Consumer Federation of America

SAVINGS ACCOUNTS: THEIR CHARACTERISTICS AND USEFULNESS

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More than 14,000 commercial banks, savings institutions, and credit unions in the United States offer savings accounts to individuals – statement, passbook, and club accounts, money market deposit accounts, and for credit unions, share savings accounts.[1] These liquid accounts represent savings options that are available in every American community and, in fact, are used by about three-fifths of all households nationwide. Historically, the accounts have played a particularly useful role in helping people start saving and in serving as an emergency fund for unexpected expenses.

These accounts have received relatively little attention from researchers, advocates, policymakers, and even the financial institutions themselves.[2] They have infrequently been researched, evaluated, reported on, or even much discussed. From a consumer perspective, is this lack of attention deserved? The main purpose of this report is to explore this question with special attention to savings account use and usefulness by low and moderate income (LMI) households. It will do so by revealing the number and basic characteristics of households that use the accounts, describing the characteristics of the accounts, discussing the usefulness of the accounts, and suggesting ways in which these accounts could be more useful.

Savings Account Ownership

The best source of information about liquid savings accounts held by households is the Federal Reserve Board's 2010 Survey of Consumer Finances (SCF). The SCF collects

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[1] In its December 31, 2012 Facts at a Glance, the Federal Deposit Insurance Corporation reports 7,083 commercial banks and savings institutions. In its 2010 Yearend Statistics for Federally-Insured Credit Unions, the National Credit Union Administration reports 7,339 federally- and state-insured credit unions.

[2] There is a fairly extensive literature on low-income savings that focuses mainly on LMI savers and innovative savings mechanisms. Two papers that discuss existing accounts are: Pamela Chan, Designing Attractive Savings Accounts for Lower-Income Consumers (New America Foundation Asset Building Program Working Paper, November 2011). Stephen Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergencies (Consumer Federation of America, June 2008).

data not only on bank and credit union savings accounts, but also on different types of these accounts, with the two dominant types being money market accounts and "traditional" savings accounts (mainly statement accounts). These data were analyzed for us by Catherine Montalto, a family economics professor at Ohio State University.

Her analysis shows that nearly three-fifths (59%) of households held some sort of savings account. Most of these accounts (in 49% of all households) were "traditional" with fewer than one-fifth (in 17% of households) being money market accounts. The data indicated that only 0.4 percent of households held a Christmas Club or other account involving a short-term saving goal.[3] The median value of all savings accounts for families holding them was $4,200. However, this median figure was much higher for money market accounts ($10,000) than for traditional savings ($2,400).

Given our interest in LMI households, it is useful to compare account ownership and value for different income groups. For purposes of this study, LMI households are considered to be those with annual incomes in the two lowest income quintiles (less than $35,600); middle income households are considered to be those in the third and fourth income quintiles ($35,600 to $94,600); and upper income households are considered to be those in the fifth income quintile ($94,600 and above). As Table 1 shows, fewer than two-fifths of LMI households have traditional savings accounts, and these accounts have a median value of $800. That represents at least $13 billion of savings.[4] Moreover, a very small percentage of these households hold a money market account. By comparison, nearly three-fifths of both middle and upper income households have traditional savings accounts, but upper income households are much more likely to have a money market account and also have much larger sums in both traditional and money market accounts

Table 1: Household Savings Account Ownership

Income Percentile	All Accounts	MMDAs	"Traditional" Savings
Percentage of Families Holding Account			
Less than 40	41.9%	7.7%	37.0%
40-79.9	66.7	16.8	57.2
80-100	79.6	36.7	57.9
Median Value of Account for Families Holding Account			

[3] Given the facts that a significant minority of bank sample offered these accounts, as indicated later in this report, and that a number of branch personnel interviewed said the accounts were popular, we suspect this percentage is too low.

[4] This figure was computed for 37% of 46 million LMI households using median savings of $800 and assumes that total savings using average savings would be higher.

Less than 40	$1,200	$4,000	$800
40-79.9	3,500	8,500	2,300
80-100	16,100	21,000	7,500

The age distribution of traditional savings account ownership is also interesting. For each of the three youngest age cohorts – less than 35 years of age, 35-44 years, and 45-55 years – slightly more than half of households hold an account. But for those 65 years and older, only 42 percent hold an account. Clearly, statement savings accounts, while termed "traditional," are not relics of the past that are disappearing.

