BANKING THE UNBANKED: EXPLORING PRIVATE AND PUBLIC EFFORTS TO EXPAND ACCESS TO THE FINANCIAL SYSTEM

HYBRID HEARING

BEFORE THE

SUBCOMMITTEE ON CONSUMER PROTECTION
AND FINANCIAL INSTITUTIONS

OF THE

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BANKING THE UNBANKED: EXPLORING PRIVATE AND PUBLIC EFFORTS TO EXPAND ACCESS TO THE FINANCIAL SYSTEM

Wednesday, July 21, 2021

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSUMER PROTECTION
AND FINANCIAL INSTITUTIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Ed Perlmutter [chairman of the subcommittee] presiding.

Members present: Representatives Perlmutter, Scott, Velazquez, Sherman, Green, Foster, Vargas, Lawson, Pressley, Torres; Luetkemeyer, Posey, Barr, Williams, Loudermilk, Kustoff, Rose, and Timmons.

Ex officio present: Representatives Waters and McHenry.

Also present: Representatives Tlaib and Ocasio-Cortez.

Chairman PERLMUTTER. The Subcommittee on Consumer Protection and Financial Institutions will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System."

I now recognize myself for 4 minutes to give an opening statement. At the start of the pandemic a constituent of mine reached out to my office. We can call her, "Mrs. McGillicuddy." Mrs. McGillicuddy did not have a bank account, so she received her Social Security benefits in the form of a direct express debit card. After the CARES Act passed, the first wave of economic impact payments went to Americans with a bank account on file with the IRS. So, Mrs. McGillicuddy had to wait. When she finally did receive the paper check, Mrs. McGillicuddy was forced to find a check cashing service where, for a fee, she could cash the check. Compare that with the experience of folks who had an account linked to the IRS. They got the payments first, and for free.

One recent report estimates that CARES Act economic impact payment recipients spent $66 million just to cash the first round of checks. According to an FDIC survey, the number-one reason why Americans didn't have bank accounts was because they didn't have enough money to meet a bank account's minimum requirement. This is one example of how expensive it is to be poor in the richest country in the world.

As of 2019, one in five Americans was unbanked or underbanked, and 5.4 percent or about 18 million Americans do have not access to a bank account at all. An additional 16 percent or about 53 million Americans have access to a bank account, but also rely on alternative financial services such as money orders, check cashing, payday loans, or other services in place of traditional banking.

There is also a significant racial disparity in access to banking services. Latino households are more than twice as likely to be unbanked or underbanked. And African-American households are more than 3 times as likely to lack access to traditional banking services compared to White households.

For the country with the most powerful economy in the world, these statistics are unacceptable. However, I will also note that this data was gathered before the pandemic and sharp rising unemployment. Historically, unbanked and underbanked rates are correlated to unemployment, so the true numbers may be worse. If we want the economic recovery to be inclusive and reach every community, we need to make sure people stop being penalized for not being born on third base.

Today's hearing will examine trends in unbanked and underbanked households, challenges to improving access to banking services, and proposals to expand the availability of safe and affordable financial services for everyone in every community. Ensuring every American has access to a safe and affordable bank account will make our economy stronger, protect vulnerable consumers, and make our nation better prepared to confront a national emergency.

With that, I now recognize the ranking member of the subcommittee, Mr. Luetkemeyer from Missouri, for 4 minutes for his opening statement.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. And thank you for having this hearing today. I would also like to thank the witnesses for being here today and agreeing to testify.

The topic we are discussing today is extremely important, because getting more people in the banking system can have a drastic impact on their lives. Not only do banks provide a safe and protected way to store money, banking services generally provide consumers with cheaper financial services than other businesses involved in finance. For example, most banks offer free checking accounts, check cashing, and deposits. Many offer wire transfers at a cheap flat rate, but most allow cash withdrawals at your financial institution for free.

Not only are these day-to-day services critical, but having an existing account at a financial institution assists in access to credit for both consumers and businesses. Look no further than the pandemic, where we saw financial institutions participating in the Paycheck Protection Program (PPP). In addition, individuals with a bank account found it much easier to get their economic impact payment from the IRS. I am sure all of the Members here today have dealt with constituents without a bank account who are still struggling to get this money from the IRS.

Since 2009, the FDIC has surveyed and examined how American households are using banking services. The latest survey from 2019 shows the lowest estimate of unbanked households since the survey started. In fact, the household unbanked rate has consistently fallen since 2011. This progress means that 3.7 million households in the United States have joined or rejoined the banking system since 2011, an accomplishment that could be accelerated at the same time it is examined to ensure that progress is maintained.

So, what has worked and what has not worked in driving down the unbanked rate? It is clear that the progress made since 2011 happened without a government takeover of the financial system—3.7 million households joined the banking system without the Federal Reserve offering checking accounts, without the Post Office acting as a financial institution, and certainly without the Consumer Financial Protection Bureau (CFPB) taking over the credit reporting industry.

According to the FDIC, the single biggest factor that lowered the unbanked rate was improvement in the social and economic circumstances of a household. Put simply, the pro-growth policies of the Trump Administration led to improved circumstances for all Americans, and according to the FDIC, drove 2.4 million households into the banking system.

There are also many noneconomic factors to consider when discussing the unbanked population. For example, 16 percent of unbanked households listed, "not trusting banks," as their main reason for not having a bank account. In addition, among unbanked households, 56 percent were not at all interested in even having a bank account.

Despite these difficulties, financial institutions and stakeholders are looking at ways for private industry to bridge the unbanked gap in this country. The FDIC recently started GetBanked, a public awareness campaign to inform and inspire consumers to join the banking system.

Furthermore, the Cities for Financial Empowerment (CFE) Fund has partnered with financial institutions around the country in the Bank On initiative, which offers low-cost accounts for consumers. Raising awareness and increasing innovation will be critical to lowering the unbanked and underbanked gap in this country.

Congress should be looking to support new ways to provide traditional banking services that reach the unbanked population, to provide regulatory clarity for new technologies in the marketplace providing financial access, and lastly should not get the government involved in providing banking services to consumers.

I look forward to the discussion of these topics with the witnesses today. And with that, Mr. Chairman, I yield back.

Chairman PERLMUTTER. Thank you, Mr. Luetkemeyer.

The Chair now recognizes the Chair of the full Financial Services Committee, the gentlewoman from California, Chairwoman Waters, for 1 minute.

Chairwoman WATERS. Thank you, Chairman Perlmutter. I am pleased that this hearing focuses on access to banking services, especially for communities in banking deserts. Without a nearby branch to go to in the Los Angeles area, the rate of unbanked households is higher than the national rate. And the unbanked are disproportionately lower-income households of color.

Having access to a bank account is fundamental to financial security. Millions of Americans who did not have a bank account during this pandemic had to wait weeks or months to receive stimulus checks while they struggled to afford housing, to take care of their loved ones, and to otherwise make ends meet. The Wall Street megabanks have mistreated unbanked individuals for long enough. Our constituents in California, Colorado, New York, and across the country are fed up, and are advocating new consumer center solutions, such as no-fee FedAccounts and public banking.

I look forward to the testimony from our witnesses. And I yield back the balance of my time.

Chairman PERLMUTTER. The gentlelady yields back. I would now like to recognize the ranking member of the Full Committee, the gentleman from North Carolina, Mr. McHenry, for 1 minute.

Mr. MCHENRY. Thank you, Mr. Chairman. Today's hearing is another example of Democrats using the financial system to score points with progressive activists. We are talking about a very important issue, but the bills attached to this hearing are much more of a partisan wish list than they are about the substance of driving financial inclusion. Look at the politically motivated move last month to take down the True Lender bill, that makes things less clear, less certain about bank and Fintech partnerships.

We know that Democrats want to drive a government-centric, government-run financial system, a one-size-fits-all approach which will not drive financial inclusion. I can tell you this: The Federal Government is not innovative. It is not nimble. And it will not increase financial inclusion. We can drive financial inclusion with banks and Fintechs working together, and provide consumers and small businesses with greater access to affordable financial products and services, especially those in underserved and rural areas. It is innovation, not a cudgel that will drive financial inclusion. That should be the subject of today's hearing, not the list of bills attached to this hearing.

I yield back.

Chairman PERLMUTTER. The gentleman yields back.

I am now pleased to welcome each of our witnesses. We have five excellent witnesses today. First, Ms. Mehrsa Baradaran. She is a professor of law with the University of California Irvine School of Law. Professor Baradaran's focus includes firnancial inclusion, inequality, and the racial wealth gap.

Second, Ms. Deyanira Del Rio, who is the co-executive director of the New Economy Project. Ms. Del Rio has worked for more than 20 years on cooperative finance, immigrants' economic rights, and equitable neighborhood development.

We have them both virtually attending today's hearing, so thank you very much.

In the committee room, we have Mr. Ameya Pawar, a senior fellow at the Economic Security Project. Mr. Pawar is a former alderman of Chicago's 47th Ward, and is working on efforts around guaranteed income, and public options in financial services.

We also have Mr. David Rothstein, a senior principal with the Cities for Financial Empowerment (CFE) Fund. Mr. Rothstein leads the CFE Fund's work on the Bank On initiative through account certification and coordination among stakeholders.

And finally, we have Mr. John Berlau, a senior fellow with the Competitive Enterprise Institute. Mr. Berlau focuses on public policy affecting access to capital, entrepreneurship, and investments. And he is also a contributing writer for Forbes.

Thank you all for being present today. You are reminded that your oral testimony will be limited to 5 minutes. You should be able to see a timer on the desk or on the screen that will indicate how much time you have left. When you have 1 minute remaining, a yellow light will appear. And I would ask you to be mindful of the timer, and when the red light appears, to wrap up your testimony so we can be respectful of both the other witnesses' and the committee members' time.

And without objection, your written statements will be made a part of the record.

Professor Baradaran, you are now recognized for 5 minutes for your testimony.

STATEMENT OF MEHRSA BARADARAN, PROFESSOR OF LAW, UNIVERSITY OF CALIFORNIA IRVINE SCHOOL OF LAW

Ms. BARADARAN. Thank you so much, Chairman Perlmutter, Ranking Member Luetkemeyer, and members of the subcommittee. Thank you for the opportunity to testify on this very important issue.

The burdensome costs faced by millions of Americans excluded from the nation's banking system are not new, but the stakes have gotten higher over the last decade as digital banking has become essential to full participation in the economy.

The recent COVID crisis further exposed the inequalities embedded in the nation's credit and payment system and revealed the urgency for reform. I have a few recent examples. When Congress acted decisively on behalf of Americans to send the first and second rounds of COVID relief to struggling households, many unbanked and underbanked Americans, the population most in need of help, either did not receive payments, or had to pay fees to collect from ATMs or tax preparers. And many stood in long lines exposing themselves to the virus, and that is to lower ATM fees.

Just recently, as Congress and the Administration acted once again to send child tax credits, reports estimate that about one in five families whose accounts are not linked to the IRS database will have to jump through hoops to get these checks, or pay fees, or never get the checks at all. This takes time, stress, and a lot of money. It has been a blockbuster year for banks. And they have collected over $31 billion in revenue from fees alone. And remember, the Americans living on the thinnest of margins pay the majority of the bulk of these fees.

One out of 11 Americans spent $350 or more a year in overdraft fees. That is a lot of money for families living on the margins. Overdraft is one of the many reasons why it is expensive to be poor in America. In fact, Black communities, Native-American communities, rural communities, and the elderly, those already living on the margin, pay the most because they lack access to the nation's payment system. This is not a problem of technology; it is a problem of policy. In fact, I want to propose that we need not get bogged down in complexity. The problem is straightforward. And I believe the solution is also simple, which is usually not the case with policy. The problem is this: The U.S. payment system is only available to banks and their customers. If you are outside of it, you have to pay a toll to use it. I urge Congress to open up these tracks on which our nation's commerce runs to everybody.

Congress need not reinvent the wheel. Congress already created a public payment system, the Federal Reserve. The Fed's explicit charter is to serve the public interest and to increase the integrity, efficiency, and equity of the U.S. payment system. That was the mandate Congress gave it. I urge Congress to ensure that everyone has equal access to this vital public utility. I believe that the most effective way to do this is through a partnership between the Treasury, the Federal Reserve, and the postal banking system.

The Treasury already maintains a relationship with Americans through the IRS and the benefits infrastructure. Instead of using a middleman to send checks, it can route those payments through the Post Office, whose budget is actually linked to the Post Office, and the Post Office has historically been a bank in America and abroad.

On the consumer side, what this would look like is you would go to your local Post Office, deposit your money, and take cash out of the ATM without fees, set up automatic bill pay to online or mobile banking, get a debit card to use when you are out shopping or online, or link up to a digital account, or a Fintech app. In fact, across the world, postal banks more people than the Fintech industry or private banks, and crucially, it allows many of the people to connect to others digitally.

Digital banking is essential to modern commerce. But to truly reach the unbanked and underbanked, you need a physical location, the ability to deposit your cash wages and take out cash to pay for goods. This is the first crucial step to financial inclusion. This is because between 20 and 40 million Americans don't have broadband internet access. Many Americans do not have the mobile devices or computers, including elderly Americans.

Most low- and moderate-income (LMI) communities still operate at least some portion of finances in cash. They receive wages in cash, or have to use cash to buy groceries or fresh fruit, or to pay babysitters or rent. Research showed that for the vast majority of Americans with an income of less than $50,000, they prefer just a simple debit card, and don't have that.

Why aren't banks serving these consumers? Over the past 10 years, as banks have become bigger and more profitable, 93 percent of bank branch closings were in LMI communities. Rural Americans have lost over half of their banks. Banks don't serve these communities for the simple reason that there aren't enough profits. So, we can either try to keep coaxing the industry through carrots and sticks, or simply offer services directly through public banks. In fact, as banks have deserted many of these low-profit ZIP Codes, the Post Office has remained, in accordance with its public mission.

The Post Office has over 33,000 branches, and most of their branches are in low- or moderate-income communities, and Americans know it. Recent surveys showed that the Post Office is actually number-one in America's most-trusted brand to do what is right. And this is because the Post Office, in accordance with what President George Washington inscribed into law in 1792, has a very public service mission.

In conclusion, the Post Office is already a public institution, it has a legacy of being a public bank in the U.S., and it can do so again, making the lives of many Americans a little easier and less expensive.

Thank you. Sorry for going over.

[The prepared statement of Professor Baradaran can be found on page 50 of the appendix.]

Chairman PERLMUTTER. Thank you, Professor.

Ms. Del Rio, you are now recognized for 5 minutes.

STATEMENT OF DEYANIRA DEL RIO, CO-EXECUTIVE DIRECTOR, NEW ECONOMY PROJECT

Ms. DEL RIO. Thank you. Good morning, Subcommittee Chairman Perlmutter, Ranking Member Luetkemeyer, and members of the subcommittee, as well as Committee Chairwoman Waters. Thank you so much for the opportunity to testify today on behalf of the New Economy Project, an economic justice organization based in New York City.

For 26 years, our organization has worked with community-based organizations and low-income New Yorkers to combat persistent redlining, predatory lending, and other inequities in our financial system and economy that serve to perpetuate racial wealth inequality, neighborhood segregation, and poverty. We work with community groups now to advance public banking and strengthen community development financial institutions (CDFIs), and to undertake other strategies that democratize control over finance, land, housing, and other sectors of our economy.

My comments today are also informed by my role as board chair of the Lower East Side People's Federal Credit Union, which is a U.S. Treasury-certified Community Development Financial Institution, or CDFI, that has 35 years of experience serving historically redlined communities across New York City.

My testimony today will address ways in which our current financial system serves to extract rather than build wealth, and the need to strengthen and enforce laws to hold banks and other financial institutions accountable to people and communities. At the same time, we must focus on creating public banks and other institutions and infrastructure that can build community wealth and serve the public interest.

First, I want to say, underscoring what you have heard already, that barriers to banking access that this subcommittee is addressing in today's hearing are long-standing and systemic in nature. They, therefore, call for bold and systemic solutions. Congress and the Federal banking regulators can and should take comprehensive action to address persistent redlining, discriminatory identification policies, predatory overdraft fees, and other barriers that block or actively drive the working poor and people of color out of our banking system.

At the same time, we must combat the notion that financial innovation, or financial products and credit in particular, are solutions to entrench poverty and inequality. To give you one example, we have, across the country in the United States, 400-percent APR payday loans that extract wealth from working-poor families. Their solution, the antidote to these injurious loans is not to develop less predatory short-term loans, but rather to ensure access to living wage jobs, truly affordable housing, strength in safety nets, and other measures that address root causes of economic insecurity.

And finally, we need fundamental change in new institutions to create a financial system and an economy that works for all. I am especially pleased to share our organization's work in New York City and State to advance local public banks, which we see as critical to fostering strong local economies and adjust recovery.

Public banking is common throughout the world, and on the rise across the United States. Public banks are financial institutions owned by public entities like a city or a county that hold public deposits and are chartered to serve the public good, rather than in the interest of private, profit-seeking shareholders.

Through public banking, local governments, like ours in New York City, can build on what is working in our financial system, partnering with CDFIs and other community-based lenders to expand fair banking access, and to deepen investment in affordable housing, small businesses, renewable energy, and other critical infrastructure.

Public banks also allow local governments to control their money, our public money, and to move it out of banks that engage in redlining and predatory financial practices, and that finance fossil fuels extractions, real estate speculation and displacement, and other activities that harm local communities and run counter to our public policy goals.

New Economy Project is coordinating two broad-based coalitions in New York to advance public banking. We are advocating for passage of State legislation, the New York Public Banking Act, that would create a safe and appropriate regulatory framework for cities, counties, and regions that want to establish public banks.

This legislation has gained massive traction, with 65 legislative cosponsors and broad-based support from more than 100 community and labor organizations, and New York-based CDFIs and responsible lenders.

The Federal Public Banking Act would be a game changer to local endeavors like ours by providing technical assistance and grants to support the formation of mission-driven public banks, to give local public banks access to the Federal Reserve's payment systems and create other frameworks of support. Public banking would serve as an especially powerful tool as cities and States throughout our country work to advance a just recovery from our pandemic, and to withstand future crises.

We have seen that countries which have public banks are significantly more resilient in the face of crises than those without them. And that is precisely because local public banks invest in sectors that provide direct economic, social, and environmental benefits. And in the context of the growing and interrelated crises we face—health, housing, racial inequality, and climate crises—we believe the Federal Government must take bold action to support these efforts and transform [inaudible].

Thank you, again, for the opportunity to testify.

[The prepared statement of Ms. Del Rio can be found on page 69 of the appendix.]

Chairman PERLMUTTER. Thank you, Ms. Del Rio.

Mr. Pawar, you are now recognized for 5 minutes.

STATEMENT OF AMEYA PAWAR, SENIOR FELLOW, ECONOMIC SECURITY PROJECT

Mr. PAWAR. Thank you, Chairman Perlmutter, Ranking Member Luetkemeyer, and members of the subcommittee. My name is Ameya Pawar, and I am a fellow with the Economic Security Project in the Open Society Foundations, where I work on guaranteed income and public banking policy. These are both issues that were very different just a few years ago when I started working on them, when I was on the City Council in Chicago, but have converged over the last 18 months as a result of the global coronavirus pandemic. I will get to that in just a moment.

It is an honor to be here, and I am here to express my support for FedAccounts and public banking, not one or the other, but both. And the reason why is that they are both market-based solutions to solve widespread financial exclusion. At a very basic level, every person, every small business, needs a bank account to receive money, to deposit earnings, to save, to pay bills, and to be able to do so without paying exorbitant fees or extraction.

And then, people and small businesses need access to wealth-creating loans, home and business loans. These loans are the foundation of economic development in this country, loans that banks make, make banks sort of a public policymaker when they decide who gets money, who gets loans, and who doesn't.

And today, we have widespread economic exclusion, where 25 percent of Americans are unbanked or underbanked. And they are paying up to 10 percent of their incomes annually to be able to access basic financial services. So what we have is a system where the more money you make, the cheaper it is to manage your money. And the less money you make, the more expensive it is to manage your money. And the more money you make, the cheaper it is for you take out loans and create additional wealth. The less money you make, you are prohibited from taking out those wealth-creating loans.

FedAccounts would bring millions of people into the banking system who currently are excluded. It would restore trust in the system and make it possible for them to carry out their financial affairs. On the other hand, the Public Banking Act is transformational because it allows counties, cities, and States to set up public banks that can channel capital to small businesses that could originate micro mortgages and loans for first-time home buyers, and it could finance new public options for housing, childcare, and broadband, all of which are market-based additions to the existing economy, and all of which are necessary as part of a healthy market.

I started working on both of these issues when I was coming to an end of my second term at the City Council. When I first got there 10 years ago, I thought the best way to combat inequality and poverty was to pass legislation and reform government programs, so I worked on efforts with my colleagues to raise the City's minimum wage, provide guaranteed paid sick leave, and combat wage theft. I worked on reforms on tax increment financing, I worked on Opportunity Zones. I interfaced with philanthropy and other government grants. And what I found was that all of this work, just worked on the margins; it wasn't enough to drive economic development in communities. It was necessary and critical work to lift wages, but if you raise your wages and it costs you money to cash your paycheck, if it costs you money to pay your bills, if you don't have a bank account to save, and you have no access to wealth-creating loans, you are basically giving people a weighted life jacket.

