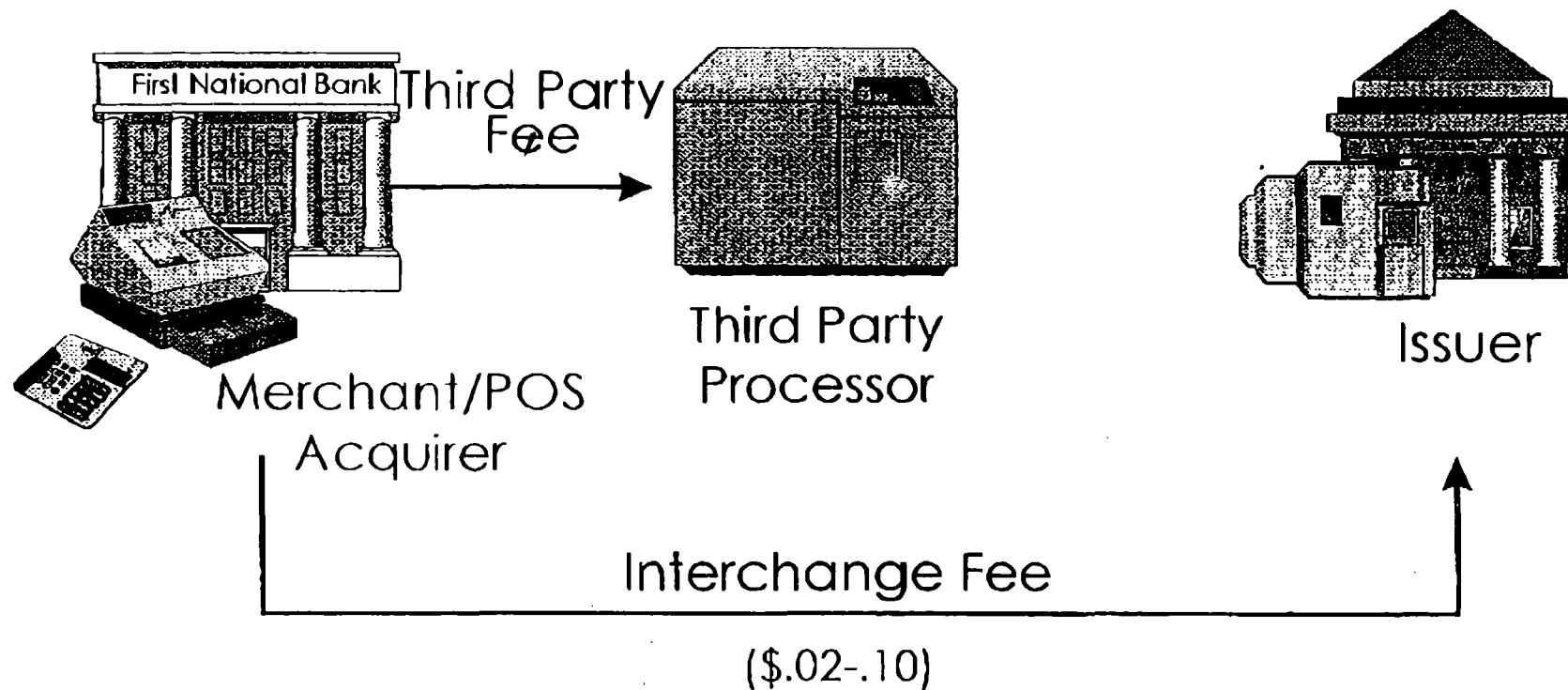


Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.



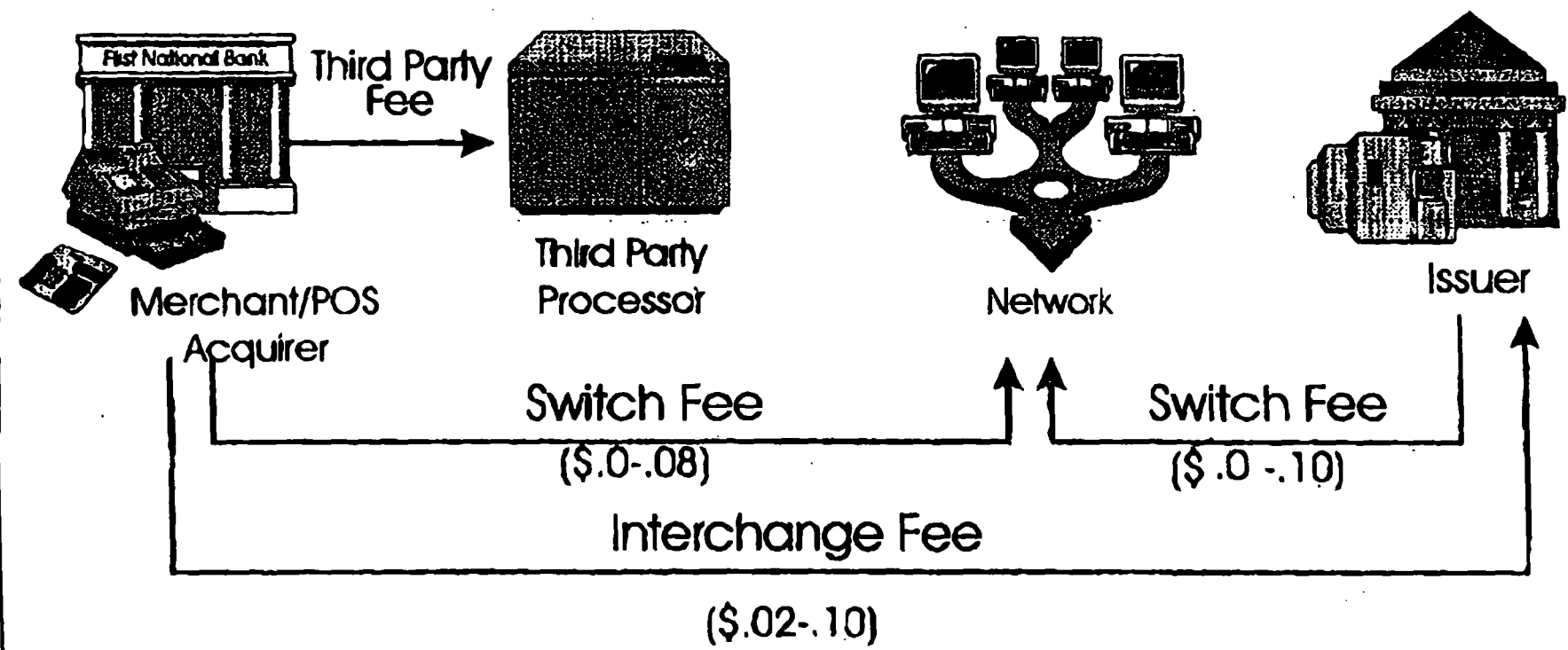
Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.

POS Transaction Fees - Third Party Processor to Issuer



Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.

POS Transaction Fees - Third Party Processor to Network



Fees included in this chart are limited to those charged by networks that are owned by multiple financial institutions.

ATM SURCHARGES

(Optional Convenience Fees)

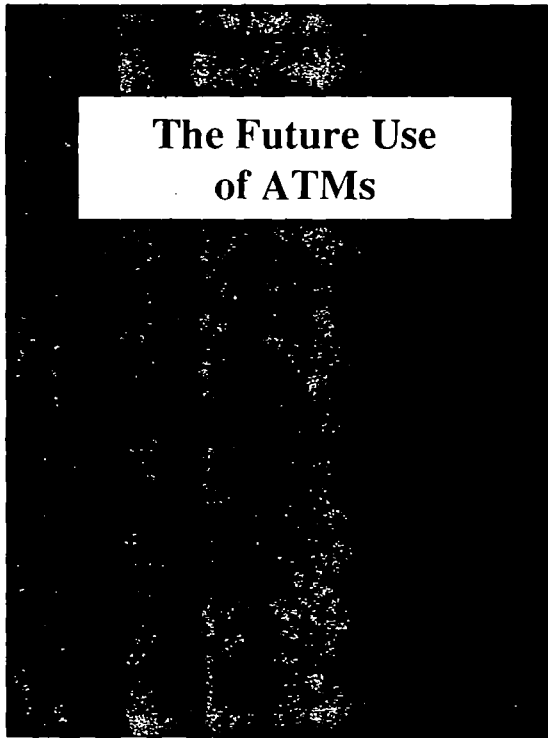


....SOME FACTS

PULSE'S EXPERIENCE

- ☐ Only a Relatively Small Percentage of Cardholders Pay the Majority of Convenience Fees**
- ☐ ATM Convenience Fees Are in Fact the Catalyst for ATM Deployment and Consequently Convenience**
- ☐ Consumers Not Wanting to Pay Will Find “No Cost” Ways to Get Cash or Find Substitutes, i.e. Visa Check/MasterMoney**
- ☐ After 7 Years of Convenience Fees in Texas About 30% of Population 18 Years or Older Has Ever Paid an ATM Convenience Fee**

