

Size Matters

Banking Industry Consolidation, Fees, and Profits

The growing consolidation and power of America's biggest banks over the past 10 years — and their increasing promotion of debt to reap more and higher fees — is undermining the U.S. economy. While profits at the largest banks have broken records year after year and inflated executive pay packages, little attention has been paid to the unprecedented risks for homeowners, investors, and working families. Extensive foreclosures, huge corporate write-downs, and a looming recession in lending are the painful result of a decade-long shift from household saving to borrowing and from effective federal and state bank oversight to cozy relations with federal regulators and the preemption of state and local regulation.

Banking consolidates into fewer and fewer hands

- From 1994 to 2006, the top 10 banks more than doubled their share of total deposits in the nation and now control 42% of all domestic deposits. Control of deposits is even more concentrated at the local and state level.
- There were 24% fewer banks in 2006 than 1996 and the trend towards consolidation is continuing.
- Just three banks (BofA, JPMorgan Chase, Citigroup) account for more than 52% of all national credit card debt.

The largest banks shift to fee-driven revenue

- From 2002 to 2006, the nation's 10 largest banks increased their reliance on fees by 17%. Over that same period, the country's 10 smallest major banks became less reliant on fee income. By 2006, the 10 biggest banks were getting 54% of their operating revenues from fees, while the 10 smallest were getting only 28%.
- Overdraft fees at U.S. banks and credit unions grew an estimated 70% — from \$10.3 billion to \$17.5 billion from 2004 to 2006, according to a 2007 study by the Center for Responsible Lending. The report estimated that overdraft fees and non-sufficient funds fees went from 45% of banks' total non-interest income to 60% in just two years, and that Americans today pay more in overdraft fees than the actual amounts by which they overdraw their accounts. In 2006, consumers paid \$17.5 billion in overdraft fees on just \$15.8 billion worth of overdrafts.
- In the credit card industry, over-the-limit fees increased 145% between 1994 and 2005 and late fees went up 174%.
- The biggest credit card fee of all is the interchange fee that merchants pay to card issuers, the cost of which is often passed on to consumers. The interchange fees that banks collect have increased by more than 3 times since 1998 to total over \$30 billion a year today □ more than \$300 per American household annually.

The biggest banks make record profits while consumer debt mounts

- The U.S. banking industry broke profit records in 2006 for the sixth year in a row, netting \$145.7 billion, an 8.8% increase over the previous year. The profits grew dramatically at the largest banks in the nation, while community banks struggled to compete. With profits of over \$21 billion, Bank of America made more money on its U.S. operations in 2006 than ExxonMobil □ the world's most profitable company □ did from its U.S. operations.
- While bank profits have grown to unprecedented levels, consumer debt levels have increased significantly and real incomes for working families have fallen. By 2004, consumer debt levels had reached new highs and they still continue to grow. The average credit card balance has grown 89% since 1989 to a record high of \$5,219 and 1 of every 5 low-income households spends more than 10% of its income servicing credit card debt.
- From 1989 to 2006, overall credit card debt grew by 415% to \$876 billion. Over the same period, the credit card industry's profits grew by 575% — from \$6.4 billion in 1990 to \$36.8 billion in 2006.

Banking Industry Consolidation

A Handful of Banks Now Wield Significant Industry Control

- From 1994 to 2006, the share of total national banking deposits controlled by the top 10 largest banks grew from 19% to 42%. The top five banks now control a third (32.4%) of all banking deposits in the country (see “United States” table below).
- The industry is even more intensely concentrated at the local level. The analysis below of the five largest metropolitan areas in the U.S. reveals that the top three banks in each market control more than 40% of total deposits. In all but Chicago, the top five control more than half of total deposits.