And to me, in my mind, that is why what we need are basic bank accounts and access to wealth-creating loans. And that is why both of these pieces of legislation are important. The other thing I might add is that banks, when they choose to serve a community or choose to deny a community, that is an act of public policy.

You see, when banks systemically lend within the community to homeowners and businesses, that broadens the tax base. That increases property values. That increases property tax revenues. And when you do that systematically over and over again, more people buy homes, more people open businesses, and that creates a healthy economy. When you deny communities that—we all have driven through communities that are littered with payday loan centers, and currency exchanges, and tax prep centers. There are also communities where you see less tax revenue, lower property values, and so on and so forth.

So when banks decide to choose to serve a community, they are exercising public policy. And I just think it is worth asking ourselves, should this much policymaking power be concentrated in the hands of a few, or should we create a healthy market with public options such that everyone has access to a bank account and wealth-creating loans to drive economic development?

Thank you.

[The prepared statement of Mr. Pawar can be found on page 76 of the appendix]

Chairman PERLMUTTER. Thank you, Mr. Pawar.

Now, I recognize Mr. Rothstein for 5 minutes for his testimony.

STATEMENT OF DAVID ROTHSTEIN, SENIOR PRINCIPAL, CITIES FOR FINANCIAL EMPOWERMENT (CFE) FUND

Mr. ROTHSTEIN. Thank you, Chairman Perlmutter, Ranking Member Luetkemeyer, and members of the Subcommittee on Consumer Protection and Financial Institutions. My name is David Rothstein. I am a senior principal with the Cities for Financial Empowerment Fund, known as the CFE Fund, where I lead the national Bank On initiative.

The CFE Fund's mission is to work with municipal and other partners to provide financial empowerment programs and services on a large scale, and our work spans across more than 100 city, county, and even State Governments.

Our Bank On program harmonizes financial institutions of all sizes and types, local government, nonprofit partners, and consumer advocates together through a national product certification program with the goal of bringing unbanked and underbanked households into safe, affordable, and fully transactional bank and credit union accounts. On behalf of the more than 100 financial institutions with certified Bank On accounts, and our 90-plus coalitions around the country, I am honored to testify today about how Bank On is here to meet the moment you are so admirably prioritizing here.

Bank On is a success on a number of measurable levels. Eight years ago, we established the first-ever national account standards, with close consultation with regulators like the FDIC, advocates, financial institutions themselves, local elected officials, and community organizations. These standards directly addressed principal concerns like overdraft and insufficient fund fees.

We started with the four largest banks in the country having certified products, but have quickly grown to 110 banks and credit unions. In fact, certified accounts can now be found in 40 percent of all of the branches in the United States. Banks offering a Bank On certified account represent more than 51 percent of the deposit market share, according to the FDIC. And more than two dozen of these accounts can be opened online by new customers, further expanding that access to rural and urban neighborhoods that don't have branches in their communities.

The market for Bank On accounts is thriving. Led by our partners at the Federal Reserve Bank of St. Louis, the Bank On National Data Hub finds that these accounts are extremely popular, and the market is really robust. In 2019, nearly 2 million Bank On certified accounts were opened in that year alone. We also know that more than 85 percent of new account openings were completely new clients to the financial institution, a strong proxy for banking access.

We know that Bank On is helping the unbanked in the hardest-to-reach markets. The FDIC finds that households of color are 5 times less likely than White households to have a bank account. A recent analysis by the Bank Policy Institute found that more than 60 percent of Bank On accounts opened were in neighborhoods with more than 50-percent minority population. The widespread availability of Bank On certified accounts is, of course, only part of the banking access equation. It is connecting people to these accounts that makes the difference.

The Bank On equation looks for ways to integrate banking access into large-scale funding streams. And our 90 Bank On coalition partners help make that happen in their communities. Almost two dozen cities, for example, incorporate Bank On account opening into summer youth employment programs, and the ability to rely upon the national account standards assures those government leaders that these are the right accounts and that they are safe.

Led in partnership by our Bank on Maryland Coalition, the State of Maryland now facilitates Bank On account opening for unemployment benefits. And now, the Treasury Department and the IRS have been facilitating Bank On account openings, in partnership with the robust efforts of the FDIC, with facilitating account opening as a way to get both the economic impact payments, and now the advanced child tax credit payments as well.

All of this is to say that while we are thrilled that policymakers and agencies are interested in widespread banking access, Bank On is demonstrating today, right now, both that you can get institutions to offer the right accounts and that people will open them by the millions each year. Why create a separate but equal system that would be incredibly complex and take years to produce? Why ignore this very tangible solution rather than amplify it?

Thank you for your time, and I am more than happy to answer any questions that the committee has going forward. Thank you, again.

[The prepared statement of Mr. Rothstein can be found on page 81 of the appendix.]

Chairman PERLMUTTER. Thank you, Mr. Rothstein.

Mr. Berlau, you now are recognized for 5 minutes.

STATEMENT OF JOHN BERLAU, SENIOR FELLOW, COMPETITIVE ENTERPRISE INSTITUTE (CEI)

Mr. BERLAU. Chairman Perlmutter, Ranking Member Luetkemeyer, and honorable members and guests of the subcommittee, thank you for this opportunity to present testimony on behalf of my organization, the Competitive Enterprise Institute (CEI), at this hearing on the vital topic of financial inclusion. CEI is a Washington-based, free-market, public-policy organization founded in 1984 that studies the effects of regulations on job growth and economic well-being. At CEI, we have championed private-sector innovation that promotes financial inclusion, and warned about government red tape that contributes to the problem of the unbanked.

We sounded the alarm about Section 1075 of the Dodd-Frank Act also known as the Durbin amendment, interchange fee cap that transferred, through price controls, much of the cost of the processing of debit cards from retailers, including very large retail chains, to some of the nation's poorest consumers.

We pointed out that largely as a result of this measure, the percentage of free, non-interest checking accounts, which was 76 percent in 2009, went to just 39 percent in 2012. And a George Mason University professor's study found that that may have resulted in more than 1 million being unbanked.

In the last few years, there has been progress in more Americans being part of a banking system, but there is still much further to go. The good news is that both Fintech firms and community banks and credit unions are producing remarkable innovations. The government has a role in ensuring clear disclosure and swift punishment of fraud, but should otherwise refrain from either heavy-handed regulation or the creation of State-owned financial service entities that could smother and crowd out this innovation.

Of the bills being discussed today, I can say I support the approach of the Expanding Financial Access for Underserved Communities Act, that lifts regulatory barriers to individual credit unions that decide it would make good business sense to add underserved customers, based on their mission of service.

But while the credit union bill is a bottom-up approach to financial inclusion, the other two offerings are top-down approaches that would worsen the lot of the unbanked, as well as many other American consumers of the financial system. The Access to No-Fee

Accounts Act is a version of what has been called FedAccounts, in which the Federal Reserve would directly compete with banks and credit unions to provide deposit accounts to consumers. This approach raises a host of problems involving privacy data security, crowding out private-sector innovation, and depriving banks and credit unions of deposits necessary to make loans.

The approach of the Public Banking Act of 2021 raises similar concerns to FedAccounts, plus has uniquely troubling aspects of its own, such as risk to the taxpayers who would provide basically Federal guarantees to State-owned banks of various jurisdictions. But perhaps, the biggest concern of this particular bill is that financial exclusion, rather than inclusion of a legal industry is one of its stated goals. The bill prohibits banks with charters from providing loans to making investments in and basically providing any financial services incidental to a fossil fuel project.

Now ironically, the State-owned bank of North Dakota, which has been touted as an example by some witnesses, would be disqualified as a covered bank under this bill, because it provides financing for drilling and fracking in the oil-rich region of the State. My colleagues and I have been consistent in saying that government officials should not use the banking industry to lodge indirect attacks on industries they disfavor.

We support the SAFE Banking Act sponsored by Chairman Perlmutter, to prevent the Federal Government from punishing banks and credit unions that deal with marijuana businesses in States where it is legal.

And we applaud Ranking Member Luetkemeyer's efforts to uncover and then end Operation Choke Point, in which various Federal agencies pushed banks to cut off businesses ranging from guns to small-dollar lenders.

CEI believes that in all transactions involving controversial but legal industries, individual financial firms should be allowed to make their own assessments of reputational risks.

We also believe a competitive market, free of heavy-handed regulation and State-backed entities that would suppress innovation and do other harms is one where all types of entrepreneurs create products and services for all types of consumers, enabling a financial system and economy that is both dynamic and inclusive. Thank you for inviting me to testify. I look forward to your questions.

[The prepared statement of Mr. Berlau can be found on page 63 of the appendix.]

Chairman PERLMUTTER. Thank you very much, Mr. Berlau.

I will now recognize myself for 5 minutes for questions. And Mr. Rothstein, I want to start with you. Based on some comments Mr. Pawar, Ms. Del Rio, and Professor Baradaran made about how expensive it is to be poor in America with overdraft fees, and high interest rates, and just fees generally. And nobody even talked about parking tickets. If you add up all of these things, it is tough for people who don't have much in the way of resources.

You stated that more than 100 financial institutions now offer Bank On certified accounts, but that is only a small fraction of the total number of depository institutions in the country. What obstacles do financial institutions face in offering Bank On certified accounts? And what is CFE Fund's strategy for continuing its expansion of the program?

Mr. ROTHSTEIN. Thank you for that question, Mr. Chairman. The first thing I would say is that the growth is very fast-paced. Back in October, November, we were at about 50 banks and credit unions offering accounts. Now, there are more than 100 currently offering them. And as I mentioned, those financial institutions make up about 40 percent of the branches in this country, so it is a significant part of the banking infrastructure that have accounts available.

I think what the obstacles used to be and what we really worked hard on are, first, to make sure that there was one ask of financial institutions when it came to checking accounts. I think early on, there were multiple asks by many different partners, whether was government officials or community groups. And so, the Bank On ask is one ask, it is one account. It can, obviously, have other accounts in their suite of accounts, but the Bank On account is one very specific checking account that is fully functional.

The other piece was that there were resource issues, too. I think financial institutions thought that creating this type of account would be challenging and hard, especially some of the smaller financial institutions. The partnerships with the American Bankers Association, as well as the largest core processors in the country, have provided resources and help for financial institutions to create these accounts. And, so, those partnerships, in addition to the partnerships with regulators like the FDIC, who had provided advice on language changes and compliance issues, have been really helpful to the financial institutions.

Chairman PERLMUTTER. Do the banks, or the credit unions, anybody who is offering a Bank On account, do they get any credit with the Community Reinvestment Act (CRA)? Or what incentives might also be there to provide these kinds of accounts?

Mr. ROTHSTEIN. That is a great question. Thank you, Mr. Chairman. We do know that banks are getting CRA credit for these accounts. Certainly, one improvement, and we did submit comments on the recent request for comments on CRA, would be to have a more established prominent role for receiving CRA credits for offering Bank On accounts. For obvious reasons, CRA focuses a good bit on lending, but we absolutely believe that bank accounts matter, and so that would be a big part of this.

Chairman PERLMUTTER. Mr. Pawar, 83 percent of bank respondents reported visiting a bank branch in person in 2019. In your testimony, you described how Chicago has lost a significant number of bank branches over the last decade. Can you describe the importance of a physical bank branch location and its impact on lending in serving hard-to-reach communities?

Mr. PAWAR. Thank you for that question, Mr. Chairman. There are two problems connected with this. One, in Chicago we have lost over 200 bank branches in the City, primarily in lower-income communities and communities of color. So, there is the physical access to a branch that is incredibly important.

And then, there are lots of communities in Chicago and around the country that have banks, but the banks just don't serve the communities that they reside in. And so, we have two problems really to solve, which is, one, we need banks to be able to serve people, and then we need those banks to extend wealth-creating loans. The elegance of FedAccounts is this: It uses existing community banks as the conduit to extend those accounts. In other words, the Federal Reserve would hold these dollars, but the local community banks would be the conduit for those accounts. So this isn't a replacement of community or private banks; it is really an addition to the market.

The other critical piece is that there are 21 million people who live in Census tracts that do not have a single bank or credit union. And that is where the Post Office can fit in and be the conduit for FedAccounts.

Chairman PERLMUTTER. Thank you. My time has expired. I now recognize Mr. Luetkemeyer, the ranking member of the subcommittee, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Mr. Berlau, your testimony caught my eye here with regards to, you believe that the Truth in Lending Act means to eliminate the use of APR for loans under a year length. I have been talking about this for a long time, these short-term loans. APR is not reflective of what the real cost is of a loan, and therefore, it is really deceiving to the customer. Would you like to talk about that?

Mr. BERLAU. Yes, thank you for that question. The great economist, Thomas Sowell, has said that if we measured the cost of hotels the way we did the cost of short-term loans, then a $100-a-night hotel room would be priced at $36,000, because that is how much it would cost if you said there 365 days, or 360 days of the year. So, yes, it is really not appropriate when a loan that is taken out for 2 weeks or a month where the interest rate may be 30 percent, suddenly becomes 390 percent when you measure it according to APR.

Mr. LUETKEMEYER. Very good. Thank you for that.

Mr. Pawar, according to the Cambridge dictionary, the term, "market-based," is defined as organized so that companies' prices and production are controlled naturally, by a supply and demand for goods and services rather than the government. You made a statement that public banking is based on market-based solutions. With this definition, explain what you just said there? How does that fit in that definition of allowing the production to be controlled naturally by supply and demand?

Mr. PAWAR. Thank you for that question.

That definition doesn't exclude the fact that a publicly-owned enterprise couldn't be a part of the market. For example, one of the most—

Mr. LUETKEMEYER. No, no. You said that, "public banking is based on—is on market-based solutions." Market-based solutions to banking in public banking units. Have you ever been in a bank? Have you ever worked for a bank?

Mr. PAWAR. I have not.

Mr. LUETKEMEYER. You have not. Have you ever been a small-business owner or a business owner at all?

Mr. PAWAR. No.

Mr. LUETKEMEYER. So, you have been in the academic world your entire life, or a think-tank world?

Mr. PAWAR. And I also served two terms on the City Council in Chicago.

Mr. LUETKEMEYER. Okay. It is really interesting—you said here that loans are public policy. If you ever worked in a bank, or understood how banking operates, sir, you would know that if the bank is not investing in its community, it is not going to grow. The bankers want the communities to grow, they want to invest in their communities, they want to make loans to the community. The loans they don't want to make are the ones where they don't believe the risk is worth the reward. The risk is worth putting their own assets at risk for whatever they want to make a loan for here.

So, loans are not necessarily public policy. Loans are how you grow your community and grow the bank and the whole economy around you. Your misconception of what goes on in the banking industry is breathtaking for what you are trying to do here today.

Ms. Baradaran, you talked about postal banking. And you made the comment that it's hard for banks to exist in rural areas because of low profit. Do you understand that Post Offices in rural America make no money; they lose thousands and thousands of dollars?

Ms. BARADARAN. Yes, sir. But as George Washington and Benjamin Franklin set up a Post Office, it cross-subsidizes.

Mr. LUETKEMEYER. No, you missed my point here. You missed my point. Your point was that it is difficult for banks to exist in rural areas because the amount of business is not necessarily enough to pay the bills. I can tell you, I live in a town of 336 people, and my Post Office had half of its service cut off. We are down to half-days now. And I can tell you that looking at the cost of each one of the rural Post Offices in my district, they lose money, between $50,000 and $250,000 a year. So, when you talk about having the Post Office provide services that are going to be wonderful for people, you are going to add to the deficit of their ability to do business and cost our country money.

Ms. BARADARAN. I think this is a way to help—

Mr. LUETKEMEYER. It is breathtaking, the lack of knowledge when you start talking about these issues, of how the real world operates. And it is very disappointing and very unfortunate.

Mr. Chairman, I see my time has expired. With that, I yield back.

Chairman PERLMUTTER. The gentleman yields back. The gentleman from Georgia, Mr. Scott, who is also the Chair of the House Agriculture Committee, is now recognized for 5 minutes.

Mr. SCOTT. Thank you very much, Chairman Perlmutter. This is a very timely and very important hearing. I have been on this committee during my entire 19 years in Congress, and I have been working on this issue to find a solution. And we are making some progress. But we have a tremendous problem—many people don't know that out of our 50 States, their school systems, only 17 of those States offer a single course in financial education in their schools. We are way behind. I managed to get a bill passed 2 months ago, the Financial Inclusion in Banking Act, so we are making progress.

But now, here we are faced with a real live-wire situation and that is this, we in Congress and the Biden Administration, Democrats and Republicans, we passed a bill that requires monthly payments for the job tax credit to 48 million families. Now, ladies and gentlemen, let me share with you how stark this problem is before us. We have this Child Tax Credit going out to 48 million families in this country. However, today, 14 percent of these are Black families, 12 percent are Latino families, and 2 percent are White families. That comes to a total of 28 percent. So, we have the Child Tax Credit going out there to these people, millions of whom don't have a bank account. And they are subject to the predators—check cashers, payday lenders. And we have to find a way to get these individuals a bank account.

Let me just ask you, Ms. Baradaran—I hope I pronounced that correctly.

Ms. BARADARAN. Perfect.

Mr. SCOTT. Okay. What proposals, tell us, should Congress be considering to ensure that Black families, Latino families, and White families—and many of these in rural areas don't have it. They are not even connected to the internet, but we have a bill through the House Agriculture Committee to connect. But you see we have these things in motion. So, what do we need to do, Ms. Baradaran, to ensure that they are not left out of receiving this tax credit, months and months periodically away?

Ms. BARADARAN. Thank you. Thank you for the question. I want to say, first of all, the proposals surrounding public banking are really going to get to the core of some of these issues that affect our Black and Brown communities and Native-American communities. These are historic injustices that have just compounded over time, just as interest does for capital. But I want to say, look, when we talk about markets in banking, it is a little bit of a misnomer, because the Federal Government provides the basic infrastructure for the banking system. And we give banks a charter, and they have a monopoly on payments and financial transactions and credit. So, if banks are not able to or are not making profits in rural communities, then we, as a democratic policy country, have to ensure this access.

And so, I think one of the simplest solutions is the postal banking system, not because it has all of the bells and whistles, but because it has a historic legacy of doing it, and it is still in those areas. And this is a way to actually help the Post Office maintain some of the revenue in the area. So, my favored proposal for this particular topic is the Post Office. Thank you for the question.

Mr. SCOTT. Thank you.

And Mr. Rothstein, as someone with a deep knowledge of this initiative, how do you foresee the program reaching the millions of Americans who don't have access to a bank account? And I am including White families, too, not just Black families, not just Latino families. There are many White people, particularly in the rural areas; I deal with them all the time. How can we help these people get bank accounts?

Mr. ROTHSTEIN. Thank you for the question. I think there are a few ways. The first is, as I mentioned, we have about 90-plus coalitions around the country that are at the very local level working on this issue. They are trusted partners in this work. Whether they are out of a Treasurer's Office, the mayor's office, the United Way, whatever it might be, they are looking to find programs like the

Child Tax Credit program where people are getting paid, or you need to make payments. Also, social services, wrap-around social services, so finding where people are at with trusted advisers and counselors.

Chairman PERLMUTTER. Mr. Rothstein, I am going to have to cut you off. I'm sorry. The gentleman's time has expired.

I now recognize Mr. Posey from Florida for 5 minutes.

Mr. POSEY. Thank you very much, Mr. Chairman.

Mr. Berlau, what flaws or hurdles are there in public programs that private funding institutions don't have when reaching the underserved markets?

Mr. BERLAU. You said public programs, like FedAccounts?

Mr. POSEY. Yes. What flaws or hurdles exist in public programs that private financial institutions don't have when they are reaching the underserved markets?

Mr. BERLAU. I can just talk about their flaws as far as things that can hurt consumers. With FedAccounts, the Fed would have direct access to bank account info, and then, data security all stored in one place would be vulnerable to hacking, and other things. It displays also if the deposits are there, then the banks and credit unions would not have that money to make loans to small business.

I also think there is sort of an inherent tension when you get to postal banking, municipal banking, that you are trying to both serve consumers and make a profit for the government—or keep yourself afloat, and that is—I have heard this postal banking being justified as both rescuing the Post Office, and we need to provide lower rates to consumers. If you provide lower rates on borrowing, what does that do as far as the fiscal concerns of the Post Office? So that inherent tension there, like when you had postal banking, and it ended up that private banks were paying higher interest rates in the 1960s, which is finally the reason for its demise as far as the original postal savings program.

Mr. POSEY. Thank you.

What are the benefits of increasing the participation rate of the population in financial institutions beyond the direct benefits to the individual?

Mr. BERLAU. Well, individuals would be able to build up savings, build wealth for themselves, invest that, or maybe build businesses for themselves. It would be very beneficial.

Mr. POSEY. Thank you. If banks leave a community, what do the people in the now-underserved community do when they need emergency funds? Who tends to fill the void there?