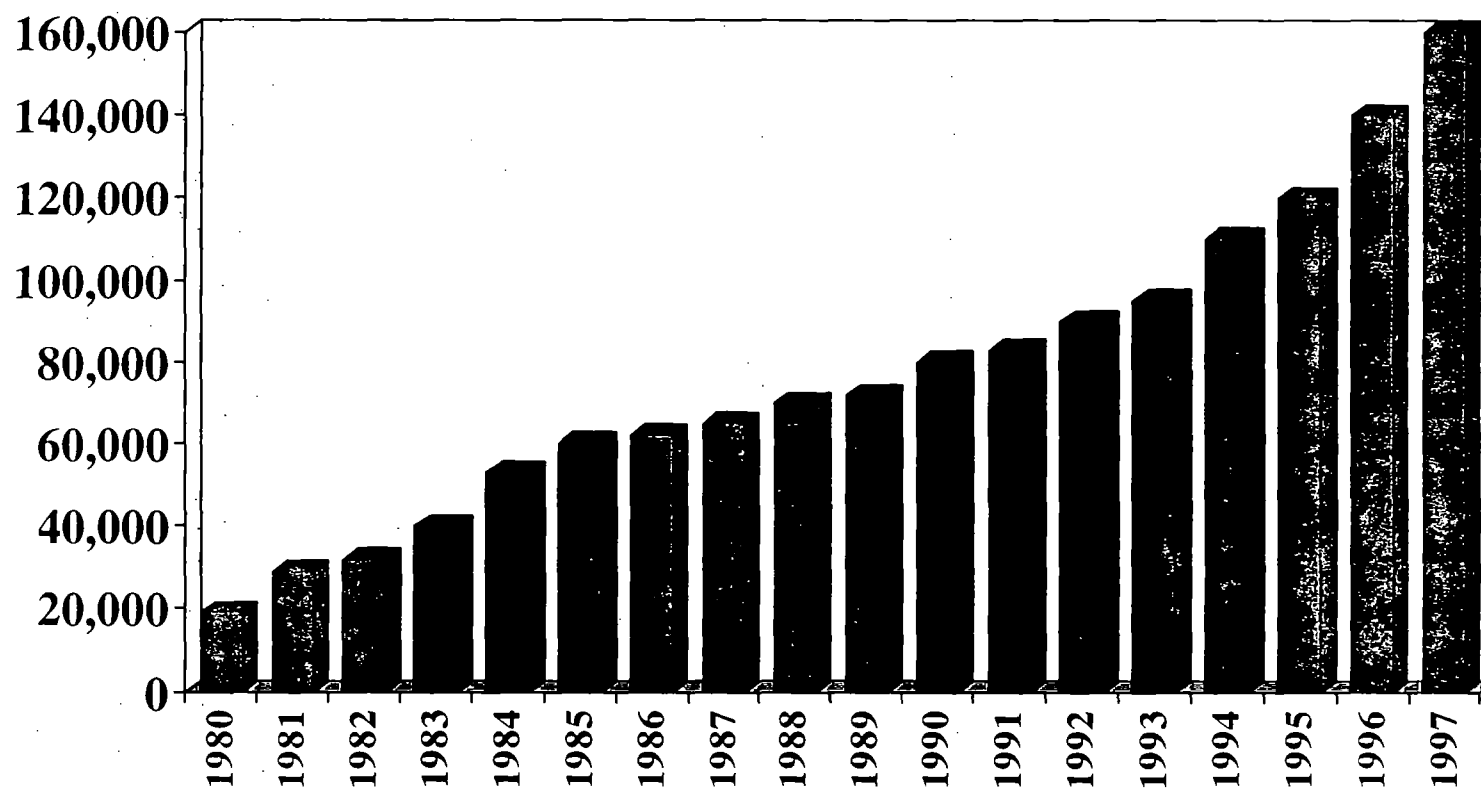
OPTIONAL CONVENIENCE FEES HAVE PROVEN THE CATALYST FOR ATM DEPLOYMENT



**The Future Use
of ATMs**

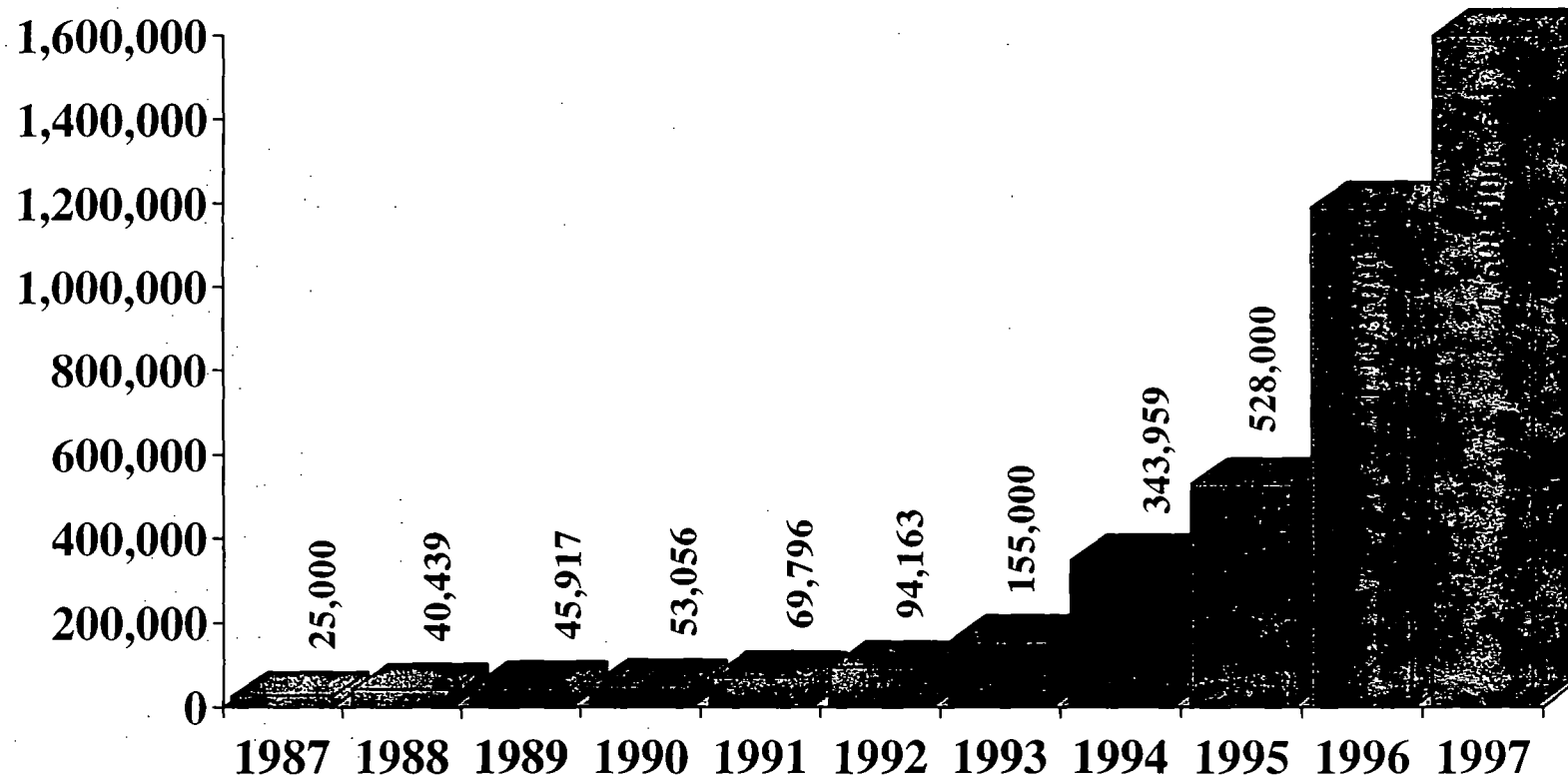
- ☞ Shopping Malls**
- ☞ Theatres**
- ☞ Sporting Arenas**
- ☞ Hospitals**
- ☞ Government Buildings**
- ☞ Grocery Stores**

NUMBER OF ATMs IN THE U.S.



Source: Dove & Associates

Debit Terminal Growth In The Last 11 Years



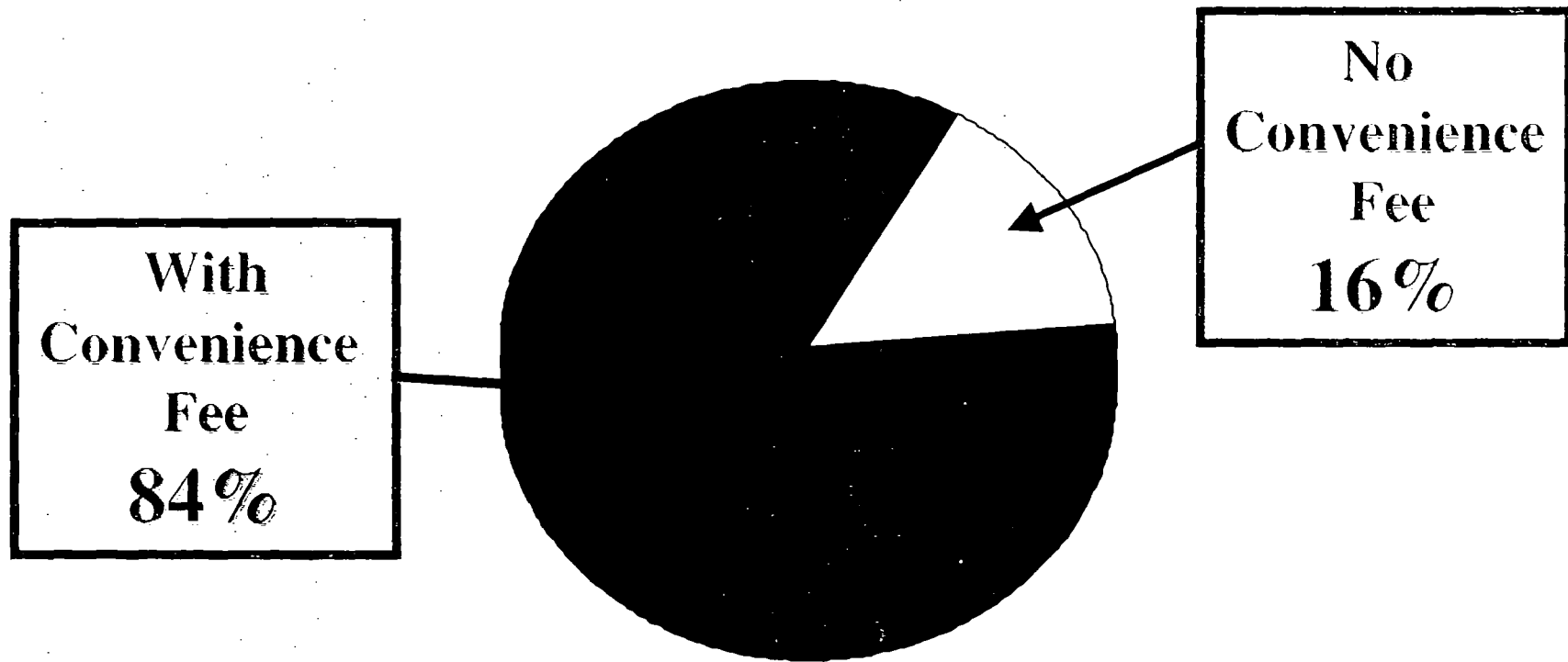
Source: POS News

ON-LINE POS TERMINALS BY RETAIL CHANNEL

<u>Year</u>	Convenience	<u>Supermarkets</u>	Service	<u>Total</u>
	<u>Stores</u>		<u>Stations</u>	
1986	1,268	2,319	8,106	17,256
1987	1,900	3,300	11,800	25,000
1988	1,700	14,700	9,900	43,600
1989	2,343	15,856	9,888	45,917
1990	2,725	21,538	10,079	53,056
1991	3,091	31,795	13,434	69,796
1992	7,136	45,123	16,621	95,163
1993	7,204	75,317	22,092	155,000
1994	14,000	187,400	53,200	340,500
1995	21,000	238,100	105,400	528,600

Source: Debit Card News

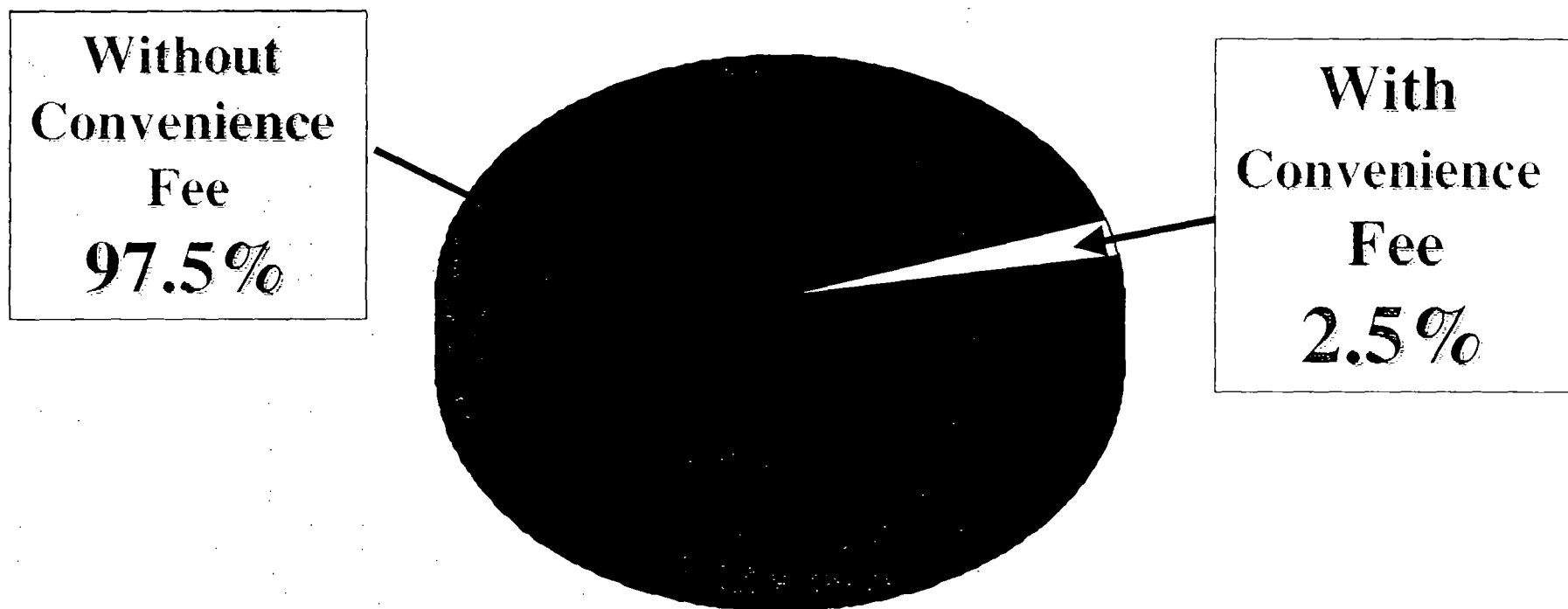
% OF ATM WITHDRAWALS WITH CONVENIENCE FEES



Average Convenience Fee in PULSE \$1.26

Source: PULSE EFT Association

% OF POS TRANSACTIONS SUBJECT TO CONVENIENCE FEE



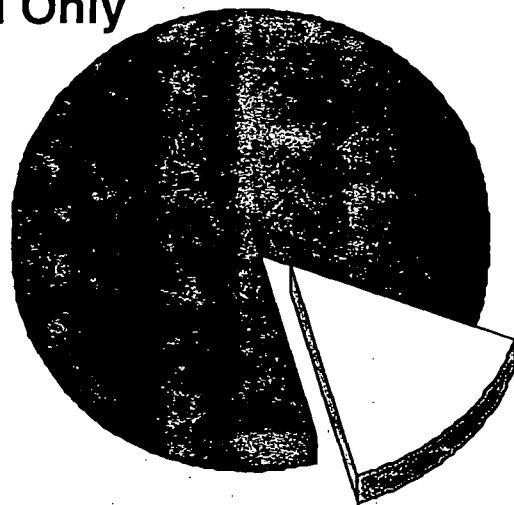
Average Surcharge is \$.94

Source: PULSE EFT Association

% OF PULSE NETWORK CARDHOLDERS USING ATM CARDS FOR 'POS ONLY'