All these figures may be too low. A 2011 Current Population Survey, undertaken by the Bureau of the Census for the Federal Deposit Insurance Corporation, found that more than two-thirds (69.2%) of households reported holding savings accounts, with nearly two-fifths (37.3%) of households with incomes below $15,000 having accounts and more than half (56.3%) of households with incomes $15,000 to $30,000 having accounts. However, the SCF and CPS differences are lessened if savings accounts are defined expansively to include certificates of deposit and brokerage accounts.[5]

Savings Account Characteristics

Research Method

Because of their ubiquity and visibility, banks are the main focus of our attention. We selected a sample of 150 institutions, which included the 50 largest in terms of number of branches, 50 medium-size ones with 21 to 25 branches, and 50 small ones with only four or five branches. While more than half of all U.S. banks have five or fewer branches, most consumer deposits are held by the largest institutions. Each of these large institutions operates more than 175 branches, which together exceed 50,000 branches in number, more than half of all bank branches.[6] Three of the banks – Wells Fargo, JPMorgan Chase, and Bank of America – each operates more than 5,000 branches. Two other banks – U.S. Bank and PNC Bank – maintain more than 3,000 branches. No other bank operates as many as 2,000 branches. The 150 banks are listed in the appendix.

Although credit unions are less visible than banks in most communities, a significant minority of all households have a relationship with these member-owned non-profits. So, we also decided to review accounts at the ten largest credit unions by membership. Each of these non-profits has at least 370,000 members, with the largest, Navy Federal Credit Union, having more than four million members. These institutions are also listed in the appendix.

[5] Keith Ernst and fellow staffers at the Federal Deposit Insurance Corporation provided a helpful comparison of savings statistics from the SCF and CPS surveys.
[6] According to numbers from the Federal Deposit Insurance Corporation's Institution Directory, as of March 14, 2012, there were 93,244 bank branches.

Only those savings accounts for which adults could qualify were studied. Accounts available only to children, teenagers, or old persons were not reviewed.

The principal source of information about the savings accounts at these financial institutions was their websites. In general, these websites are informative and easy to navigate. However, many bank websites do not include important information about their saving accounts. As the table below shows, more than half the 150 websites reviewed do not include the current rate paid on a regular (statement or passbook) savings account, and 20 percent do not include the monthly fee when balance (or other requirements) are not met. The table also reveals that the large banks are most likely to disclose this information.

Table 2: Bank Website Disclosure for Statement/Passbook Accounts (n=150)

	Small	Medium	Large	All
Interest rate	34%	40%	72%	49%
Monthly fee	74	76	90	80

Information about savings accounts was collected in February and March, 2013. When this information was not included in websites, it was often difficult to obtain. Calling 800 numbers was sometimes an exercise in futility – wading through phone options then waiting as long as 15 minutes with no response. There was easier access to branches, but personnel sometimes could not find the requested information and sometimes made a referral to someone else who was difficult to track down. In general, the less important the information (e.g., frequency of compounding), the more difficult it was to obtain.

Money Market Deposit Accounts

Money market deposit accounts, also referred to as money market accounts, are offered by most, but not all, banks. (These accounts are not to be confused with money market funds, which are not insured by government agencies.) Money market accounts are basically regular savings accounts on steroids. The accounts usually pay a somewhat higher interest rate than do regular accounts, but also require larger balances to avoid higher fees. At more than half of the banks in our sample (55%) who offered these accounts, balances must be at least $2500 to avoid these fees. At only eight percent of the banks were these required minimum balances below $1000. At 90 percent of the institutions for which we obtained information, the monthly fee was $10 or larger, with one bank charging $25.

These accounts were designed for and, as noted earlier, are used mainly by households with relatively high incomes. Given our interest in LMI households, this report will focus more attention on other types of savings accounts.

Basic Savings Accounts

All institutions in our sample offer statement savings accounts, the main focus of our attention. Even though passbook accounts still exist, they are offered by relatively few banks, are rarely promoted, and sometimes pay less interest, so will not be discussed unless they represent the principal regular savings account for an institution.

Minimum Balance to Open Account: As the table below indicates, one can open a basic savings account for $100 or less at a large majority (89%) of banks in our sample. In fact, the minimum to open is $50 or less at nearly half of all these institutions and at three-fifths of the large banks. And this minimum is $25 or less at nearly three-tenths (29%) of all institutions and at over two-fifths (41%) of the large banks.