Deposit Market Share (in billions)

UNITED STATES		
Bank	Deposits	Mkt Share
Bank of America	\$663	10.77%
Chase	\$440	7.15%
Wachovia	\$393	6.38%
Wells Fargo	\$291	4.72%
Citigroup	\$209	3.40%
Top 3 Total	\$1,496	24.30%
Top 5 Total	\$1,996	32.42%

CHICAGO		
Bank	Deposits	Mkt Share
Bank of America	\$39	14.58%
Chase	\$39	14.53%
Harris	\$30	11.09%
National City	\$11	4.01%
Northern Trust	\$9	3.34%
Top 3 Total	\$108	40.20%
Top 5 Total	\$127	47.55%

NEW YORK CITY		
Bank	Deposits	Mkt Share
Chase	\$224	29.89%
Bank of America	\$62	8.33%
Citigroup	\$58	7.80%
HSBC	\$45	6.02%
Capital One	\$38	5.09%
Top 3 Total	\$345	46.02%
Top 5 Total	\$428	57.13%

DALLAS		
Bank	Deposits	Mkt Share
Bank of America	\$28	24.41%
Chase	\$26	22.89%
Wells Fargo	\$7	5.82%
BBVA	\$5	4.27%
Wash. Mutual	\$3	2.92%
Top 3 Total	\$60	53.12%
Top 5 Total	\$68	60.31%

LOS ANGELES		
Bank	Deposits	Mkt Share
Bank of America	\$57	19.03%
Wash Mutual	\$33	11.07%
Wells Fargo	\$33	10.84%
Union Bank	\$21	6.82%
Citigroup	\$13	4.49%
Top 3 Total	\$123	40.94%
Top 5 Total	\$157	52.25%

PHILADELPHIA		
Bank	Deposits	Mkt Share
Wachovia	\$26	17.58%
Bank of America	\$24	15.84%
Toronto-Dominion	\$16	11.06%
Citizens Bank	\$15	9.90%
PNC Financial	\$12	7.98%
Top 3 Total	\$66	44.48%
Top 5 Total	\$93	62.36%

