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The New Cost of Banking

By BENDIX ANDERSON

LOUIS SANDBERG RECENTLY HAD AN AWKWARD CONVERSATION. Sandberg, president of Sandberg Management, had to convince a client to write a check for more than a thousand dollars to cover bank fees. The fees had accrued over the past year for services as mundane as writing checks. The client, the board of a 60-unit cooperative apartment complex in New York City, has never had to pay real money for these services before. "At the end of the year, all of a sudden the bank sent a bill," says Sandberg.

Welcome to the new world of co-op and condo banking. It's a world in which several banks are asking properties to pay for services they once effectively got for free. Banks offer various rationale, but the net effect is the same: more bills for bank services.

In the past, co-ops and condos were not aware of certain fees because of complicated rewards programs that were variously described as "compensating balances," "corresponding credits," or "offsetting credits." Under these programs, the banks would award buildings credits based on how much money the bank was holding in the property's operating accounts and use that capital to waive some or all of the banking charges racked up by cooperative apartment properties. The dollar amount of the credits would usually be based on a benchmark interest rate, such as the yield on 90-day U.S. Treasury bonds. Unlike a real interest rate, however, the rewards program did not generate actual money but simply racked up a dollar amount of credits that could be used to offset fees.

Those fees include such services as managing a "lockbox," which means the bank arranges to receive maintenance checks from residents, process the checks, and deliver information on payments to the property manager in a timely manner. Banks can bill as much as $6,000 per property per year for the service, according to property managers. Banks also often charge properties 10 cents apiece for every check they write, which could total thousands of checks a year. Fees for bounced checks are often based on the amount of the check and the period the account is overdrawn.

For managers these fees typically appeared on a bill from the bank, only to be wiped away in later pages of the bill with corresponding credits. Since the fees didn't have to be paid in real money, most co-op boards never heard about them.

However, interest rates have recently fallen to rock-bottom levels – the yield on 90-day Treasuries is now about 0.1 percent. For many buildings, corresponding credits are no longer large enough to wipe out all the bank fees.

Sandberg, the management executive, recently received a bill for $38,000 in fees racked up in 2008 from its bank. Some of the biggest of the 52 buildings managed by Sandberg had nothing to pay – their banking fees were all offset by corresponding credits. But several properties with ten or fewer co-op apartments had to pay more than $600 in 2008 bank fees. That's $60 per apartment. The boards have paid the bills. "Most of the co-op boards were okay about it," says Sandberg. "Most of our boards are sophisticated."

The new fees come at a particularly bad time. Over the last two years, the cost of water and access to the sewer system has gone up 26 percent, after years of modest increases of about 5 percent a year. The cost of heating oil has finally leveled off after years of sharp increases, but now property taxes are jumping instead, so that a building that recently owed $600,000 a year might now owe over a million, says Steve Osman, management executive for Metropolitan Pacific Properties.

It's a rough time, and banks are making it worse by attempting to enforce the rules of their "corresponding credits" rewards program to the letter and also becoming more zealous in charging fees. "They didn't used to charge for overdrafts for a couple of days," says Osman. "They used to cut you slack."

The most effective way to avoid fees seems to be to threaten to leave, and to be willing if necessary to back up that threat with action. The current economic downturn is not the first time banks have demanded payment in real dollars for bank fees. Banks have attempted to charge fees in past recessions, too, and many property managers responded by threatening to change banks.

"It comes up from time to time," says Alvin Wasserman, director of Fairfield Property Services, which manages 140 properties.

To avoid paying bank fees, some years ago Fairfield moved accounts to a new bank that promised not to charge fees in return for Fairfield's business. However, this year, the new lender attempted to charge fees on the accounts of two of Fairfield's properties. The two properties had a lot of activity but little money. "We sat down with representatives from the bank," says Wasserman, who managed to have the fees waived on one property in return for transferring assets into the accounts managed by the bank. The case of the other property is still being negotiated.

Other property managers have also negotiated their way out of paying bank fees. "When we have a fee, we call the bank and we get it waived," says Steven Hirsch, director of management for Goodstein Management, which manages 47 properties. "If our main bank really tried to push a fee, we would consider changing banks," says Hirsch, who like Fairfield has walked away from banks in the past.

The same approach has also worked for smaller property management companies like Merlot Management, manager of 25 properties. "They have thousands of dollars of my money and if they don't treat me well I'll take my money somewhere else," says Beth Markowitz, president of Merlot. "Periodically, when I see a fee crop up I call them and it goes bye-bye." Merlot only pays fees for the occasional overdraft or to stop payment on a check.

However, sometimes even threatening to leave has no effect. One property manager has vowed to leave its bank for more than a year – but the bank still insists on charging the company the full amount of banking fees it feels it is owed. The property manager recently passed about a third of nearly $20,000 in annual fees on to its clients. Those represent the fees that could be

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assigned to individual buildings, like the cost of writing checks. The manager had to swallow the other two thirds of the $20,000 in banks fees itself. The property manager is now changing banks, although the process is long and difficult.

Some banks are also charging boards too much to fill the escrow accounts on their permanent mortgages, according to Osman. These banks, which Osman prefers not to name, already add an amount to cover property tax to the building's monthly mortgage payment. In addition, most banks add an extra amount to the monthly mortgage bill to cover the possibility that property taxes will be more than anticipated.

An extra 10 percent over the estimated annual property tax seems to Osman like a reasonable amount for the bank to hold in its property tax escrow account. However, Metropolitan Pacific found that its banks were piling up far more than that in its escrow accounts. One 600-unit complex with about $1 million in annual property tax obligations had more than $300,000 in escrow, even immediately after the property tax for the year had been paid. "How can they have that much in the escrow after the disbursement?" says Osman. "The escrow never seemed to be zero." Banks pay co-ops and condos a nominal interest rate of less than one percent on the money in these accounts.

Metropolitan Pacific had an accountant examine its escrow accounts to determine how much extra money its banks have taken and is now demanding that the banks return the cash. The banks responded by saying that they had the right to take an amount of money from co-op boards into their escrow accounts that they think is reasonable, according to the original loan agreements. If the bank refuses to negotiate, properties could take their business elsewhere by refinancing permanent loans and moving operating or reserve accounts to other banks.

Metropolitan Pacific is now examining its options. "Just because it's legal doesn't mean it's ethical," says Osman. "We are giving the banks a very hard time now." **H**