Mr. BERLAU. My organization has pushed for de novo banks and credit unions, that we need to approve more new banks, because I think retail banks and having banks and locations do matter. But more and more people do banking online in all sectors of income. So, I think there is just a combination of digital and having physical banks, as well as de novo banks, both online, digital, and the physical location, I think, really help fill that gap.

Mr. POSEY. Thank you. What has been happening in the free market with financial access and banking consolidation?

Mr. BERLAU. I think, a lot. Financial consolidation has been driven by some of the very costly mandates of the Dodd-Frank Act. I have talked to some community banks and credit unions about things like the cost of the qualified mortgage and other things. But I think the good news is you are seeing Fintechs partner not just with large banks, but also with community banks to provide more access to credit, access to capital. And I think if you had some legal clarity about what banks could partner, who is the true lender, that would be very helpful.

Mr. POSEY. Okay. Thank you very much. I appreciate your frankness and the directness of your answers.

Mr. BERLAU. Thank you so much.

Mr. POSEY. Mr. Chairman, I see my time is about to expire, so I yield back.

Chairman PERLMUTTER. Thank you.

Mr. Posey yields back.

The gentlelady from New York, Ms. Velazquez, who is also the Chair of the Small Business Committee, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, and Mr. Ranking Member.

Mr. Rothstein, one in four women and one in two trans individuals in the U.S. has been subject to severe physical violence by an intimate partner. And 48 percent of survivors do not have safe access to a bank account that is protected from a harm doer.

First, how can we help ensure that Intimate Partner Violence (IPV) survivors can gain access to checking and saving accounts? And, second, how can we help ensure those accounts are protected from harm doers?

Mr. ROTHSTEIN. Thank you for that question, Representative. It is an incredibly sensitive and important issue.

I mentioned in my testimony that Bank On really works with coalitions as well as government partners to find places where people are making payments. The other piece which I should have mentioned also is on social services. Having bank account access for social services like this is critical.

Survivors need choices. So they need things, not just, national accounts but local community bank accounts as well. They need to know that they are safe in terms of accessing their money and that the accounts are in their name only.

They need to be able to open those accounts easily, so things like, Bank On requires for these accounts to have a low minimum opening deposit of $25 or less. They also need to know that everything is transparent, so if the account costs $3 a month, it is always $3 a month.

Ms. VELAZQUEZ. Thank you.

Ms. Del Rio, it's great to see you.

New York City's municipal ID card, IDNYC, was one of the first municipal ID cards that could be utilized to open a bank account or access traditional financial services.

Can you speak to the important role municipal ID cards are playing in helping underserved communities gain access to bank accounts and other mainstream financial services?

Ms. DEL RIO. Yes. Thank you so much for that question.

Our organization was one of many that led the campaign that resulted in the creation of IDNYC, a municipal ID card that is available to all New Yorkers regardless of immigration status, homelessness, and other factors. More than 1.4 million New Yorkers have the ID, which was designed in close consultation with local credit unions and banks, as well as regulators.

And one of the benefits of the ID was that it was designed to meet the Federal Know Your Customer (KYC) requirement so that banks could accept that as the primary and sufficient ID to open accounts and extend other services.

Despite all of that groundwork, none of the big banks have accepted IDNYC as the primary ID to open accounts, despite regulators issuing opinion letters and other guidance.

That said, there is a strong network of community-based credit unions and smaller banks that have accepted and opened thousands upon thousands of accounts for New Yorkers who were previously excluded. So the fact that banks continue to reject that ID and discriminate against massive swaths of—

Ms. VELAZQUEZ. Ms. Del Rio, I have other questions.

Ms. DEL RIO. Okay.

Ms. VELAZQUEZ. I just would like to ask a follow-up to that. Why do you think more banks haven't been willing to accept municipal ID cards as a primary form of ID? And what can Congress do to help further their utilization by banks? What do you suggest?

Ms. DEL RIO. The banks have said that they needed guidance from the regulators, that guidance was secure, and the policies did not change.

We have bank compliance officers who tell us they believe that this population is more prone to fraud and exposes the banks to greater risk. We would argue that, if the banks perceived these populations who rely on municipal ID cards to be more profitable, they would change their policies pretty quickly.

We know that there are Federal proposals now to secure more clear guidance from the banking regulators about municipal IDs. We think that examiners should actually look at banks' account-opening policies, including their identification requirements, and identify potential discrimination against protected classes, including immigrants, and take strong action to change that.

Ms. VELAZQUEZ. Thank you.

Mr. Chairman, I guess I have to yield back.

Chairman PERLMUTTER. The gentlelady yields back.

The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman.

A recent FDIC study illustrates that rural customers are more likely than their urban or suburban counterparts to do their banking in person at a branch. Unfortunately, the trend in bank consolidation and branch closures because of increased regulation in a post-Dodd-Frank world has disproportionately impacted rural areas.

My bill, the Promoting Access to Capital in Underbanked Communities Act, is relatively straightforward, allowing for a phase-in of capital requirements for de novo institutions, including some provisions targeted toward underserved rural areas and several other common-sense provisions to promote bank access in unbanked communities.

My bill is supported by the Independent Community Bankers of America (ICBA) and the American Bankers Association (ABA), and, Mr. Chairman, I hope the Majority will agree to consider my bill in an upcoming markup. I have had good conversations with Mr. Lawson and Mr. Meeks about this legislation that would help new bank formation in rural and underserved areas, and I would urge Chairman Perlmutter to take a look at it.

Chairman PERLMUTTER. Mr. Barr, we will take it under advisement.

Mr. BARR. Thank you very much.

Mr. Berlau, how might my legislation, which would spark new bank formation, aid underserved communities, including unbanked citizens in rural areas?

Mr. BERLAU. It sounds like very good legislation.

There was a real problem, not just with Dodd-Frank, although that was problem enough for smaller banks, but just about the new requirements, particularly the FDIC, about having to have so much capital, sometimes, like, 10 years' worth of capital, to form a new bank, that just discouraged some of the de novo applications there.

But, luckily, FDIC Chair McWilliams has been making de novo approvals a priority, as well as the bipartisan leadership at the National Credit Union Administration for de novo credit unions.

But, certainly—and I have been saying that if you have legislation to give the regulators incentive or to make it—to have certain reviews where they would require it or streamline the process for de novo banks, that would be very important and very important for—

Mr. BARR. And, if I could reclaim my time, it is not just about bank consolidation; it is the dearth of new bank formation, the dearth of new charters. And that is really hurting underserved communities.

If we really care about helping the unbanked, it would be to provide them with greater diversity in the financial services ecosystem, and that would be to encourage new bank formation.

It is shocking to me how the Majority's witnesses have identified that the solution to the problem of unbanked people in America is to destroy banks. That is what we are hearing today from the Majority's witnesses.

Think about this. If you put the Post Office in charge of banking America, consider the finances of the Post Office itself. The unfunded liabilities and the debt of the Post Office at the end of 2020 was $188 billion, more than 250 percent of its annual revenue. This is like asking the arsonists to put out the fire. It really is. It is absolutely crazy.

And using the power of the government to crowd out the public sector, to politicize banking, will make it harder—harder—not easier, for Americans to access financial services.

The Paycheck Protection Program is an illustrative case study in the comparative efficiency and effectiveness of the private sector versus the government. Congress deputized private banks to deploy aid to small businesses and was incredibly successful.

Meanwhile, other assistance programs administered by the government and government agencies have languished in bureaucracy. Yesterday, the HUD Secretary was here, and we saw it firsthand.

Congress appropriated $45 billion for emergency rental assistance, and less than 4 percent of it has actually reached renters.

And we want to put the public sector in charge of banks? Really? Politicizing banking is not a good idea.

Mr. Pawar, you said when a bank chooses whom to lend to and whom not to lend to, it is making policy. Does that mean you oppose banks categorically excluding providing financial services to, say, the fossil energy sector?

Mr. PAWAR. I didn't say that. What I did say was that public banking, FedAccounts, are simply gap-fillers. A healthy market does not leave this many people behind.

Mr. BARR. Let's not replace the private banking system with government-run banks.

Mr. Berlau, how would that impact low- and moderate-income individuals, if the public sector was in charge of banking?

Mr. BERLAU. I think at the end, it was a preservation measure that [inaudible] Danger that the public banking bill we are discussing [inaudible] Fossil fuels, and you would [inaudible].

Mr. BARR. You talk about redlining. If you put politicians in charge of allocating credit, if you put bureaucrats in charge of allocating credit, you are going to get redlining everywhere.

I yield back.

Chairman PERLMUTTER. The gentleman yields back.

Mr. Foster from Illinois is recognized for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman.

No matter how one prefers to expand access to banking, establishing a secure and legally traceable identity remains one of the biggest barriers to entry. Opening a bank account requires a documented, verifiable identity. Know Your Customer requirements mandate that banks must know with a high degree of certainty whom their patrons are. The same applies to obtaining Federal benefits without friction and fears of fraud.

This makes things challenging for consumers who don't carry with them the specific legacy documents normally used to prove your identity. A recent report from six banking trade groups outlines verifiable identity as one of the chief reasons for individuals being unbanked or underbanked in America.

A secure digital identity framework solves this problem. A properly designed digital identity is a more secure and more privacy-preserving form of identity that provides consumers with a way to authenticate and verify who they are without having to rely on your Social Security card or birth certificate.

A digital ID would effectively eliminate most classes of consumer identity fraud as well. Unlike legacy identity methods, a digital ID is almost impossible to counterfeit. A government-provided digital identity would alleviate the challenges in obtaining ID and would pave the way for millions of Americans to be able to verify their identity and to participate in our increasingly-online financial system.

Many States, including, interestingly, many red States, are already moving rapidly on this by provisioning digital driver's licenses or mobile IDs to citizens who want them.

There are two significant steps that Congress can make to encourage progress here.

First, there is now real bipartisan agreement for providing universal access to affordable broadband for all Americans, with significant funding provided in the pending infrastructure proposals. Most of these proposals include some form of payments to States for assisting new broadband customers. So, if these broadband connections are bundled with a State-issued secure digital ID, this would be transformative to access to banking. It would also pay for itself in fraud-prevention costs alone.

Second, the government has to get its act together in using modern identity systems and stop using things like Social Security numbers, birth dates, mother's maiden names, or easily-hacked passwords as some sort of shared secret for authentication.

Although it is not being noticed at this hearing, the recently-introduced bipartisan Improving Digital Identity Act of 2021 provides a roadmap for an all-of-government approach to improving our digital identity ecosystem. I urge my colleagues to have a look at this and to support this legislation.

So my questions, I guess, to Ms. Del Rio and to the whole panel: Can you delineate some of the struggles that low-income individuals may have in obtaining a bank account, particularly as it pertains to proving their identity?

And how would an improved government-provided digital ID framework help include more Americans in our financial system? And, specifically, could you speak to how a government-provided digital ID would disproportionately benefit lower-income, rural, and minority consumers?

I will start with Ms. Del Rio.

Ms. DEL RIO. Yes. Thanks for the question.

As you noted, the digital ID proposal is not part of the hearing, so we would need to study that more closely. I do think that there are big questions around data collection, privacy, and other concerns that would need to be really carefully looked at.

I also would say that the current Know Your Customer requirements that you cite are actually quite flexible, and they have been since the provisions were put into place many years ago. And they actually allow for great flexibility with financial institutions to accept a wide range of U.S.-issued and foreign-government-issued IDs, consular-issued IDs, municipal IDs, and so on. People without Social Security numbers can provide the identification number from these other ID cards.

Despite this flexibility that the regulators have consistently provided, the banks too often go far beyond that, and they create impediments that effectively block hundreds of thousands of Americans from the banking system.

Other challenges that we have seen, other barriers include, again, these overdraft fees that many of us have spoken about. I just want to underscore that there is research by the Center for Responsible Lending that shows it is a very small percentage, 9 percent of account holders who pay more than 80 percent of these billions of dollars in overdraft fees, hidden fees—

Mr. FOSTER. Yes, I was referring specifically just to the digital ID aspects.

Do any other members of the panel have comments on this and the benefits, and how this is affecting access to banking?

And I guess my time is about to run out. But if you have any comments, specifically on the other legislation that I mentioned, I would be interested in your response for the record.

Thank you. I yield back.

Chairman PERLMUTTER. Dr. Foster yields back.

The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Mr. Chairman.

In full disclosure to our witnesses, I am just a small-business owner from rural Texas. I have been there for 51 years. And I have heard here today that the Post Office today is the most-trusted brand name in America. Well, it is not in my district. And I would hate to think that the Post Office is going to be an example for all of us to follow in the banking system. Or maybe, I have a better idea, how about Amtrak running the banking system?

So, if you want to increase financial inclusion, we are going to need to empower the private sector to develop innovative new solutions to bring people into the banking system. In order to accomplish this goal, the government, of course, needs tax policies that will incentivize our country's entrepreneurs to take risk and deploy their own capital to solve these problems.

And I would say simply, I can fix it. Let's just cut taxes for everybody so people have more money in their pocket. Then, they have a bigger check to take to the bank and create an account. That is what it is all about.

Unfortunately, we have seen some tax proposals coming from the Biden Administration that will make these types of investments and a bigger check less attractive by significantly increasing the carried interest in capital gains taxes. Well, this is stupid. Without proper profit incentives, we are going to have a hard time convincing investors, like all of you, to go the extra mile to connect people who are unbanked.

So, Mr. Berlau, can you talk about how the Biden Administration's proposed carried interest tax provision would hurt venture capital firms and other angel investors who are taking the financial risk to bring new financial products to the market and hurt the small investor?

Mr. BERLAU. Yes. Thank you.

I have written that it would. All partnerships are sort of based on carried interest, although it is being sold as private equity and hedge fund—I mean, real estate partnerships, angel investors, just some basic small-business partnerships. And not even just the rate, but going back 30 years, as far as saying who contributed this capital to the firm, it would actually hurt small-business partnerships and tilt things through to corporations. So, I think it would be destructive more than some people are anticipating.

Mr. WILLIAMS OF TEXAS. Yes. It is double taxation, and you would have fewer investors.

Second, in speaking with businesses during the Trump Administration, many of them felt confidence in their operations because there was certainty around the regulatory environment. They were not afraid that there would suddenly be a costly new regulation coming out of Washington, D.C., that would force them to hire more compliance officers—and, say, in a bank, more compliance officers and loan officers who don't provide any additional value for their company or shareholders. So, now that there is a new Administration in town, as they say, and a new sheriff in town, this sentiment has changed to uncertainty again and fear among business owners.

Mr. Berlau, can you discuss how this regulatory uncertainty coming out of the Biden Administration can truly affect small businesses, big businesses, and business investment?

Mr. BERLAU. Yes, regulatory uncertainty can certainly affect investors in small businesses.

However, I am an eternal optimist, and CEI is a nonpartisan organization, and we have worked on things like, as I mentioned, the SAFE Banking Act, which would provide clarity for a lot of banks in States where marijuana is now legal, as well as in the Obama Administration, the Jumpstart Our Business Startups Act that made it easier to do equity crowdfunding without having to show that you were a Fortune 500 company.

So I am hopeful, but, yes, always, the threat of new heavy-handed regulation is threatening and hurts the economy.

Mr. WILLIAMS OF TEXAS. No question about it.

We have heard some discussions about the Federal Reserve offering bank accounts as a way to get more people included in the financial system. And considering we have so many banks, credit unions, and Fintech companies already offering this service, I don't really understand how a public option would solve this problem, because we know that when government gets involved in something, it just creates another problem.

So another question to you, Mr. Berlau, can you talk quickly about some of the negative side effects of creating a Fed Account system?

Mr. BERLAU. Yes, there are some negative effects. I think for privacy, as far as this is the Fed directly having that data of customers, and the data security issues of having basically—the government can throw, like, a blockchain or a ledger of all the data there.

Mr. WILLIAMS OF TEXAS. Okay. Thank you.

And I yield back, Mr. Chairman.

Chairman PERLMUTTER. The gentleman yields back.

The gentlewoman from Massachusetts, Ms. Pressley, who is also the Vice Chair of this subcommittee, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Mr. Chairman.

In full disclosure, I am a Black woman, growing up in America, who was raised in a redlined neighborhood and who, once I was working as a full-time, unpaid congressional intern and working three part-time jobs, piecing together various money orders to pay rent, to pay utilities, I cashed my check at a check-cashing facility, and I did that because that is what I grew up in proximity to.

Neighborhoods like Boston and Worcester and Roxbury in East Boston, which I represent in the Massachusetts Seventh Congressional District, predominantly Black, Hispanic, and Latinx, have 57 percent of the city's check-cashing locations, yet only 12 percent of the city's commercial bank branches.

So, for my constituents and the estimated one in five people across America who are unbanked or underbanked, lack of access and fractured trust with financial institutions is incredibly expensive. The cost of cashing checks alone can cost up to $2,400 for households with an annual income of $32,000—just cashing checks.

That doesn't even include the costs and penalties of payday loans and the costs of not having credit. Being credit invisible can make it virtually impossible to finance a car, an education, a home, and even a cell phone plan.

Banking institutions understand the power of their products. It is not an accident that communities of color have less access to the wealth-building resources and services that banks offer but are instead surrounded by high-cost, exploitive options like payday lenders and pawnshops.

Banking deserts and the implicit and explicit exclusionary practices of financial institutions are widening the racial wealth gap. And we need bold legislative action to build an inclusive, equitable economy.

Ms. Baradaran, I briefly described how few commercial bank branches exist in the communities of color in my district and throughout the country. However, these communities do have Post Offices. Can you describe how an expansion of USPS services to include banking would remove structural barriers for people who are unbanked?

Ms. BARADARAN. Thank you so much for the question, and for drawing attention to the structural inequalities here. The reason why those neighborhoods do not have banks was very much a policy decision.

And, as Mr. Pawar said earlier, that is why credit is public policy, because the majority of credit products that have historically built the middle class were underwritten, guaranteed by the Federal Government, and those communities that were redlined just specifically because they were Black or Brown did not get those loans. So that is what we mean by, "credit is a public policy issue."

And the same with the payment system. The Federal Reserve controls the payments. We have ID requirements because Congress has decided, I think rightfully, that we want to make sure people aren't sending money for illegal things through the banking system. This is how the public structure of the banking system works, and certain communities have been left out of that historically.

And those communities not only didn't get the credits to build wealth and didn't get to—that is why we have the racial wealth gap—but, also, the salt on the wound is exactly as you said, the check-cashing fees, the overdraft fees, the payday lending fees. And we are talking about even people who are banked who have to go get a payday loan because of these structural inequalities, and they are paying way more than others. So, that is just salt on the wound. That is not even getting to the structural roots of these issues.

And the postal bank exactly is just one solution of many that we need to really tackle this massive problem. And that is just because it is already there; those neighborhoods trust it. We are not talking about the bells and whistles, but—

Ms. PRESSLEY. Thank you.

Ms. BARADARAN. —those can come later once people get that account.

Thanks.

Ms. PRESSLEY. Thank you so much.

And, Mr. Pawar, how would some of the greatest challenges of being unbanked be solved by a national Baby Bonds program?

Senator Booker and I have introduced the American Opportunity Accounts Act, which would ensure that every child at birth not only has a basic savings account but also has that account seeded with funds to be used for wealth-building activities, like starting a business or buying a home.

Could you offer your opinion on the benefits of Baby Bonds?

Mr. PAWAR. Yes. Thank you for that question.

One of the things that we have learned over the last 18 months that preexisted before the pandemic is that we lack the financial infrastructure to deliver cash to people quickly.

And so, when we think about Baby Bonds or we think about FedAccounts, what we need to do is have a base level of infrastructure so that everyone can access benefits that they are entitled to, they can receive money, they can pay bills, et cetera, et cetera.

So it would simply function as a conduit to be able to have that money parked somewhere safely, without subject to extraction, and in a way that is accessible universally to everybody.

Ms. PRESSLEY. Thank you.

Chairman PERLMUTTER. Thank you.

The gentlelady's time has expired.

We now turn to Mr. Loudermilk of Georgia for his 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman. I appreciate the opportunity to be here, and I am so glad you needed me to be here. That is encouraging.

President James Garfield, said, "If Congress is reckless and ignorant and corrupt, it is because the people accept recklessness, ignorance, and corruption." That is what the American people think about this institution. And just because they think that we are reckless, ignorant, and corrupt doesn't mean that we have to meet their expectations.

Just in the short time I have been here, I have seen some really bad ideas proposed, and this one has to be near the top. I can already see numerous problems with expanding the government bureaucracy to be involved in helping people with their bank accounts.

Think of this: Only 25 percent of Americans trust that the Federal Government works in their interest—25 percent. Simple math—I am not a banker either, but simple math is that 75 percent of Americans don't trust the Federal Government. But we think that they are going to trust us with their bank accounts.

Look, let's talk about customer service. Customer service is at an all-time low in the Federal Government. We don't even have to bring up efficiency. Look at how much money our government spends and how inefficient it is. If my colleagues don't believe this, how about making a call to your constituent services operation and ask them if the government is efficient, if it is responsive, and if it provides any customer service.

