

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

July 16, 2021

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: July 21, 2021, Subcommittee on Consumer Protection and Financial Institutions hearing entitled, “Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System.”

The Subcommittee on Consumer Protection and Financial Institutions will hold a hearing entitled “Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System” on July 21, 2021, at 10:00 a.m. in room 2128 Rayburn House Office Building. This single-panel hearing will have the following witnesses:

- **Mehrsa Baradaran**, Professor of Law, University of California-Irvine
- **Deyanira Del Río**, Co-Director, New Economy Project
- **Ameya Pawar**, Senior Fellow, Economic Security Project
- **David Rothstein**, Senior Principal, Cities for Financial Empowerment Fund
- **John Berlau**, Senior Fellow, Competitive Enterprise Institute

Overview and Purpose

As of 2019, more than one in five Americans was unbanked or underbanked.¹ Additionally, lower-income households and people of color were disproportionately likely to lack access to traditional banking services.² Unbanked and underbanked consumers often rely on alternative non-bank financial products such as check cashing, money orders, bill payment, or other services, which typically come with higher costs and may not be as reliable as traditional banking services.³ Without banking services, many consumers may experience barriers to securing their savings, accessing the payments system, establishing credit, or even receiving government benefits.⁴ This hearing will examine trends in unbanked and underbanked households, challenges to improve access to mainstream financial services, and current initiatives and proposals to better expand the availability of safe and affordable banking and financial services for all people and in every community.

Background

According to a 2019 survey from the Federal Deposit Insurance Corporation (FDIC), 5.4% of households in the U.S. were unbanked, meaning that no one in the household had a checking or savings

¹ Board of Governors of the Federal Reserve System, [Report on the Economic Well-Being of U.S. Households in 2019](#), (May, 2020).

² *Id.*

³ See CRS, [Financial Inclusion: Access to Bank Accounts](#), (IF11631), Aug. 27, 2020; See also Financial Health Network, [Financially Underserved Market Size Study: 2019](#), (2019), p. 9.

⁴ *Id.*; See also FDIC, [How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey](#), (2019), p. 56.

account at a bank or credit union.⁵ Similarly, the Board of Governors of the Federal Reserve System (Federal Reserve) found that 6% of adults in the U.S. were unbanked,⁶ in addition to 16% of adults who are underbanked, meaning they had a bank account but also used alternative financial services from non-bank sources such as money orders, check cashing, payday loans, or other forms of small-dollar credit.⁷ Differences in banking access also varied by race, ethnicity, income, and education level. For example, Latinx and African-American households were more than two and three times as likely (respectively) to be unbanked or underbanked compared to White households.⁸ Also, 35% of households with an annual income of less than \$40,000 were underbanked or had no bank account at all, and households with less education were also more likely to lack access to banking services.

Trends among Unbanked Households

Consumers report several reasons for not using or having access to a bank account. According to a 2019 FDIC survey of U.S. households, the top reason reported by households for not having a bank account was because they did not have enough money to meet a bank account's minimum balance requirements.⁹ Survey respondents also named a lack of trust in banks, privacy concerns, and fees as among the other reasons they did not have an account.¹⁰ In some cases, consumers reported a preference for alternative financial services to traditional bank accounts for reasons of convenience and because fees may be more transparent at non-bank firms when compared to banks' minimum account, ATM, or other fees.¹¹

While the rate of unbanked American households fell in the period from 2011 to 2019, the FDIC expressed concern in the 2020 release of its report, "How America Banks," that the impact of the COVID-19 pandemic may reverse this trend.¹² In its report, the FDIC noted the unprecedented rise in unemployment in 2020, and that "one in three households (34.1%) that became unbanked in the past 12 months experienced either a significant income loss or a job loss that contributed to their becoming unbanked."¹³ The pandemic also highlighted the importance of having bank accounts during a national emergency. Americans with bank accounts linked to the Internal Revenue Service (IRS) were the first to receive Economic Impact Payments, while those without accounts had to wait for checks or prepaid debit cards to be mailed to them, experiencing longer wait times and in many cases, lost or discarded payments.¹⁴ Additionally, the pandemic may change the way people interact with financial institutions. In an FDIC survey, 83% of respondents who were currently banked reported having visited a bank branch in person, however, social distancing requirements during the pandemic likely forced consumers to interact

⁵ FDIC, [How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey](#), (2019), p. 12.