Table 3: Minimum Deposits to Open Bank Savings Accounts (n=144)

Minimum	Small	Medium	Large	All
Under $25	6%	10%	13%	10%
$25	17	12	28	19
$50	25	10	19	18
$100	44	43	38	42
$200 and above	8	24	2	12

Minimum Balance to Avoid Monthly Fees: Most banks require that a minimum balance, or in a few cases an average balance, be maintained at all times to avoid a monthly fee. These minimums tend to be higher than the minimum balances required to open accounts. As Table 3 indicates, this minimum to avoid monthly fees is at least $200 at nearly three-fifths (59%) of the banks. And it is at least $300 at over half of the large banks. At five of the latter institutions, the minimum is $500, and at two of the small institutions, the minimum is $1,000. At the other extreme, one-fifth (20%) of the banks require monthly minimums to avoid fees of $50 or less, though several with very low monthly balances ($10 or $25) will not pay interest if balances fall below this level.

Table 4: Minimum Balances to Avoid Monthly Fees on Bank Savings Accounts (n=147)

Minimum	Small	Medium	Large	All
$0-10	17%	10%	6%	11%
$25	8	2	0	3
$50	15	2	2	6
$100-125	35	27	20	20
$200-250	13	43	20	25

$300	8	12	34	25
$400 and above	4	4	18	9

Other Ways to Avoid Monthly Fees on Low Balances: Several of the large banks – Huntington, M&T, and Comerica – will waive minimums if a checking account is maintained at the same institution. An additional sixteen large banks – including Wells Fargo, Bank of America, and JPMorgan Chase -- will not require minimums to avoid monthly fees if a checking account is maintained, and the bank is authorized to transfer funds, typically $25, from checking to savings each month. Given the agreed-upon importance of "automatic savings," these regular transfers could play a key role in encouraging and assisting non-savers to begin saving.

Monthly Fees Related to Minimum Balances: If at any time during a month the balance falls below the minimum, or some other condition is not met (see above), a fee is usually assessed.[7] This fee, for our sample of banks, averages $3.30. It is lowest at small institutions ($2.30) and largest at large institutions ($3.90). Table 4 indicates that there is great variation in fees, though less so among the larger banks – two-thirds of them charge either $4 or $5.

Table 5: Fees Assessed by Banks When Monthly Savings Minimums Are Not Maintained (n=147)

Fees	Small	Medium	Large	All
$0	31%	10%	10%	17%
$1-2	18	19	2	13
$3	27	29	18	24
$4	0	4	26	10
$5	20	21	40	27
$6 and above	4	17	4	8

The fees and minimum balance requirements to avoid fees, especially at the large banks where both tend to be highest, by themselves discourage "small savers" from saving. It is not always easy for a family living on the financial edge to accumulate $300 or more to open an account and keep balances above the minimum. And if fees are assessed, they will dwarf interest earnings since yields are usually a small fraction of one percent.

Restrictions on Withdrawals: A federal regulation, to oversimplify somewhat, limits withdrawals from a savings account to six per month. And most banks in our sample adhere to this limit. However, nearly two-fifths (39% of a sample of 92) limit

[7] At a couple banks in our sample there was an average balance requirement.

withdrawals to a smaller number, usually three. And over half (55%) of the large banks impose this limitation.

If the limitation is exceeded, a few banks will close the account, but the typical practice is to levy a fee for every transfer or other withdrawal over the limit. These fees vary greatly – from $.50 to $10.00 at small banks, from $.50 to $15.00 at medium banks, and from $.50 to $15.00 at large banks.

This withdrawal policy effectively limits the use of savings accounts as a transaction account. Depositors at banks, which either limit the number of withdrawals to three or fewer of which charge large fees, will probably not want to use their savings accounts to routinely pay bills and get cash.

Interest Rates: Interest rates paid on savings accounts are so low that rate differences involve few dollars for small savers. On a balance of $1,000 over five years with monthly compounding, with a rate of 0.01 percent, only $.50 will be earned. Even with a rate of 0.5 percent, only $25.31 will be earned. So, for most small savers it is more important to avoid fees than to receive the highest yield.

There are, however, substantial percentage differences in rates paid by different banks. As Table 5 indicates, about one-sixth of banks pay only 0.01 percent – one one-hundredths of a percentage point – while fewer than half pay 0.10 percent or higher. Large banks tend to pay lower rates than do medium and small banks. Over four-fifths (84%) of the large institutions pay less than 0.10 percent while only 46 percent of the medium-size banks and 41 percent of the same banks pay this little. As will be noted later, however, some institutions offer higher rates if depositors meet special conditions.

