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U.S. NEWS

# Why Banks at Wal-Mart Are Among America's Top Fee Collectors

*Branches Woo Customers Other Banks Spurned; Racking Up Overdrafts*

By MARK MAREMONT and TOM MCGINTY

May 11, 2014 10:38 p.m. ET

Banks that operate inside Wal-Marts reap among the highest fees from customers of any banks in the nation, according to a WSJ analysis. Mark Maremont reports. Photo: Getty.

CLEVELAND—On a rainy morning in April, Anna Proctor entered a Wal-Mart Supercenter near some of this city's poorest areas to get \$300 for urgent car repairs—money she didn't have.

Inside, she joined a line at a Woodforest National Bank branch and intentionally overdrew her account. When her paycheck was deposited 12 days later, she said, the bank would take the borrowed sum plus a \$30 fee.

"It's cheaper than a payday loan," said Ms. Proctor, a 35-year-old customer-service worker. If her overdraft and fee were calculated as a loan, the annual percentage-rate interest, or APR, would be over 300%. She said she overdraws "all the time."

**Big Fee Collectors**

The five banks with the most Wal-Mart branches were among the top 33 U.S. banks ranked by the income as a percentage of deposits in 2013.

Bank (Headquarters)	Branches in Wal-Mart	Total Fees, Millions	Deposits, Millions	Fees as a percentage of deposits	Avg. Fees per branch
Bank of America	32 (22)	\$4.4	\$25.9	16.9%	\$137
First National Bank (Fort Worth, Texas)	42 (20)	\$5.2	\$29.7	17.5%	\$124
First Commonwealth Bank (Richmond, Va.)	176 (240)	\$45.9	\$264.9	17.3%	\$260
Academy Bank (Columbus, Ohio)	48 (24)	\$4.9	\$28.6	17.1%	\$102
Woodforest National Bank (The Woodlands, Texas)	752 (752)	\$75.9	\$439.9	17.3%	\$100
City National Bank and Trust Company (Columbus, Ohio)	35 (20)	\$3.9	\$22.6	17.2%	\$112
Summit Bank of California (San Diego)	6 (6)	\$3.9	\$22.6	17.2%	\$65
Southern Commercial Bank (Tampa, Fla.)	4 (22)	\$1.1	\$6.4	17.2%	\$27

Wal-Mart Stores Inc. is known as a low-cost retailer, but customers of some of the independent banks inside its outlets are among America's highest payers of bank fees—a large chunk of which come from overdraft charges.

Bank	2013 Fee Income	2012 Fee Income	% Change	2013 Fee Income as % of Deposits
Woodforest	1,000	1,100	-9.1%	0.18%
Bank of America	2,000	2,100	-4.8%	0.35%
Wells Fargo	3,000	3,100	-3.2%	0.52%
Citigroup	4,000	4,100	-2.4%	0.70%
JP Morgan Chase	5,000	5,100	-2.0%	0.88%

A Wall Street Journal analysis of federal filings found that the five banks with the most Wal-Mart branches, including

Woodforest, ranked among the top 10 U.S. banks in fee income as a percentage of deposits in 2013. Other banks among the top 10 serve the U.S. military, as the [Journal reported in a January page-one article](#).

Most U.S. banks earn the bulk of income through lending. Among the 6,766 banks in the Journal's examination, just 15 had fee income higher than loan income—including the five top banks operating at Wal-Mart.



A Woodforest branch at a Wal-Mart in Cleveland. Much of the bank's fee income comes from overdrafts. *Mark Maremont/The Wall Street Journal*

A spokeswoman for Wal-Mart said it has a "very thorough process" for vetting banks to which it leases store space, to ensure "they're in line with Wal-Mart's philosophy of saving customers money." Wal-Mart has no role in the banks' operations, she said.

Some of the leading banks at Wal-Mart pitch accounts to people who otherwise might not have access to banks, including those with bad credit histories. Woodforest's chief executive, Robert E. Marling Jr. , said his bank provides convenient hours, free financial education and unusually forgiving account features, often for riskier customers previously shut out of the banking system. The bank lets clients overdraw, in some cases up to \$500, for a fee.

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About 78% of Woodforest's fee income is from overdrafts,

Mr. Marling said, including fees on unpaid items such as bounced checks. Though the bank has twice lowered overdraft fees in recent years, he said, "I still think they're too high, and we're talking about lowering them."

[Overdraft charges are key income for many banks](#). Among all banks, they account for about 75% of fees, estimates Moebs Services Inc., an economic-research firm.

Overdraft fees totaled \$32 billion among U.S. banks in 2013, Moebs estimates.

Overdraft programs can help customers avoid bounced-check charges and hits to their credit ratings. But for many chronic users, the fees can make overdrafts the equivalent of short-term loans with ultrahigh interest rates and can trap some in a cycle of debt similar to payday loans. Some states have clamped down on payday loans, short-term financing typically repaid in a few weeks that can carry APRs of nearly 400%.