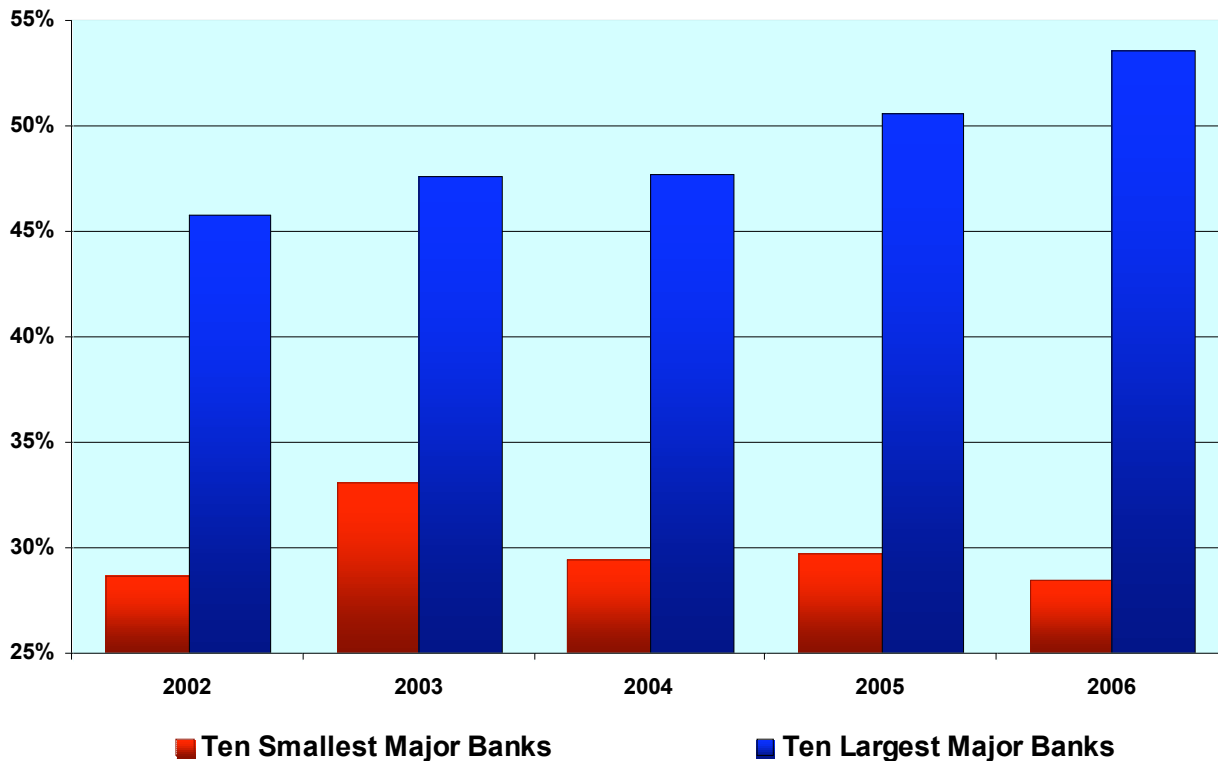
Big Banks Favor Fees

Top Banks Shift to Fee-Driven Revenues

- As the banking industry has consolidated, it has moved from a model based on interest income from loans to one reliant on non-interest income, such as fees. In November 2001, the U.S. Public Interest Research Group (PIRG) released a report detailing the relationship between bank size and high fees, calling the difference between fees at big banks and small banks the “big bank fee gap.” According to the report, the big bank fee gap for regular checking accounts more than doubled between 1999 and 2001.
- From 2002 to 2006, the nation’s 10 largest banks increased their reliance on fees by 17%. Over that same period, the country’s 10 smallest major banks — those with more than \$5 billion in deposits — became less reliant on fee income. By 2006, the 10 biggest banks were getting 54% of their operating revenues from fees, while the 10 smallest were getting only 28%.
- A recent survey indicates that many consumers are more worried about banks raiding their accounts than criminals. Consumers are five times more likely to switch banks because of hidden fees than security concerns, according to the survey conducted by the Gartner consulting firm. One in six U.S. adult consumers — an estimated 28 million people — said unexpected fees make them more upset or aggravated than identity theft.

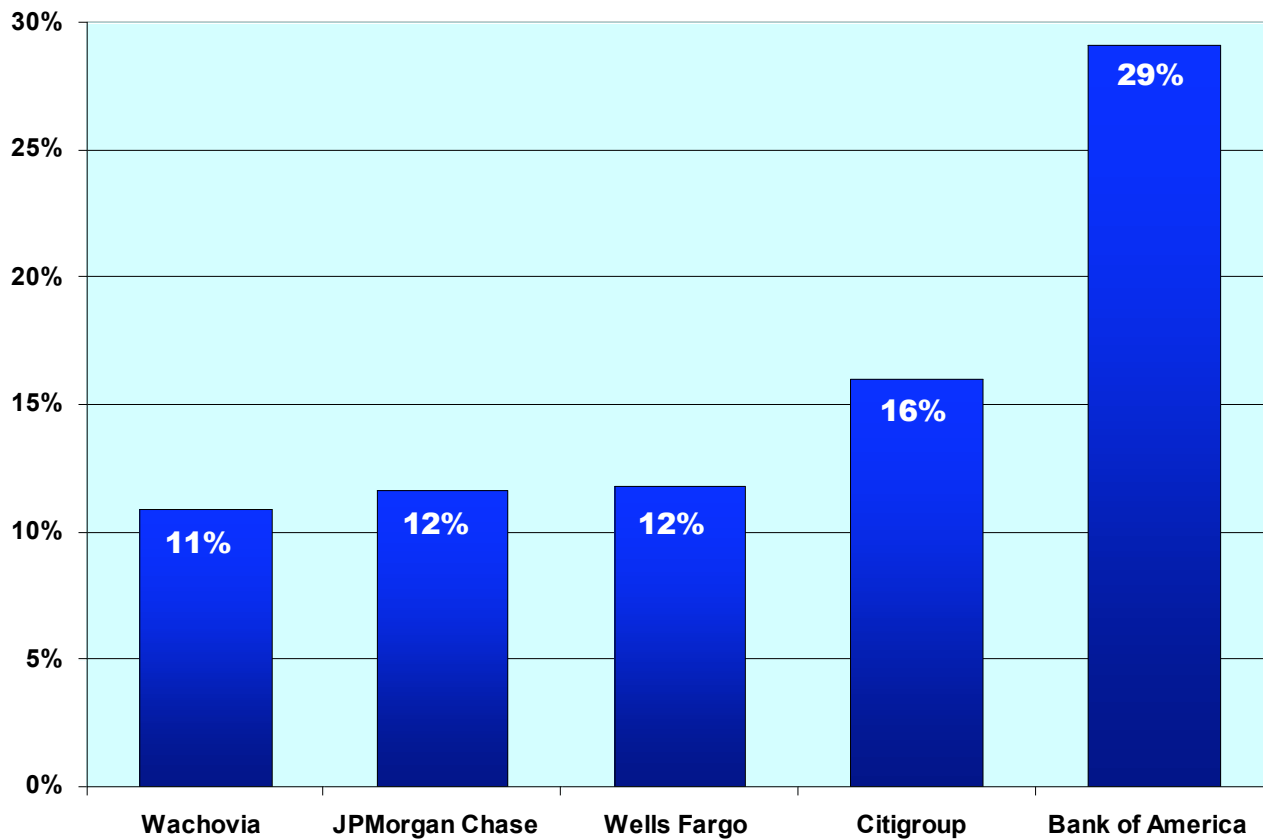
Non-Interest Revenue at Big Banks vs. Small