1996

**67%
ATM Only**

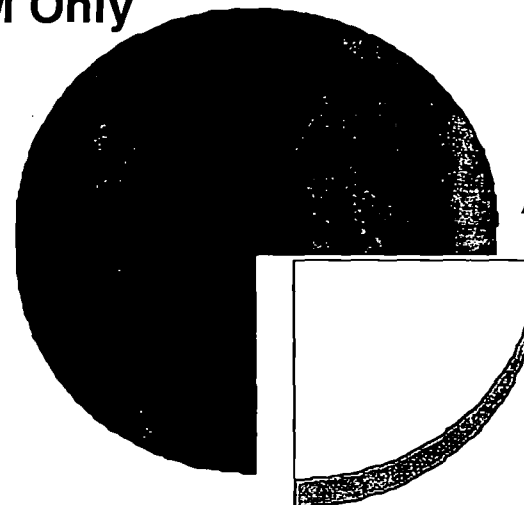


**15%
POS Only**

**18%
ATM & POS**

1997

**57%
ATM Only**

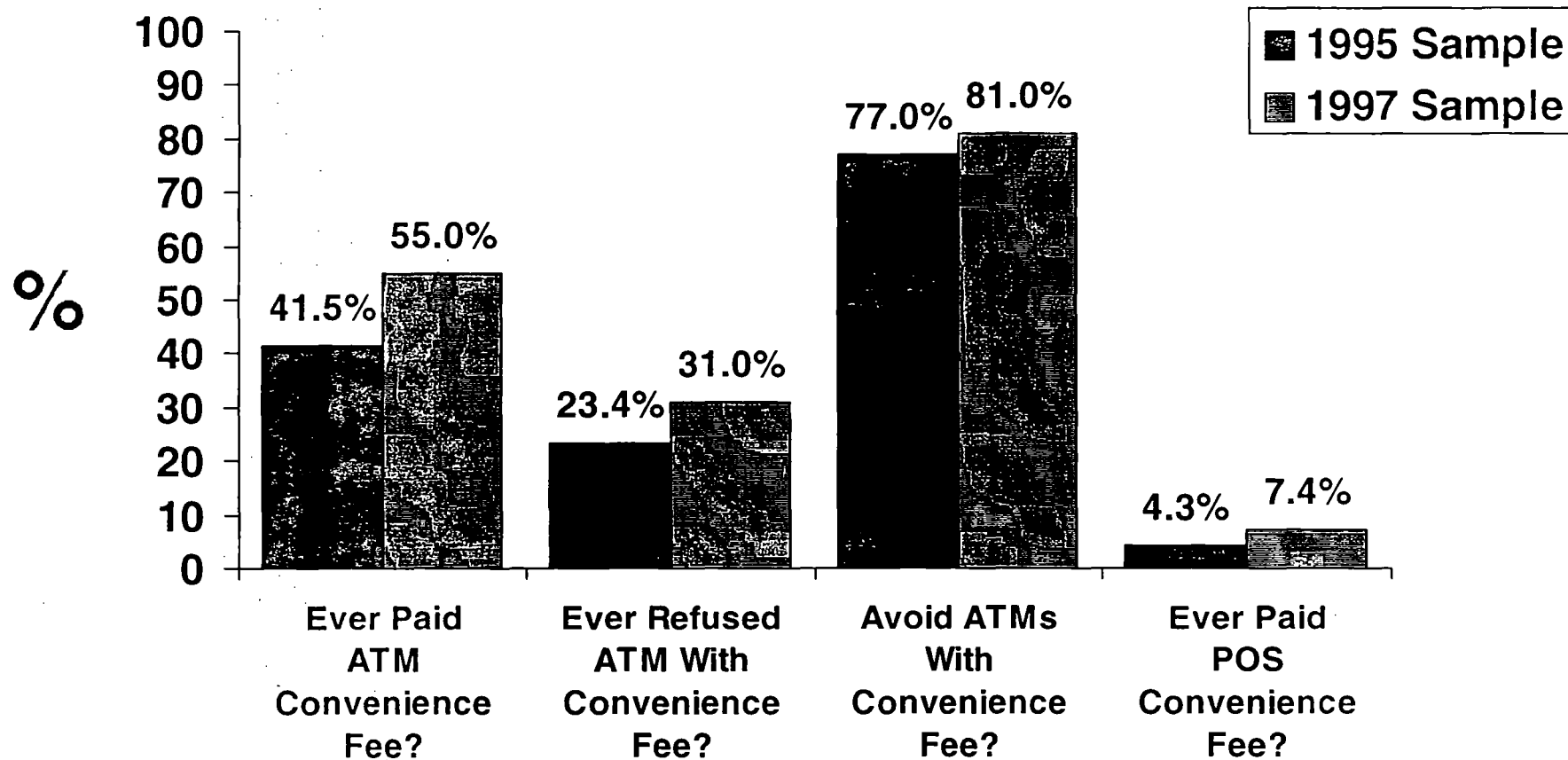


**25%
POS Only**

**18%
ATM & POS**

Source: PULSE EFT Association

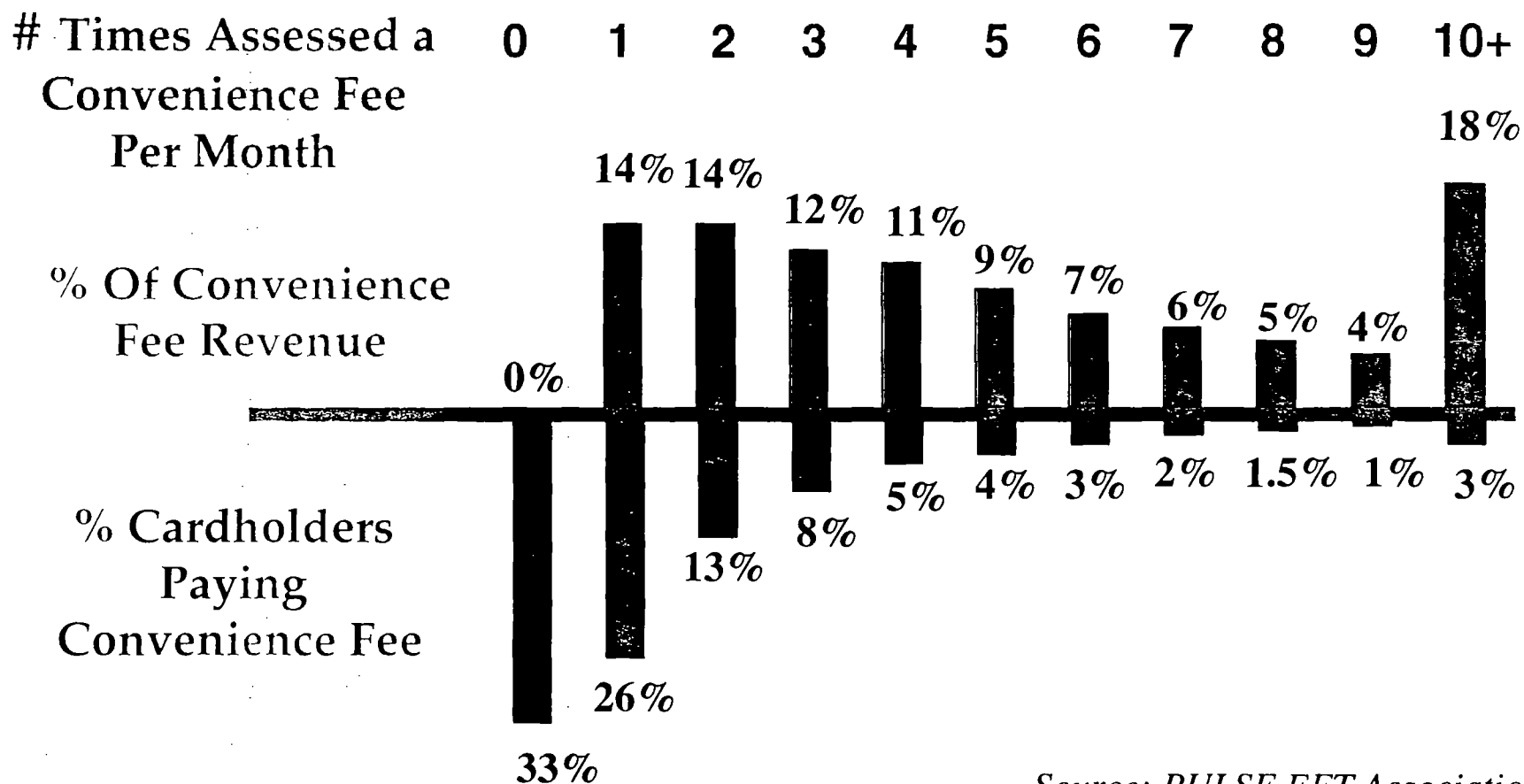
CONSUMERS' EXPERIENCES WITH CONVENIENCE FEES



The average reported ATM convenience fee increased from \$.82 in 1995 to \$1.26 in 1997.

Source: Analytica, Inc. 1995 & 1997 Research

MUCH OF SURCHARGE REVENUE COMES FROM RELATIVELY FEW CARDHOLDERS...



Source: PULSE EFT Association

Selected Freedom-of-Choice Consumer Convenience Options in Everyday Life

		<u>Low or No Cost Option</u>	<u>Convenience Option*</u>
	Highway Driving	State and Federal Highways: <i>Free</i>	Toll Road <i>50¢ - \$4.00</i>
	Hotel Telephone	Pay Phone <i>Local call: 25¢</i>	In Room <i>Local call: 75¢</i>
	Parking	Street or Lot <i>Free to nominal</i>	Valet <i>\$3.00 - \$15.00</i>
	Airport Parking	Remote with Shuttle <i>\$2.75 - \$3.75 per day</i>	Close In at Airport <i>\$22.00 per day</i>
	Soft Drink	Supermarket Purchase <i>25¢</i>	Vending Machines <i>75¢</i>
	Transportation	Bus or subway <i>\$1.00 - \$1.50</i>	Taxicab <i>\$5.00 and up</i>
	Cash Withdrawal	Check cashed at own bank during banking hours or grocery store with purchase: <i>Free</i>	Any of thousands of ATM machines <i>Free - \$1.00</i>

**Approximate cost of typical purchase or fee*

ATM CONSUMER USAGE PICTURE*

Representative Sample of 1,000 Adults
18 years and older



1,000 Adults Age 18+

Only 78% have any bank account



780 have a bank account

Of those having a bank account,
only 58% have an ATM Card



449 have an ATM
Card

For those with an ATM Card,
70% say they have ever paid
a convenience fee



313 say they have ever paid a convenience fee

Of those who have paid a convenience
fee, 73% pay \$1 or less



228 pay \$1 or less

Of those who have paid a convenience
fee, only 27% pay \$1 or more



*Therefore, only 8.5% of all persons
surveyed pay more than \$1*

85 pay over \$1

**Study of persons 18 years and older conducted in Texas by Analytica, Inc.*

36TH STORY of Level 2 printed in FULL format.