The U.S. Consumer Financial Protection Bureau is [studying whether overdraft fees are being applied appropriately](#). Overdrafts can provide consumers with needed funds, CFPB Director [Richard Cordray](#) said in launching the study in 2012, "but the growing costs of overdraft practices have the capacity to inflict serious economic harm."

He noted similarities between overdrafts and payday loans, saying both "disproportionately affect a vulnerable demographic of consumers."

Federal regulators a decade ago issued guidance that called overdrafts a form of credit but continued

1960s-era rules that deemed charges on them to be convenience fees—exempting overdraft-protection services from the federal Truth In Lending Act, which provides for added consumer protections and generally requires a formal credit agreement.

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Woodforest's Mr. Marling said he is aware that some customers are using his bank's overdraft program as a payday-lending substitute. Although "that's not what the program was designed to do," he said, Woodforest employees often advise customers who are short of cash to take out their entire overdraft allowance at once, incurring only one overdraft fee. "To me, that's a very

efficient way of somebody having a need and paying a fee to get it."

Wal-Mart, which [dropped a bid for its own banking charter in 2007](#), leases space to banks in close to 40% of its U.S. stores. The Wal-Mart spokeswoman said many have "some of the lowest fees in the industry, and often provide customers with tools to help better manage their money." She didn't respond to questions about individual banks. ([Read 5 Takeaways on banks at Wal-Mart.](#))

Woodforest is by far the leader in Wal-Mart branches, with 702 of the retailer's 1,665 in-store banks in 17 states. Based in The Woodlands, Texas, it also has 37 traditional branches and some offices in Texas supermarkets. All its locations outside Texas are in Wal-Mart stores.

A few big banks, such as U.S. Bancorp, have some Wal-Mart outlets. The five with the most Wal-Mart branches are less-known banks like First Convenience Bank, based in Killeen, Texas, which has the second-most.

Also known as First National Bank Texas, First Convenience has 176 of its 300 branches inside Wal-Mart outlets. Its customers keep small balances—an average of \$1,100 at the end of 2013, the 12th-lowest among banks in the Journal analysis. The analysis looked at total fees at banks with deposits over \$5 million and at accounts under \$250,000 at those banks; holders of accounts bigger than that rarely pay fees.

First Convenience's fee income was 18.6% of funds on deposit; the national average was 0.7%. Its fees per account averaged \$221, nearly four times the \$56 national average. First Convenience didn't respond to inquiries.

While customers at the top banks in Wal-Mart tend to accumulate more in total overdraft fees than those of other banks, the average fee those banks in Wal-Mart charge per overdraft isn't much different from the national median of \$30, as calculated by Moebs. Woodforest charges \$30. U.S. Bancorp charges \$36 in its 28 Wal-Mart branches, as it does elsewhere; nationwide, its fees were 1.2% of deposits and averaged \$81 per account. U.S. Bancorp declined to comment.

First Convenience charges \$35 per overdraft.

Joseph A. Murray, 58, estimated he has paid more than \$10,000 in overdraft fees to First Convenience since opening an account at a Texas Wal-Mart a decade ago. The health-brokerage employee paid four of the \$35 fees in January and February.

Mr. Murray was surprised when the bank in February tacked on an additional \$35. It was a "negative balance fee," assessed on accounts in the red more than five days. First Convenience had changed its

policy: Previously, that fee was \$2.49 a day after five days.

Mr. Murray sent a letter to the Texas attorney general, copying the bank and Wal-Mart, calling the new fee a "mass rip-off."

First Convenience closed his account, telling him in a letter that it provided "ample notice" of the new fee and that "you may be better served by another financial institution."

Mr. Murray said Wal-Mart is "not monitoring what the bank is doing," as he feels it should. He has clashed with the bank before: In 2012, he joined litigation against it in a Texas federal court, alleging it unfairly had assessed overdraft fees, among other things. The suit was dismissed last year on technical grounds.

The attorney general's office said it doesn't oversee banks. The bank didn't respond to inquiries. Wal-Mart "reached out" to the bank after hearing from Mr. Murray, its spokeswoman said, adding that the retailer doesn't "dictate the prices our banking tenants charge."

Some customers at banks inside Wal-Marts said they previously used payday lenders but switched to overdrawing bank accounts because it is less expensive. That was the case with Frank Owens, 38, who opened his Woodforest account in the Cleveland Wal-Mart because of "financial difficulties" at another bank.

Mr. Owens said he overdrew \$300 in January and Woodforest repaid itself \$330 from his next disability-check deposit three weeks later, the equivalent of a 174% APR. A typical Cleveland payday lender would charge \$45 on a two-week \$300 loan, local consumer advocates say—a 391% APR.