Table 6: Interest Rates Paid by Banks on Regular Savings Accounts (n=150)

Rate	Small	Medium	Large	All
0.01 or less	8%	10%	34%	17%
0.02-0.04	6	10	16	11
0.05-0.09	26	26	34	29
0.10	26	22	8	18
0.11-0.15	8	20	2	10
0.20-0.25	18	12	2	11
Above 0.25	8	0	4	4

Interest Compounding: Among the 92 banks for which compounding was learned, nearly half (48%) compounded daily, with 20 percent compounding monthly and 33 percent compounding quarterly. However, for small savers, in terms of dollars the differences are trivial. On a balance of $1000 that earns 0.10 percent over five years, the difference between daily and quarterly compounding amounts to less than a penny.

Incentives: A couple dozen banks in our sample, most of them large institutions, offer incentives to save. Most of them require maintaining a checking account at the same institution.

Many of these incentives are provided to customers who save automatically by preauthorizing monthly transfers from checking to savings. These incentives can take the form of a higher interest rate. For example, for regular savings deposits Peapack Gladstone Bank and Empire Bank will double the rate, and Regions Bank will double or triple the rate depending on the amount of the monthly deposit. High Plains Bank offers a 0.70 percent rate, and BankCorp South Bank and CapOne Bank offer a 0.50 percent rate.

These incentives can also represent a bonus usually related to the amount automatically deposited. For example, SunTrust Bank pays a one percent bonus, Region's Bank pays a one percent bonus up to $100, Compass Bank matches a percentage of auto transfers, and Commerce Bank provides a $50 bonus.

Some banks provide savings incentives that depend on debit card usage. Bank of America's Keep the Change program rounds up debit card purchases to the nearest dollar, transfers the rounded up amount to savings, and matches this amount for the first three months. Citizens Bank of Philadelphia (Cash Stash) and Prairie State Bank and Trust (Charge It Up Savings) also match a portion of rounded up debit card purchases that are transferred to savings. Other banks simply increase the rate on savings. With direct deposit, eStatements, and at least ten debit purchases, Texas First Bank pays 0.75 percent on savings up to $10,000. The Kasasa Saver program used by several banks also requires the direct deposit, electronic statements, and debit purchases to qualify for contributions on debit purchases to a savings account than earns as much as 1.0 percent. And First Merit Bank increases the interest rate to 0.2 percent with at least ten automatic transfers or transactions. Other banks pay a bonus instead of increasing the rate. Bank of Oklahoma, for instance, makes a contribution to savings when debit cards are used on online purchases.

There are other types of savings incentives. Some are closely tied to electronic banking. For an online savings account, Madison Bank will pay 0.25 percent, and CapOne Bank, in its 360 Savings account, will pay 0.75 percent. Citizens Bank offers a unique incentive in its Homebuyer Savings program -- $1000 credit to closing costs on a mortgage loan. And Citizens Bank, as well as Citibank, allows autosavers to build up "cash" that can be spent at participating retailers.

Inactive Accounts: Most banks charge a fee (often called a "dormancy fee") on savings accounts with no deposits or withdrawals over a period of time. A survey of a couple dozen institutions reveals that this period of time may be as short as six months and as long as three years with monthly fees ranging from $1.00 to $12.00. However, some banks will assess fees only if the balance is below a certain level – in our sample, between $50 and $500.

Correlating these three variables shows that some banks are far more generous than others. One institution, for example, assesses a $3 quarterly fee only on accounts under $50 that have been inactive for at least three years. At the other extreme, another bank charges a $10 monthly fee after six months of inactivity, regardless of the level of the balance.

Christmas and Other Club Accounts

Until recently, Christmas Club accounts were the most common and popular bank savings account in which payments are made over a specified period of time to achieve a specific goal. In a typical account years ago, banks allowed customers to open up an account at the beginning of a year, gave them a coupon book with weekly coupons for deposits as small as $5, often did not pay interest on these deposits, did not allow or severely penalized early withdrawals, then returned accumulated savings all at once in October or November. Despite the limited access to and low yield on these accounts, they were popular with many low- and moderate- families who otherwise found it difficult to save for the holidays. And according to a number of small and medium-size bank branch personnel interviewed by phone, they are still popular.

Today, most Christmas Club accounts look somewhat different and exist with other club accounts whose goal is to save for a holiday, for a vacation, or for some other expense, sometimes unspecified. In our sample, 28 percent of small banks, 46 percent of medium-sized banks, and 36 percent of large banks offer at least one type of club account. Small and medium-sized banks are more likely to offer Christmas accounts with some restrictions while large banks are more likely to offer club accounts with few restrictions.

As well as greater variation in goals, there is also greater variation in other club account characteristics. Many banks still allow small weekly or monthly deposits of $5 or $10, but many require that these deposits be preauthorized, regular transfers from checking. There are also great differences in a customer's ability to withdraw funds early, with a few banks disallowing these withdrawals, some imposing fees for early withdrawals, and some allowing the withdrawals for free.