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GAO Reports

June 11, 1997, Wednesday

RPT-NUMBER: GAO/GGD-97-90 MAY 16, 1997

SECTION: GAO REPORT

LENGTH: 4992 words

HEADLINE: AUTOMATED TELLER MACHINES - BANKS REPORTED THAT USE OF SURCHARGE FEES
HAS INCREASED

REQUESTOR: REPORT TO THE CHAIRMAN, COMMITTEE ON BANKING, HOUSING, AND URBAN
AFFAIRS, U.S. SENATE

BYLINE: THOMAS J. MCCOOL, ASSOCIATE DIRECTOR FINANCIAL INSTITUTIONS AND MARKETS
ISSUES

BODY:

United States

GAO

General Accounting Office

Washington, D.C. 20548

General Government Division

B-275468

May 16, 1997

The Honorable Alfonse M. D'Amato

Chairman, Committee on Banking,

Housing, and Urban Affairs

United States Senate

Dear Mr. Chairman:

This report responds to your request that we gather information on fee-charging practices of banks and thrifts (hereafter referred to as banks) with regard to automated teller machines (ATM) used by individuals who do not hold accounts at the institutions owning the ATMs. Banks and other ATM owners may charge a fee to non-account holders who use the owners' ATMs; this fee is called a surcharge or access fee. According to congressional testimony by senior industry officials, between 1990 and April 1996, 15 states passed laws or issued regulatory rulings prohibiting ATM networks from banning ATM surcharges. With other states considering similar actions, the two primary national networks changed their policy in April 1996 from prohibiting surcharges to allowing

I want
the actual
report
from GAO
this is the

their ATM operator members nationwide to assess surcharges.

You were interested in obtaining statistical information on banks' current practice of surcharging. As agreed with your office, the objectives of this report are to summarize our survey data on the (1) number of banks that operate ATMs, and (2) number of these banks that surcharge non-account holders and the amounts of the surcharges assessed.

To answer the objectives, we conducted a statistically representative survey of 246 randomly selected banks throughout the United States. All the estimates presented in this report are based on responses to this survey, which had a response rate of 87 percent. The sample size and composition were determined by the need to obtain a high response rate, as well as by time constraints. To obtain as much information as possible about ATMs and surcharges, we sampled large banks at a higher rate than other banks, because large banks, on average, operate more ATMs. Consequently, the estimates for large banks are more precise, i.e., the estimates have smaller sampling errors. While we also report the less precise estimates with their sampling errors, we do not make comparisons that are not supported by the survey results.

As agreed with your office, we did not include credit unions or nonbank ATM operators in our survey. Through interviews, we did gather comparable information from four large nonbank ATM operators. We also did not attempt to determine the effect surcharge fees have on the deployment of new ATMs. Finally, this study was not intended to address whether ATM operators are adequately disclosing information on ATM fees to customers.

Results in Brief

On the basis of our survey, we estimate that, as of February 1, 1997, about three-fourths of all banks in the United States operated ATMs. Of the estimated 8,600 banks that operated ATMs as of February 1, an estimated 8,000 had ATMs as of December 31, 1995. [1995. [1] In addition, we estimate that, as of February 1, 1997, banks operated about 119,000 ATMs, an increase from the 89,000 ATMs they operated at the end of 1995. Over this period, the reported increases in ATM deployment occurred at both on-premise (i.e., at banking facilities) and off-premise locations (i.e., at locations not at a banking facility). [1] The estimates are unbiased, but the increase in the number of banks that operated ATMs is not statistically significant at a 95 percent confidence level. In other words, on the basis of our sample, the possibility that there was not an increase in the number of banks that operated ATMs is greater than 5 percent.

About one-third of the banks that operated ATMs reported that they imposed surcharges on non-account holders who used their machines. More of the large banks than smaller banks reported surcharging and a greater percentage of the large banks reported that they began surcharging during the past year. Our survey showed that, from the end of 1995 to February 1, 1997, there was an estimated 320-percent increase in the number of ATMs that had surcharge fees, from about 15,400 to about 64,400. For the ATMs with surcharges, the most typical fee was \$ 1.00. The maximum surcharge fee reported in our survey was \$ 3.00.

Actual surcharge fees tend to occur in 50-cent increments, e.g., \$ 1.00, \$ 1.50, \$ 2.00. However, a commonly used measure of surcharge fees throughout the industry is a simple average. We calculated the average surcharge fee in two

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ways: for all ATMs, including those with no surcharge fees, and for only those ATMs with surcharges. We estimated that the average surcharge fee had more than tripled since the end of 1995, from \$ 0.17 to \$ 0.62 in 1997 for all ATMs operated by banks, including those with no surcharge fees. The average reported surcharge fee calculated for only those ATMs with surcharges was \$ 1.14 in 1997, not a significant increase from \$ 0.99 in 1995.

According to the four large nonbank ATM operators with whom we spoke, the number of ATMs they owned remained about the same in the past year. Three of the four nonbanks reported surcharging. The average fee for the three nonbanks that surcharged increased from \$ 0.51 in December 1995 to \$ 0.71 as of February 1, 1997.

Background

Studies done by financial industry groups such as the American Bankers Association and the Bankers Roundtable report that ATMs can perform many of the tasks bank tellers perform, and ATMs are typically available 24 hours a day. The studies report that ATMs are most often used by consumers to make cash withdrawals from personal checking, savings, and other deposit accounts. Some ATMs also enable consumers to carry out financial transactions, such as obtaining product information, making loan payments, purchasing insurance and investment products, accessing lines of credit, and making payments on credit cards.

Consumers can gain access to ATMs by obtaining an electronic fund transfer card from a bank. The card contains a magnetic stripe that is electronically encoded with a cardholder number. The financial institution is to maintain an individual record on each consumer issued a card. The record contains the encrypted personal identification number (PIN) needed to use the card. It also reflects the accounts that can be accessed with the card, usage limits, and the card's expiration date.

The ATM transaction begins when the consumer inserts the card into the ATM. Generally, the consumer enters the PIN; selects the transaction to be performed, such as a cash withdrawal from the consumer's checking account; and enters the dollar amount of the transaction. The terminal sends this information to a processor that determines the institution that issued the card to the consumer. The processor's host computer verifies the PIN for the cardholder and checks to see that the transaction and, in the case of a cash withdrawal, the dollar amount requested are within the usage limits established for that particular consumer and that funds are available. If the transaction conditions are met, the processor sends a message to the ATM terminal to complete the transaction (e.g., dispensing cash to the consumer). At the card-issuing institution, the transaction is posted to the consumer's account and reflected in the monthly statement.

Banks have access to ATM networks that link their ATMs and computer systems so that depositors from any member of the network can access their accounts through any network bank's ATM. There are regional, national, and international networks. These networks enable ATM users to obtain ATM services over a much wider geographic area than that, covered by their own banks' offices or ATMs.

There are fees associated with using ATMs. The fees may or may not be directly passed to the ATM user. Banks may charge their own account holders

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for using their ATMs; however, a majority of the fees are associated with consumers using ATMs operated by other banks in the network system. There can be up to three different fees charged when non-account holders use ATMs not operated by their own banks. A switching fee is assessed by the ATM network to the user's home bank to pay for processing each of its network transactions and to defray other network operating costs, such as advertising and network security. Banks may choose to absorb this fee or pass it to the ATM user. An interchange fee may be charged by ATM owners to a non-account holder's home bank for handling one of its transactions. If the home bank passes this fee to ATM users, the Federal Reserve's Regulation E requires the users' home banks to inform users- normally when they open an account-that the charges will appear on their bank statements. Finally, a surcharge fee (or access fee) may be charged by ATM owners to ATM users who do not have accounts with them. For surcharge fees, ATM owners may charge users' banks, and the banks in turn pay the fees and then may charge them directly to the users' accounts. The national networks require that, if the fee is passed to the user, the charge appear on the receipt at the cash machine and again on the user's bank statement.

Most Banks Reported

Operating ATMs

From our statistical analysis of the survey responses, we estimate that, as of February 1, 1997, about 75 percent (q 14 percent sampling error) of banks in the United States operated ATMs. Of the approximately 8,600 (q 1,700) banks that reported operating ATMs as of February 1, about 8,000 (q 1,800) had ATMs as of December 31, 1995. [of December 31, 1995. [2] Our survey results show that for smaller banks-those with assets of less than \$ 1 billion-69 percent (q 16 percent) had at least one ATM in 1995, while 75 percent (q 15 percent) had at least one ATM in 1997. The percentage of medium and large banks-those with assets of \$ 1 billion to \$ 10 billion and those with assets of over \$ 10 billion, respectively-reporting at least one ATM remained about 90 percent. [[2] Throughout this report, December 1995 estimates are based on the responses of banks we surveyed in February 1997.

Although large banks account for about 1 percent of the total number of banks that reported operating ATMs, they operate a larger percentage of the total number of ATMs in the United States. As of February 1, 1997, banks operated an estimated 119,000 ATMs in the United States, a statistically significant increase from the estimated 89,000 ATMs they operated at the end of 1995. According to our survey results, as of February 1, 1997, the large banks operated 37 percent of the total ATMs, and the smaller banks operated 32 percent, with medium banks making up the remainder. See figure 1.

Figure 1: Percentage of ATMs

Reported by Large, Medium, and

Smaller Banks, 1997 [[Deleted from text]

For banks that operate ATMs, large banks reported a median of 346 ATMs in operation, compared to 2 for the smaller banks. Our analysis showed that about 98 percent of these large banks had 26 or more ATMs in operation. As indicated in figure 2, 60 percent (q 16 percent) of banks with ATMs had three or fewer. In our survey, we found that these ATM operators were all smaller banks.

Figure 2: Percentage of Banks That
Reported Operating ATMs, by Number More

than 10 ATMs of ATMs, 1997 [than 10 ATMs of ATMs, 1997 [Deleted from text]

Banking officials' responses indicated that between the end of 1995 and February 1, 1997, more of the smaller banks began operating ATMs at both on- and off-premise locations, rather than only at on-premise locations. The estimated percentage of smaller banks with both on- and off-premise ATMs was 31 percent (q 17 percent) in 1995 and 46 percent (q 19 percent) in 1997, while about 95 percent of the large banks continued to operate ATMs both on- and off-premises.

Banks indicated that non-account holder transactions across all of their ATMs were 132 million (q 38 million) during January 1996 and 167 million (q 64 million) during January 1997. The average number of these transactions per ATM was 1,624 (q 566) in January 1997, which was not a statistically significant decrease from the 1,774 (q 452) in January 1996. [from the 1,774 (q 452) in January 1996. [3] Our analysis indicated that 37 percent (q 16 percent) of the banks experienced decreases in the number of non-account holder transactions per ATM during the Same Period, while 63 percent (q 16 percent) had an increase in their average per ATM non-account holder transactions. We did not attempt to evaluate the impact of surcharge fees on the change in transactions for these two time periods. TO do so would have required us to look at factors such as increases in available ATMS, seasonal changes, changes in consumers' shopping patterns, and other factors that may influence consumers' reactions to surcharges. [[3] These averages were calculated from reported transaction volume and number of ATMs. Not all banks reported transaction volume.