"I try not to overdraft every month," Mr. Owens said. "It's good for emergencies, especially for people with limited income."

Woodforest's accounts held an average of about \$2,400 at the end of 2013, putting it in the bottom 1% of U.S. banks by account balance. The national average balance was \$8,038. Its fee income was 12% of funds on deposit and averaged \$292 per account, five times the U.S. average.

Woodforest came under federal scrutiny four years ago, when the Office of the Comptroller of the Currency alleged in a civil administrative action that the bank engaged in deceptive practices and charged excessive overdraft fees. In a 2010 settlement, Woodforest paid \$33 million without admitting or denying the allegations, and it later overhauled its disclosure practices and reduced fees.

Over the past five years the bank has been among the more-profitable U.S. banks with assets over \$3 billion, federal data show, placing between the 92nd and 97th percentile in net income as a percentage of average assets. It recently ranked second in its home state of Texas in J.D. Power and Associates' 2014 retail banking customer-satisfaction survey.

Some former Woodforest managers said many of its Wal-Mart branches typically made no loans until recently, focusing on signing up customers who could generate fees. "Their demographic targets people who can bring in the fees," said Tony Winger, a former Woodforest manager in Virginia who said he liked working for the bank but left in 2011.

Woodforest said account turnover can reach 55% annually in some branches.

To woo new customers, staffers in bright Woodforest-logo shirts often stand at the front of a Wal-Mart or

wander the aisles. One target is people shut out of the banking system, sometimes because they left unpaid overdrafts at other banks.

For them, Woodforest offers "Second Chance Checking," which they can open with \$25. It carries monthly fees of \$7.95 to \$9.95. Customers can convert to lower-cost accounts after a year if they meet criteria. "We believe in giving that customer an opportunity," said Mr. Marling, the CEO. Some "will use the system the way it's supposed to be, and others will abuse it."

The accounts "they want you to open were people who have had unpaid accounts, people who tend not to know how to manage their money," said Brian Maners, a former Woodforest manager in North Carolina who left in 2012. "They're going to have \$2 in their account, go to McDonald's and spend \$8, and end up with a \$40 cheeseburger. I hope that was a good cheeseburger."

Woodforest sets overdraft limits of \$100 to \$500 for customers opting into its overdraft plan. It limits overdrafts to three a day and caps fees at \$3,000 a year.

Alec McConnell, a former branch manager in Ohio who left in 2012, said about 20% of his customers were overdrawn on any given day. A few times, when clients reached the annual limit, he said, some would "open a different account, so they could run up another \$3,000." Woodforest said if that happened, it wasn't endorsed by headquarters.

Risky customers can be costly. Some disappear after overdrawing, Mr. Marling said, and the bank has to "charge off," or write off, the account. "You can go to a teller, take out \$500, buy a TV and move to the next county," he said, and the bank's pricing "reflects that."

Some Woodforest former branch managers said branches in poor urban areas tended to have high overdraft and charge-off rates. A Wal-Mart office near downtown Toledo, Ohio, had about 2,500 accounts at the end of 2013, said a person who viewed its statements. Total deposits were just over \$1 million, federal filings show, suggesting an average balance of about \$400, about 5% of the national average.

Customers there incurred about \$262,000 in total overdraft fees and not-sufficient-fund fees in the 11 months ended November 2013, plus \$103,000 in ATM and account fees, the person said. The branch recorded charge-offs of about \$193,000 from customers who didn't repay overdrafts. Woodforest declined to comment on individual branches.

Two other top-five banks inside Wal-Mart are Fort Sill National Bank and City National Bank and Trust, both controlled by JRMB II, a Lawton, Okla., holding company. JRMB declined to comment.

Another, Academy Bank, is part of privately held Dickinson Financial Corp. of Kansas City, Mo. Dickinson also controls the No. 1 fee collector in the Journal analysis, Sunbank NA, whose branches are all in Wal-Mart stores. Dickinson didn't respond to inquiries.

Woodforest's Mr. Marling said the bank is trying to help customers avoid overdrafts with account services such as phone calls when a customer overdraws and an ability to avoid a pending overdraft fee by depositing enough funds before 8 p.m.

Still, Mr. Marling said Woodforest is laying contingency plans in case regulators clamp down on overdraft fees or banks in general do away with them. It is piloting an account in Maryland, for example, that provides a debit card but doesn't allow overdrafts or check-writing—a way of offering banking to high-risk

customers without letting them withdraw money they don't have.

—Lisa Schwartz contributed to this article.

**Write to** Mark Maremont at [mark.maremont@wsj.com](mailto:mark.maremont@wsj.com) and Tom McGinty at [tom.mcginity@wsj.com](mailto:tom.mcginity@wsj.com)

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