At present, banks not only are more likely to pay interest on club accounts than years ago, but are more likely to pay a higher interest rate on these accounts than on regular savings accounts. In our sample of 48 banks, 20 paid higher rates, 23 paid the same rates, three paid lower rates, and one paid no interest.

Credit Union Savings Accounts

Money Market Deposit Accounts: At the ten large credit unions surveyed, minimum deposits to open a money market deposit account are somewhat lower than at banks. At three of the ten credit unions, this minimum is $25 or zero, and at another it is $250. At four institutions, the minimum is $1000 and at three it is either $2000 or $2500. However, at most of these credit unions there is no fee if the minimum is not maintained.

Basic Savings Accounts: To open a basic savings account, eight of the ten credit unions require a deposit of $10 or less, and the other two require $25. To avoid monthly fees, seven of the institutions require $25 or less, usually zero, while minimums at the other three credit unions are $50 or $100. But at most of the credit unions, there is no monthly fee – the monthly minimum is the amount of the deposit required to gain and maintain credit union membership. Five of the credit unions pay a rate of 0.10 percent on savings, with two paying lower rates and three paying higher rates. One of the latter, Boeing Employee Credit Union, pays 6.0 percent interest on savings deposits up to $500 as long as the member maintains a checking account with at least one electronic transaction a month and emailed monthly statements.[8] At most of the institutions, interest is compounded monthly.

Club Accounts: Eight of the ten credit unions offer some kind of club account. The minimum deposits in the accounts are almost always $25 or lower. But what distinguishes some of these accounts is their relatively high interest rate. Two pay a rate of 0.75 percent, one 0.45 percent, and one 0.20 percent.

Savings Account Usefulness

Advantages: For most LMI households and some middle-income ones, savings accounts can represent the most useful source of funds to pay for unexpected expenses ranging from a car repair to a hospital or dental bill to a speeding ticket.[9] The accounts themselves are widely available. Almost all banks and credit unions offer them. These accounts can usually be opened in-person, over the phone, or on-line. Once deposited, funds in these accounts at banks and most credit unions are always federally insured well beyond the level to cover emergency expenses. This government guarantee is important to LMI households who do not want to place at risk the few financial assets they have.[10] And usually the deposited funds can be easily accessed -- not just at bank branches and ATMs, but also at the ATMs of other banks belonging to the same national network.

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[8] Those electronic transactions could take the form of a direct deposit, debit card payment, bill payment, or online or telephone banking.

[9] The importance of emergency savings is receiving increased attention. See especially, Stephanie Chase et. al., Coming Up with Cash in a Pinch: Emergency Savings and Its Alternatives (Center for Financial Security, University of Wisconsin-Madison, June 2011). For an analysis of the difference at least $500 of savings can mean, see Stephen Brobeck, Understanding the Emergency Savings Needs of Low- and Moderate-Income Households: A Survey-Based Analysis of Impacts, Causes, and Remedies (Consumer Federation of America, November 2008).

[10] An ORC International survey of more than 2000 representative adult Americans, commissioned by the Consumer Federation of America and Primerica and released on September 18, 2012, found that only 21 percent of middle class respondents, but 48 percent of upper class respondents, would invest primarily in stocks, bonds, and mutual funds if given $1 million to invest.

Savings account deposits, however, are not as accessible as checking account balances, particularly for purchases that can be paid for by check or debit card. This restricted access, however, helps ensure that savings withdrawals are not used for everyday expenses, but only for exceptional purposes, chiefly to pay for unexpected expenses or for those planned well in advance.

Still another advantage of savings accounts is that withdrawals usually cost much less than use of other sources of funds, such as credit, family, and friends.[11] A savings withdrawal will cost nothing if it does not lower the account balance below the minimum level to avoid fees or if these fees are waived for regular monthly deposits. And even if a fee is assessed, there is only one fee per month, and it rarely exceeds $5. The two most readily available forms of credit – payday loans and credit cards – both usually end up being more expensive. A payday advance of $300 will typically cost $40, and a $300 credit card balance will usually cost around $5 in interest each month. Friends and family may not charge any interest on money lent, but often impose nonfinancial costs including loss of respect and feelings of dependency and obligation, and must absorb the costs themselves.[12] Regardless, it is usually much easier to withdraw funds from a savings account than to seek assistance from other individuals.