⁶ Board of Governors of the Federal Reserve System, [Report on the Economic Well-Being of U.S. Households in 2019](#), (May, 2020).

⁷ *Id.*

⁸ See Figure 1 in Appendix; Board of Governors of the Federal Reserve System, [Report on the Economic Well-Being of U.S. Households in 2019](#), (May, 2020).

⁹ See Figure 2 in Appendix; FDIC, [How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey](#), (2019), p. 3-4.

¹⁰ *Id.*

¹¹ See Federal Reserve Bank of Philadelphia, [Why Do the Unbanked Use Alternative Financial Services?](#), Cascade No. 84, (Winter 2014), p. 4; The Clearing House and Financial Services Trade Associations, [Delivering Financial Products and Services to the Unbanked and Underbanked in the United States – Challenges and Opportunities](#), (May 2021), p. 16-17.

¹² *Id.* at p. 54.

¹³ *Id.*

¹⁴ See Washington Post, ["The FDIC wants to make it easier for millions of 'unbanked' Americans to get their stimulus payments,"](#) Apr. 6, 2021; See also NBC News, ["People are accidentally throwing out their stimulus payments — because they look like junk mail,"](#) (May 28, 2021).

with financial institutions through different means such as mobile applications and websites, but, the report also noted lower internet and smart phone access among unbanked households.¹⁵

Cannabis businesses are an example of an entire industry that remains significantly unbanked and underbanked.¹⁶ Forty-seven states, four U.S. territories, and the District of Columbia have legalized some form of cannabis including hemp and CBD products, but cannabis with over 0.3% THC is not legalized under federal law, and most financial institutions are unwilling to provide services to the industry out of fear of criminal prosecution or regulatory risk.¹⁷ On April 19, 2021, the House of Representatives passed H.R. 1996, the SAFE Banking Act of 2021, which would create a safe harbor for financial institutions serving state-legal cannabis businesses.¹⁸

The Cost of Bank Accounts and Fees

The economics of banking can create challenges for financial institutions to serve unbanked or underbanked persons. Providing checking and savings accounts involves costs for banks and credit unions. While costs vary significantly across the market, some estimate that it costs these institutions “between \$250 to \$450 a year” to maintain a checking account.¹⁹ The expenses associated with maintaining a checking account include providing consumers with monthly account statements, staffing retail branch locations, managing ATMs, ensuring cyber security, and complying with anti-money laundering regulations.²⁰ Credit unions and banks earn revenue by lending out deposits in the form of home mortgages, credit card loans, or other lending products.²¹ Under this model, the costs associated with maintaining accounts with lower balances are often higher compared to the costs of accounts with higher deposit levels.²² Banks and credit unions also often charge account fees as a way to recoup account-related expenses. For example, the fees for falling below the account minimum, or overdraft fees, are typically around \$35 per overdraft.²³ Such fees can be prohibitive to consumers attempting to maintain accounts with low balances, and for consumers, it may appear to be more affordable or preferable to use alternative financial services.²⁴ Despite this, some financial institutions offer low- or no-fee bank accounts.

Bank On

The Bank On initiative is a partnership between the Cities for Financial Empowerment Fund (CFE Fund), banks, credit unions, and local governments with the goal of providing low-cost basic bank accounts to unbanked and underbanked households.²⁵ The program is modeled after the FDIC’s Model

¹⁵ FDIC, [How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey](#), (2019), p.4, 54, and 26.

¹⁶ See CRS, [Financial Services for Marijuana Businesses](#), IF11373, (Nov. 27, 2019). See also CNBC, [Underbanked cannabis industry struggles to finance double-digit growth, leaving business owners empty-handed](#), (Oct. 1, 2019).

¹⁷ *Id.*

¹⁸ [H.R. 1996](#)

¹⁹ American Banker, [Free Checking Isn’t Cheap for Banks](#), Dec. 9, 2011.

²⁰ See CRS, [Financial Inclusion: Access to Bank Accounts](#), (IF11631), Aug. 27, 2020; See also GAO, [Anti-Money Laundering: Opportunities Exist to Increase Law Enforcement Use of Bank Secrecy Act Reports, and Banks’ Costs to Comply with the Act Varied](#), GAO-20-574, (Sept. 22, 2020).