Percent of Total Operating Revenue from Non-Interest Income



- Top banks in the U.S. increased their reliance on non-interest income between 2002 and 2006, with Bank of America leading the way and increasing its reliance on fees nearly twice as much as its nearest competitor among the nation's five largest banks.
- Overdraft fees at American banks and credit unions grew an estimated 70% from \$10.3 billion to \$17.5 billion from 2004 to 2006, according to a 2007 study by the Center for Responsible Lending. The report estimated that overdraft fees and non-sufficient funds fees went from 45% of banks' total non-interest income to 60% in just two years, and that **Americans today pay more in overdraft fees than the actual amounts by which they overdraw their accounts. In 2006, consumers paid \$17.5 billion in overdraft fees on just \$15.8 billion worth of overdrafts.**
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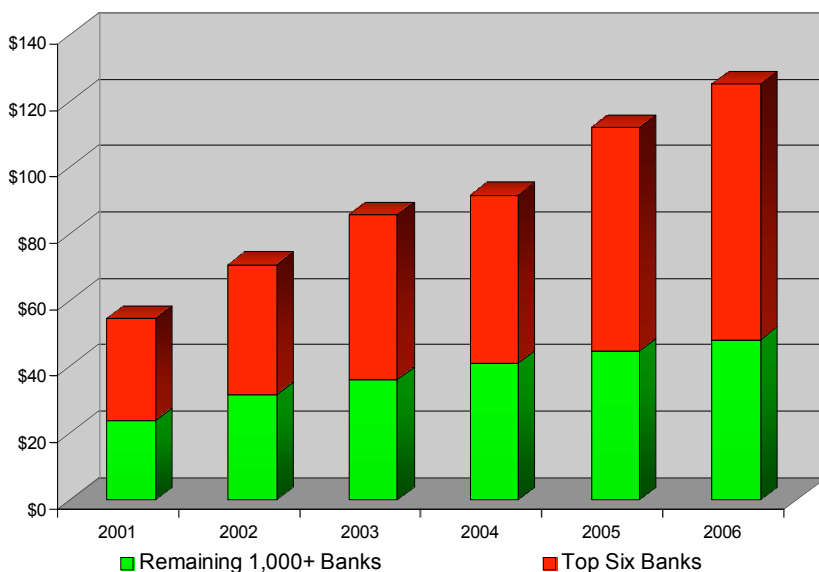
Increase in reliance on noninterest income between 2002 and 2006