Barriers: It is this availability, limited access, convenience, safety, and low cost that helps explain why tens of millions of households maintain savings accounts. Even sixteen million LMI households hold these accounts. Yet, 23 million of these households do not. While there is no definitive research on the subject, it is likely that the proximate causes of the absence of these accounts relate not only to characteristics of the households but also to characteristics of the accounts themselves. Several account characteristics may well act as barriers to account ownership at some or many banks. One possible barrier is minimum monthly balance requirements of several hundred dollars that, if not met, result in fees greatly exceeding interest earned. Households struggling to pay expenses, a majority of those with low or moderate incomes, often find it difficult to save this amount. Another possible barrier is limits on fee-free withdrawals to only two or three each month. LMI households in particular, who think that the six free withdrawals permitted by federal regulation allow adequate access to their accounts, may well believe that a bank-imposed limit of only two or three withdrawals is too limiting, especially if a relatively large fee is charged for exceeding this limit. A third possible barrier is inactivity fees that can quickly drain a low-balance account. Fees imposed after only six months of account inactivity may discourage all savers who want to keep an emergency savings account that they infrequently access. And for some, a different kind of barrier is that banks are more tolerant of low-balance savings accounts if they are also held by customers with checking accounts. This strong bank preference has the effect of limiting customer access to savings accounts at other institutions.

[11] See discussion in Chase, Coming Up with Cash.

[12] See John Caskey, Beyond Cash-and-carry: Financial Savings, Financial Services, and Low-Income Households in Two Communities (Consumer Federation of America, 1997).

Incentives: The extent to which LMI households use savings accounts is related not just to account advantages and barriers but also to account incentives. Groups including D2D, Center for Financial Security, Center for Financial Services Innovation, Corporation for Enterprise Development, New America, and America Saves are developing and testing ways to persuade LMI households to save more effectively. The strategies they utilize include a range of incentives such as matched contributions, higher interest, bonuses, gifts, and prizes.[13] As described in the last section, when they do offer savings incentives, banks tend to rely on exemption from fees and higher interest rates, though sometimes will pay a bonus, match customer contributions, or offer earned gifts.

Marketing: Advantages, low barriers, and effective incentives, though, may not by themselves be sufficient to persuade many more LMI households to use savings accounts effectively. When big banks wish to sell many new savings products, they are prepared to spend millions of dollars on marketing, as did Bank of America with Keep the Change and Wachovia did (before insolvency and takeover by Wells Fargo) with Way2Save. Wachovia's promotion, for example, resulted in one million new accounts in the first nine months.[14] But less costly marketing, which is routinely used by banks to market different products, can also be effective. New and existing customers can be encouraged to open an autosaves account through personal branch, phone, and email communications. And savings accounts can be promoted through information supplied in bank websites, monthly statements, and branch materials.

Savings Account Improvements

End Anti-Consumer Practices: Compared to checking and loan products, savings accounts are simple with few "tricks and traps." However, some banks engage in practices that are unfair, such as charging high fees for short periods of account inactivity and high fees for three or fewer withdrawals. These institutions should end such practices, which are likely unknown to many customers until fees are assessed. Also, all banks should disclose important information, including interest rates and minimum balance levels, on their websites. Bank regulators should pay more attention to these potential barriers to saving.

Expand Access: All banks should expand LMI household access to savings accounts by adopting and marketing an autosave alternative to minimum balance requirements.[15] As seen in an earlier section, a number of the largest banks waive these requirements for

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[13] For a review of these incentives, see Peter Tufano and Daniel Schneider, Using Financial Innovation to Support Savers: From Coercion to Excitement. In Insufficient Funds: Savings, Assets, Credit, and Banking among Low-Income Households, edited by Rebecca M. Blank and Michael S. Barr (New York: Russell Sage, 2009).

[14] Brobeck, Essential Role of Banks, p. 6.

[15] In its 2011 survey of banks, the Federal Deposit Insurance Corporation found that 92 percent of the largest 25 banks, 80 percent of midsize banks, and 75 percent of the smallest banks offered autosave. See http://www.fdic.gov/unbankedsurveys/2011survey/2011report.pdf (p. 17).

customers who agree to preauthorize monthly transfers from checking to saving of at least $25. This automatic saving is relatively inexpensive for banks. It is also more affordable to lower-income customers who have trouble keeping deposits of several hundred dollars in their account from day one. Most importantly, by requiring customers to take just one action, not repeated ones, it encourages regular saving. Bank regulators should commend those institutions that waive monthly fees for small automatic transfers from checking to savings, especially institutions which promote these transfers, and should encourage other banks to do the same.