²¹ See Federal Reserve Bank of San Francisco, [What is the economic function of a bank?](#) (July, 2001).

²² See CRS, [Financial Inclusion: Access to Bank Accounts](#), IF11631, (Aug. 27, 2020).

²³ CRS, [Overdraft: Payment Service or Small-Dollar Credit?](#), IF11460, (Mar. 16, 2020).

²⁴ See Federal Reserve Bank of Philadelphia, [Why Do the Unbanked Use Alternative Financial Services?](#), Cascade No. 84, (Winter 2014), p. 4.

²⁵ See Bank On, [“About,”](#) (Accessed July 6, 2021); See also The Clearing House and Financial Services Trade Associations, [Delivering Financial Products and Services to the Unbanked and Underbanked in the United States – Challenges and Opportunities](#), (May 2021), p. 23.

Safe Accounts Template.²⁶ Under this initiative, the CFE Fund sets Bank On National Account Standards and then provides public certification to bank accounts meeting those standards.²⁷ Local Bank On coalitions, municipal governments, and community partners work together to market the accounts to underserved communities.²⁸ The standards cover terms related to minimum opening deposit, monthly account fees, overdraft fees, and other account features.²⁹ Out of the approximately 10,000 banks and credit unions in the U.S., there are about 100 banks and credit unions (1 percent) that offer certified Bank On account products, though these accounts are available through the branch networks of participating institutions, including the largest banks.³⁰ Not all participating financial institutions report the use of Bank On-certified accounts they offer. Among the ten financial institutions that do report this data to the St. Louis Federal Reserve Bank’s data hub, nearly six million Bank On-certified accounts have been opened since the program began, and 2.6 million remain open as of 2019.³¹

FedAccounts

In 2018, several academics and former Treasury Department officials proposed creating a public option for bank accounts by allowing the Federal Reserve to offer transaction accounts directly to U.S. citizens, residents, and U.S.-based businesses and institutions.³² FedAccounts, as the authors refer to the accounts, would operate similarly to typical banking transaction accounts, would come with debit cards, and would allow for direct deposit, online bill pay, and mobile banking.³³ Additional features include that these would be no-fee accounts with no minimum balance requirements; the interest on deposits would be the same as what commercial banks receive from the Fed; instant transactions between FedAccounts; no interchange fees; and there would be no need for deposit insurance since the Federal Reserve would be the bank.³⁴ Proponents of this plan argue that this public option for banking with no account minimum and no fees would appeal to unbanked and underbanked households.³⁵ Others have suggested FedAccounts could expedite the delivery of government benefits, like stimulus payments during a crisis.³⁶ Several bills have been introduced in the past that is modeled on this proposal. For example, Senator Sherrod Brown previously introduced the Banking for All Act, which would authorize FedAccounts, which could be accessed through Federal Reserve banks, member banks and post offices.³⁷ Chairwoman Maxine Waters introduced a comprehensive pandemic response bill that included a provision authorizing FedAccounts as a means to deliver stimulus payments,³⁸ and Representative Rashida Tlaib introduced the

²⁶ *Id.*

²⁷ Bank On and Federal Reserve Bank of St. Louis, [The Bank On National Data Hub: Findings from 2019](#), (June 28, 2021).

²⁸ *Id.* at p. 9.

²⁹ Bank On, [Bank On National Account Standards \(2021-2022\)](#), (Accessed July 7, 2021)..

³⁰ Bank On, “[Accounts](#),” (Accessed July 7, 2021).

³¹ Bank On and Federal Reserve Bank of St. Louis, [The Bank On National Data Hub: Findings from 2019](#), (June 28, 2021), p. 10.

³² See Morgan Ricks, John Crawford, and Lev Menand, [FedAccounts: Digital Dollars](#) (June 2018, revised July 2020), and [Central Banking for All: A Public Option for Bank Accounts](#), The Great Democracy Initiative (June 2018).

³³ *Id.* at p. 2.

³⁴ *Id.* at p. 2-3.

³⁵ *Id.* at p. 3-4.

³⁶ See House Financial Services Committee Task Force on Financial Technology hearing entitled, [Inclusive Banking During a Pandemic: Using FedAccounts and Digital Tools to Improve Delivery of Stimulus Payments](#) (June 11, 2020).

