

personal finance

Count the ways your bank likes to rip you off

They're up to their old tricks again. **Louise McBride** reveals how your bailed-out bank will try to rip you off



OVER the last two weeks, there's been at least two cases of overcharging by the Irish banks. In one case, the Central Bank found that mortgage customers weren't getting interest rate discounts for as long as they were entitled to them. In another case, AIB admitted overcharging users of its cash machines by about €8m.

The rip-offs don't stop there. The *Sunday Independent* asked some banking experts where ordinary customers are most likely to get overcharged by their bank.

YOUR HOLIDAY MONEY OR STERLING ACCOUNT

There is huge scope to get overcharged when buying foreign exchange, warns Helen Cahill, director with the financial advisers, Finance One.

"Billions of foreign exchange transactions happen every day," says Cahill. "If you're not

bank to buy foreign exchange for your holiday, the bank will have insulated itself from movements on the foreign exchange market that day. Exchange rates on currencies move every second. If there's a movement throughout the day on the foreign exchange that you're buying, it will not usually be reflected in the rate that you get from the bank later on in the day."

Let's say for example, you're buying US dollars for your American road trip. Banks usually set the rate at which you can buy those dollars at the start of the day. If the dollar weakens against the euro throughout the day, your euros should buy you more dollars than they would have at the start of the day.

If your bank doesn't change the rate that you can buy your dollars at to reflect the currency's depreciation in value, you won't get the benefit of the

movements.

"Foreign exchange is a complex offering," says Cahill. "There's no real transparency there. There's more scope therefore, for a bank to embed a charge. People are generally uncomfortable with foreign exchange and don't challenge the rate they get."

Cahill said people should be wary of companies that advertise commission-free foreign exchange as often the commission is built into the foreign exchange rate offered by the company.

If the eurozone crisis has prompted you to move some of your savings into non-euro accounts, such as sterling or dollar accounts, be particularly careful about the foreign exchange rate you get from your bank when converting your savings into the new currency.

"Investors who move their savings into non-euro currency accounts would have €100,000s rather than €10,000s of savings," said Cahill. "These savers are worried about the devaluation of the euro. They're not however

worried about the foreign exchange rate they get for their savings. Yet even a difference between a foreign exchange rate of 1.4 and 1.4000 can be significant."

MONEYLENDER-TYPE OVERDRAFTS

If a lender charges more than 23 per cent interest on a loan, they are generally considered a moneylender. Yet the interest charged by banks on certain overdrafts can be as high as 26 per cent.

Most banks charge between 12 and 15 per cent interest on overdrafts. If however, you run up an overdraft without getting the bank's permission to do so, and if you're a consumer

overdraft limit, you'll be whacked with penalty interest as well. This could bring up the overall interest rate charged on your overdraft to more than 23 per cent.

Permanent TSB for example, charges 14 per cent interest on authorised overdrafts — and 12 per cent penalty interest on unauthorised overdrafts. So if you ran up a €1,000 unauthorised overdraft with Permo, or if you went over your overdraft limit by

€1,000, you'd pay a whopping 26 per cent interest on that €1,000.

If you have a standard current account with Ulster Bank, you could be charged up to 23.55 per cent interest on overdrafts, as it charges 14.55 per cent interest on authorised overdrafts and 9 per cent penalty interest on unauthorised overdrafts.

As AIB charges 12.2 per cent interest on authorised overdrafts and 12 per cent surcharge interest on unauthorised overdrafts,

you could pay up to 24.2 per cent interest on overdrafts.

"Penalty interest on unauthorised overdrafts is a major income stream for certain banks," says Eddie Fitzpatrick, director of Bank Check, which investigates overcharging. "When you go over your overdraft limit, someone in the bank has to authorise it — so how can it justify charging penalty interest for an unauthorised overdraft?"

"Just because the terms and conditions of a current account say that your bank will charge you penalty interest for going over your overdraft limit doesn't make the charging of that extra interest okay. It certainly doesn't cost a bank anywhere near an extra 12 per cent interest to give someone more money than their overdraft allows.

"If a bank is charging more than 23 per cent overdraft interest including the surcharge, it's up there with the moneylenders," he says.

A spokeswoman for AIB said that it has to arrange impromptu funding to cover additional borrowing when a customer goes over his overdraft limit. "Further costs are also incurred in relation to additional administrative activities such as credit management, internal reporting and increased customer contact," she added. "The rate reflects these costs."

INSURANCE FOR YOUR LOAN

Payment protection insurance (PPI) is a type of insurance which repays your loan or mortgage should you lose your job. In Britain, the sale of PPI has emerged as one of the biggest mis-selling scandals for a generation. Around three million people are thought to be in line for PPI compensation after the banks there abandoned a legal battle over new rules on mis-selling.

Irish banks are no angels when it comes to PPI, either. After a series of overcharging investigations in 2004 and 2005, the Financial Regulator said that about half of all

personal loans were sold with PPI. Around the same time, it emerged that many of the customers who had bought PPI were either unaware that they had done so or believed it was compulsory to buy the product.

In 2005, Bank of Ireland admitted overcharging its customers by up to €15m in PPI.

As PPI can cost more than 20 per cent of the monthly repayments on a loan, it is not cheap.

"Banks have knowingly generated huge profitability from borrowers who may not have even been given loans unless they had opted for this expensive insurance," says Ronan Coburn, forensic accountant and banking consultant with The Bottom Line.

Coburn believes that Irish people who were mis-sold PPI should get similar compensation to that available in Britain.

Some believe that mis-selling of PPI could still be rampant here.

"In the current deep recession, it is likely that borrowers who believe that their PPI covers them from a variety of pitfalls, are not actually covered," says Coburn. "They could therefore, be paying for a type of insurance that it is not possible for them to make a claim on."

CASH MACHINES

The chances of getting overcharged if you use a cash machine are pretty high — judging by recent overcharging scandals.

AIB's recent €8m overcharging of cash machine users occurred after anti-fraud measures led to money being taken out of customers' accounts even when the withdrawal was unsuccessful.

Last July, Bank of Ireland admitted that it had overcharged 43,000 users of its cash machines by €3m after they made withdrawals but never took the money. Anti-fraud measures were also blamed. As other banks have introduced similar anti-fraud measures, chances are that more overcharging scandals are on the cards.