Learn Which Bank Product Incentives and Marketing Strategies Are Cost-Effective: Non-profit groups have been evaluating the impact of various saving incentives and publishing their findings. However, most of this experimentation has been undertaken with non-bank partners, including a large tax prep service, a prepaid card vendor, credit unions, employers, and government agencies. We also need to better understand the experience of the more than 7,000 commercial banks with their savings accounts. Financial services regulators can play an important role here. Through surveys, discussions and interviews, regulators can gather information that respects confidentiality but helps us better understand cost-effective ways to promote saving, especially among LMI households. Banks that have innovative products and are promoting them will be especially useful sources of information. Questions to these institutions could include:

- Why are you offering the product (or product feature)?
- How have you marketed the product?
- To what extent has it been purchased and by whom?
- What has been the experience of accounts purchased in terms of deposits, withdrawals, and balances?
- What is your view of, and any experience you have had, with autosaves?

Explore and Test Public Policy Incentives: The willingness of banks to offer and market savings incentives, especially on low-balance accounts, is limited by the lack of profitability of many of these accounts. It is true that a number of institutions do offer and promote some incentives. They appear to do so for reasons that include customer expectation, public expectation, community obligation, reputational risk, resistance to change, and opportunities savings accounts provide to attract new customers and retain existing ones. But these incentives are rarely substantial. For example, no bank in our sample of 150 offers as an incentive an interest rate that is more than one percent.

Given the fact that banks already make available fairly accessible savings accounts to all Americans, it would be useful to explore more fully how public policy could help make all of these accounts more attractive to LMI households. One relatively low-cost subsidy we think should be considered is an interest subsidy, perhaps 3-4 percent interest, to small deposits, perhaps up to $500, in statement savings accounts. Some research and bank practice suggests that this level of savings yield would be attractive to LMI households in particular.[16] Perhaps one reason is that a 3-4 percent rate, seen as a "good deal," is perceived as much more valuable than the actual dollar interest earnings these rates would generate.

The cost of such an interest subsidy would represent a very small fraction of the tax breaks enjoyed by higher-income families. If 40 million households, about one-third of all households, received a 3 percent subsidy on the full $500, the annual cost would be $600 million. The experience of banks such as Wachovia that have provided a capped savings interest incentive is that the accounts are most attractive to moderate-income households. For higher-income households, the opportunity cost of opening such as account is probably not worth the annual interest of $15.

The interest subsidy could be limited in several ways, for example, to one per household, to adults, or to autosave accounts. And it could be provided either through an earned income tax credit or through a direct reimbursement to banks and credit unions, though these institutions do not have to be required to offer the incentive. However, we strongly favor a direct reimbursement because it is much more likely to be incorporated into statement savings products and marketed. And it would appear that these institutions, which frequently offer varied interest rates on different savings accounts and balances, could easily record and seek reimbursement for the interest paid. The subsidy could also be limited through means-tested, but we believe that could be self-defeating in that the program would become too complex for banks to accept, leaving only the less effective earned income tax credit option.

It is challenging to adequately test the effectiveness of this interest subsidy because it would be difficult to limit typical bank marketing on websites and in branches to the experimental group. While more complex to administer, an alternative could use customers of one institution as an experimental group and customers of a similar institution as a control group. However, it would also be useful to study what happened if just one relatively small bank or credit union, or a larger bank in a limited market, offered an interest subsidy to its customers.

Conclusion

All households need the ability to pay for unexpected expenses ranging from car repairs to medical and dental bills to traffic tickets. For most LMI households, basic savings accounts potentially represent the most useful source of funds for making these payments. These savings accounts are offered by almost all 14,000-plus banks and credit unions; are easy to open; are usually fee-free if automatic deposits are made or a $200 to

[16] In an October 2008 survey of more than 1,000 LMI respondents undertaken by ORC International for the Consumer Federation of America, among six savings account features presented, "4% interest earned on savings" was most likely to be considered "very important" (50%). In research for this report, banks were far more likely to use a higher interest rate than any other incentive for savers, which may reflect in part bank ease of using this incentive.

$300 minimum balance is maintained; are usually guaranteed by the federal government; are relatively easy, but not too easy, to make withdrawals from; and are usually much more convenient and/or less expensive than other payment options. All these factors help explain why 16 million LMI households maintain basic savings accounts that contain more than $13 billion.

However, many of these accounts do not contain sufficient funds to adequately cover emergency expenditures. Moreover, 23 million LMI households do not have a saving account. What steps could be taken to expand effective use of savings accounts within this population? Research and experience suggest that the most effective saving is automatic, with preauthorized transfers from payroll, government benefits, or checking to savings. Almost all banks provide this opportunity, and a number commendably offer this service to customers willing to allow monthly transfers as little as $25. But few banks market this service effectively, with a majority in our sample not even mentioning the service on their websites. In large part, this neglect reflects their view that most savings accounts with balances under $1000 are not profitable.