So what I am wondering is, if this were to be enacted, are our customer services representatives now going to be handling people's deposits and withdrawals and dealing with government agencies that are nonresponsive already?

I think this whole proposal is doomed to fail, not to the American taxpayers, which it would be, but to the very people that it supposedly is trying to help.

Now, think about who the base would be. According to FDIC data, 95 percent of American households are banked. That means 5 percent are unbanked. Of that 5 percent, the majority of them are unbanked because they don't want a checking account. But, all of a sudden, we are going to let the Post Office handle it. Oh, now everybody is going to want a checking account. I don't think so. So, that means less than 2.5 percent of the people would actually be interested in this type of service.

I would think that improving some of our existing system, instead of overhauling it and creating a new bureaucracy, would be the answer, and especially when you look at these agencies and bureaucracies that can't even balance their own checkbooks. But we are going to trust them to help us balance ours? I think this is doomed to fail.

Fortunately, the growth of online banking has made it easier to open checking accounts. The FDIC Chief Innovation Officer said that the best way of banking the underbanked is through technology. I think that is where the answer is, not growing bureaucracies and giving the government more control over the American people.

So, Mr. Berlau, is there any evidence that the banking system is failing to adequately meet customers' needs?

Mr. BERLAU. I think you are seeing Fintech and community banks and credit unions rise to the occasion. And I think you would see them even doing more so if you would streamline some regulations, clarify who the true lender is in bank-Fintech partnerships. And you would see even more if some of the red tape were lifted.

Mr. LOUDERMILK. So, how has Fintech actually made it easier to open a checking account?

Mr. BERLAU. Apps like Dave, and Earnin, being able to just put that on your phone; having sometimes low-cost advances to cover what would be an overdraft, or to get what you have earned before your paycheck comes. That is all—and they partner with banks, sometimes the smaller banks. So, that has made it easier for a lot of Americans.

Mr. LOUDERMILK. I am quickly running out of time, but what improvements can we make to the existing system to help this less than 2.5 percent who would actually want a bank account but don't have one?

Mr. BERLAU. I think both things like Congressman Barr's bill with encouraging de novo banks, new banks being formed, and also just clarifying who is a true lender, clarifying valid-when-made, that banks know, if they have liquidity behind these loans, they would certainly make more of them.

Mr. LOUDERMILK. Okay. Thank you for that. I appreciate that. And Mr. Barr's bill is a good idea.

Thank you, Mr. Chairman, and I yield back.

Chairman PERLMUTTER. The gentleman yields back.

The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Chairman, I happen to think that Ms. Ocasio-Cortez and Ms. Tlaib have good ideas. I happen to think that the Public Banking Act of 2021 is worthy of consideration.

And I happen to believe that you don't have to be a banker to serve on the Financial Services Committee. In fact, most of us aren't; very few of us are bankers. Very few of us have any banking experience at all, yet we serve on the committee that regulates not only banking but also other financial institutions.

So, Mr. Pawar, I want you to know that I appreciate your testimony today. I think you have been an outstanding witness. And I don't know that you have to have lived something to appreciate it and understand it.

With reference to banking, poor people, regardless of color, regardless of hue, have great difficulty when it comes to paying their bills. You heard Ms. Pressley. It touched my heart to hear her talk about her circumstance. But they have great difficulty.

Like Ms. Pressley, I grew up in poverty. There were very few banks, if any at all, that I actually went into as a child in my neighborhood.

Why wouldn't we want to help people who have to go to the check-cashers, to these places where they are paying unusually high fees to get what we get at no cost? Most members of this committee have no-fee checking; I would bet my life on it.

We seem to think that the rest of the world exists in the bubble that we live in. We are blessed. Unfortunately, we don't understand the basic premise for being blessed, which is that you should be a blessing to others who need help.

They don't live in the suites of life, the C-suites. Many of them live in the streets of life. Some of them live under bridges. They live in lean-tos and tents.

There seems to be a basic belief among some that the rich need more to do more and the poor can do more with less. At some point, we have to concern ourselves with those who are not as fortunate as we are. And we who sit in these seats are some very fortunate people.

So, yes, I support the notion that we should 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.

Ms. Ocasio-Cortez, Ms. Tlaib, I think very highly of what you are attempting to do.

By the way, I have never had a conversation with them about this, but they are very intelligent people. They don't have crazy ideas simply because they are different, simply because they are innovators, simply because they understand another side of life. I think this would help many of my constituents, who are not as fortunate as most of the people who serve on this committee.

And I yield back my 30 seconds. Thank you, Mr. Chairman.

Chairman PERLMUTTER. Thank you, Mr. Green.

Mr. Budd from North Carolina is now recognized for 5 minutes.

Mr. BUDD. I thank the Chair.

Mr. Berlau, we need to be doing more as a society to give Americans the tools that they need to be plugged into the financial system. So it is very concerning to me that a majority of students graduate from high school, some of them even graduate from college, and they don't know how to balance a checkbook or open a checking account, manage interest, or procure a mortgage.

Without this basic knowledge, it is difficult for a lot of folks to deal with complex financial situations that come up later in life or even at that point in life. That is why I have worked on financial education and financial literacy legislation like the Financial Literacy Improvement for Professionals (FLIP) Act, which helps build that foundation for young Americans.

So, Mr. Berlau, what are additional ways we can educate Americans about the resources that are available to them and get them participating in the financial system earlier, rather than feeling like a victim or that it is impossible? How can we get them involved?

Mr. BERLAU. Your legislation is a good idea. Also, the Fintech apps showing just what you do with a small amount of money, either saving or investing that, is a way to go where the young people are, as far as online or on the apps.

It is also something that parents and teachers should not be afraid to talk about, to talk about money, and at an early age, to develop saving and investing and shopping for bargains, those habits, as well as churches and synagogues and places of faith.

Mr. BUDD. Thank you.

A slightly different topic, Mr. Berlau, but quickly, if you could answer: Do we really want the Federal Government overseeing our financial transactions history?

Mr. BERLAU. I don't think we do. I don't think it has a good record as far as respecting privacy or data security or other things.

And I appreciate Professor Baradaran having written a book about George Washington, invoking him as far as the Post Office, but I have also written that as a private citizen he helped found the Bank of Alexandria. So, I think he could see that banks and Post Offices serve different functions and probably shouldn't be mixed.

Mr. BUDD. Thank you.

Many of the so-called solutions that I hear about seem to have a really counterproductive effect. Like a lot of the solutions that come from the left, they sound sweet, compassionate, sometimes they are even hypnotic or sermon-like, but they really always have a counterproductive effect. They hurt the unbanked and the underbanked consumers even further. Bad policies like imposing a 36-percent nationwide APR, thinning their credit files, postal banking, repealing the True Lender law, that just makes the problems worse.

So, are there regulatory hurdles we can reduce that would expand access to banking for the unbanked?

Mr. BERLAU. As I said, before we had the Durbin amendment, before debit card fees were tapped in Dodd-Frank for retailers and retailers had to pay the costs of cybersecurity and everything, banks were able to give more free checking accounts, 76 percent in 2009. So, we could repeal that.

As well as, I think, just encouraging more bank-Fintech partnership by setting standards for who is a true lender and valid-when-made as far as being able to have a liquid secondary market for these types of loans just as—

Mr. BUDD. Mr. Berlau, let me just summarize quickly. So, you are saying the Durbin amendment actually hurt the underbanked?

Mr. BERLAU. Very much so.

Mr. BUDD. Thank you.

Mr. BERLAU. By 1 million—

Mr. BUDD. Thank you.

We have talked a lot about the important role that the private sector plays in expanding access to banking with innovation. One area is decentralized finance, which removes financial intermediaries and puts consumers in control of their finances with products like peer-to-peer lending.

What is an example or what are some thoughts on the promise of new tools like this to help the underbanked and unbanked?

Mr. BERLAU. I think cryptocurrency, decentralized finance, blockchain, even blockchain with things like Congresswoman Velazquez was mentioning with IDs, can provide a lot of new tools, just as they are in some Third World countries and things like that, for the poor and the middle-class.

Mr. BUDD. Very good.

I will yield back my remaining time.

Thanks for being here.

Mr. BERLAU. Thank you.

Chairman PERLMUTTER. Thank you, Mr. Budd.

Mr. Torres, the gentleman from New York, is now recognized for 5 minutes.

Mr. TORRES. Thank you, Mr. Chairman.

I just want to—someone brought up Fintech as a possible solution to the crisis of the unbanked. It is worth noting that 50 percent, or nearly 50 percent of households living in poverty in New York City have no access to the internet. So, if you are at the wrong end of the digital divide, Fintech is of no value to you, and brings you no closer into the mainstream of the financial system.

I represent one of the most unbanked congressional districts in the country. According to the FDIC, in the United States, 5.4 percent of Americans are unbanked. In New York City, the rate is 9.4 percent. In the Bronx, it is 17.7 percent. So, in the Bronx, the number of unbanked people is nearly triple the national average.

And the lack of banking access leaves communities like mine wide open to exploitation by predatory finance, particularly check-cashing. According to the Department of Consumer Affairs, New Yorkers, on average, spend more than $200 million a year on check-cashing fees. And, in two neighborhoods in particular, in the South Bronx, which is primarily Latino, and in Southeast Queens, which is primarily African American, low-income New Yorkers in those two neighborhoods spend more than $17 million a year on check-cashing fees.

Is it fair to say that we have a financial system that robs poor people of their fixed income, that essentially siphons the most from those who have the least?

Professor, I don't know if you want to respond to that?

Ms. BARADARAN. I think that would be a safe statement, yes.

Mr. TORRES. And I am no—

Ms. BARADARAN. I can elaborate, if you would like.

Mr. TORRES. No, I can go on. I am no expert in banking, but it seems to me the business model is straightforward: Banks collect deposits, and then lend out those deposits. And banks have an incentive to collect larger deposits in order to make larger loans in order to earn larger profits.

And so, given those incentives, the market often fails to serve the lowest-income Americans, who cannot afford minimum-balance requirements and overdraft fees. And whenever there is a market failure, it is not unusual for the government to intervene with a public option, right? There are public providers of healthcare. There are public providers of housing. There are public providers of higher education. There is ample precedent for the government intervening with a public option in the midst of a market failure.

I don't know if you want to comment on that?

Ms. BARADARAN. Yes. That is exactly right. It costs the same amount of overhead to take a $500,000 deposit from a corporate client as a $100 deposit from a person. And so, the cost-benefit, the economics of banking doesn't support those kind of small accounts.

And the reason we had a robust community banking sector back—it wasn't Dodd-Frank that killed it; it was way before that—was that we purposely regulated banks such that they couldn't branch, they couldn't get larger. Every community had to have a bank branch, and that was how banks could afford to take these smaller deposits, because they didn't have that heightened competition that we see now.

In today's market, it is really difficult for small banks to lend, or to give deposit accounts to low-income people, especially in LMI communities, where there aren't the profits.

So, it is not that the banks are greedy or bad or especially, sort of gaming the system. It is just that the system doesn't make it such that they can lend and give deposits to low-income people.

Mr. TORRES. Mr. Rothstein, I have a question about Bank On accounts. Are Bank On accounts, no-overdraft accounts?

Mr. ROTHSTEIN. Thank you for the question, Representative. Yes, all Bank On accounts have no overdraft fees and no insufficient-fund charges on them.

Mr. TORRES. There are about 10,000 banks and credit unions in the United States. How many of them offer Bank On accounts?

Mr. ROTHSTEIN. To date, I think we are at 108, including credit unions.

Mr. TORRES. And of the 108, how many are banks?

Mr. ROTHSTEIN. I believe—I will get you a list after the hearing, but I—

Mr. TORRES. Are they majority banks or credit unions?

Mr. ROTHSTEIN. Majority banks.

Mr. TORRES. Okay. Why is the participation so negligible?

Mr. ROTHSTEIN. I think, one, it is a newer program.

Mr. TORRES. How long has it been around?

Mr. ROTHSTEIN. We have been certifying financial institutions for 6 years now.

The big piece, I would say, though, again, is if you look at the market share and the number of branches covered, it is very large. About 40 percent of all the branches of banks in the country offer at least one Bank On-certified account. And I would say, probably—my hope is, by September, we are going to be around 45 percent.

Mr. TORRES. Should it be mandatory rather than voluntary? I would say yes, but I am curious to know your answer.

Mr. ROTHSTEIN. That would either be tremendous job security for me, or I would have to find a new thing to do.

No. I have mixed feelings. I really do. I think part of the reason that Bank On works so well is that the banks and credit unions themselves brand these accounts and fit them into their suite of accounts. And so, if we take too much of a cookie-cutter approach in mandating the accounts and we take away the creativity and we take away the ability for them to position the accounts in their community, then we are not doing—

Mr. TORRES. I am in the red, so my time has expired.

Mr. ROTHSTEIN. I'm sorry.

Chairman PERLMUTTER. The gentleman's time has expired. I'm sorry to cut you off again, Mr. Rothstein.

Mr. ROTHSTEIN. That is fine.

Chairman PERLMUTTER. I now recognize the gentleman from Tennessee, Mr. Kustoff, for 5 minutes.

Mr. KUSTOFF. Thank you, Mr. Chairman.

And thank you to the witnesses for appearing today.

Mr. Berlau, can you talk about—I know we are all concerned about the loss of bank branches over the last 10 to 12 years. Can you talk about the effect Dodd-Frank had on the exacerbation, if you will, of bank branch losses or decreases over the past 10 to 12 years?

Mr. BERLAU. Yes. There was a loss of community banks even before Dodd-Frank, part of market consolidation. But Harvard's Kennedy School did a study, which I would be happy to share with you or others who are interested, which found it rapidly accelerated after Dodd-Frank.

Not only like the State National Bank of Big Spring, Texas, it didn't close, but it was saying it would just—because of some of the regulations, it was just not offering mortgages because it was too expensive to comply with the qualified mortgage—and it had very few, if any, defaults—I think it may have had no defaults—for a period of 20 years.

So, it just accelerated trends and made it costly for both banks and credit unions to operate, and some had to close or merge with others.

Mr. KUSTOFF. So, Dodd-Frank is a clear factor in the decreasing number of bank branches over the last 10 to 12 years?

Mr. BERLAU. Yes. There was a Harvard Kennedy School study that showed that, as well as others, as well as if you talk to the Independent Community Bankers of America, the Credit Union National Association, other groups representing community banks and credit unions, they will talk about how the debt has certainly been a significant, substantial factor.

Mr. KUSTOFF. Thank you, Mr. Berlau.

Could you talk about the True Lender rule? And was the rule, in your opinion, necessary to create any certainty within the industry?

Mr. BERLAU. It certainly would have helped, because, basically, it would have brought the certainty that, say, the larger banks have when they are issuing credit cards and they follow national rather than State rules, say, on interest rates. Large banks already have that for credit cards, but smaller banks, which don't have the infrastructure for underwriting that some Fintech firms have, it would have brought certainty to them that they would have been able to do this under the same privileges of the law as the larger banks. Plus, the loans also certainly would still be subject to the bank rules, like Federal rules, like fair lending and ability to repay.

Mr. KUSTOFF. So, it's a true statement that the rule does have an impact on financial inclusion?

Mr. BERLAU. Yes, it would have, were it not repealed by Congress. So, yes, it very much would have helped financial inclusion. And I hope Congress can do a bipartisan solution, of a similar rule.

Mr. KUSTOFF. Thank you, Mr. Berlau.

If I could, I don't think you have the benefit of this letter. The chairman and the ranking member were sent a letter yesterday from the Consumer Bankers Association about some of the proposed legislation. In the letter I think the committee members got, or at least I got, they addressed the Public Banking Act of 2021.

I want to read a statement to you from the letter and ask you whether you agree with it. This is about the Public Banking Act of 2021: "The entrance of another government-subsidized entity into the consumer financial market would not only affect the competitiveness of the nation's thousands of financial institutions currently serving consumers and small businesses, it would also expose American taxpayers to an increased financial risk."

Would you agree with that statement or disagree with it?

Mr. BERLAU. I certainly would agree. That is in my testimony.

Mr. KUSTOFF. Let me read another statement from the letter: "The creation of a government-sponsored public bank option with endless resources will likely leave many private institutions with a distinct competitive disadvantage within the financial services marketplace."

Would you agree or disagree with that statement?

Mr. BERLAU. I certainly would agree. And then, with the government institution, it would also give the government more discretion as far as if they wanted to cut off everything from fossil fuel or, say, if one government didn't like marijuana, they could cut that off and people would have less choices.

Mr. KUSTOFF. Thank you, Mr. Berlau.

My time is expiring. I yield back my 4 seconds.

Chairman PERLMUTTER. The gentleman yields back his 4 seconds.

The gentleman from California, Mr. Vargas, is recognized for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman. And thank you for this hearing. I appreciate it very much. I apologize that I missed part of it. I had another hearing at exactly the same time.

I did come in, in time, however, to hear one of my colleagues say that the public doesn't trust us. Well, of course, they don't trust us when you can't hear us speak with one voice that we should be vaccinated. It is important to get vaccinated. When we clearly don't say that, yes, President Trump lost the last election and when we don't say clearly that, yes, there was an insurrection here and, in fact, yes, the Capitol was attacked; it wasn't just tourists walking around.

But the part that I found kind of interesting, really, apart from all that silliness, was the part about how you can't trust the Federal Government, so you can't trust a public bank. Because I would ask, well, are you part of the Federal Employees Retirement System (FERS)? And they would probably say, okay, well, that is the Federal Government. That is the same people. Okay. Now, are you part of TSP? Yes. Well, that is the Thrift Savings Plan that is made available to Members of Congress. Okay. So, that is two public banks you are involved with. How about Social Security? Well, yes, of course, Social Security, too.

Wait a minute. I thought you don't trust the public—that the Federal Government employees can't chew gum and walk at the same time, yet you are involved in all these things. What about that? "Well, that is different. That is really different. We can't trust it, when the idea comes from somebody else."

I think it is a very intriguing idea that I think we should pursue. And so I would like to ask—and, again, I appreciate Ms. Ocasio-Cortez bringing it forward, very much.

I would like to ask Ms. Del Rio, in your testimony, you state that the public banking affords communities an opportunity to expand fair banking access and deepen the public investment in affordable housing and other critical economic sectors.

If you could speak a little bit about that, but focus on the housing for me, that is the part that I think is very, very problematic for so many Americans. Go ahead, if you don't mind.

Ms. DEL RIO. Yes. Thank you so much for that question.

I want to be really clear, public banking, for us and the coalitions we work with, is part of what we need to address market failure by our current banking system. And what we envision the public bank doing is really using the power of public deposits.

For example, in New York City, we have an annual budget of $98 billion, and that money sits right now in Wall Street banks that are not reinvesting it equitably in our local communities and our economy.

What a public bank could do is, first of all, strengthen existing networks of community development—loan funds and credit unions, these CDFIs that have filled the gaps that banks have left in low-income neighborhoods and communities of colors and that are providing full-service branches, low-cost and free accounts, small loans at non-usurious rates. And these are small institutions that do not have the economies of scale that big banks do. So this can be done. And a public bank would strengthen those institutions and help millions of individuals across the country gain access to fair and equitable financial services.

Beyond that, as you mentioned, it would partner with these CDFI lenders and in other ways strengthen investments in truly affordable housing, in small-business development, and in other needs.

We envision that happening in several ways, one of which could be in partner participation lending, for example, with these CDFI lenders. Credit unions do this routinely. And what it would do is allow small, community-based lenders that know their local community needs to be able to, "punch above their weight," to underwrite projects that they on their own are too small to finance, using the leverage that a public bank and public funds would provide to those banks.

Public banks could also create secondary markets to purchase loans. It could partner with credit unions in all sorts of ways to address liquidity constraints that they face and to make sure that they also are not overconcentrated in certain industries and certain parts of their lending.

So it is really not a radical solution so much as taking what is working already and building on it with public funds.

Mr. VARGAS. Thank you for that very important discussion. I appreciate it.

I do want to mention two things—one, a shout-out to some banks. In California, we did convince many of the banks and credit unions to use the Matricula Consular so we could have people who were undocumented or didn't have the ability to show a driver's license or others—now they do—to be banked. And that, I think, was very, very positive. So, a shout-out to them.

And lastly, I would say, I do find it so hypocritical that people attack the Federal Government and they are part of the Federal Government, say that it doesn't work, and yet here we are, we are part of it.

Anyway, with that, I yield back. Thank you, Mr. Chairman.

Chairman PERLMUTTER. The gentleman yields back.

I would like to just say, Ms. Del Rio, it is not a novel concept. Alexander Hamilton actually wanted to have a national bank. So, I appreciate the gentleman's questions.

The gentleman from Tennessee, Mr. Rose, is recognized for 5 minutes.

Mr. ROSE. Good afternoon, and thank you, Chairman Perlmutter and Ranking Member Luetkemeyer, for holding this hearing today.

And thank you to our witnesses for being here today.