³⁷ U.S. Senate Committee on Banking, Housing, and Urban Affairs, [Brown Introduces New Legislation To Help Hardworking Americans In The Coronavirus Relief Package](#), Press Release, (Mar. 24, 2020).

³⁸ See Section 101 of [H.R. 6321](#) (116th Congress), the Financial Protections and Assistance for America’s Consumers, States, Businesses, and Vulnerable Populations Act, and Committee press release, [Committee Democrats Roll Out Legislation to Provide Comprehensive Stimulus and Public Policy Response to Coronavirus Pandemic](#) (Marh. 23, 2020).

Automatic Boost to Communities Act, which would provide stimulus payments through a debit card with a resolution encouraging the Fed to develop a FedAccounts system.³⁹

Public Banking

Discussion of, and support for, public bank proposals have gained popularity in some states.⁴⁰ Public banking advocates often cite addressing the needs of unbanked or underbanked communities as a reason to support public banking initiatives, arguing that financial institutions under government control would be more consumer-driven rather than profit-oriented.⁴¹ In October 2019, California Governor Newsom signed a bill into law authorizing cities and counties to pursue a charter for a public bank.⁴² There are efforts underway to stand up public banks in California,⁴³ however none have been approved yet.⁴⁴ There is also a new state legislative proposal to provide no-fee, zero-penalty debit accounts in California.⁴⁵ In New York, legislators introduced the “New York public banking act,” which would allow municipal and local governments to form public banks.⁴⁶

Although government-owned banks were once commonplace in the U.S., the only surviving public bank today is the Bank of North Dakota (BND).⁴⁷ BND was created by the North Dakota legislature in 1919 after growing frustration with private lenders and “attempts to legislate fairer business practices failed.”⁴⁸ The bank’s mission has evolved over the years, and today BND’s focus is largely centered on agricultural lending, economic development, and student loans.⁴⁹ BND does not have FDIC insurance; instead, its deposits are guaranteed by the State of North Dakota.⁵⁰ Advocates, academics, and policymakers have frequently cited BND as one possible model for other public banks.⁵¹

³⁹ See [H.R. 6553](#) (116th Cong.), and Rep. Tlaib Press Release, [Tlaib, Jayapal Introduce Groundbreaking Bill to Deliver Universal Recurring Payments for COVID-19 Relief](#) (Apr. 16, 2020) and [Fact Sheet](#).

⁴⁰ See The Nation, “Why Shouldn’t the People Own the Banks?” (Jul. 9, 2021).

⁴¹ See Diane Morales, [A Public Bank for New York City](#), (Accessed July 7, 2021).

⁴² California Legislature, [AB 857](#), (2019); See also LA Times, [Public banks can be formed in California: Newsom signs new law](#), (Oct. 2, 2019), and California Public Banking Alliance, [AB 857 – California Public Banking Bill: Text and Fact Sheets](#) (accessed July 16, 2021).

⁴³ See [California Public Banking Alliance](#) and [Public Bank Los Angeles – A Summary of the Los Angeles Public Bank](#) (July 2021).

⁴⁴ See The National Law Review, [When, If Ever, Will California Charter A Public Bank?](#), Volume XI, Number 188, (Dec. 2, 2020).

⁴⁵ See [AB 1177](#), the California Public Banking Option Act (2021) and [BankCalNow](#) (accessed July 16, 2021).

⁴⁶ New York State Senate, [S1762A](#), “New York public banking act” (2021).

⁴⁷ See JSTOR Daily, [Public Banks: An American Tradition](#), (Dec. 1, 2015); Bank of North Dakota, [History of BND](#), (Accessed July 7, 2021).

⁴⁸ Bank of North Dakota, [History of BND](#), (Accessed July 7, 2021).

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ See Federal Reserve Bank of Boston, [The Bank of North Dakota: A Model for Massachusetts and Other States?](#) (2011).