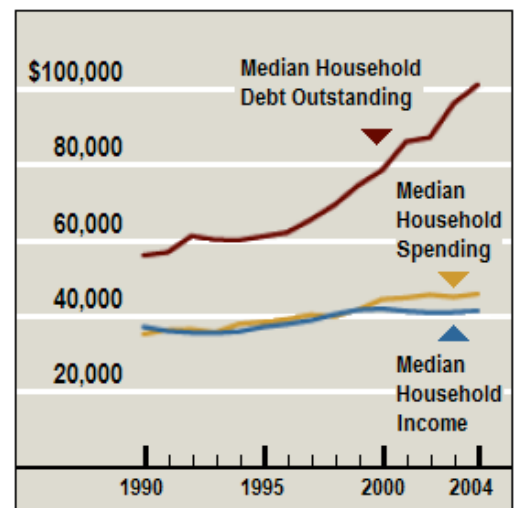
Record Bank Profits, Rising Consumer Debt

- The U.S. banking industry broke profit records in 2006 for the sixth year in a row, netting \$145.7 billion, an 8.8% increase over the previous year. The profits grew dramatically at the largest banks in the nation, while community banks struggled to compete. With profits of over \$21 billion, Bank of America made more money on its U.S. operations in 2006 than ExxonMobil — the world's most profitable company — did from its U.S. operations.
- While bank profits have grown to unprecedented levels, consumer debt levels have increased significantly and real incomes for working families have fallen. By 2004, consumer debt levels had reached new highs and they still continue to grow. In 2004, a majority of households with credit cards had revolving balances. The average credit card balance has grown 89% since 1989 to a record high of \$5,219 and 1 of every 5 low-income households spends more than 10% of its income servicing credit card debt.
- As household savings rates have declined, a growing majority of low- and middle-income families depend on credit cards to pay for basic living expenses or to deal with unexpected financial emergencies. However, credit card debt frequently aggravates financial distress on working families as credit card practices have become increasingly punitive and costly. **From 1989 to 2006, overall credit card debt grew by 415% to \$876 billion. Over the same period, the credit card industry's profits grew by 575% — from \$6.4 billion in 1990 to \$36.8 billion in 2006.** In 2006, the credit card business was 3.5 times more profitable than retail banking.
- A recent survey indicated that 82% of Americans believe that household debt is a serious problem and is getting worse and that the general public is more worried about falling into debt, than about being the victim of a terrorist attack or a natural disaster.

Profits of All Publicly-Traded Banks & Thrifts in the US (in billions)



Household Debt vs. Income & Spending



Note: Figures are in 2000 dollars
Source: Economy.com

Under-Serving Minority Communities

Big Banks' Record on Branch Locations

Bank Branches in Majority-Minority Communities

	Chicago	Los Angeles	New York
Percent total population in ZIP codes where majority of residents are minorities	26.5%	44.3%	30.1%
Top 3 banks (by # of branches) & percent of branches they locate in majority-minority ZIPs	Harris (10.1%) BofA (12.4%) Chase (13.1%)	WaMu (27.8%) Wells Fargo (29.2%) BofA (36.2%)	North Fork (14.3%) BofA (16.5%) Chase (16.9%)

- Location of bank branches is one key measure of how banks are serving minority communities. One definition of equitable service is locating a share of bank branches in zip codes where the majority of residents are minorities that is proportional to the share of the city's total population living in such zip codes. *By this definition, the top three banks in America's three biggest cities all fail to equitably serve minority communities.*
- In Chicago and New York, the top three banks (by number of branches) in each city would each need to approximately *double* the current percentage of branches they have in majority-minority zip codes in order to equitably serve those communities.
- In Los Angeles, the top three banks would need to increase the percentage of branches they currently have in majority-minority zip codes by one-and-a-half times in order to serve those communities in proportion to their presence in the city.
- Despite the rise on online banking, neighborhood branch banking is alive and well. While the number of banks in America has decreased, the number of branches has increased more than 68% in the past two decades. *From 2004 to 2006, BofA opened more than 275 new branches —approximately two a week.*

Under-Serving Minority Communities

Big Banks' Record on Mortgage Lending

Disparity Between White and African-American Mortgage Market Share (2006)

Chicago	Los Angeles	New York
BofA 54%	Wells Fargo 54%	Wells Fargo 48%
Wells Fargo 19%	Chase 51%	Citigroup 30%
Citigroup 12%	BofA 51%	BofA 29%
Chase 3%	Citigroup 40%	Chase 16%

Banks' record on serving the mortgage lending needs of minority communities is a key measure of how well they are serving communities of color. **The tables above include all the banks in Chicago, Los Angeles, and New York City that were among the top ten mortgage lenders in all three markets and did not have major subprime lending units.** The percentages are the difference between each bank's percent share of the white mortgage market and its share of the African-American mortgage market.