We could not address the ATM surcharging practices followed by nonbank ATM operators because of the lack of complete data on nonbank operators Of ATMS. However, to obtain an indication of nonbank surcharging practices, we obtained surcharge information from four nonbanks that operated ATMs in retail locations. Industry officials told us that these four nonbanks accounted for approximately 80 percent of nonbank ATM operations.

According to the four large nonbank ATM operators with whom we spoke, overall ownership at these large nonbanks increased from 8,527 ATMS to 8,564 between December 31, 1995, and February 1, 1997. Three of the four nonbanks said that the number Of ATMS they owned increased by less than 4 percent from December 31, 1995, to February 1, 1997. An official from the other nonbank told us it had had a 15-percent decrease in the number Of ATMS it was operating. The official told us that the decrease was attributed to a lost contract.

Banks Reported Use
of Surcharge Fees Has
Increased

On the basis of our survey, we estimate that 2,900 (q 1,400) of 8,600 banks that operated ATMs as of February 1, 1997, imposed surcharges, while 1,600 (q 1,100) of these banks imposed surcharges in 1995. Currently, 57 percent of large banks are surcharging, an increase from the 20 percent that were doing so in 1995. Thirty-two percent (q 16 percent) of the smaller banks were surcharging

in 1997, while 20 percent (q 14 percent) of these banks imposed a surcharge in 1995.

The reported number of ATMS that have surcharge fees has also increased since 1995. Our survey showed that, from the end of 1995 to February 1, 1997, there was an almost 320-percent increase in the number Of ATMS that had surcharge fees-from about 15,400 (q 6,500) to about 64,400 (q 16,700).[15,400 (q 6,500) to about 64,400 (q 16,700)].[4] The increase included newly deployed or acquired ATMs, as well as old ATMS that previously did not have a surcharge fee. [[4] While about one-third of banks reported surcharge fees, these fees were charged for the use of about 54 percent of the ATMs in service as of February 1, 1997.

Banks indicated that both on-premise and off-premise ATM surcharging has increased since 1995. A higher percentage of the large banks (53 percent) reported that they imposed surcharge fees for use of at least some of their on-premise ATMs than did smaller banks (30 percent q 17 percent). In addition, 57 percent of the large banks reported that they imposed surcharge fees for use of their off-premise ATMs, and 32 percent (q 18 percent) of the smaller banks surcharged for off-premise ATMs.

The Average Reported

ATM Surcharge Fee Has

Increased

According to our survey, the average ATM surcharge fee [According to our survey, the average ATM surcharge fee [5] has more than tripled since the end of 1995. The average surcharge fee reported by banks was \$ 0.62 (q \$ 0.10) as of February 1, 1997, which was an increase from the average fee of \$ 0.17 (q \$ 0.08) assessed in 1995. As shown in figure 3, the average surcharge fee reported by the large banks was \$ 0.71 (q \$ 0.11) in 1997, while the fee assessed by the smaller banks was \$ 0.48 (q \$ 0.23). The maximum ATM fee reported in our survey was \$ 3.00. The average surcharge fee reported by banks that imposed a surcharge fee was \$ 1.14 (q \$ 0.06) in 1997, while the average fee assessed in 1995 was \$ 0.99 (q \$ assessed in 1995 was \$ 0.99 (q \$ 0.12).[assessed in 1995 was \$ 0.99 (q \$ assessed in 1995 was \$ 0.99 (q \$ 0.12)].[6] [[5] We calculated every average surcharge fee on a per ATM basis. The average surcharge fee calculated for all ATMs included ATMs with a surcharge fee of \$ 0.00. [[6] The average reported surcharge fee imposed by banks that surcharged was about \$ 1.14 for both on and off-premise ATMs in 1997.

Figure 3: Average ATM Surcharge

Fees Reported by Large, Medium, and 1.00 Average

surcharge fee (in dollars)

Smaller Banks, 1995 and 1997 [[Deleted from text]

Our survey showed that the number of ATMs that have surcharge fees of \$ 1.00 or more has increased since 1995. (See figure 4.) As indicated in table 1, this increase has occurred for large and medium banks.[for large and medium banks.[7] [[7] The increase for smaller banks was not significant at a 95 percent confidence level.

Figure 4: ATM Surcharges Reported by
Banks, 1995 and 1997 90 Percent of ATMs [[Deleted from text]]

Table 1: Percentage of ATMs With
Reported Surcharges, by Bank Size,
1995 and 1997 [[Deleted from text]]

As of February 1, 1997, three out of the four large nonbanks said that they imposed surcharge fees. As reported by these nonbanks, the surcharge fee had remained the same since the end of 1995 for two nonbanks that surcharge, while one had doubled its fee. The average surcharge fee for the ATMs operated by the four nonbanks increased from \$ 0.12 in December 1995 to \$ 0.32 as of February 1, 1997. The maximum surcharge fee reported to us by these nonbanks was \$ 1.00. The three nonbanks that surcharge reported that the average surcharge fee was \$ 0.71 as of February 1, 1997, an increase from \$ 0.51 at the end of 1995.

Objectives, Scope,
and Methodology

Our objectives were to provide summary data on the number of banks that operate ATMs, the number of banks that levy surcharges against non-account holders who use the banks' ATMs, and the amounts of the surcharges assessed. We also agreed to use statistical sampling techniques to ensure that the information gathered on the use of surcharge fees would represent practices in the banking industry as a whole. The sampling procedures are discussed in detail in appendix II.

We sent a questionnaire (see appendix I) to a sample of banks to obtain information on ATMs they operated on February 1, 1997, and December 31, 1995; surcharge fees assessed non-account holders using these ATMs for these two dates; and ATM transaction volume data during January 1996 and February 1997. We selected the December 1995 date to obtain data prior to the national ATM networks' lifting of the surcharge ban in April 1996, and the February 1997 date to obtain data several months after the two national ATM networks lifted their bans on surcharges.

We selected our sample from a universe of all banks that we identified through data collected by the bank regulatory agencies. Our stratified random sample was designed to provide unbiased point estimates of all variables. However, the sample size of 246 banks was not large enough to detect significant differences in some of the estimates for subgroups within the sample, or to draw certain conclusions about comparisons between 1995 to 1997. The sample size was dictated by time and resource constraints because, in our judgment, the most significant threat to the study's validity was a low response rate. To minimize this threat, we telephoned every bank in our sample to determine the appropriate respondent at each bank before we mailed the questionnaires.

In this study, we did not address (1) whether surcharge fees affect efficiency and competition within the financial services industry, (2) the reasons for the deployment of ATMs, and (3) consumer protection and disclosure issues. We did not attempt to evaluate the impact of the surcharge fees on the

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number of transactions completed at each of the banks' ATMs. To do so would have required us to look at numerous factors, such as changes in the number of ATMs available to consumers, seasonal factors, and changes in consumer behavior.

Further, this study does not fully address the ATM surcharging practices followed by nonbank ATM operators, because of the lack of complete data on these operators of ATMs. However, to obtain an indication of nonbank practices in ATM surcharging, we obtained surcharge information from four nonbanks that operate ATMs in retail locations. Industry officials told us that these four nonbanks account for approximately 80 percent of nonbank ATM operations.

We did our work between December 1996 and April 1997 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you announce the contents of this report earlier, we plan no further distribution until 30 days after the date of this letter. At that time, we will send copies of this report to the Ranking Minority Member of your Committee, the Chairmen and Ranking Minority Members of other interested congressional committees, individual members, federal agencies, and the public on request.

This report was prepared under the direction of Susan S. Westin, Assistant Director, Financial Institutions and Markets Issues. Other major contributors are listed in appendix III. Please contact either Ms. Westin on (202) 512-3655 or me on (202) 512-8678 if you have any questions about this report.

Sincerely yours,

Thomas J. McCool

Associate Director

Financial Institutions

and Markets Issues

Appendix I

Survey Instrument Used to Collect Data

From a Sample of Banks

United States General Accounting Office

GAO Survey of Banks and Thrifts

On ATM Surcharges [[Deleted from text]]

Appendix II

Objectives, Scope, and Methodology

Our objectives were to provide summary data on the number of banks that operate ATMs, the number of banks that levy surcharges against non-account holders who use the banks' ATMs, and the amounts of the surcharges assessed.

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As agreed with your office, we focused our work on U.S. banks.

To determine the extent of bank ATM operations, surcharging, and transaction volume, and to identify changes in these parameters across a time period, we collected data for various time periods between December 31, 1995, and February 1, 1997. We selected these dates to obtain information prior to and after two national ATM networks (CIRRUS, PLUS) lifted their ban on surcharging. We conducted a mail questionnaire survey of a random sample of banks that was statistically representative of the universe of the entire banking industry.

From the 11,553 active banks and thrifts with individual charters that we identified from a database of the September 1996 Federal Financial Institutions Examination Council's Call Reports and Office of Thrift Supervision's Thrift Financial Reports, we drew a random sample of 246 banks, allocated across 11 strata defined by total asset size. We did not assess the quality of the database.

We contacted each of the 246 institutions in our sample by telephone to determine whether it was currently an active bank eligible for our survey, and if so, whether it operated any ATMs as of February 1, 1997. For banks reporting no ATMs, this information constituted a complete response. For banks that indicated that they had at least one ATM, we then identified the most appropriate respondent and mailed that person a questionnaire requesting the number and type of ATMs operated, access or surcharge fees assessed non-account holders at each ATM, and the total number of non-account holder ATM transactions. We asked each bank to enumerate its ATMs and corresponding surcharges as of December 31, 1995, and February 1, 1997, and we further asked the banks to provide the non-account holder transaction volume data for the months of January 1996 and January 1997. We selected those dates to obtain ATM operation data for time periods before and after two national ATM networks (CIRRUS, PLUS) lifted their ban on surcharges. A copy of the questionnaire is included in appendix I.

We mailed the questionnaires in mid-February 1997 and asked the banks to respond by fax. At the end of February and the beginning of March, we telephoned institutions that had not yet responded. While some of those banks ultimately returned questionnaires by mail or fax, we also conducted telephone interviews to collect questionnaire data from others. When we closed the survey field period in late March of 1997, 209 of the 240 eligible banks in our original sample (87 percent) had provided at least partial responses. Of the 209 usable responses, 30 were from banks without ATMs. The remaining 179 responses from banks with ATMs were weighted to represent the total estimated number of banks with ATM machines in each stratum. We did not verify information provided by the survey respondents. Table II.1 lists, by bank asset size, the strata we used to categorize the population of banks, as well as the disposition of the sample of banks that we drew for participation in our survey.

Table II.1: Disposition of Bank Survey Sample [[Deleted from text]]

The survey estimates printed in this report are projected to the entire population of U.S. banks from which our sample was drawn. While we sampled relatively more of the institutions with a large amount of assets than institutions with a small amount of assets in order to develop precise estimates of ATM-related activity, each completed questionnaire was assigned a mathematical weight that made its contribution to the overall results

GAO Reports, June 11, 1997

proportional to the number of banks of similar asset size in the population. However, because we surveyed only a sample of banks, each of the survey estimates in this report has a sampling error, which is a measure of the precision with which the estimate approximates the true, unknown population value. All of the sampling errors for our survey estimates are no larger than plus or minus 10 percent at the 95 percent confidence level, unless otherwise noted.

In addition to the reported sampling errors, the practical difficulties of conducting any survey may introduce other types of "nonsampling" errors. For example, differences in how a particular question is interpreted, in the sources of information that are available to respondents, or in the types of organizations that do not respond can introduce unwanted variability into the survey results. While we did not verify the survey results, we included steps in the data collection and data analysis stages to minimize nonsampling errors. While designing the questionnaire, we solicited expert opinion on the wording and structure of our questions, and we pretested the survey instrument with several banks. Follow-up telephone calls were made to nonrespondents, and inconsistent answers were identified during questionnaire editing and followed up on. A number of keypunched records were verified during data entry, and computer analyses were performed to identify additional inconsistencies or other indications of errors. All computer analyses were checked by an independent analyst.