Appendix A: Legislation

- **H.R. _____, the Public Banking Act of 2021 (Ocasio-Cortez/Tlaib)**, which would promote the formation of public banks operated by local or state governments through the creation of a public banking incubator program that provides grants and technical assistance to new public banks. The bill would allow public banks to be members of the Federal Reserve and clarify that public banks have access to the Federal Reserve’s payment systems and FDIC deposit insurance, similar to privately-run banks. In addition, it would establish new liquidity and credit facilities at the Federal Reserve to support newly created public banks and the communities in which they are based.
- **H.R. _____, the Access to No-Fee Accounts Act**, which would require the Federal Reserve to establish no-fee digital transaction accounts that would be available to individuals and small businesses. Among other features, these accounts would have no minimum balance requirements. Based on the FedAccounts proposal described above, these accounts would be available at member banks of the Federal Reserve System and other participating banks and credit unions, as well as U.S. Postal Service branch offices. Participating community banks and credit unions would be reimbursed for their operational costs.
- **H.R. _____, the Expanding Financial Access for Underserved Communities Act**, which would, allow all federal credit unions to apply to the National Credit Union Administration (NCUA) to expand their field of membership to include underserved communities, including communities that lack a depository institution branch within 10 miles. The bill would also exempt loans made by credit unions to businesses in underserved areas from the credit union member business lending cap.

Appendix B: Survey Data on Unbanked Households

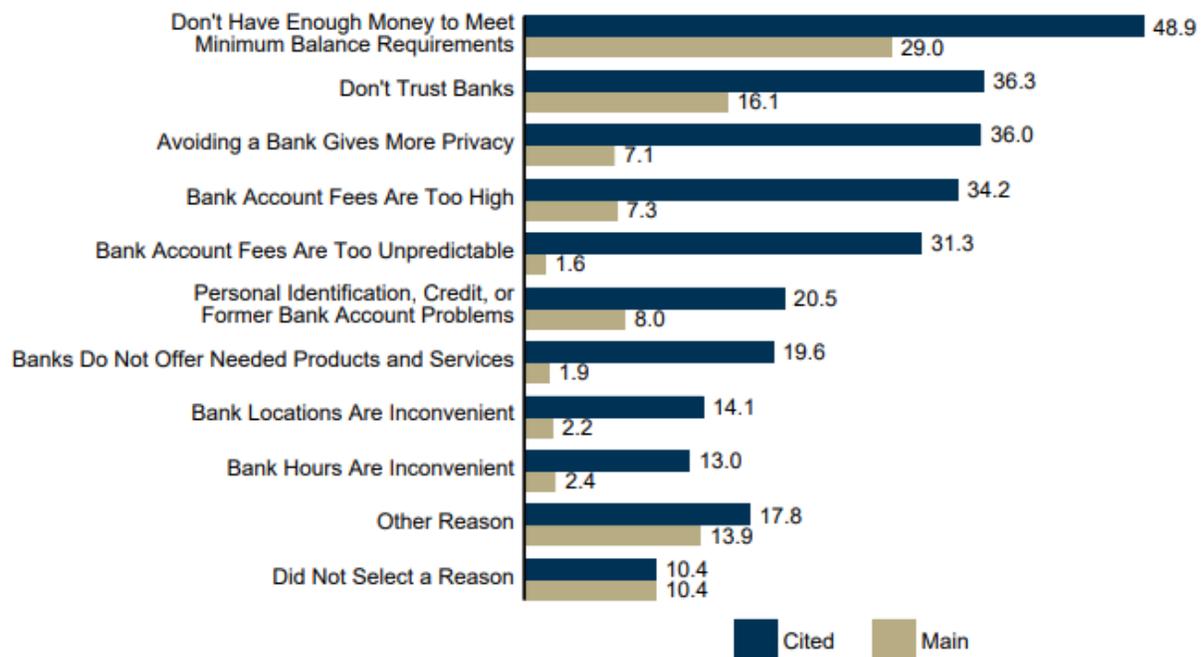
Figure 1. Banking status by family income, education, and race/ethnicity (Percent of those surveyed)

Characteristic	Unbanked	Underbanked	Fully banked
<i>Family income</i>			
Less than \$40,000	14	21	64
\$40,000–\$100,000	2	17	80
Greater than \$100,000	1	7	92
<i>Education</i>			
High school degree or less	13	21	66
Some college or associate degree	4	18	77
Bachelor's degree or more	1	9	89
<i>Race/ethnicity</i>			
White	4	11	85
Black	14	35	50
Hispanic	11	23	66
Overall	6	16	77

Source: Board of Governors of the Federal Reserve System, [Report on the Economic Well-Being of U.S. Households in 2019](#), (May, 2020).

Figure 2.

Figure ES.3 Reasons for Not Having a Bank Account, Among Unbanked Households, 2019 (Percent)



Source: FDIC, [How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey](#), (2019), p. 3