As I have listened to—and, unfortunately, I haven't gotten to hear all of the testimony and questioning, but, as I listened early on to your statements, I couldn't help but remember back to my youth as a 4-H member in Putnam County, and my 4-H agents, Scott Chadwell and Donna Clouse, who came to my fourth-grade class with a novel idea that was supported by one of our local banks at that time called, "First National Bank," which was the 4-H Thrift Club.

And the idea was, you open—you go to your bank, you make your way—you make the pilgrimage down to the local bank branch, which, in my case, wasn't too far away at that time—I lived in a small town—and you open a bank account, Chairman Perlmutter, and you make a dollar-per-month deposit into that account.

And if you did that for a whole year, then the bank gave you a reward, which, in many cases, was things like a ruler or a backpack or something like that, that was useful. And I still—my wife calls me a pack rat, and I think she is right, because I still have all of those tokens of appreciation from that first bank account, which I kept open until I started college.

It wasn't a very impressive sum that I had saved over the 8- to 10-year period, but the lesson that I learned from that early experience of having a bank account and knowing my banker and getting comfortable going into the bank has proven to be very valuable in life.

As I listened to the discussion today, I noted some of the comments, and Mr. Pawar, you said something about having banking concentrated in the hands of a few. And I can think of no more pernicious concentration than a public option.

In my time here in Washington, what I have come to conclude is that having the government be in charge of things is a particularly bad idea. There are a few things the government needs to be in charge of: Public safety and policing and protecting us from outside threats, those are things the government should be doing. But getting the government involved in banking is truly, I think, the worst idea that I have heard as a Member of Congress, and I hope it doesn't happen, and I will do everything I can to try to deter that from happening.

So, I think about where we are with respect to banking in this country and the number of unbanked people, and I can't help but reflect upon the unending appetite for imposing greater regulations, which I think inevitably leads to making banking less successful, less available, and more expensive for Americans. And I would credit that as probably the number-one ill that we should be trying to fix, is to lower the cost of banking by eliminating unnecessary, redundant, duplicative regulations that make banking more expensive.

As we have this discussion, I think it is important to remember that unbanked households are more prevalent in rural areas. Much of the Sixth District of Tennessee, which I represent, is rural, where unbanked households account for 8.6 percent of total households.

A large portion of my district, as I say, is in rural areas, and rural communities have seen increasing costs of accessing financial services, in part due to branch closures. We have heard that discussed today. As of the third quarter of 2020, there were 13,000 fewer banks—I think we have heard that today, as well—in rural communities than in the 1980s. Where my farm is, in the rural part of my district, that is very true, with the two closest branches having closed in recent years.

Mr. Berlau, could you discuss how Fintechs could step in to try and fill that gap in rural communities?

Mr. BERLAU. I think they could fill that gap just as far as with people going online. Also, they could partner with retail banks that wanted to open there. And hopefully, we will need either the—keep pushing on the agencies on the de novo banks, but they could partner as helping to provide underwriting and all types of services to the rural banks.

Mr. ROSE. And explain how the importance of expanding broadband plays into utilizing this emerging technology?

Mr. BERLAU. I think it is very important. We should really have the incentives to invest in broadband there.

Mr. BERLAU. I agree with you.

Yet, I also welcomed the news, Mr. Rothstein, of your efforts, which reminded me of my early experience, by the way. I commend you for the work you are doing in helping make affordable bank accounts available. So keep up the good work, and I hope that we can turn back the tide of interest in public takeover of the banking industry.

And with that, I yield back the balance of my time.

Chairman PERLMUTTER. The gentleman yields back.

The gentleman from California, Mr. Sherman, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is recognized for 5 minutes.

Mr. SHERMAN. Thank you.

It is interesting to hear this discussion of the true lender issue. It is my colleagues who usually support States' rights who are now bemoaning the fact that a device used, a subterfuge used in conjunction with Federal regulators to defeat State laws was swept aside by this Congress. And I look forward to those who have talked about the true lender law to embrace the idea of the Federal Government making all of the decisions.

I do hope that one of our witnesses, for the record—because this isn't a fair question to ask you—would take a look at how many Americans don't just live more than 15 minutes from a financial institution branch but are also never within 15 minutes when they either go shop for food or when they go to work. I, for example, live in the least urban part of my own district, so I am 15 minutes away from everything, but I have to get food, and there is a bank next-door.

We need to provide people with more knowledge, particularly in the high schools. We need to encourage employers to engage in direct deposit with a bank. That means the bank will cut a better deal for the customer and you will bring the worker into the bank. And pay is too low, which is why we have so many Americans who don't have a net worth of $1,000 and get hit with overdraft protections, payday fees, et cetera.

I want to thank the committee for including in today's hearing a discussion draft that would allow all Federal credit unions to add underserved areas to their field of membership and expand the ability of credit unions to lend to their member businesses in underserved areas.

Mr. Berlau, with regard to the Expanding Financial Access for Underserved Communities Act, you write in your testimony that you support that approach. How, in your view, would this bill help those consumers and small businesses who don't currently have access to financial services?

Mr. BERLAU. It would allow credit unions, which are limited by field of membership rules now, to expand into those underserved areas if they think that they could maintain their safety and soundness. And the regulator would have to—the National Credit Union Administration would have to approve that.

But it would be liberalizing some of the red tape around credit unions, which would be a very good idea. Also, I think it would be good to let credit unions make more business loans, to raise or repeal the member business lending cap.

Mr. SHERMAN. Thank you.

Ms. Baradaran, when it comes to the possibility of public banking options, I am a political realist. I think the operation and political hurdles are going to cause that to not be adopted in my lifetime. Some members of the committee are younger. So, in terms of addressing people's needs, I wonder whether it might make sense to focus on some other more available tools.

In your written testimony, you say that Congress should focus on strengthening community reinvestment regulations. Could you explain how the Community Reinvestment Act (CRA) might be better leveraged to ensure that all Americans have access to financial services, depository institution services?

Ms. BARADARAN. Thank you for the question.

The regulators have recently proposed a new CRA rule for notice and comment. And I do think that there are some really robust changes to the CRA that could benefit a lot of communitiies.

It is not going to help a lot of the communities that don't have bank branches though, because the CRA is geographically-focused. And that is one thing that the CRA reform can focus on, is that there are a lot of CRA deserts around where there are banking deserts, where the CRA requirements don't apply because they are geographically-constrained. So that is one reform, I think, that could potentially fix this.

And I would not limit our political imaginations for what is possible. What the Federal Reserve did during the COVID crisis was very much out of line with what it had done before, and it was very good policy, and it had great work. And that is a public bank. We have, actually, a public bank. And so, the idea here is just to extend that reach.

Mr. SHERMAN. And I would hope that CRA would not only direct banks into better serving the areas they do serve but also give them credit for serving any area that is completely unserved.

I will put in a plug for my own hearing, today at 2 p.m., on bond rating agencies. You are welcome to be here if you are a member of the committee, whether or not you are a member of the subcommittee.

I yield back.

Chairman PERLMUTTER. Thank you, Mr. Sherman.

The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman.

Mr. Berlau, what flaws and/or hurdles exist in public programs, such as the Post Office, that private financial institutions don't have when attempting to reach underserved markets?

Mr. BERLAU. I think the fact that private institutions compete against each other and they compete for new customers and they are always looking for innovation is the key. And I think the Post

Office—again, there is a tension there between, is this to rescue the Post Office or is this for the Post Office to rescue others?

And in the flaws, also, I don't think as far as the FedAccounts we want the government having direct access to sensitive financial data rather than having to subpoena a private bank. You have that layer there, consistent with the Fourth Amendment. But there have been data breaches in the government, as well as selective leaks, so with FedAccounts, our government basically having its own blockchain, rather than it being distributed, what could happen there?

Plus, the question about it arbitrarily cutting off certain industries, as the Public Banking Act does for fossil fuels.

Mr. TIMMONS. I feel like you are reading my mind.

I am going to go in a little different direction now. Would a market-based solution that leverages an existing financial system, such as credit unions, get these financial products and services into the underserved markets faster and would the cost be less than with a government program?

Mr. BERLAU. I would think so, if we pushed more de novo credit unions, get more new entrants into the system. And what is already going on with community banks and credit unions and some of the entrepreneurial Fintech firms, yes, it is happening, and if we were to clear up some of the red tape, it would happen even faster.

Mr. TIMMONS. And we have thousands of credit unions and small banks across this country. Why wouldn't we just incentivize those entities? And what would happen to them if a postal banking option was created?

Mr. BERLAU. It would be a government-subsidized competition, with the privileges of that. And it would also—especially with FedAccounts, you are talking about having the deposits that are used to make loans now, so you would see sort of a suffering across the system as far as drying up for business loans. Some of the bank associations have warned about that.

Mr. TIMMONS. And the credit unions and small banks, they employ tens of thousands of people all over this country. And would they likely not be able to compete in this market and therefore lose market share and likely therefore lose jobs?

Mr. BERLAU. I think, yes, it would take—when you have the advantages of the government and a budget from that, a budget that is all tied to a Federal Government that could print its own money, yes, that is a significant competitive advantage they would have over credit unions and community banks.

Mr. TIMMONS. But I imagine they could go get jobs at the Post Office. There would be a lot of new jobs there.

I just don't understand this proposal. I think this is a very important issue that we need to have good policy to pursue and fix it and make legitimate strides. But I think my colleague just said that this is not a proposal that will likely happen during his lifetime, so I would really hope that we can find some better ways to incentivize the free market, incentivize banks and credit unions to address this important issue. I am really hopeful we can find some policies there.

You mentioned a lot of the biggest concerns I have. This has, "Big Brother," written all over it. Would the FBI need a search warrant? Would the IRS be able to track what you put into your bank account and then say, “How are you depositing all of this money every week? You are not paying taxes. You don’t have a job.” There are so many problems with privacy, not to mention data breaches. The Federal Government is terrible at cybersecurity. And to think that we are going to put millions and millions of consumers’ records into the Federal Government’s hands, it is just not a good plan. At the very least, we should address cybersecurity before that.

I do hope that we can address this issue in a meaningful way with good policy, because I do think it is very important.

With that, Mr. Chairman, I will yield back. Thank you.

Chairman PERLMUTTER. The gentleman yields back.

I think I need to defend the Post Office, which actually did provide banking services for about 50 years or more after there was a failure of the banking system back in the early—like, 1908, there was a failure at the banking system.

So it has been in existence, and it may be a policy matter for us to decide whether we want to put them back in the banking business or not. But I just, for some of my friends who have said this is the worst idea possible, clearly, this has been something that has been on the books for many, many years.

With that, I yield 5 minutes to Mr. Lawson, who is attending from his office and is participating virtually.

You are recognized for 5 minutes, sir.

Mr. LAWSON. Thank you, Mr. Chairman.

And I would like to welcome everyone on the panel to this hearing.

One of the things I would say in just getting started is that I grew up in a rural area about 12 miles from the city, longer in the end. By the time I was 15-years-old, I was able to go in to establish a savings account at a bank without any problems. And most of that I would attribute to the fact that either the 4-H club or the Future Farmers of America (FFA)—in attending those programs, where people brought information in telling you what you really could do, and so you had a great relationship.

I would be opposed to the Post Office going into the banking business, because we have so many problems in Florida even with mail delivery, where people are constantly calling my office about how they can’t get their mail, what is going on, there are not enough people working there, they have to hire people. And I don’t know how that option would actually work, but I don’t think that we should dwell on that at this time.

But my question to the whole panel will be: Bank overdraft practices have been a barrier for far too long for low-income families, for as long as I can remember. And because I have been involved in the financial area for over 34 years, I see these same kinds of problems that are coming up over and over again.

According to the Consumer Financial Protection Bureau (CFPB), 80 percent of the billions lost in overdraft fees this year are draining the families who have daily account balances which average over $350, so that is pretty low.

And my question would be—because a lot of you all have all of the academic information and have been involved and everything else, and I know this is true from a lot of people that I have dealt with in the financial world for many, many years, how, then, can the credit unions, the community banks come up with a policy that can help these individuals and, at the same time, be compensated in some way other than charging high overdraft fees?

Ms. DEL RIO. May I answer that?

Mr. LAWSON. Yes. It is to the whole panel, for anybody who wants to respond.

Ms. DEL RIO. Sure. I am happy to start.

I will say that the CDFI credit union that I am a part of does not charge hidden overdraft fees to our members. We see too many banks and even credit unions relying on these high and hidden fees as profit centers, especially in environments with low interest rates. So it is something that we categorically do not do, and we find other ways to sustain our operations and be profitable on our operations alone.

Through my organization, New Economy Project's, legal hotline, we also assist hundreds of New Yorkers every year who call our hotline, in many cases with problems that relate to overdraft. And what we see routinely is that many people are charged these fees repeatedly, it adds up to hundreds of dollars or more at the end of a month, and when they are not able to repay those exorbitant fees, the banks will actually close their accounts, driving them out of the banking system, and then report those individuals to check systems and other consumer reporting databases. That, then, effectively blacklists those same people from opening accounts elsewhere.

So, this is one way in which it is a massive extraction of wealth from neighborhoods of color, especially from low-income people, and it is also decreasing banking access. It is actively driving people out.

So, addressing these consumer reporting databases, these overdraft practices, which the Federal Government has the authority and the ability to do, would go extremely far. Thank you for that question.

Mr. LAWSON. Would anyone else like to comment?

Mr. BERLAU. It was a very good question. I would also say, sometimes a small loan could be—even if you look at the APR, it is a better alternative than an overdraft. So, if you have more small loans, like, say, from bank or nonbank lenders, that could be—it may not be a super alternative, but that would be a better alternative than having an overdraft, plus it wouldn't harm your credit score.

Mr. ROTHSTEIN. I also just want to say, Representative Lawson, that the type of accounts that don't have overdraft, that are fundamentally no-overdraft accounts, are extremely popular. So, whether it is the Bank On certified accounts that have more than 2 million people opening accounts in the last year recorded or even other products that are out there that don't have it, this is the movement for first-time workers, and younger people. These are popular accounts.

Mr. LAWSON. Thank you, Mr. Chairman. I yield back.

Chairman PERLMUTTER. Thank you, Mr. Lawson.

The gentleman's time has expired.

The gentlewoman from New York, Ms. Ocasio-Cortez, is recognized for 5 minutes.

Ms. OCASIO-CORTEZ. Thank you so much, Chairman Perlmutter.

I think one of the things that is important to acknowledge is that this is one of our first congressional hearings on public banking in modern American history. And today is a historic day. I think it is a day worth celebrating. And I thank the Chair for his courage and his political courage and for being willing to convene this in front of the Financial Services Committee.

Now, I learned a while ago—when I first got to Congress, I thought, man, people definitely study what they are talking about here. Then I got here and I realized that people don't even—a lot my colleagues don't even read the bills that they are commenting on.

But for anyone who is curious, it is right here at the desk. We are making lots of statements that have nothing to do with the legislation. And frankly, if I made comments that very publicly demonstrated that I didn't read the legislation I was discussing, I would be embarrassed. But that is an aside.

Here on Planet Earth, though, this bill is about providing a public option for financial services—an option, not a government takeover, right, Mr. Pawar? This is not about a government takeover of all banking services in the United States.

But I do think we should talk about how things work now. Let's talk about some of the extractive practices of private, for-profit banking in this country and why we desperately need a public option.

So, Ms. Del Rio, when a commercial bank decides whether to make a loan and what interest rate to charge, it considers not only the riskiness of the loan itself but it also incorporates the bank's target profit margins based on their quarterly goals and shareholder dividends, correct?

Ms. DEL RIO. Yes. I would say that banks are driven by profit-maximizing motives.

Ms. OCASIO-CORTEZ. So it is not this mythology of, we have this interest rate based on how risky the loan is, but it is also, we have this interest rate based on how much of a profit margin on Wall Street we want to make.

Now, isn't it the case that a public bank is likely to be a cheaper option than Wall Street for businesses and governments who seek affordable credit? Because a public bank is not-for-profit, so it doesn't need to pad its interest rates in order to make a profit, isn't that right?

Ms. DEL RIO. Right. A public bank would be chartered to serve the public good, and it would remove the profit-seeking shareholders from the equation and allow for other benefits other than maximizing profits.

Ms. OCASIO-CORTEZ. And a public bank ostensibly wouldn't have billionaire CEOs who are paid hundreds or thousands of times the amount that their lowest-paid employees are paid, isn't that correct?

Ms. DEL RIO. Yes. That is certainly our vision for public banking.

Ms. OCASIO-CORTEZ. Now, in the same vein, public banks are able to extend credit and banking services to communities that Wall Street has deemed unprofitable, correct?

Ms. DEL RIO. Yes.

Ms. OCASIO-CORTEZ. I represent parts of the Bronx, where more than half of the residents are either unbanked or underbanked. And we heard some stories today that I thought were very optimistic and rosy, like Wall Street executives will want to compete for business, and of course, they will extend services in low-income communities. But we are talking about Earth, right? And, on Planet Earth, there are a lot of communities that are not profitable to bank.

How would the Federal Public Banking Act complement State- and city-level efforts across the country?

Ms. DEL RIO. Yes. Thank you for that question.

We talk about the Federal Public Banking Act as a game-changer for local efforts like ours in New York, where we are working with broad-based coalitions and more than 65 State legislators to create a State framework for local public banks across New York City.

Right now, cities that would seek to charter public banks would have to go through commercial bank charters. What our legislation locally would do is create an appropriate and safe and sound framework with capitalization requirements and many other provisions to ensure sound governance—

Ms. OCASIO-CORTEZ. Thank you. And I apologize for cutting you off, but I just have 30 seconds left. I am so sorry.

Now, one big thing that people didn't know: Most public entities at State and municipal levels actually are forced to rely—your State, your city bank, the bank that your State and city works with are commercial banks too, right? A lot of people don't know that your city actually has to bank, keep the city's money with, like, a Chase or a Bank of America or a Santander, et cetera, because there is no public bank.

And, as a result, those private banks can actually refuse to finance projects that are against their financial interest, right? Like, they can refuse to finance things like worker cooperatives or renewable energy projects if it cuts against their own profit margin. isn't that correct?

Ms. DEL RIO. That is absolutely correct.

Ms. OCASIO-CORTEZ. Interesting.

Chairman PERLMUTTER. The gentlelady's—

Ms. DEL RIO. The Act would provide technical assistance and grants and be a complement to local and State frameworks like ours in New York.

Ms. OCASIO-CORTEZ. Thank you.

Chairman PERLMUTTER. The gentlelady's time has expired.

The gentlelady from Michigan, Ms. Tlaib, is recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Mr. Chairman, for holding such an incredibly important hearing about, I think, a really critical issue, especially because many of these broken systems and structures that we continue to talk about existed prior to the pandemic, and, if anything, the pandemic just exposed how broken they are.

So, I am so incredibly grateful for my colleague from New York, Representative Ocasio-Cortez, for leading the charge and reintroducing the Public Banking Act this Congress.

Chairwoman Waters, thank you. Thank you for always wanting to continue to speak these truths about these broken structures within our country and our communities, especially communities of color.

I represent the third-poorest congressional district in the country. And so, when people say, why do these things, it is because, I move with a sense of urgency. I don't have days or weeks for my residents. They are literally dying because they have no access to thrive.

Nearly 20 percent, a quarter of U.S. adults, are unbanked and underbanked. And one of the most profound ways that this discrepancy has affected my residents is in housing. And this is not just somewhere to sleep. This is where people use their housing to put their kids through college, to get out of poverty. It is stability.

So it is really bizarre—maybe not bizarre; maybe there is a different word—when people say, too-big-to-fail, we have to bail them out right now. And what a funny thing, "too-big-to- fail." How about this? People. People are too important to fail. People in our country.

So, when people talk about funding and all of this stuff—I keep hearing $700 billion to bail out the big banks. Guess what? The Special Inspector General says that the total was more like $16.8 trillion, and $4.6 trillion has already been paid out.

The Great Recession that killed neighborhoods in my district was because of big banks. They devastated our local economy. Literally, foreclosures at the highest rates we have ever seen. Historic unemployment rates. Destroyed families in this country. It was the big banks. That is who did it.

So, when we introduce bold initiatives where we say everyone should be included, we should have accessibility, we should not be judged for trying to do what is right. Because when I look at Michigan, we lost more Black homeownership than anywhere in the country. In 2019, homeownership rates of Black Americans in my community dropped to the lowest level since the Fair Housing Act was enacted in 1968. Do you hear me? That is how low it has gotten. It is close to 40 percent now.

People used to envy Detroit, used to look at Wayne County, Michigan, and say, man, how are they able to lift people out of poverty? It was because of housing. So, when commercial banks shut out Black and Brown people from lending, they are not just closing the door on homeownership; they are closing the door on saving for children's education, the opportunity to build businesses, and the ability to retire with dignity.

And so, it is hard for me to hear my colleagues sometimes judging my residents, because guess what, the majority of my colleagues are millionaires. They are in an income bracket that is so disconnected from the majority of American people in this country, that they don't understand what it means to live paycheck to paycheck.

I remember the first time I was here, people were wondering, why are the Federal employees in the food bank line? And I thought, what are you talking about? You just shut down the government. They live paycheck to paycheck. Of course, they are in the food bank line. They have to feed their children and their families.