- In Los Angeles, Wells Fargo, Chase, and BofA's shares of the African-American mortgage market were more than 50% lower than their shares of the white mortgage market. In other words, they were all *more than twice as likely* to be the mortgage lender for a white borrower as for an African-American.
- In Chicago, BofA was more than twice as likely to be the mortgage lender for a white borrower as for an African-American, falling 54% short of having equal shares of both lending markets.
- In New York, Wells Fargo was nearly twice as likely to be the mortgage lender for a white borrower as for an African-American (48% disparity) and Citigroup and BofA were approximately one-and-a-half times more likely to be the mortgage lender for a white borrower as for an African-American (30% and 29% disparities respectively).
- Out of all of the banks analyzed here, only Chase in Chicago comes close to serving both African-Americans and whites equitably by having roughly equal shares of both lending markets (Chase has 3% less share of the African-American mortgage market in Chicago than the White mortgage market).

Case Study: Bank of America

The Nation's Largest Bank Is an Industry Leader on Fees

BofA leads the industry by several measures

Rank	Domestic Deposits	Number of Branches	Number of ATMs	Number of States	Credit Card Market Share
First	BofA	BofA	BofA	BofA	BofA
Second	Chase	Wachovia	Citigroup	US Bank	Chase
Third	Wachovia	Wells Fargo	Chase	Wells Fargo	Citigroup

- Bank of America has the largest share of deposits of any bank in the country and has been engineering its way under the 10% federal cap on deposit share through several recent mergers. A recent analysis puts Bank of America at 10.8% and JP Morgan Chase second, with 7.2% of total banking deposits.
- BofA has 6,221 bank branches. The banks with the next largest branch networks are Wachovia (3,420) and Wells Fargo (3,362). Between 2004 and 2006, BofA opened more than 275 new branches — roughly 2 new branches per week, and 8 new branches per month.
- BofA has 17,231 ATMs. The banks with the next largest ATM networks are Citigroup (9,812) and Chase (8,943).
- Many of the big banks are expected to continue to grow through mergers and acquisitions in order to better compete with BofA, which operates in more states than any other bank. In 2006, BofA was the largest credit card issuer with nearly 20% of all outstanding credit card debt.

BofA leads the push toward higher fees

- From 2002 to 2006, BofA's total deposit service charges — income from fees it charges customers for servicing their accounts — grew *70 percent*. In 2006, customers paid over \$14 in fees for every \$1,000 they had in their bank accounts, 52% higher than the nearest competitor in BofA's peer group.
- In 2006, BofA brought in more than half (53%) of its total operating revenues from fees — \$38.4 billion — and BofA made *10 times* as much money off of consumers through service charges and credit cards than it did off of investment banking.
- BofA increased non-customer ATM fees by 50% in September 2007 — as high as \$3 — a move that is prompting other leading banks to raise their ATM fees as well.
- BofA is an aggressive fee collector. Between 1993 and 2003, BofA raided the bank accounts of its elderly and disabled customers and took \$284 million in Social Security funds to collect unpaid fees.

BofA cuts jobs and lowers operating costs without reducing fees

BofA has cut tens of thousands of jobs to turn record profits from its series of mergers and acquisitions, including 12,500 job cuts after the Fleet Bank merger in 2004, 4,500 job cuts after restructuring the New England bank, 6,000 job cuts after acquiring credit card issuer MBNA in 2006, and plans for another 4,000 job cuts after the LaSalle Bank merger in Illinois and Michigan. BofA has closed call centers and outsourced back-office jobs to India. BofA CEO Ken Lewis says “I feel bad about firing people, but at least I have the courage to do it.”