Banks are busy working on ways to replace income lost from fees

Herald Sunday 23, 2011 12:00AM

SO YOU'VE heard that mortgage exit fees have been banned and banks, led by National Australia Bank, are cutting or axing many hated fees and charges.

But beware. Banks are busily replacing that lost income with new fees and higher charges.

Some are clear, upfront and easy to avoid for savvy bank customers who are prepared to compare and switch products.

Others will be hidden and passed along the supply chain to consumers who will be unable to dodge them, bank analysts say.

The total bank fee take last year was down for the first time, but only slightly, according to the latest Reserve Bank data.

Banks raked in $4.25 billion, down 16 per cent, in bank fees levied on households, but their total fee take remained steady, falling just $14 million or less than 1 per cent.

"Only exception (penalty) fees have gone down," said Damian Smith, chief executive of financial comparison service RateCity.

"Other types of bank fee income have gone up to largely make up for that lost fee income.

"Ongoing fees for maintaining a mortgage have gone up, for example. In 2009, ongoing fees on mortgages listed on our database averaged $165, and now they average $240 per year. That's a rise of $75."

Commonwealth Bank, ME Bank, Greater Building Society and Aussie Home Loans have announced increased upfront fees on some of their variable rate home loans recently.

Those fee increases come as exit fees disappear from the market.

As of yesterday, all lenders have ceased charging exit fees on their variable mortgages, compared with just 56 per cent on June 1, according to RateCity.

The highest average increase in upfront fees was $600, by the Commonwealth Bank, which lifted upfront fees across its suite of mortgages from $64 to $664 on average, Mr Smith said.

However, over the whole mortgage market, the average upfront fee on a standard variable mortgage has gone up just $32, from $374.40 in June to $406.40 now, according to data supplied by RateCity.

At the same time, early exit fees have gone down an average of $326.

"And upfront fees are both more readily comparable and 'negotiable' than exit fees," Mr Smith said.

Borrowers refinancing to get a better deal are a big driver of growth in the mortgage market, he said.

"We believe that removal of exit fees is the key driver behind this greater level of switching."

Fees on credit cards are changing as well and will change further as new consumer credit protection laws kick in this year.

Credit card late-payment and over-limit penalty fees have gone down, but other credit card fees have gone up in recent years.

"Some credit card 'exception fees' have dropped," said Mr Smith. "Others, such as ongoing fees, have increased.

"For instance, in 2008, the average annual credit card fee (out of all cards that charge a fee) was $78.52, and now it's $92.45.

"That's an increase of nearly $14, or around 18 per cent, in just three years, which is more than double the inflation rate over that same time."

The number of credit cards with annual fees has also risen. Three years ago, more than a quarter (28 per cent) of credit cards being offered to Australian consumers carried no annual fee.

Now just 31 credit cards, or 13 per cent, have no annual fee. Another 18 credit cards waive the annual fee if the cardholder meets a minimum spend each month, usually $1000.

Mr Smith recommends comparing your credit card rates and charges with some of the low-rate, low-fee cards now on the market.

MUCH harder to avoid will be what retailers are calling the big banks' new "Eftpos tax".

Eftpos begins a new advertising offensive this week to tell us that shoppers "are better off with Eftpos".

But shoppers who use "Australia's favourite way to pay without cash" could soon be subjected to higher prices or even merchant fees for paying with Eftpos.

The company that runs Eftpos, EPAL, has given banks until next month to opt in to its new, higher interchange fee structure.

"Banks are about to start charging for something they previously provided for free," said Jost Stollmann, chief executive of a rival player in the debit-card payment industry, Tyro Payments.

"In fact they supplied this service for less than free: they paid 5c each time someone used Eftpos."

"Now EPAL has reversed that subsidy and created a new 5c fee to acquirers, which will flow through to retailers and merchants."

The Australian Newsagents' Federation say the new Eftpos fee regime will impose fees of up to 21c for each Eftpos transaction, up 110 per cent on existing fees.

"No retailer can negotiate the interchange fee with his bank. The new EPAL regime is all about raising bank fees," the federation says in a new advertising campaign.

"Big banks will slap an extra 10c interchange fee and 1c EPAL scheme fee increase on Eftpos transactions starting October 1, 2011."

This is the first change to Eftpos interchange fees since the debit card payment system was introduced to Australia 23 years ago.

"Cardholders will ultimately pay with higher prices through less competition," the newsagents' group said.

Mr Stollmann said the new fees would benefit big international card companies over Australia's own domestic debit payments system.

"A new Eftpos tax - that's what merchants and people in the industry are calling this," Mr Stollmann said.

"We know banks are under fee pressure in other areas, but I am unable to ascribe a motive as to why they are doing this.

"This will make Eftpos less competitive compared to Visa and Mastercard, and will make Eftpos difficult to offer for some small retailers.

A lot of merchants will simply not offer Eftpos any more."

Business owners are also being slugged by higher bank fees on their loans, accounts and credit cards, according to recent Reserve Bank of Australia data.

"All categories for bank-fee revenue increased for business products, except for deposit accounts due to exception fees (going down)."

Bank fees levied on business loans and credit facilities rose 21 per cent - and by 52 per cent on bank bills for business.

The big banks maintain families are paying less for banking services than ever.

Australian Bankers' Association chief Steven Munchenberg said average weekly bank fees paid by households fell by $2.13 to $9.73 last year.

"And households are paying less for banking even though they are using banking services more often," he said.

"Customers are completing more transactions on more accounts, and are buying more products and services from banks. Also, customers are choosing lower-cost accounts.

"Banks have cut a range of fees on accounts and credit cards, so if you think you are paying too much for banking, call your bank and see if there's a better product which suits the way you want to transact."