Ms. Baradaran, How would access to public banking help residents in my community move towards homeownership and build wealth?

Ms. BARADARAN. Thank you for articulating that contrast really well.

Access to public banking for residents is exactly what access to public banking for banks would do: It saves them. It throws them a lifeline when they are out of liquidity.

This is what we did in the financial crisis. So, to people who say, "Oh, well, let the private market do it," the private market would have failed. It would have been a completely bankrupt market in 2008, and again in 2020. And the public sector—the Federal Reserve, along with the Treasury and Congress—came in to save a lot of those public banks. And they asked them politely to please send some of those funds on to individuals. They had the choice, and they decided not to, in some cases.

And so, when we talk about public money going to people, it is the same way that we do with banks. And if banks aren't choosing certain communities to help that they have not chosen, then we remedy that directly. It is just taking out the middleman. This is not a revision, this is not a radical—

Ms. TLAIB. It is about accessibility, period. It is like they don't want all of us to have access. Because during the pandemic, one of the things that came up was obviously the Paycheck Protection Program (PPP). And guess who screwed my residents? The banks.

In my district, smaller, Black-owned businesses struggled to claim the PPP program aid they needed because they lacked preexisting relationships with big banks. I had to call Chairwoman Waters a number of times to tell her, this bank is doing this, this bank is doing that.

Ms. Del Rio, would public banking make administration of economic stimulus programs like the PPP program or the economic impact payments faster and more efficient for our communities?

Ms. DEL RIO. Yes, it would. And you can see that in public banks throughout the world, including in North Dakota, which had the highest rate per capita of PPP loans, in part because of what the Bank of North Dakota did to help local lenders get those funds out.

And I will say also that, in New York and nationally, CDFIs, small lenders, had an outsized role in getting PPP funds out to small businesses. My relatively tiny $85-million CDFI credit union that I serve on the board of—

Chairman PERLMUTTER. Ms. Del Rio, the gentlelady's time has expired.

No other Members are here.

I want to compliment and thank everybody. This is the best-attended hearing this subcommittee has had. I want to thank you all. Obviously, a lot of strong passions have been expressed. This is a very serious subject.

I want to thank the witnesses for their testimony today. You really helped kind of enlighten all of us, on all sides of this, and so I appreciate that.

Without objection, a number of letters will be submitted into the record, from Prosperity Now, the American Bankers Association, the Bank Policy Institute, the National Association of Federally-Insured Credit Unions, the American Financial Services Association, the Consumer Bankers Association, and the Electronic Transactions Association.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Thank you very much for participating in this hearing, in person and remotely. We appreciate your testimony.

And, with that, this hearing is adjourned.

[Whereupon, at 12:37 p.m., the hearing was adjourned.]

A P P E N D I X

July 21, 2021

TESTIMONY OF MEHRSA BARADARAN

Professor of Law, University of California Irvine School of Law
before the
United States House of Representatives Subcommittee on Consumer Protection and Financial Institutions (Committee on Financial Services)

Hearing on
Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System

This written testimony will make the case for postal banking as a public option in banking based on my research into the causes and consequences of exclusion from the banking system.[1] I have been researching issues related to financial inclusion for over a decade and during the time, the obstacles to inclusion have only increased and bank branches have decreased. There are several solutions that have been offered toward the aim of financial inclusion, but many do not confront the actual challenges of the unbanked, which are access to a physical bank branch, cost, and trust. It is for this reason and others that I believe the easiest and fastest solution to this problem is to offer simple banking services through the post office. I propose that the post office provide free checking accounts to all Americans as the point of delivery but that the post office not become chartered as an official bank. The post office can simply offer transactional services through access to the federal reserve public payments system. As the federal stimulus payments during the COVID crisis demonstrated, the payment system is not accessible to all. The lack of access harms the most vulnerable communities and those that have been historically excluded from banking, including LMI communities, Native American communities, Black and Brown communities, the elderly, rural communities, and the disabled. Even when the US Treasury attempted to send stimulus checks to all Americans, many who were unbanked or underbanked experienced great difficulty due to their lack of access to payments. Some had to pay extra fees to collect their stimulus checks, which resulted in unprecedented profits going to the banking industry solely in overdraft fees. There are many public banking proposals that can help alleviate these issues, but I believe that a simple checking account offered through the post office is the most effective and egalitarian means of financial inclusion of the unbanked and underbanked. Postal banking could include a range of financial services, but imperative to full financial inclusion would be to provide access to the payments system or in other words, simple checking services.

There are many services and utilities that would benefit from a public option because markets are either monopolized or failing. Whatever the merits of the public option in other fields, the banking system is undemocratic without a public option. This is because most basic banking services – deposit-taking, financial transactions, lending – operate using a federal government platform, network, or guarantee. Federal government support is not a mere subsidy because the federal infrastructure does not simply enhance bank profits, but it makes the entire modern banking enterprise possible. In other words, this framework not only enhances, but enables modern banking markets. Most of this support, like FDIC insurance, is invisible to the average consumer and usually unnecessary whole some of this support is implicit and rare like the bank bailouts. All of it is meant to induce public trust and participation in the banking sector. Scholars have called banks "a franchise" and courts have called them "instrumentalities" of the federal government.[2] Banks are granted a charter to operate by the federal government, which allows them to "plug in" to the government payments and credit structure. Thus, the hidden monopoly power in the banking sector is the federal government, making it essential to provide access to all.

Insofar as banks operate in tandem with government credit and payments facilities, it stands to reason that they must make their services available to all. Yet they are not currently under any such mandate of accessibility. This is due both to the fact that banks have become more enmeshed with the federal infrastructure over time, especially after the Progressive Era and the operational legislation and institutional framework inaugured by the New Deal. More recently, an erosion of legal requirements on banks has enabled banks to abandon lower-profit regions and customers under the guise of "inefficiency" and market competition.[3] The United States has a federally sponsored banking system that is exclusionary. Those who are excluded are the most financially vulnerable individuals and communities who are forced to pay the most for services. Thus, a public option in banking is essential to making the system democratic.

Postal banking could also offer a public option in small credit. A public option in lending could alleviate some of those harsh penalties for many low-income Americans who must rely on these loans. Lending has many risks and there are many drawbacks for a public option in lending, but the obstacles can be averted, and the alternatives are much more harmful. Payday lending is a large and fairly new industry that provides high-cost small loans to the most vulnerable Americans. The industry has evaded state and federal regulation thus far, both due to high demand for loans, successful lobbying efforts by the industry and the failure of the Trump administration's Consumer Financial Protection Bureau(CFPB) in enforcing payday regulations adopted by the Obama administration. Offering a public option for credit reduces the need to regulate usury and push for the elimination of payday lenders. Instead of forcing private lenders to adopt a low interest rate or alternatively allowing the status quo wherein low-income borrowers have no option but to borrow money at crushingly high interest rates.

Crucially, postal banking is not a new idea nor is it a radical departure from history. The United States had a successful postal banking system from 1910 until 1966 as do many other countries worldwide. As I have written in my book *How the Other Half Banks,* postal banking was the country's most successful program for financial inclusion by extending banking services to immigrants and urban and rural populations. The postal banking system was dubbed "the poor man's bank." It was safe, stable, and profitable. The post office has had a historic connection with banking services as both are essentially public goods and necessary for participation in commerce. Postal banking in America was among a slate of progressive era policies adapted to create more egalitarian markets. At a crucial turning point in American banking policy, policymakers tackled inequality and banking instability. This was in the early 1900s, but in many ways, economic conditions are similar today. What the progressive reformers understood and what modern politics has forgotten is that credit policy is public policy. To the extent that certain communities are excluded from mainstream banking institutions, their exclusion is a problem of public policy and not a gap in the market.

Banking as Public Utility

When confronting the power of banking trusts and monopoly power over credit, Justice Louis Brandeis proposed that certain industries to be especially suited for a public utility nature.

Banking or railroads, for example, were considered service essential to full participation in commerce. In these cases, Brandeis offered an alternative to create a public utility. Such a utility could either compete with the market or offer an alternative. Brandeis believed banking to be among the industries that might be considered a public utility because, as he explained "that deposit banking should be recognized as one of the businesses 'affected with a public interest'."[4] This was because banks gained their market power and their profits through the use of "other people's money." President Roosevelt did not make banks a public utility, but his administration did embed public duties in all the legislation governing banks during the New Deal.[5] Many of those laws have been eroded since even as banks are ever more reliant on public services for their operations.

Today, each aspect of banking, including deposits, loans, and simple financial transactions, relies on a robust network of government support.[6] Each time a bank sends or accepts money, they are using the Federal Reserve's payments system.[7] Banks can take and lend customer deposits and engage in fractional reserve lending (and the magic money multiplier effect this enables) only because customer deposits are insured by the FDIC. Unlike all other corporations, banks pay virtually nothing for their funding (customer deposits) because of this federal government subsidy.[8] And when the FDIC fund goes into the red – as it did in 2008 – these deposits are backstopped by the full faith and credit of the US Treasury. On the asset side, most mortgages and student loans are guaranteed, bundled, or subsidized by the FHA or the Government Sponsored Entities (GSE's) Fannie Mae, Freddie Mac, Ginnie Mae, and Sallie Mae.[9] These entities purchase almost every mortgage and student loan in the country and resell them to investors. And when these institutions fail, they too have the implicit backing of the Federal Government.[10] These GSEs enable banks to lend exponentially more loans than what their customer deposits would allow. At the crux of our banking system, then, is a state-enabled credit system. All this federal government support sets the banking sector apart from other business that must create its own wealth without the use of other people's money or cheap loans when they fall short. Banks and the government (and by extension the people) should have a mutually beneficial arrangement that consists of the government providing market-enabling structures and trust-inducing deposit insurance and banks, in return, playing their essential role in financing the expansion of the economy and serving the needs of their customers and local communities. The relationship can be described as a social contract or an implicit promise or exchange made by the government and the banks.[11] Viewed from this lens, it becomes clear that this level of government support to the banking sector must mean that the government and by extension "the people" must be entitled to demand a banking sector that serves all of us. As Senator William Proxmire explained in passing the CRA, that there is a "widely shared assumption" that "a [bank's] public charter conveys numerous economic benefits and in return it is legitimate for public policy and regulatory practice to require some public purpose . . ." The Senator claimed that banks are "a franchise to serve local convenience and needs" and therefore "it is fair for the public to ask something in return."[12]

The public function of banking is especially clear in payments. The largest and most secure payments system in the US is operated by the Federal Reserve as per its mandate.[13] The Federal Reserve's own policy mandate on payments is "to bring to payments markets an overall concern for safety and soundness, promotion of operating efficiency, and equitable access. Indeed, those considerations relating to integrity, efficiency, and access to the payments system will remain at the core of the Federal Reserve's role and responsibilities regarding the operation of the payments system." As the Fed states, "Given the size, speed, and interdependencies of payments, this mission is, and will likely continue to be, even more important than it was when the Federal Reserve was established in 1913.[14]

Indeed, today achieving this mission is essential. The US payments system is not available to all Americans. A quarter (25%) of Americans are either unbanked or underbanked.[15] They do not have bank accounts and thus are shut out of the payments system. Low-income families spend about 10% of their total income in fees to alternative financial service providers just to use their money due to their exclusion from the payments network. Being underbanked is expensive and time-consuming as each financial transaction involves fees and hurdles.[16] In the United States, we have decided that only banks have access to the payments systems. Thus, only individual with bank accounts can send and receive money, cash checks, use debit cards, and otherwise have access to the payments systems. Only chartered banks have access to the payments tracks built, operated, and overseen by the Federal Reserve. Yet banks are not mandated to offer these services to all people. Banks can choose their customers and the communities in which they will operate physical branches.

Banks are no longer interested in serving certain low-profit communities and consumers. Over the last several decades, deregulation, heightened market competition, and the subprime crises has led to wave after wave of bank mergers and a conglomerated banking industry. Industry consolidation has meant that many communities, especially in rural regions across the country are banking deserts where communities do not have a bank. According to Jeremy Kress, this is due to the fact that "regulators have rubber-stamped recent bank mergers, despite evidence that such deals could harm consumers and destabilize financial markets."[17] In these banking deserts, often the only access to an ATM in the entire area is at a gas station and the ATM fees can be up to 7.50 per transaction.[18] But even when banks are physically available, there are many barriers for the low-income. Banks charge excessive and onerous overdraft fees and excess activity fees, which are meant to deter small accounts.[19] Small accounts are not profitable for banks, so they avoid offering them—either by leaving low income areas or repelling low income customers.[20] Faced with seemingly random and punitive fees, low-income customers have taken their business to the fringe banking sector.

This problem can be fixed by offering a direct checking account to all communities through the post office.[21] Those who are unbanked need a physical location in order to cross the cash/digital divide so they can engage in commerce. The United States Postal Service (USPS) operated a savings bank for much of its history and most postal services do so worldwide. The post office need not engage in banking or even lending, but simply offer transaction services. Post office branches already take cash from customers and offer money orders. My postal banking proposal only requires that post offices go one step further and offer a digital checking account linked to a central payment system. Once consumers have a digital account, they can begin to use mobile banking and other fintech services.

The Federal Reserve payments system has proved secure, private, and safe and is among the most reliable in the world. But it is exclusionary. And I want to be clear about why. It is not that the federal reserve lacks the expertise or the technology or that there is anything inherently exclusionary about their payments system. It is just that the Federal Reserve has not prioritized the needs of the underbanked for faster processing and retail point of contact operations. And they have only offered their services to banks—who in turn have not been mandated to provide services to all consumers.

This is a problem that can and must be fixed through policy and not be outsourced to the market. The Federal Reserve states that it has "a public-interest motivation in seeking to stimulate improvements in the efficiency of the payments system." This, according to their own mission, requires it "to provide equitable access and an adequate level of services nationwide."[22] In order to achieve this mission, the Federal Reserve must open its payments system to all Americans. If the Federal Reserve falters in its mission, it falls in Congress's purview to enforce it.

A Public Option in Banking

The phrase "public option" entered the political lexicon during the health-care debates as an option among the other forms of health-care provisions.[23] However, the concept of a public option has been around since the founding of the country.[24] A public option is when the government enters a market and offers a product or service to compete with private companies. Government-funded health insurance would have been a public option. More common public options include public libraries, public pools, or the US Post Office. The government offers these services either through subsidies or at cost (as is the case with the Post Office). Private companies like bookstores or UPS can compete with the public option, but consumers can make a choice to use the public option. Broadly conceived, public options already exist in banking. The Federal Reserve's payments system is a public option.[25] It competes with private payments providers, but banks can choose to use the Fed's payments system. Adam Levitin and Susan Wachter have also called the US housing finance system a public option and argue that federal government credit institutions and subsidies created the American mortgage.[26] As Thomas Herndon and Mark Paul explain, "the creation of a stable mortgage structure during the New Deal provides an excellent case study of how public options can be used to regulate in the public interest by shielding households from risk."[27]

The federal government also provides deposit insurance for banks.[28] Banks pay premiums for the insurance, which makes deposit insurance resemble other public options, but FDIC insurance is not an "option." All banks must buy in to the scheme. Still, the innovation of a public and federal insurance scheme was crucial in stabilizing the banking sector and avoiding near-constant panics, runs, and crises.[29] Despite many attempts at private deposit insurance, only federal insurance has been an effective antidote to runs.[30]

Financial Inclusion

The most important argument in favor of postal banking is that it has the potential to bank the unbanked and expand access to savings accounts that could diminish the need for fringe banking services. Postal banking can provide transactional services and small loans without life-crushing fees and interest. Critically, by making banking available to those deserted by a government-supported banking system, the state can minimize the threat to democracy posed by the heavily subsidized, exclusionary, and powerful banking sector.

The basic idea of modern postal banking is a public bank that would offer a wide range of transaction services, including small lending. The post offices could offer these services at a much lower cost than banks and the fringe industry because they can use natural economies of scale and scope to lower the costs of the products. Their existing infrastructure significantly reduces overhead costs, and they do not have profit-demanding shareholders and thus would be able to offer products at cost.[31] As for communities without access to safe credit and banking services, the post office remains as one of the only public institutions that still serves these communities regardless of profits. The post office offers money orders, and many customers use money orders in lieu of a checking or savings account. Researchers Terri Friedline and Mathieu Despard concluded in their "Mapping Financial Opportunity" project that postal banking can best help rural areas that are banking deserts.[32]

Without bank accounts, many Americans do not save – or they store their savings at home under the proverbial mattress.[33] More than 40 percent of Americans do not have even $500 in savings and would need to borrow if they had a shortfall – over 60 percent would need to borrow $1000 if they faced a financial emergency.[34] Many Americans do not save because they do not earn enough even while working full time, but even if they have money to save; most accounts are not accessible to those with small savings.[35] Cash savings are vulnerable to theft and loss.[36] Research abroad has demonstrated that increased access to a savings account enhances economic welfare and other important outcomes.[37] Having a safe, low-cost, and easy savings account could lead to more savings, which could diminish the need for payday loans when families hit a snag.[38] When individuals can dip into savings, they are less likely to need payday loans. A postal savings account made possible through a local postal branch could significantly ease the burden on many families leading to more savings. There is some evidence for this historically. When the postal savings accounts were first established in 1910, they became very popular with immigrants living in urban areas who had previously stored their earnings in "stocking banks." Most of the deposits into the early savings banks came from the home hiding places of these immigrants.[39] Historian Sheldon Garon has contrasted the low savings rates in the United States versus higher rates in Germany and Japan and has surmised that the difference had much to do with the strong network of postal banks that remained in those countries while they were disbanded in the United States and the culture of savings they cultivated abroad.[40] During World War II, the United States post office sold postal savings bonds to schoolchildren and women who invested as a patriotic duty.[41] By the end of World War II, the government had raised about $8 billion in additional war funding through war bonds and Treasury bonds sold through the post office.[42]

Today, postal savings accounts have the potential to become a trustworthy receptacle for savings for the financially excluded. Just as our postal banks did successfully for half a century, their rebirth can lead to increased saving by the broader public. By providing low barrier savings accounts, the post office can again offer a refuge for the countless small savers in the United States who have been shut out of the banking system because their too small savings accounts are no match for high bank fees. Increased access to low-cost savings accounts can greatly benefit a population living without any financial cushion. Even having a few hundred dollars stored away can make a significant difference to a moderate-income family who may face an emergency in their lives. It is difficult to measure how many people are not saving in banks because of financial and cultural barriers of entry, but it is possible that just as in the 1900s, hoarded money from across the country would pour into the postal banks from under mattresses, prepaid cards, or funds otherwise wired abroad.

Postal banking may seem like a new idea to many in the United States who are convinced that banking should be a "private market" free from "government intervention," but it is a mundane part of life for the rest of the world.[43] Postal banking abroad is the norm, not an aberration.[44] "Posts in 87 countries hold some 2 billion current or savings accounts on behalf of around 1 billion customers."[45] Postal banking is the most successful means of financial inclusion worldwide with several countries, such as India and China, where postal banks are the main driver of financial inclusion in their countries.[46]

Postal banking has been operational in many Western countries since the 1800s, and currently, fifty-one countries have postal banking as their primary method of financial inclusion – only 6 percent of postal carriers worldwide do not offer banking services.[47] (It is estimated that postal banking has banked over 1 billion people worldwide.)[48] There are a variety of models worldwide – some focused on the poor and others that offer postal banking services to the entire population.[49] In fact, the United States is one of the only developed countries in the world without a postal banking network.[50] That said, we do not need to look abroad for a justification or even a model for postal banking when we can refer to our own rich history of postal banking.[51]

The transition to postal banking would not require substantial costs or changes to the post office's business. Financial transaction services are straightforward products that do not require a high level of sophistication. The post office can build on its existing network to offer these services. The post office already has the transactional capabilities to deal with cash as well as the back-end security systems in place to transport cash because it sells money orders. A simple ATM machine can be placed inside the post office and tellers can offer debit cards or other transactional services through USPS-contracted servicers or in partnership with a bank. Walmart, for example, came to dominate financial services to the poor, practically overnight, without causing a substantial ripple in its core business.[52] Walmart attempted to become its own bank in 2005, but when that route was blocked by regulators, they settled for a partnership with *Greendot* bank to offer low-cost checking accounts and transactional services.[53] The company has been able to use its size and existing infrastructure to offer financial products at a fraction of the price while making a healthy profit offering them. Amazon has announced that it will be accepting cash for payment for goods in partnership with brick-and-mortar stores in order to facilitate transactions for the underbanked. Amazon has claimed that it will not charge fees for these cash transactions.[54] These large companies are able to underprice check-cashers and payday lenders due to their ability to cross-subsidize their products. Yet, these large companies do not have an egalitarian mandate. Insofar as offering financial transaction services can lead to greater market dominance through increased sales, they will offer such services, but we should be hesitant to outsource the essential right to participate in commerce to the profit/loss calculations of large corporations.