Bank regulators can play an important role in encouraging and assisting banks to offer basic savings accounts that are viewed by banks as more cost-effective and by LMI households as more attractive. These regulators should communicate with banks, especially those with innovative accounts, to understand better which savings accounts and marketing strategies most effectively meet the needs of both banks and their LMI customers. Regulators should seek to persuade banks to adopt the best account and marketing practices and monitor the extent to which banks do so. Regulators should also proscribe the anti-consumer practices of some institutions, especially those related to inactive accounts, limited withdrawals, and high fees.

However, given the lack of profitability of low-balance savings accounts, public savings subsidies should be considered. In evaluating various options, consideration should be given to any effective subsidy that costs relatively little, would be relatively easy to implement at scale, and is not means-tested but would be attractive mainly to LMI savers. Providing a three to four percent interest subsidy on the first $500 in a basic savings account would seem to meet these criteria but should first be tested within individual institutions.

APPENDIX: BANKS SURVEYED

50 Largest Banks by Number of Branches

Wells Fargo
JPMorgan Chase
Bank of America
US Bank
PNC
BB&T
Citizens
Regions
SunTrust
Fifth Third
TD Bank
Key
Citibank
Capitol One
Huntington National
Woodforest National
M&T
Sovereign
Compass
BMO Harris
Bank of the West
Comerica
First Niagara
Union
TCF National
People's United
First Citizens
HSBC Bank USA
First National Bank of Pennsylvania
Synovus
First National Bank of Texas
Susquehanna
BankcorpSouth
Associated
Arvest
New York Community
Prosperity
Valley National
Firstmerit

Commerce
Umpqua
International Bank of Commerce
Old National
Sterling Savings
Washington Federal
Community
Iberia
Bank of Oklahoma
Great Western
Trustmark National

50 Medium-Size Banks (21-24 branches)

Peapack-Gladstone
Premier (WV)
Salin
Texas First
National Bank and Trust (OH)
Timberland
BankFinancial
Citizens Tri-County
D.L.Evans
Empire (MO)
Enterprise
First Mariner
First National Community (PA)
First Savings
First Southern National
Firstrust Savings
Hamilton State
Kitsap
Landmark National
Metro
Northwest
Orrstown
Panhandle State
Queensborough National
Bank of Missouri
Citizens Bank of Philadelphia
Bankers Trust
Brookline
Central (KY)
Enterprise (MA)
Exchange
Fairfield County

Farmers and Merchants Bank of Long Beach
First Farmers and Merchants (TN)
First Guaranty
First International (ND)
First Palmetto
Heritage Bank of the South
Inter National
Norway Savings
Ocean
Prairie State
Rockville
Savings Institute
Southern (MO)
Bridgehampton National
First Bank and Trust (VA)
Lorain National
Moody National
Urban Trust

50 Small Banks (3-5 branches)

First National Bank of Eagle River
Dakota Western
Edgartown National
Fairfield National
Farmers State Bank of Waupaca
Fayette Co. National
First National Bank of Albany/Breckenridge
First National Bank of Centralia
Cornerstone
Savings Bank of Walpole
River Community
Phenix-Girard
German-American State
Fowler State
Greater Rome
High Plains
Homestead Savings
Idaho Banking
Lafayette Community
Lewistown State
Lusitania Savings
Madison
Mainstreet Community
Metropolitan
Monterey Co.

North Akron Savings
Pacific Coast
Paragon National
Pioneer
Prince George's Federal Savings
Progress (AL)
Rockwood
Security Bank of California
Security State Bank of Marine
Sherwood Community
Small Town
Southern Bank (GA)
Southern Illinois
State Bank of Missouri
Sunshine Savings
Texana
Bank of Bennington
Bank of Southern Connecticut
Bank of Urbana
Blanco National
Casey Co.
Citizens Bank of Ashville
Citizens Bank of East Tennessee
Citizens Bank of Ouray
Claxton

10 Largest Credit Unions

Navy Federal
State Employees
Pentagon Federal
Boeing Employees
SchoolsFirst Federal
Golden 1
Security Service
America First
Suncoast School Federal
Digital Federal

The Consumer Federation of America is an association of nearly 300 pro-consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education. It initiated and, for the past 13 years, has managed the America Saves campaign, which also includes a Military Saves campaign partnered with the Department of Defense and FINRA.