We also attempted to determine whether banks that responded were significantly different from the few that did not. Based on the information we collected during our telephone precontacts with the banks, we concluded that those banks that did not respond to the subsequent mail survey (including those that refused) had a higher number of estimated ATMs, on average, than did the banks that responded. While this suggests that our survey results underrepresent banks with a large number of ATMs, we feel that any potential bias is limited by the small number (31) of nonrespondents involved.

While we collected ATM data before and after the national networks lifted their ban on surcharges, it is not possible to attribute all of the change we observed to that event. Any number of factors that we did not measure could have influenced bank ATM deployment activity, surcharge policy, and ATM use by non-account holders. We did not attempt to evaluate the impact of the surcharge fees on the change in transactions. To do so would have required us to look at numerous factors, such as changes in the number of ATMs available to consumers, weather, and changes in consumer behavior (including changes in purchasing patterns). We also did not address whether surcharge fees affect efficiency and competition within the financial services industry, the deployment of ATMs, and consumer protection and disclosure issues.

Further, this study does not fully address the ATM surcharging practices followed by nonbank ATM operators, because of the lack of reliable public data on the universe of nonbank operators of ATMs. However, we interviewed officials from several nonbank organizations that operated a large number of ATMs (100 or more each) to get some idea of the surcharging practices of nonbank ATM operators. We also reviewed the results of several studies of bank and nonbank ATM operations conducted by industry associations and private consulting firms.

Appendix III

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LANGUAGE: ENGLISH

LOAD-DATE: July 1, 1997

FINANCIAL CONSUMER IDEAS

→ Bankruptcy
 → Fair Modern
 → Credit Unions

Bill	Date	Sponsor	Description
ATM Fees			
HR264 ATM Fee Reform Act of 1997	1/7/97	Rep. Roukema	Amends the Electronic Fund Transfer Act to require disclosure of ATM fees. Requires the Comptroller General to study the feasibility of requiring specified fee disclosures before the consumer is committed to completing any electronic fund transfer.
HR795 Electronic Fund Transfer Fees Act of 1997	2/13/97	Rep. Sanders	Amends the Electronic Fund Transfer Act to prohibit ATM fees if the transaction is initiated by a consumer from an electronic terminal operated by a bank other than the financial institution holding the account. Prohibits ATM fees if the transaction is conducted through a national or regional electronic banking network.
S885 Fair ATM Fees for Consumers Act	6/11/97	Sen. D'Amato	Amends the Electronic Fund Transfer Act to prohibit ATM surcharges if the transaction neither relates to nor affects an account held by the consumer with the financial institution that owns or operates the terminal. Prohibits ATM fees if the transaction is conducted through a national or regional electronic banking network.
Credit Cards			
HR274 Truth in Credit Card Offers Act	1/7/97	Rep. Schumer	Amends the Truth in Lending Act to mandate disclosure of the annual percentage rate of interest that will actually apply to preapproved credit card solicitations or applications for an open end consumer credit plan. Requires exact description of the index or manner used to determine such rate.
HR1722 Bank Regulation Adjustment Act	5/22/97	Rep. Fox	Amends the Truth in Lending Act to establish a criminal penalty for specified activities pertaining to fraudulent use of credit cards.
HR1975 Credit Card Consumer Protection Act of 1997	6/19/97	Rep. Kennedy	Amends the Truth in Lending Act to prohibit fees solely on the basis of on-time payments. Requires advance notice of any interest rate increase for a credit card account and of the consumer's right to cancel such account before the effective date of increase. Prohibits post-cancellation increases in interest rates and fees on the outstanding balance of any canceled cards. Mandates disclosure to a credit card account holder of the fees and interest rates imposed upon credit advances through the use of third party checks. Proscribes over-the-limit fees in creditor-approved transactions, and two-cycle billing.
HR2599 Cash Consumer Protection Act	10/1/97	Rep. Fattah	Amends the Consumer Credit Protection Act to make it unlawful to require a credit card or demand an unreasonable deposit in cash as a condition for conducting business.
HR2662 Fair Credit Card Application Act of 1997	10/9/97	Rep. Menendez	Amends the Truth in Lending Act to require that certain credit card and charge card applications disclose to the consumer the maximum authorized credit limit and the consumer's right to state in the application the lowest credit limit acceptable to the consumer.

RESPA → HUD/FED

Minimum payment requirements.

HR3066 Credit Card Interest Rate Change Disclosure Act	11/13/97	Rep. Maloney	Amends the Truth in Lending Act to establish a 90-day advance notice period as a prerequisite to any increase in an annual percentage rate of interest, or in the index used to determine APR, applicable to an open-end consumer credit plan.
Debit Cards			
HR2234 Dual-Use Debit Cardholder Protection Act of 1997	7/23/97	Rep. Schumer	Amends the Electronic Fund Transfer Act to provide that if an unauthorized electronic fund transfer has been initiated with a card that does not require the use of a unique identifier, consumer liability will be determined as if the transfer was an extension of credit.
HR2319 Consumer Debit Card Protection Act	7/31/97	Rep. Barrett	Amends the Electronic Fund Transfer Act to require prominent consumer protection warning that debit cards can be used without a code or unique identifier. Repeals guidelines governing consumer reimbursement and maximum liability for losses caused by the consumer's failure to timely report unauthorized electronic fund transfers. Limits consumer liability to a \$50 maximum in all circumstances.
S1154 Dual-Use Debit Cardholder Protection Act of 1997	9/9/97	Sen. Reed	Amends the Electronic Fund Transfer Act to impose consumer liability for unauthorized electronic fund transfers only if the issuer provided a unique identifier.
S1203 Debit Card Consumer Protection Act of 1997	9/23/97	Sen. D'Amato	Amends the Electronic Fund Transfer Act to cite conditions limiting consumer liability for unauthorized debit card transactions.
Information Privacy			
S512 Identity Theft and Assumption Deterrence Act of 1997	3/21/97	Sen. Kyl	Amends the Federal criminal code to provide penalties against any person who defrauds, obtains, uses, or attempts to obtain or use one or more means of identification other than that lawfully issued.
HR1287 Social Security On-line Privacy Protection Act of 1996 [sic]	4/10/97	Rep. Franks	Prohibits an interactive computer service from disclosing to a third party an individual's SSN or related personally identifiable information without individual's prior informed written consent. Gives the Federal Trade Commission enforcement authority.
S600 Personal Information Privacy Act of 1997	4/16/97	Sen. Feinstein	Amends the Fair Credit Reporting Act to redefine the term "consumer report" to exclude identifying information listed in a local telephone directory. Prohibits commercial acquisition or distribution of an individual's SSN. Prohibits use of SSN as a personal identification number, without written consent. Prohibits the use of SSNs by marketing companies.
HR1813 Personal Information Privacy Act of 1997	6/5/97	Rep. Kleczka	Amends the Fair Credit Reporting Act to redefine the term "consumer report" to exclude identifying information listed in a local telephone directory. Prohibits commercial acquisition or distribution of an individual's SSN. Prohibits use of SSN as a personal identification number, without written consent. Prohibits the use of SSNs by marketing companies.

HR1900 Depository Institution Consumer Protection Act of 1997	6/17/97	Rep. LaFalce	Amends the Federal Deposit Insurance Act to require each Federal banking agency to prescribe consumer protection regulations pertaining to the sales, solicitations, advertising, or offers of a nondeposit product by a retail depository institution. Includes: (1) anticoercion sales and product marketing rules; (2) product suitability; (3) mandatory disclosure of the non-insured and non-guaranteed status of a nondeposit product, including investment risks; (4) prohibition of misrepresentation; (5) physical segregation of banking and nonbanking activities; (6) sales personnel qualification requirements and training; and (7) the structuring of compensation programs with respect to nondeposit product referral or sales incentives. Directs Federal banking regulators to jointly establish a consumer enforcement mechanism for consumer complaint resolution. Sets forth safeguards relating to confidential consumer financial information.
HR1964 Communications Privacy and Consumer Empowerment Act	6/19/97	Rep. Markey	Requires the FTC to determine the methods by which consumers may be enabled to learn what consumer information is being collected, used and sold. Calls for proposed changes in legislation and FTC regulations to correct defects in privacy rights and remedies.
HR2368 Data Privacy Act of 1997	7/31/97	Rep. Tauzin	Provides for a computer interactive services industry working group to establish voluntary guidelines. Prohibits commercial marketing use of certain government information regarding an individual without their prior consent. Prohibits display of SSN. Prohibits the commercial marketing use of any personal health and medical information obtained through an interactive computer service without prior consent.
Rent/Rent to Own			
HR2019 Consumer Disclosure and Rental Purchase Agreement Act	6/24/97	Rep. Jones	Amends the <u>Consumer Credit Protection Act</u> to assure meaningful disclosures of the terms of rental purchase agreements. Sets forth provisions for receipts and accounts of rental payments, renegotiations and extensions of rental-purchase agreements, and the content of rental-purchase advertising.
HR3060 Rent-To-Own Reform Act of 1997	11/13/97	Rep. Kennedy	Amends the <u>Consumer Credit Protection Act</u> to protect consumers from inadequate disclosures and abusive practices in rent-to-own transactions.
Unsolicited Loans Debt Collection Bankruptcy			
HR3150 Bankruptcy Reform Act of 1998	2/3/98	Rep. Gekas	Amends title 11 of the United States Code relating to bankruptcy. Calls for adequate protections for consumers, including: notice of alternatives, disclosures, debtor's bill of rights, and enforcement.
HR837 Fair Debt Collection Practices Amendments of 1997	2/26/97	Rep. Bachus	Amends the Fair Debt Collection Practices Act to require that the consumer notify the debt collector in writing of any dispute within 30 days of receiving a debt notice. Allows the debt collector to demand payment of a debt, and attempt to collect it, within the 30 days of consumer notice. Allows the debt collector to obtain information concerning location, income, asset, or credit of the consumer from any person besides the consumer's lawyer if the lawyer refuses to provide such information.
HR1059 Credit Cost Reduction Act of 1997	3/13/97	Rep. Bachus	Permits collection activities and communications to continue during the 30-day period following the initial debt notice by the debt collector to the debtor. Modifies civil liability guidelines.

HR2053 Unsolicited Loan Consumer Protection Act	6/25/97	Rep. Hinchey	Amends the Truth in Lending Act to prohibit a creditor from soliciting a consumer loan through the use of an unsolicited check. Protects a consumer from liability for any unsolicited check unless the consumer actually receives and negotiates the check. Prohibits information on any liability pertaining to such unsolicited loan from being reported to or received by any consumer reporting agency.
S1163 Unsolicited Loan Consumer Protection Act	9/11/97	Sen. Bryan	Amends the Truth in Lending Act to prohibit a creditor from soliciting a consumer loan through the use of an unsolicited check. Protects a consumer from liability for any unsolicited check unless the consumer actually receives and negotiates such check. Prohibits information on any liability pertaining to such unsolicited instrument from being reported to or received by any consumer reporting agency.
S1301 Consumer Bankruptcy Reform Act of 1997	10/21/97	Sen. Grassley	Amends title 11, United States Code, to provide for consumer bankruptcy protections.
S1405 Financial Regulatory Relief and Economic Efficiency Act of 1997	11/7/97	Sen. Shelby	Amends the Truth in Lending Act disclosure requirements for open end consumer credit plans to permit, as an alternative to the currently required table illustration, a statement that periodic payments may increase or decrease substantially. Amends specified consumer protection disclosure requirements for advertisements for credit other than open end plans. Establishes requirements for alternative compliance methods for advertising credit terms.