Estimates show that $89 billion is spent each year by the unbanked on financial fees and services, including payday lenders, check cashers, prepaid cards, and other services.[55] These are significant expenses for families. The average annual income for an unbanked family is $25,500, and about 10 percent of that income, or $2412, goes to the fees and interest paid to access credit or other financial services – services that those with bank accounts often get for free.[56] If these costs can be reduced through a public option, unbanked and underbanked families would be able to save more money, which would reduce the need for short-term borrowing. Providing these services at much lower costs has a triple advantage of reviving the beleaguered but too-important-to-fail postal service, putting the money back in the pockets of the poor, and providing an alternative to a harmful industry that has proved near impossible to regulate away.

The post office could offer small loans at lower interest rates than the payday lenders. Lending even small loans of less than $500 at a reasonable interest rate can help a significant portion of the American public withstand a short-term credit crunch.[57] Even with more just economic conditions, individuals may occasionally need to borrow small loans to cope with unexpected harms – so must have access a low-cost loan so that they can survive their illiquidity before it turns into insolvency. In other words, if a person needs $500 to pay a bill for food or shelter, will they have to pay an additional $1000 in fees to extinguish the loan or something closer to $50 in interest? The difference can make the difference between sustainability and bankruptcy. A public option in lending can make a difference to many families struggling to make ends meet.

Consumer protection groups, credit unions, and religious organizations have in the meantime been piloting several alternatives to payday lending. In 2010 the National Credit Union Association (NCUA) relaxed its interest rate rules, which limit interest to 15 percent, to permit higher rates on short term, small dollar loans. The credit unions then created Payday Alternative Loans (PALs) provide an economically viable model to credit unions while offering a much cheaper option to consumers seeking short-term loans (with interest of up to 28 percent). Religious organizations even set up their own credit unions: the Friendship-West Baptist Church and St. John Missionary Baptist Church in Dallas established the Faith Cooperative Federal Credit Union because of pastoral efforts to protect the churches' congregations from predatory lenders. Likewise, community groups and nonprofits have attempted to offer lower-cost alternatives. Thus far, these initiatives have not been scalable, but have demonstrated that low-interest lending can be a viable business model with limited underwriting.[58]

Since the 1990s, governments primarily in the Global South have experimented with conditional cash transfer (CCT) programs to alleviate poverty. These generally involve government payments to individuals or families based on specific behaviors or actions undertaken by the recipients of the funds: children's school attendance, doctor's visits, vaccinations, job training program attendance, and other similar activities. Studies have found that cash aid is more effective than any other form of charitable giving.[59]

The Case for Postal Banking

There are several reasons to believe that the Post Office is uniquely capable of lending responsibly while reducing the costs of small loans. First, and most importantly, the Post Office is not primarily motivated by profitmaking, but rather is committed to a public service mission. Therefore, it can charge borrowers the actual cost of the loan. This was the necessary premise behind every successful movement to foster financial inclusion. The Post Office is not profit motivated because it is an independent agency connected to the federal government, meaning that all excess profits are forfeited to the Treasury.[60] The Post Office has no shareholders demanding a return on investment so it is unlikely that the organization will be motivated to take advantage of its customers for private gain.[61] All gains will be public, as will losses. A board of directors, public representatives chosen by a democratically elected president, should be tasked to oversee its activities with an Inspector General's office doing periodic audits as well as an independent regulatory agency that has rate-setting power.[62]

Second, the Post Office can naturally reduce the high costs of lending to the poor through "economies of scale" and "economies of scope."[63] It can use its already existing and large network of branches to sell new products without much additional startup, overhead, or marketing costs. Compared to payday lenders, the Post Office can reduce costs immediately by using its existing branches and staff thus saving money otherwise spent on advertising, personnel, and locations. This ability to offer more at a lower cost is the reason large banks now dominate the market. Likewise, the size and reach of the Post Office can lead to lower costs of credit. "Economies of scale," or control of a large market of a single product, could bring down the costs for financial services and even loans if the Post Office has many customers. "Economies of scope," costs saved when an institution can sell a variety of products, could mean, for example, lower costs on loans because the Post Office is attracting more deposits, cashing more checks, or wiring more funds.[64]

Finally, because the Post Office never left communities deserted by banks and other businesses, it is available in all the regions forsaken by banks and has also developed an ongoing relationship of trust within these communities. Many unbanked individuals already buy their money orders at their local Post Office. This means that the Post Office has access to a customer base that is not comfortable in banks. Surveys of the unbanked show that minority groups are significantly more likely to be unbanked than other groups.[65] But the cultural and class barriers that keep many people away from the mainstream banks do not exist at the local Post Office. Americans rank the USPS highest among all federal agencies with more than 70 percent of those polled saying it does an excellent or good job.[66] With millennials, the rate is even higher at 81 percent.[67] About 70 percent of Americans trust the post office compared to 18 percent who trust payday lenders and 26 percent who trust banks.[68]

In both urban and rural communities, the Post Office can be crowded and bustling places where the neighborhood gathers to do its business, helped by clerks who are members of that same community. Even people who never go to the Post Office branch may be familiar with the mail carrier who visits their home daily. And following history's cue, the postal network can offer information in more languages than do banks and appeal to the large population of immigrants or even the undocumented who have money to save, but no access to banks. Many of these workers currently send their money abroad[69] – money that can be induced to stay within American borders. As it was in the 1900s, this can be a surprising source of revenue for the postal banks.

Trust, especially in banking, is more than just a nice feeling. It is a way to lower costs and reduce barriers of entry. This was the point of government deposit insurance. Banks cannot survive if their customers do not trust them to hold and lend their money. It is hard to predict whether the public will warm to postal banking, but considering historical and international experience, and the significant modern distrust of fringe banks, the public may view the Post Office as a safer and more trustworthy place to store funds.

And this trust is not undeserved. The Post Office has a history of service to the American people, unrivaled by any other institution or any other government entity. In a way, the Post Office serves as a perfect foil for the banking industry. The latter receives hefty federal government support and rejects any public-serving functions, and the former is currently receiving limited federal government support and yet sees public service as its primary mission. Even today, the stated mission of the US Post Office is: "to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."[70] This makes the post office an ideal means of providing a public option in banking.

Short-term credit is not a solution to inequality. The reason that most people need high-cost credit products is unstable work, inequality, and rising costs in health care and education – and the best solution is not credit but addressing these structural problems. Full-scale reform of the economy is necessary to right the ship – employees must have a living wage, families must have affordable shelter, and health-care costs must not be so onerous. With these reforms in place, the need for payday loans will naturally be diminished. The industry, after all, has risen alongside trends in inequality.[71] Yet, credit can be a lifeline for many families and individuals who face unexpected circumstances.

A public option can take many forms and can offer an alternative for all banking services, or it can be limited to small loans and bank accounts for the underbanked. Participation in commerce is essential for full civic engagement and today, many Americans are excluded from commerce or forced to pay fees for simple loans and transactions. A public option has the potential to resolve these inequalities. For a variety of historic and practical reasons, the US Postal System would be the best means of offering a public option to all communities.

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[1] This testimony has been adapted, in part from a chapter in a new book called *Debating the Public Option,* published with Cambridge University Press. Ganesh Sitaraman and Anne Alstott define a public option as a service provided by the government that is available to all, competes in a free market, and charges all people the same amount for the same services. GANESH SITARAMAN & ANNE L. ALSTOTT, THE PUBLIC OPTION: HOW TO EXPAND FREEDOM, INCREASE OPPORTUNITY, AND PROMOTE EQUALITY 2 (2019).

[2] *See Starr Int'l Co. v. Fed. Reserve Bank of N.Y.*, 742 F.3d 37, 40 (2d Cir. 2014) (FRBs are instrumentalities of the federal government and the operating arms of its central bank); Robert C. Hockett & Saule T. Omarova, *The Finance Franchise*, 102 CORNELL L. REV. 1143, 1147 (2017).

[3] Mehrsa Baradaran, *Banking and the Social Contract*, 89 NOTRE DAME L. REV. 1283, 1285–86 (2014); For a modern example, see Jeanna Smialek et al., *Banks Want Efficiency. Critics Warn of Backsliding.*, N.Y. TIMES (August 20, 2019), www.nytimes.com/2019/08/20/business/bank-regulation-federal-reserve.html.

[4] LOUIS D. BRANDEIS, OTHER PEOPLE'S MONEY 64 (1914).

[5] For a more robust discussion, see MEHRSA BARADARAN, HOW THE OTHER HALF BANKS: EXCLUSION, EXPLOITATION, AND THE THREAT TO DEMOCRACY 211 (2015)

[6] *See* Justin Pritchard, *Understanding the FDIC*, THE BALANCE (April 29, 2020), www.thebalance.com/what-is-the-fdic-315786 [https://perma.cc/B2TZ-CDA9].

[7] CAROL COYE BENSON ET AL., PAYMENTS SYSTEMS IN THE U.S.: A GUIDE FOR THE PAYMENTS PROFESSIONAL **XX** (3rd ed. 2017).

[8] Banks do pay into the FDIC insurance fund through premiums, but most scholars agree that the premiums are underpriced. Furthermore, it is not just the actual funds that are paid out in the event of a failure that is of importance here. It is the fact that bank deposits are backed by the full faith and credit of the federal government making them a safe repository for their customers' funds. "Until the early 1990s, the FDIC levied flat-rate insurance premiums on banks as a function of deposits, but not the banks' risk. In 1991 the FDICIA required that the FDIC introduce risk-based premiums. However, to date, the range of premiums is much narrower than the range of risk exposures of the FDIC to individual bank failures. Under the Deposit Insurance Funding Act of 1996, when the FDIC reserve fund exceeds 1.25 percent of deposits, the 'safest' of banks pay no deposit insurance premium meaning that recently more than 90 percent of banks holding over 90 percent of total bank assets paid NO premiums." Joe Peek & James A. Wilcox, *The Fall and Rise of Banking Safety Net Subsidies*, *in* TOO BIG TO FAIL: POLICIES AND PRACTICES IN GOVERNMENT BAILOUTS 177–78 (Benton E. Gup ed., 2004).

[9] Sallie Mae ceased being a GSE, and became fully privatized, when Congress terminated its charter on December 29, 2004. At that point, the GSE became SLM Corporation, "a fully private sector corporation." U.S. DEP'T OF TREASURY, LESSONS LEARNED FROM THE PRIVATIZATION OF SALLIE MAE 1 (2006), www.treasury.gov/about/organizational-structure/offices/Documents/SallieMaePrivatizationReport.pdf [https://perma.cc/F5Z4-RSDE]. A table on page 3 of the above mentioned Treasury report distinguishes the former GSE-Sallie Mae from the fully privatized SLM

corporation. Notable differences include: (1) the GSE's charter was created by an act of Congress; (2) the president appointed the GSE's board members; (3) the GSE could borrow up to $1billion from the Treasury, whereas the SLM corporation cannot borrow from the Treasury; (4) the GSE's debt was eligible for federal open market purchases; (5) the GSE was exempt from SEC registration and financial and other filings with the SEC; and (6) the GSE was exempted from federal, state, and local income taxes. *Id.* at 3.

[10] Fannie Mae and Freddie Mac were spun off of the federal government and privatized, which meant that they were run by a board of shareholders. It did not mean that they operated in normal markets. The market still treated them like government entities, meaning, that they did not contemplate their failure. When they did fail because of the excessive risks their managers took, the government bailed them out without flinching. *See id.*

[11] There is a long and rich philosophical discussion about the social contract between individuals and society. In general, social contract theory posits that individuals consent to surrender some natural liberty in exchange for protection or other benefit conferred by society. The relationship between the government and banks is similar. The social contract between individuals and the state has been taken up by Hobbes, Kant, Rousseau, Rawls, and others. Paul Tucker, Deputy Governor, Bank of England, Remarks at the British Bankers' Association Annual International Banking Conference, Regimes for Handling Bank Failures – Redrawing the Banking Social Contract (June 30, 2009), www.bis.org/review/r090708d.pdf [https://perma.cc/NH6W-KHTU].

[12] Warren L. Dennis, *The Community Re-Investment Act of 1977: Its Legislative History and its Impact On Applications For Changes in Structure Made By Depository Institutions To The Four Federal Financial Supervisory Agencies* (Lafayette, Ind.: Credit Research Center, Krannert Graduate School of Management, Purdue University, 1978).

[13] Carol Coye Bensin and Scott Loftesness; *Payments Systems in the U.S.* 3rd ed. (Glenbrook Partners 2010)

[14] https://www.federalreserve.gov/paymentsystems/pfs_frpaysys.htm

[15] (https://www.cnbc.com/2019/03/08/25percent-of-us-households-are-either-unbanked-or-underbanked.html).

[16] *See* Mehrsa Baradaran, *How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy,* HARVARD UNIVERSITY PRESS (Oct. 2015)

[17] Jeremy C. Kress, *Modernizing Bank Merger Review*, 37 Yale J. on Reg. (2020).
Available at: https://digitalcommons.law.yale.edu/yjreg/vol37/iss2/2

[18] https://www.nbcnews.com/news/nbcblk/how-itta-bena-mississippi-became-banking-desert-n1017686

[19] Bank closures are not spread out evenly—93% of bank closings are in low income areas. 9,666 of 95,018 branches were lost between 2008 and 2017—that is 10%. 86 new banking deserts appeared in rural areas during this period. Several metro areas lost 15%-25% of their banks. Rural and small town businesses suffer long term impact from branch closures. 25% of all rural closures were in majority minority census tracts. [NCRC, accessed 3/30/19]. Banks have shut 1,826 branches since late 2008, and 93 percent of closures were in postal codes where the household income is below the national median, according to census and federal banking data compiled by Bloomberg. [Bloomberg News, 5/2/13].

[20] Chase, Wells Fargo and Bank of America all require balances of $1,500 to avoid fees on their basic accounts. [Time, 8/7/18]. Among unbanked households, lower-income households were more likely to say that they were unbanked because they did not have enough money to keep in an account or because they had personal identification, credit, or former bank account problems. [GAO, February 2018]

[21] *Mehrsa Baradaran, It's Time for Postal Banking,* 127 HARV. L. REV. F. 165 (2014)

[22] https://www.federalreserve.gov/paymentsystems/pfs_frpaysys.htm

[23] *See* Margot Sanger-Katz, *The Difference Between a "Public Option" and "Medicare for All"? Let's Define Our Terms*, N.Y. TIMES (February 19, 2019), www.nytimes.com/2019/02/19/upshot/medicare-for-all-health-terms-sanders.html [https://perma.cc/6K8B-HG7M].

[24] The Post Office was established during the Postal Act of 1792. Andrew Glass, *Washington Signs the Postal Act: Feb. 20, 1792*, POLITICO (February 20, 2008), www.politico.com/story/2008/02/washington-signs-the-postal-act-feb-20–1792-008592.

[25] *See* BD. OF GOVERNORS OF THE FED. RESERVE SYS., PAYMENT SYSTEM RISK, www.federalreserve.gov/paymentsystems/psr_about.htm [https://perma.cc/9K5L-QQ4P].

[26] *See* Adam J. Levitin & Susan M. Wachter, *The Public Option in Housing Finance*, 46 U.C. DAVIS L. REV. 1111, 1119 (2013).

[27] THOMAS HERNDON & MARK PAUL, A PUBLIC BANKING OPTION 17 (2018), http://rooseveltinstitute.org/wp-content/uploads/2018/07/Public-Banking-Option-final.pdf [https://perma.cc/7HN3-EZJE].

[28] *See* FED. DEPOSIT INS. CORP., DEPOSIT INSURANCE FAQS, www.fdic.gov/deposit/deposits/faq.html [https://perma.cc/6VY4-U5ET].

[29] *See* RICHARD SCOTT CARNELL ET AL., THE LAW OF FINANCIAL INSTITUTIONS (5th ed. 2013); RICHARD S. GROSSMAN, UNSETTLED ACCOUNT: THE EVOLUTION OF BANKING IN THE INDUSTRIALIZED WORLD SINCE 1800 246–50 (2010).

[30] *See* Roger Lowenstein, *There's a Reason for Deposit Insurance*, N.Y. TIMES (March 23, 2013), www.nytimes.com/2013/03/24/business/deposit-insurance-and-the-historical-reasons-for-it.html [https://perma.cc/49K5-WLJ4].
[31] *Id.* at 167, 172.
[32] TERRI FRIEDLINE & MATHIEU DESPARD, MAPPING FINANCIAL OPPORTUNITY: FINAL REPORT 8–9 (2017), https://aedi.ssw.umich.edu/sites/default/files/publications/Mapping-Financial-Opportunity.pdf [https://perma.cc/V5AF-2FLF].
[33] PEW CHARITABLE TRS., DROWNING IN DEBT: A HEALTH IMPACT ASSESSMENT OF HOW PAYDAY LOAN REFORMS IMPROVE THE HEALTH OF MINNESOTA'S MOST VULNERABLE (2016), www.pewtrusts.org/-/media/assets/external-sites/health-impact-project/hip-2016-payday-lending-report.pdf [https://perma.cc/S7V6-VBZN].
[34] BD. OF GOVERNORS OF THE FED. RESERVE SYS., REPORT ON THE ECONOMIC WELL-BEING OF U.S. HOUSEHOLDS IN 2017 – MAY 2018, www.federalreserve.gov/publications/2018-economic-well-being-of-us-households-in-2017-dealing-with-unexpected-expenses.htm.
[35] Sarah Holder, *Why Cleveland Wants to Bring Back Postal Banking*, CITYLAB (June 4, 2019), www.citylab.com/equity/2019/06/cleveland-post-office-banking-cash-check-predatory-lending/590557/; Derek Thompson, *Why Don't Americans Save More Money?*, THE ATLANTIC (April 19, 2016), www.theatlantic.com/business/archive/2016/04/why-dont-americans-save-money/478929/.
[36] Holder, 65; Thompson, 65.
[37] Dean Karlan et al., *Impact of Savings Groups on the Lives of the Poor*, 114 PROC. OF THE NAT'L. ACAD. OF SCI. OF THE U.S. 3079 (2017).
[38] *Id.*
[39] The *Times* reports a figure of 28 million, but by the end of the year, the Post Office Annual Report states that deposits totaled $33 million. *Postal Savings System Practically Self Sustaining*, N.Y. TIMES (May 25, 1913), https://timesmachine.nytimes.com/timesmachine/1913/05/25/100267539.pdf?pdf_redirect=true&ip=0; U.S. POST OFF. DEP'T., ANNUAL REPORT OF THE POSTMASTER GENERAL FOR THE FISCAL YEAR ENDED JUNE 30, 1911 6 (1912); U.S. POST OFF. DEP'T., ANNUAL REPORT OF THE POSTMASTER GENERAL FOR THE FISCAL YEAR ENDED JUNE 30, 1912 6–7 (1913); US POST OFF. DEP'T., ANNUAL REPORT OF THE POSTMASTER GENERAL FOR THE FISCAL YEAR ENDED JUNE 30, 1913 303 (1914).
[40] *See* SHELDON GARON, BEYOND OUR MEANS: WHY AMERICA SPENDS WHILE THE WORLD SAVES 374 (2011).
[41] *Id.*
[42] NILS CLOTTEAU & BSRAT MEASHO, UNIVERSAL POST UNION, GLOBAL PANORAMA ON POSTAL FINANCIAL INCLUSION 2016 9 (2016), www.upu.int/uploads/tx_sbdownloader/globalPanoramaOnPostalFinancialInclusion2016En.pdf [https://perma.cc/EL4S-4EGJ]; US POST OFF. DEP'T., ANNUAL REPORT OF THE POSTMASTER GENERAL FOR THE FISCAL YEAR ENDING JUNE 30, 1942 18 (1943); US POST OFF. DEP'T., ANNUAL REPORT OF THE POSTMASTER GENERAL FOR THE FISCAL YEAR ENDING JUNE 30, 1945 13–14 (1946).
[43] CLOTTEAU & MEASHO, , at 9.
[44] *Id.*
[45] *Id.*
[46] THE WORLD BANK GROUP, GLOBAL INFO. & COMM. TECH. POSTAL POLICY, THE ROLE OF POSTAL NETWORKS IN EXPANDING ACCESS TO FINANCIAL SERVICES: WORLDWIDE LANDSCAPE OF POSTAL FINANCIAL SERVICES, ASIA REGION 5, http://documents.worldbank.org/curated/en/410191468337292692/704230ESW0P0850C0Box370041B0000Asia.doc.
[47] ALEXANDRE BERTHAUD & GISELA DAVICO, UNIVERSAL POSTAL UNION, GLOBAL PANORAMA ON POSTAL FINANCIAL INCLUSION: BUSINESS MODELS AND KEY ISSUES 9–10 (2013), www.uniglobalunion.org/sites/default/files/pictures/post/globalpanoramafinancial_inclusion_-upu_-en.pdf [https://perma.cc/43KU-FHB9].
[48] *Id.* at 11.
[49] *See id.* at 9, 19–20.
[50] *See id.* at 81–82.
[51] *Id.*
[52] Zoë Miller, *13 Financial Services Walmart Offers That You Probably Didn't Know About*, BANKRATE (April 18, 2019), www.bankrate.com/personal-finance/smart-money/walmart-financial-services/#slide=1 [https://perma.cc/SLQ9-6HPZ].
[53] Ciara Linnane, *Green Dot, Wal-Mart Partnership is a Big Milestone: JP Morgan*, MARKETWATCH (September 25, 2014), www.marketwatch.com/story/green-dot-wal-mart-partnership-is-a-big-milestone-jp-morgan-2014–09-25 [https://perma.cc/BX3Q-49N5].