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GAO

Report to the Chairman, Committee on
Banking, Housing, and Urban Affairs,
U.S. Senate

May 1997

AUTOMATED TELLER MACHINES

Banks Reported That Use of Surcharge Fees Has Increased



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Washington, D.C. 20548-0001**

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**United States Senator
Alfonse D'Amato
New York**

Double ATM Charges

Until last Spring, most ATM operators were prohibited from charging non-customers to use their ATMs. Typically, consumers were charged a fee by their own financial institutions (usually about one dollar) for using ATMs belonging to someone else. As of April 1, 1996, this policy changed. ATM operators can now impose a second fee, called a surcharge, on top of the fee charged by the consumer's own bank for each ATM transaction.

According to the New York State Credit Union League, the average consumer uses an ATM about six times each month. Most ATMs in New York have not yet imposed these double fees. If New Yorkers are forced to pay these surcharges, the average New Yorker could pay hundreds of dollars in ATM fees each year!

This is happening in many parts of the country. Consumers are paying twice for the same transaction with no additional service provided. Even worse, in some areas it is almost impossible to find an ATM that does not double-charge. In that situation, you, the consumer, have no choice; you are forced to pay twice just to get your own money.

Last Congress, I introduced legislation entitled "the Fair ATM Fees for Consumers Act" to curb these fees. My bill would prohibit ATM operators from charging fees to non-customers. The outrageous "double-dipping" would stop. ~~The Banking Committee held hearings on this issue on July 11, 1996.~~ Unfortunately, the Congressional session ended before my bill could reach the Senate floor.

In December, I asked the General Accounting Office ("GAO") to find out more about ATM fees and how they affect consumers. I want to know how many banks are double-charging and how much consumers are being charged.

Several of my Congressional colleagues have introduced legislation which would merely require that the ATM operator disclose any additional fees to the consumer at the time of transaction. I believe this approach is flawed; signs and disclosures are not enough. Requiring mere disclosure, in effect, actually condones and legitimizes double-dipping. If Congress passes legislation to require disclosure of surcharges, we are telling banks that it is okay to charge the consumer twice for the same transaction, as long as the fees are disclosed. Congress should not give its approval to the practice of nickel-and-diming the consumer to death.

Double-charging hurts small banks, thrifts and credit unions that cannot afford to purchase and maintain many ATMs of their own. These smaller institutions depend on access to the vast national networks of ATMs so their customers can get cash and make deposits when they are not near a branch of their own bank. Now, these small-bank customers can be forced to pay double charges whenever they use an ATM. Even worse, many large banks target small-bank customers with ATM on-screen messages which offer those customers free use of that particular ATM if the customer will abandon the small bank, thrift or credit union.

When a consumer uses an ATM, he or she is usually a captive audience. The consumer rarely has much of a choice, and will usually go to the first available machine. A message on the screen indicating that the ATM operator is charging an extra fee would only appear after the consumer has inserted his or her ATM card and entered the necessary information. At that point, it is extremely unlikely that the consumer will stop the transaction to go hunting for another ATM.

Over the past decade, consumers have come to rely on ATMs for basic banking services such as deposits, withdrawals and inquiries. Banks and other depository institutions actively encouraged this trend because it is cheaper to operate ATMs than to maintain full-service bank branches and pay tellers to service customers individually. Now, some institutions are saying that the machines they created are no longer cost effective, and they have to gouge non-customers to break even. This is especially outrageous when you consider that ATM operators already receive an interchange fee for transactions by non-customers. Furthermore, banks have enjoyed record profits for the past several years and it is disingenuous for them to cry "poverty" when it comes to ATMs.

My bill would put a stop to this outrageous practice.

● Statements on Double ATM Charges

If you wish to contact my office on this issue please include your name and mailing address. Every New York resident will receive a written reply by U.S. mail.

by e-mail at: senator_al@damato.senate.gov

or by mail at:

Senator Alfonse D'Amato
520 Hart Senate Office Building
Washington, DC 20510
Attn: Double ATM Charges

● [Return to Senator D'Amato's Home Page](#)

SENATE BANKING COMMITTEE

NEWS RELEASE**Alfonse M. D'Amato (R-NY), Chairman**

FOR IMMEDIATE RELEASE:

June 11, 1997

**Prepared Opening Statement of U.S. Senator Alfonse M. D'Amato (R-NY)
Hearing on the General Accounting Office Report on ATM Surcharges,**

"This morning, the Committee will receive important, new and startling statistical information about an issue that affects almost every American consumer -- the explosive growth in the number of automatic teller machines ("ATMs") and soaring ATM fees. This new information is contained in a General Accounting Office (GAO) report that details the spread of a new anti-consumer, anti-competitive and anti-free market practice -- double ATM fees.

"When I received the GAO report, I was shocked to find that, in just over a year, the number of ATMs that double-charge consumers has risen 320%. If the banks think we are not watching them, they are wrong. This is outrageous and we are going to stop it.

"The very first ATMs were introduced in my home area of Long Island, New York. At that time, banks claimed that these machines would give consumers more choices and greater convenience. ATMs were supposed to reduce costs and the savings could be passed on to consumers.

"A transaction conducted at an ATM costs about 25 cents while the same transaction conducted by a teller in a bank branch costs well over a dollar. Realizing this, banks strongly encouraged their customers to use ATMs. ATMs appeared everywhere as banks cut back on branches and teller service. ATM networks were formed when individual banks joined together and agreed to let each other's customers use any ATM in the network without paying any extra charges.

"Now, banks are suddenly claiming that ATMs are no longer cost-effective. They have decided to soak consumers with multiple fees every time they need to take money out of their accounts. For these reasons, I asked the Government Accounting Office to conduct a survey to collect accurate and reliable information about ATM double-charges. I wanted to find out how many banks are double charging and how much consumers are being forced to pay to get their own money. I also wanted to know how fast the practice of surcharging had spread.

"The GAO survey confirms my original concerns about the abusive practice of double ATM charges and validates the outraged reaction of consumers. In a nutshell, this abusive practice is spreading like wildfire and consumers across the country are getting burned.

"The GAO study reveals that there has been a 320% increase in the number of ATMs that double-charge since the end of 1995. That means that consumers have less and less of a choice when they need to use an ATM. The study also reveals that 54% of the ATMs in the U.S. are now double-charging. Soon consumers will have nowhere to turn.

"A recent study by the United States Public Interest Research Group (U.S. PIRG) reported that banks will profit \$1.9 billion from ATM surcharges alone this year. The average person will pay \$155 per year for the "convenience" of withdrawing your own money at an ATM. The average family will pay several times that amount. That's outrageous. The banks are making windfall profits on the backs of working people. Banks report record profits in part by slapping customers and non-customers with ever increasing "convenience" fees.

"Banks argue that consumers have the freedom to go to an ATM that doesn't double charge. But working people on their lunch hours, or late at night, have no time to hunt for a "free" ATM when they need cash. As the GAO will testify this morning, those "free" ATMs are getting very hard to find. Today, more than half of ATMs are double-charging.

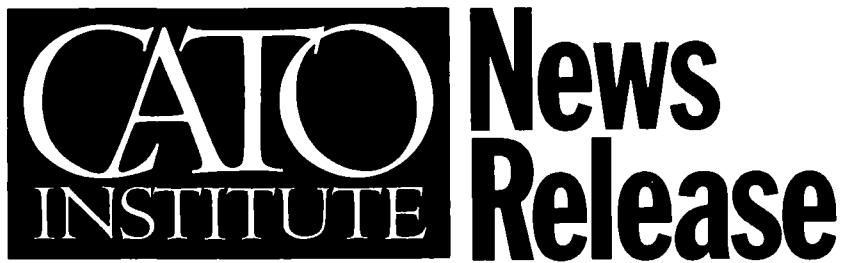
"The people who are getting hit the hardest are the ones who can least afford it. While many Americans can simply choose to avoid extra fees by taking \$100 or \$200 every time they go to an ATM, poor families struggling to make ends meet don't have that option. Senior citizens on fixed incomes and students with little money to spare are being forced to pay two or three dollars just to take out \$20. A \$3 fee on a \$200 withdrawal is a nuisance, but taking a \$3 bite out of a \$20 withdrawal is an outrage.

"In addition, ATM double-charging is a monopolistic practice that eliminates competition and distorts the free market. Banks are using double ATM fees to squeeze small competitors out of business. Community banks, thrifts and credit unions have customers who depend on access to other institutions' ATMS. Large banks with many ATMs are exploiting this situation to lure away small bank customers. These customers now pay twice whenever they use an ATM. Eventually, small banks will not be able to survive. That's not competition, that's a monopoly.

"Last Congress, the Banking Committee held hearings on this issue and I introduced legislation, "The Fair ATM Fees for Consumers Act" which would ban double ATM fees. I plan to introduce legislation to ban double ATM fees in the near future and to schedule hearings to provide opponents and proponents of the bill, including representatives of various states that are attempting to enact bans in the face of stiff banking industry opposition, an opportunity to participate in this debate."

#

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March 19, 1998

Barring ATM fees “would only harm consumers,” study says

Surcharges allow banks and nonbanks alike to offer consumers “time-saving option”

“Prohibiting ATM surcharges would only harm consumers by slowing the expansion of ATMs and reducing the number of ATMs currently deployed without making anyone better off,” according to a new Briefing Paper from the Cato Institute. Urged on by consumer groups, small banks and credit unions, Sen. Alfonse D’Amato (R-N.Y.) has proposed a federal ban on ATM fees. But such a ban “would limit the number and location of ATMs and inconvenience customers,” according to the paper’s author, John Charles Bradbury.

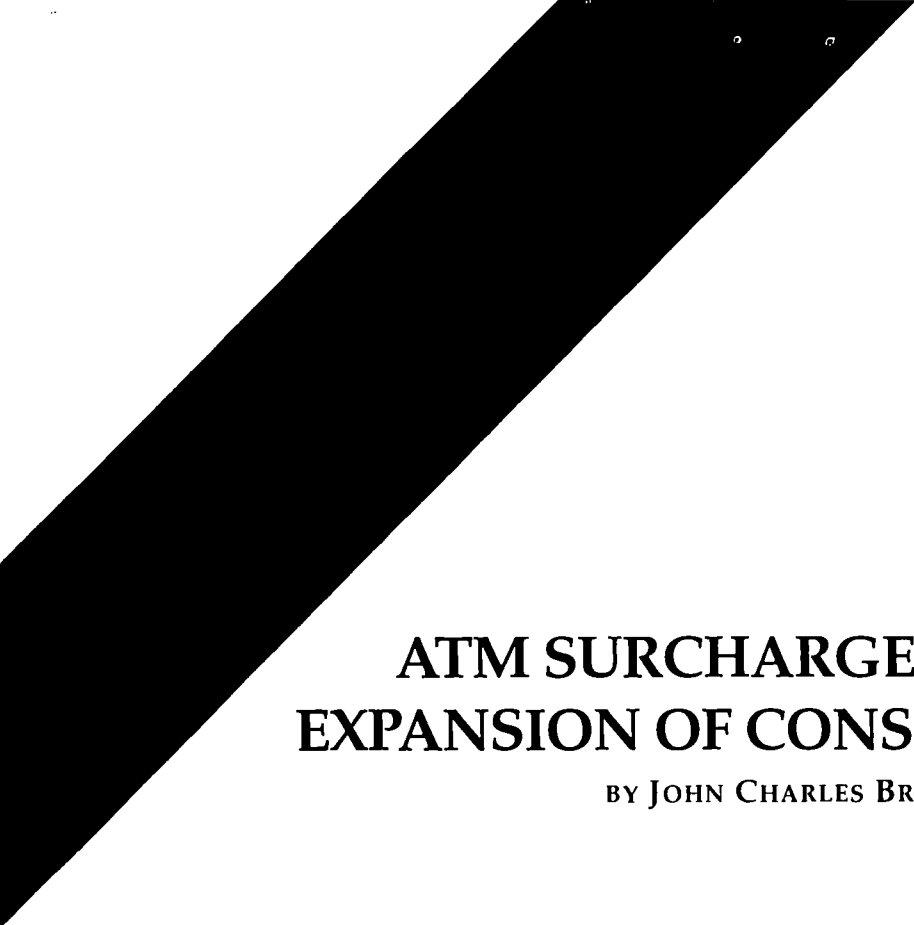
In “ATM Surcharges and the Expansion of Consumer Choice,” Bradbury notes that operating automatic teller machines is expensive. “Allowing ATM surcharges has encouraged firms outside the banking industry, as well as banks, to put ATMs in more convenient locations where, without surcharges, ATMs may not generate enough bank customer traffic to be profitable.” Much of the growth in ATMs has been due to nonbank and nonthrift firms, which accounted for nearly half of all the new shipments of ATMs in 1996. They have led the placement of ATMs in places like supermarkets, convenience stores and airports, where surcharges make them economically viable.

“The fact that such ventures are increasing is an indication that consumers are willing to pay fees for the convenience they are receiving,” Bradbury observes. “Customers who are unwilling to pay a surcharge incur the cost of inconvenience, while those who value the convenience more than the cost of the fee have the option of paying for it.” In short, consumers have a choice, and a surcharge ban “would serve only to deny an important time-saving option to consumers who are willing to pay for the convenience of ATMs.”

Bradbury is a Ph.D. candidate in economics at George Mason University in Fairfax, Virginia.

Cato Briefing Paper no. 36 (<http://www.cato.org/pubs/briefs/bp-036es.html>)

Contact: John Charles Bradbury, 703-573-3308
Julie Williams, director of public affairs, 202-789-5266



ATM SURCHARGES AND THE EXPANSION OF CONSUMER CHOICE

BY JOHN CHARLES BRADBURY

No. 36

March 19, 1998

Executive Summary

Since the imposition of surcharges for the use of automatic teller machines became widespread in 1996, the number of ATMs has increased significantly. That increase has benefited consumers greatly by making bank transactions more easily accessible.

Critics of surcharges claim that banks are not passing cost savings generated by large ATM networks on to consumers. Such claims are false; operating ATMs is expensive and forces banks to use their own resources to meet consumer demand for ATMs. And surcharges are not anti-competitive; the banking industry remains competitive. Surcharges have created a new area of competition among banks as they try to meet consumer needs for fast and easy access to banks.

Consumers who do not want to pay surcharges have plenty of options for accessing their bank accounts without paying a fee. A ban on ATM surcharges, as proposed by Sen. Alfonse D'Amato (R-N.Y.), would serve only to deny an important timesaving option to consumers who are willing to pay for the convenience of ATMs.

ATM SURCHARGES AND THE EXPANSION OF CONSUMER CHOICE

by John Charles Bradbury

Introduction

The 1996 decision by the two largest automated teller machine (ATM) networks in the United States--Cirrus and Plus--to lift their bans on transaction fees has sparked an organized campaign by consumer groups, small banks, and credit unions to outlaw such charges. Sen. Alfonse D'Amato (R-N.Y.), chairman of the Senate Banking Committee, is leading the effort on Capitol Hill. D'Amato, who has denounced what he calls the large banks' attempt to "nickel-and-dime the consumer to death!" has introduced the Fair ATM Fees for Consumers Act (S. 885) that would ban the imposition of surcharges by ATM owners.¹ He wants to prohibit financial institutions from charging fees when customers of other financial institutions use their ATMs for transactions.²

Naturally, few consumers want to pay for services that were once provided free. But the increased imposition of surcharges by ATM owners has spurred the spread of ATMs to the benefit of millions of Americans. Banning ATM surcharges would end up hurting customers as well as banks.

Consumer Benefits

ATMs have provided an important expansion of banking services that has benefited all consumers. Before the introduction of ATMs in the early 1970s, bank customers' access to their cash was limited to traditional banking hours. Customers often found themselves waiting in long lines on Friday afternoons just to withdraw enough cash to carry them through the weekend. ATMs opened a whole new world of convenience by eventually allowing access to banking services 24 hours a day, 365 days a year. Networks between banks, such as Plus, Cirrus, and Honor, developed so that customers could have access to their money through other institutions' ATMs throughout the world. To pay for

John Charles Bradbury is the Charles G. Koch Research Fellow at the Center for Market Processes and a Ph.D. candidate in economics at George Mason University in Fairfax, Virginia.

owner of ATMs in the country is EDS, a Texas-based, nonbank, nonthrift company. Since nonbank and nonthrift owners of ATMs have no base of bank clients, the only way for them to earn money from their ATMs is by charging fees.

Banks have also responded to consumer needs by expanding their ATM networks beyond their branch offices. The number of off-premises installations of ATMs by banks and thrifts increased 24 percent from 1995 to 1996, compared with on-premises installations that only increased by 9 percent.⁸

The reason for that growth is simple: Allowing ATM surcharges has encouraged firms outside the banking industry, as well as banks, to put ATMs in more convenient locations where, without surcharges, ATMs may not generate enough bank customer traffic to be profitable. Those locations include supermarkets, convenience stores, and airports. Consumers now have the option of paying a surcharge for getting money from the new machines or going to other, less convenient, ATMs.

The recent surge in ATMs in convenience stores and supermarkets is evidence that consumers value the ATMs and are willing to pay the surcharge. Because of the surcharge, ATM owners are now able to provide consumers with better services:

- From 1995 to 1996, the percentage of ATM owners supplying ATMs in convenience stores rose from 36 percent to 50 percent; the percentage supplying them in supermarkets rose from 28 percent to 35 percent.⁹
- The percentage of supermarkets with ATMs increased to 40.5 percent in 1996, up from 37.7 percent in 1995.¹⁰
- In 1996, 53 percent of convenience stores contained ATMs compared to 41 percent in 1995.¹¹

The fact that such ventures are increasing is an indication that consumers are willing to pay fees for the convenience they are receiving. Consider the case of an average busy couple. While doing the weekly grocery shopping, they can get cash in the store for a fee of \$2, or they can make an extra trip to their own bank. Instead of dragging the kids across town just to avoid the surcharge--even a location only a few blocks away may involve a 20-minute drive--they may be willing to pay the surcharge, thereby saving them the cost of the trip. They undoubtedly benefit from

percent since 1983.¹⁷ Instead of substituting for and replacing tellers, ATMs have become a complementary service offered by banks.

Because of the easy access ATMs provide, customers tend to use them often. A study by economist David Humphrey at Florida State University calculated that bank customers use ATMs twice as much as they use traditional banking services.¹⁸ Bank customers tend to withdraw less money at a time and increase their trips to the ATM. Increased use of ATMs tends to eat up the cost savings that might be achieved if consumers simply substituted ATM transactions for the same number of teller transactions. According to Humphrey, "This suggests that the cost savings, which could have been reaped by banks by substituting ATMs for branch offices, have instead largely flowed to depositors who have showed their preference for the increased convenience provided by ATMs."¹⁹

The consulting firm of McKinsey & Co. estimates that ATMs have added \$1.5 billion in additional costs to banks and created less than \$200 million in savings from replacing tellers.²⁰ The Federal Reserve Board's Functional Cost Analysis shows that ATM expenses exceeded the income generated by ATMs by an average of \$10,445 per ATM per year from 1991 to 1995. The average yearly loss for the industry due to ATMs is more than \$1 billion.²¹

So why do banks continue to deploy ATM machines? Humphrey believes banks increase their base of customers who use other bank services by adding ATMs, which is why banks incur the direct loss of providing ATMs. "Overall," he states, "it is probably the case that users of bank deposit services have benefited more from the change in the delivery of services than have the banks."²²

Are ATM Fees Anti-Competitive?

Credit unions and smaller banks have complained that ATM fees are a plot by big banks to use surcharges on non-customers to induce members of credit unions and customers of small banks, which have very few ATMs, to take their business to bigger banks that have many machines. The alleged scenario is that customers of small banks will get tired of paying ATM fees and will shift their accounts to larger banks to avoid the surcharge. Community banks will be squeezed out, creating a less competitive banking industry.

action. There is no reason to protect smaller banks that do not provide the services consumers want and can get only from larger banks. In the U.S. economy, innovative firms that meet the needs of consumers traditionally replace firms that do not.

Are Consumers Charged Twice for the Same Service?

Many critics also complain that surcharging amounts to charging the consumer twice for the same transaction. That is often referred to as "double dipping." Noncustomers are often assessed two charges for using an ATM that is not owned by their bank, but the charges cover two different costs. The first fee, which has always existed, is charged by the customer's own bank. That fee goes to cover the bank's cost of belonging to the network and for completing the transaction. The second fee, or surcharge, is assessed by the owner of the ATM. That fee covers the installation, maintenance, rental space, and security costs of the ATM. The second fee differs from machine to machine because each individual ATM owner, not the ATM network, sets its own surcharge. That is why the fees are separate. If the surcharge were eliminated, banks would have to come up with a formula for charging their customers a single fee that averaged out all of the possible surcharge fees by ATM owners. Because of the diversity of charges throughout the world, there is no way to know in advance if a flat fee charged by the customer's institution would be enough to compensate an ATM owner.

Most important, if the two fees are separate, consumers can choose whether they want to pay different fees at different locations. That feature encourages thrifty customers to search for other cash options, while customers who value time more highly may choose to pay a steep fee at a more convenient location. Eliminating the separate surcharge might force a single, higher fee to be charged by a customer's own bank to cover the variable compensation costs to ATM owners. So a withdrawal at an ATM in a shopping mall that used to cost \$1 might rise to \$2. The higher fee would subsidize the less thrifty consumer in a casino who might otherwise have paid a surcharge of \$3. The thrifty end up subsidizing those who are not so thrifty. When the basic fee is separate from the surcharge, consumers bear the costs of their decision to use another bank's ATM.

Conclusion

Consumers have the ability to obtain money from their bank accounts without paying a surcharge. ATM surcharges allow banks and other ATM operators to deploy machines in more convenient locations than might otherwise be possible. Customers who are unwilling to pay a surcharge incur the cost of inconvenience, while those who value the convenience more than the cost of the fee have the option of paying for it. Senator D'Amato, Rep. Bernie Sanders (I-Vt.)--Congress's self-proclaimed socialist--and numerous consumer groups have formed an unlikely coalition to put an end to ATM surcharges. If successful, that campaign would limit the options of consumers, since there would be no means to support the more convenient ATM machines. Prohibiting ATM surcharges would only harm consumers by slowing the expansion of ATMs and reducing the number of ATMs currently deployed without making anyone better off.

Notes

1. Alfonse D'Amato, "People Shouldn't Pay Twice Just to Get Their Own Money," American Banker, May 13, 1997, p. 4.
2. See John Charles Bradbury, "Ban Fees, and You Banish ATMs," Wall Street Journal, July 14, 1997, p. A14.
3. Valerie Block, "Banks Hit Jackpot with Casino ATMs As Resurgence in Gambling Spreads," American Banker, May 9, 1994, p. 15.
4. David Balto, "Payment Systems Face More Antitrust Scrutiny," American Banker, June 14, 1994, p. 12.
5. Beth Piskora, "Visa Will Let ATM Owners Slap Fees on Noncustomers," American Banker, November 27, 1995, p. 1.
6. "The Good Times Roll for ATM Vendors," Bank Network News 15, no. 20 (March 12, 1997): 1. There were 33,406 ATMs in 1996. That number is greater than the total number of ATMs shipped between 1991 and 1993--31,900.
7. Mentis Corporation, "Non-banks Increasingly Drive ATM Growth," News release, March 27, 1997, p. 1.
8. Ibid., p. 2.
9. Ibid., p. 3.

24. General Accounting Office, "Automated Teller Machines: Banks Reported That Use of Surcharge Fees Has Increased," May 16, 1997.

25. Grant Thornton LLP, "ATM Fees Not Just for Large Banks," News release, March 17, 1997.

26. D'Amato, p. 4.

27. David Morrow, "Is Your ATM Ripping You Off?" New York Times, May 4, 1997, sec. 3, p. 1.

28. American Bankers Association, Nationwide Customer Telephone Survey.

29. U.S. Public Interest Research Group, p. 4.