[54] David Z. Morris, *You Can Now Pay Cash When Shopping on Amazon. Here's How*, FORTUNE (September 19, 2019), https://fortune.com/2019/09/19/you-can-now-pay-cash-when-shopping-on-amazon-heres-how.
[55] *See* Mehrsa Baradaran, *Postal Banking's Public Benefits*, 3 AM. AFF. J. 18, 23 (2018).
[56] OFF. OF THE INSPECTOR GEN., U.S. POSTAL SERV., PROVIDING NON-BANK FINANCIAL SERVICES FOR THE UNDERSERVED 2 (2014), www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14–007_0.pdf.
[57] The Post Office white paper suggests that they can offer loans with a 28 percent APR, a rate sustainable for the Post Office and its customers. *Id.* at 13.
[58] Susie Cagle, *Can a New Kind of Payday Lender Help the Poor?*, THE NATION (July 9, 2018), www.thenation.com/article/can-new-kind-payday-lender-help-poor/.
[59] Teresa Molina Millán et al., *Long-Term Impacts of Conditional Cash Transfers: Review of the Evidence*, 34 THE WORLD BANK RES. OBSERVER 119, 151 (2019), https://academic.oup.com/wbro/article/34/1/119/5492445.
[60] *See* TASK FORCE ON THE U.S. POSTAL SYS., DEP'T. OF THE TREASURY, UNITED STATES POSTAL SERVICE: A SUSTAINABLE PATH FORWARD 5, 33 (2018), https://home.treasury.gov/system/files/136/USPS_A_Sustainable_Path_Forward_report_12–04-2018.pdf [https://perma.cc/Q6AU-L4J8].
[61] *Id.*
[62] OFF. OF THE INSPECTOR GEN., U.S. POSTAL SERV., GOVERNANCE OF THE U.S. POSTAL SERVICE 1, 18 (2016), www.uspsoig.gov/sites/default/files/document-library-files/2016/RARC-WP-17–002.pdf.
[63] Cathy M. Rogerson et al., *Economies of Scale and Scope and Competition in Postal Services*, *in* 12 TOPICS IN REGULATORY ECONOMICS AND POLICY SERIES: REGULATION AND THE NATURE OF POSTAL AND DELIVERY SERVICES (1993).
[64] Steven Nickolas, *How do Economies of Scope and Economies of Scale Differ?*, INVESTOPEDIA (May 6, 2019), www.investopedia.com/ask/answers/042215/what-difference-between-economies-scope-and-economies-scale.asp [https://perma.cc/U9H5-QDMC].
[65] FED. DEPOSIT INS. CORP., 2017 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS 10 (2018), www.fdic.gov/householdsurvey/2017/2017report.pdf.
[66] Steve Ander & Art Swift, *Americans Rate Postal Service Highest of 13 Major Agencies*, GALLUP (November 21, 2014), https://news.gallup.com/poll/179519/americans-rate-postal-service-highest-major-agencies.aspx [https://perma.cc/J6CM-YR5C].
[67] *Id.*
[68] Dennis Jacobe, *Americans' Confidence in Banks Up for First Time in Years*, GALLUP (June 13, 2013), https://news.gallup.com/poll/163073/americans-confidence-banks-first-time-years.aspx [https://perma.cc/WTZ4-MQPQ]; Peter Moore, *Poll Results: Post Office Bank*, YOUGOV (February 10, 2014), https://today.yougov.com/topics/finance/chapters-reports/2014/02/10/poll-results-post-office-bank [https://perma.cc/MPZ9-EAND].
[69] William Lacy Swing, *How Migrants Who Send Money Home Have Become a Global Economic Force*, WORLD ECON. F. (June 14, 2018), www.weforum.org/agenda/2018/06/migrants-remittance-global-economic-force/ [https://perma.cc/B9RV-A2CY].
[70] The United States Postal Service is an independent establishment of the Executive Branch of the Government of the United States and operates in a business-like way. Its mission statement can be found in Section 101(a) of Title 39 of the U.S. Code, also known as the Postal Reorganization Act. Pub. L. 91–375, 84 Stat. 719 (1970) (codified as 39 U.S.C. § 101(a)).
[71] Payday lending began to increase in the late 1980s and has risen since then, as has inequality. *See* JOHN P. CASKEY, FRINGE BANKING: CHECK-CASHING OUTLETS, PAWNSHOPS, AND THE POOR 6 (1994); Gregory Elliehausen & Edward C. Lawrence, *A Comparative Analysis of Payday Loan Customers*, 26 CONTEMP. ECON. POL'Y 299 (2008).

Testimony of John Berlau, Senior Fellow, Competitive Enterprise Institute

Before the House Financial Services Committee, Subcommittee on Consumer Protection and Financial Institutions

Hearing: "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System"

July 21, 2021

Chairman Perlmutter, Ranking Member Luetkemeyer, and honorable members of this Subcommittee, thank you for this opportunity to present testimony on behalf of my organization, the Competitive Enterprise Institute (CEI), at this hearing on the vital topic of financial inclusion.

CEI is a Washington-based free-market public policy organization, founded in 1984, that studies the effects of regulations on job growth and economic well-being. Our mission is to advance the freedom to prosper for consumers, entrepreneurs, and investors.

At CEI, we have long championed private-sector innovation that promotes financial inclusion and warned about government red tape that contributes to the problem of the unbanked. We sounded the alarm about Dodd-Frank Section 1075, also known as the "Durbin Amendment," that transferred through price controls much of the cost of processing debit cards from retailers – including very large retail chains -- to some of the nation's poorest consumers. We pointed out that largely as a result of this measure in the 2010 law, the percentage of free non-interest checking accounts as measured by the financial publication Bankrate slid from 76 percent in 2009 to just 39 percent in 2012.[1] Later, a study by George Mason University law professor Todd Zywicki and Geoffrey A. Manne and Julian Morris of the International Center for Law and Economics found that the Durbin Amendment contributed to more than 1 million Americans becoming unbanked.[2]

In the last few years, there has been progress in more Americans being part of the banking system, as the share of free checking accounts climbed back up to 47 percent in the 2020

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[1] John Berlau "Free Checking Nearly Extinct Thanks To Dodd-Frank; Will Credit Card Rewards Follow?," Competitive Enterprise Institute Blog, September 28, 2012, https://cei.org/blog/free-checking-nearly-extinct-thanks-to-dodd-frank-will-credit-card-rewards-follow/ ; Catherine New, "Free Checking Accounts Inch Toward Extinction As Cost Of Banking Rises," Huffington Post, September 17, 2012, https://www.huffpost.com/entry/free-checking-account-cost-of-banking_n_1909504.

[2] Todd J. Zywicki, Geoffrey A Manne, and Julian Morris, "Price Controls on Payment Card Interchange Fees: the U.S. Experience," George Mason University Law and Economics Research Paper Series No. 14-18, https://www.law.gmu.edu/assets/files/publications/working_papers/1418.pdf.

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Bankrate survey[3], and fintech apps such as Dave and Earnin help people keep track of their money and offer free or very low-cost advances on their paychecks. But there is still much more to be done in terms of clearing barriers to financial inclusion. Innovators in every region of America – from the coasts to middle America - where I hail from originally – are creating financial products and services to serve every sector of American consumers and small-business entrepreneurs. The government has a role in ensuring clear disclosure and swift punishment of fraud but should refrain from either heavy-handed regulation or the creation of state-owned financial services entities that could smother and crowd out this innovation. And it should clear away existing regulation that is either outdated or, in a term my colleagues and I have used to describe red some red tape that was cleared away as a hindrance to combating the pandemic, was *never-needed*.[4]

I thank the committee for presenting the three bills to my fellow witnesses and me for our assessments. I'm pleased to say I generally like the approach of one of the bills, the "Expanding Financial Access for Underserved Communities Act.'' However, I can't say the same for the other two offerings, the "Access to No-Fee Accounts Act" and the "Public Banking Act of 2021."

First, the positive. The "Expanding Financial Access for Underserved Communities Act" allows, but does not mandate, credit unions to expand their fields of membership to include a variety of underserved areas. This lifts regulatory barriers to individual credit unions that decide it makes good business sense to add new customers based on their mission of service. And the credit union supervisory agency, the National Credit Union Administration, will review such plans by credit unions for safety and soundness.

I applaud this type of approach, which is consistent with what my colleagues and I have been advocating in terms of policies that add competition through liberalization to the financial system. We have pushed for both bank and credit unions regulators to streamline approvals for new, or "*de novo*", entrants and are pleased that both the NCUA and the Federal Deposit Insurance Corporation (FDIC) are making *de novo* approvals a priority, even though they still have a long way to go reach the number of new financial institution approvals of decades past. We also have long advocated that Congress raise or repeal the arbitrary cap on credit union member business lending that serves no safety and soundness purpose and exists mainly to protect banks from competition in making business loans.[5]

But while the credit-union bill is a bottom-up approach to financial inclusion, the other two offerings are top-down approaches that would worsen the lot of the unbanked as well as many

[3] Mathew Goldberg, "Survey: Interest Checking Account Fees Hit Record High, While Average Yield Ties Record Low," Bankrate, October 21, 2020, https://www.bankrate.com/banking/checking/checking-account-survey/#noninterest.
[4] Kent Lassman and David McIntosh, "Kill the Never-Needed regulations slowing the economic recovery," *Washington Examiner*, May 28, 2020, https://www.washingtonexaminer.com/opinion/kill-the-never-needed-regulations-slowing-the-economic-recovery.
[5] John Berlau and Lindsay Lewis, "A simple way to grow America's economy and create jobs, *The Hill*, September 29, 2015, https://thehill.com/blogs/congress-blog/economy-budget/255228-a-simple-way-to-grow-americas-economy-and-create-jobs.

other American consumers of the financial system. The "Access to No-Fee Accounts Act" is a version of what has been called "Fed Accounts," in which the Federal Reserve would directly compete with banks and credit unions to provide deposit accounts to consumers. This approach raises a host of problems involving privacy, data security, crowding out private-sector innovation, and depriving banks and credit unions of deposits necessary to make loans.[6]

On privacy, Fed Accounts give the Fed, a government entity, direct access to consumer financial transactions without a warrant.[7] The data would also likely be vulnerable to hacking, as the government's record on data breaches is certainly no better than that of the private sector.[8] Drew Johnson, national director of Protect Internet Freedom and senior fellow at the Taxpayers Protection Alliance, notes that under such a scheme, "the federal government could learn how much a mother paid for her son's piano lesson, how friends chose to split a dinner bill, where an individual traveled using a rideshare app, how much a couple spent on concert tickets for their anniversary, and billions of other nuggets of information the government, frankly, has no right to know."[9]

The approach of the "Public Banking Act of 2021" raises similar concerns to Fed Accounts, plus has some uniquely troubling aspects of its own. Like plans for Fed Accounts, proposals for banking units owned by the U.S. Postal Service or state governments pose threats to privacy, data security, and innovation. The provisions in this bill to grant a federal charter and provide a new type of deposit insurance to these entities also pose risks of taxpayer bailouts for poorly managed public banks.

But perhaps the biggest concern of this particular bill is that financial *exclusion* – rather than inclusion -- of a legal industry is one of its stated goals. On page 23, the bill prohibits banks with this charter from "providing loans to, making investments in, or otherwise engaging in any activity that is financial in nature, or incidental to such financial activity, for a fossil fuel project." Ironically, the state-owned Bank of North Dakota, which may be touted as an example of public banking at this hearing, would be disqualified as a "covered bank" under this bill because it provides financing for drilling and fracking in the oil-rich regions of the state.[10] This bill's prohibition on banks dealing with industries that are legal, yet which government officials deem as "unwoke," clashes with the supposed theme of this hearing of financial inclusion. It is a

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[6] Paul H. Jossey, "Central Bank Digital Currency: The Fed's Coming Power Grab," *National Review*, June 3, 2021, https://www.nationalreview.com/2021/06/central-bank-digital-currency-the-feds-coming-power-grab/.
[7] John Berlau, "Government-Run Payment Systems Are Unsafe at Any Speed," OnPoint No. 264, Competitive Enterprise Institute, June 10, 2020, pp. 5-6, https://cei.org/sites/default/files/John_Berlau_-_Government-Run_Payment_Systems_Are_Unsafe_at_Any_Speed.pdf.
[8] Amelia Brust and David Thornton, "Appeals court rules OPM data breach left people vulnerable to harm," Federal News Network, June 27, 2019, https://federalnewsnetwork.com/opm-cyber-breach/2019/06/appeals-court-rules-opm-data-breach-left-people-vulnerable-to-harm/.
[9] Drew Johnson, "Wasteful Fed Wants Millions for Real-Time Payments Redundancy, Newsmax, May 21, 2019, https://www.newsmax.com/drewjohnson/paypal-square-venmo/2019/05/21/id/917034/.
[10] Oscar Perry Abello, "What a Public Bank Can Do for Real People," *Yes Magazine*, February 19, 2020, https://www.yesmagazine.org/issue/world-we-want/2020/02/19/public-bank-north-dakota.

deliberate attempt to make a legal industry "unbanked," despite harmful consequences to the workers and consumers in the industry's orbit.

My CEI colleagues and I have been consistent in saying that government officials should not use the banking industry to launch indirect attacks on industries they disfavor. We support the "SAFE Banking Act," sponsored by Chairman Perlmutter, to prevent the federal government from punishing banks and credit unions that service marijuana businesses that operate in states where the substance is treated as legal under state law.[11] We also supported Ranking Member's Luetkemeyer's efforts to uncover and then end "Operation Choke Point," in which various federal agencies during the Obama era pushed banks to cut off business with industries ranging from guns to small-dollar lenders.[12] CEI believes that the federal government should neither discourage nor encourage banks and credit unions in dealing with legal industries, whether marijuana, guns, or oil and gas.

It is legitimate in a democracy to debate whether industries should be restricted or even banned. But as long as an industry is legal, its practitioners should not be forced to leave themselves and their stakeholders vulnerable to crime and other effects of being unbanked because the government has pressured banks and credit unions to shut off access to them. In all transactions involving controversial but legal industries, individual financial firms should be allowed to make their own assessments of reputational risks.

There are many more things Congress and policy makers can do to ensure a financial system that can serve all legitimate consumers and entrepreneurs. The Truth in Lending Act needs to be revised so that the measure of annual percentage rate (APR) isn't used to measure the cost of short-term, small-dollar loans that don't come close to being held by borrowers for a year.[13] As the great economist Thomas Sowell points out, "Using this kind of reasoning—or lack of reasoning—you could … say a hotel room rents for $36,000 a year, [but] few people stay in a hotel room all year."[14] Given the flaws in this measure of interest rates and the demonstrated negative effects of price controls, Congress should certainly refrain from enacting a top-down federal APR cap on small-dollar loans.

A competitive market -- free of heavy-handed regulation and state-backed entities that would suppress innovation and do other harms -- is one where all types of entrepreneurs create products

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[11] Michelle Minton and John Berlau, "House-passed SAFE Banking Act Would End Federal Threat to Banks Dealing with Legal Cannabis Businesses," Competitive Enterprise Institute News Release, April 20, 2021, https://cei.org/news_releases/house-passed-safe-banking-act-would-end-federal-threat-to-banks-dealing-with-legal-cannabis-businesses/.

[12] Blaine Luetkemeyer, "Evidence Is Now Clear: Operation Choke Point Hurt Lawful Businesses," *American Banker*, October 24, 2018, https://www.americanbanker.com/opinion/evidence-is-now-clear-operation-choke-point-hurt-lawful-businesses.

[13] Matthew Adams and John Berlau, "The Annual Percentage Rate Is the Wrong Metric for Assessing the Cost of a Short-Term Loan," OnPoint No. 268, Competitive Enterprise Institute, April 7, 2021, https://cei.org/wp-content/uploads/2021/04/revised-apr-paper.pdf.

[14] Thomas Sowell, "Payday Loans," National Review, November 2, 2011, http://www.nationalreview.com/articles/281908/payday-loans-thomas-sowell.

and services for all types of consumers, enabling a financial system and an economy that is both dynamic and inclusive. Thank you again for inviting me to testify. I look forward to your questions.

Mr. Berlau gratefully acknowledges the assistance in preparing this testimony of his CEI colleagues Guy Denton, Paul Jossey, and Ryan Nabil

Testimony of Deyanira Del Rio, Co-Executive Director of New Economy Project

Before the U.S. House Financial Services Committee
Subcommittee on Consumer Protection and Financial Institutions

"Banking the Unbanked: Exploring Private and Public Efforts
to Expand Access to the Financial System"

July 21, 2021

Chairman Perlmutter, Ranking Member Luetkemeyer, Vice Ranking Member Kustoff, and Members of the Subcommittee on Consumer Protection and Financial Institutions, thank you for the invitation to testify at today's hearing on behalf of New Economy Project, a New York City-based economic justice organization. For 26 years, our organization has worked with community groups and low-income New Yorkers to combat persistent redlining, predatory lending, and other inequities in our financial system and economy that perpetuate segregation, inequality, and poverty. We also work with community groups to democratize control over finance, land, housing, jobs, renewable energy, and other sectors of our economy—through public banking, community development financial institutions (CDFIs), community land trusts, worker cooperatives, and other strategies.

My testimony today will address ways in which our current financial system serves to *extract* wealth, and the need to strengthen and enforce laws to hold banks and other financial institutions accountable to people and communities. At the same time, we must focus on creating public banks and other institutions that are designed to *build* community wealth and serve the public interest.

New Economy Project's accomplishments over nearly three decades include keeping payday lending and other debt traps out of New York State; ending employment discrimination based on credit history, in New York City; securing state legislation to combat predatory lending and abusive debt collection, most recently by protecting COVID-19 stimulus payments from debt collection; and supporting the creation of NYC's municipal ID program, among other strategies to expand fair banking access for undocumented, homeless, and other marginalized populations. We have provided direct legal assistance to thousands of low-income New Yorkers through our NYC Financial Justice Hotline, and brought impact litigation against Wall Street banks, debt buyers, and other actors, securing hundreds of millions of dollars in monetary awards and other relief for low-income New Yorkers.

My comments today are additionally informed by my role as board chair of the Lower East Side People's (LES People's) Federal Credit Union, a nationally-recognized, U.S. Treasury-certified CDFI with 35 years of experience serving historically-redlined communities across New York City. LES People's is a staunch advocate for strong consumer protection and fair lending regulations, to protect our mission and the communities we serve.

I want to make three overarching points in my testimony:

- **Barriers to banking access addressed in today's hearing are longstanding and systemic in nature, and call for systemic solutions.** Congress and the federal banking regulators must take comprehensive action to address persistent redlining and barriers that block—or actively expel—the working poor and people of color from mainstream banking, including prohibitive minimum balance requirements, exorbitant overdraft fees, discriminatory identification policies, and consumer reporting databases that determine whether banks will open accounts for people. Policymaking must combat Wall Street's systemic wealth extraction from communities of color, on the one hand, and support affirmative and community-driven solutions on the other. Ultimately, an equitable financial system and economy require strong political will and action to curb Wall Street banks' dominance over our financialized economy.

- **There are no quick fixes to "banking the unbanked," nor do products and services on their own address deeper inequities.** The rhetoric of financial technology (or "fintech") firms, especially, has simply failed to match the reality for low-income communities, which too often are exposed to broad and invasive data collection, racially-biased underwriting algorithms, and other risks in exchange for limited and often inferior financial services. Financial inclusion efforts must prioritize equitable and full access, and not inadvertently promote "alternative" products that reinforce our two-tiered financial system. At the same time, we must combat the notion that financial products—and credit, in particular—are solutions to entrenched poverty and inequality. For example, the antidote to predatory 400% APR payday loans that extract wealth from the working poor is not a "less usurious" debt trap, but rather living wage jobs, housing affordability, strengthened safety nets, and other measures that address root causes of economic insecurity.

- **We need public banks, CDFIs, and other institutions to create a financial services system and economy that work for all.** Public banking is common throughout the world and on the rise across the U.S. as a strategy to expand fair banking access and deepen public investment in affordable housing, living wage jobs and workplace democracy, infrastructure and other critical economic sectors. Public banks would achieve these aims by partnering with and scaling up CDFIs and other community development lenders that understand local economic conditions and needs. In the context of the growing and interrelated health, housing, racial inequality, and climate crises we face, public banks can help shift large-scale financing away from fossil fuel extraction and other harmful industries, toward sustainable and regenerative economic activity. We strongly support the federal Public Banking Act of 2021 (sponsored by Reps. Ocasio-Cortez/Tlaib) to facilitate the formation of state and local public banks.

Barriers to Banking Access

According to FDIC data, one in five Americans either does not have a bank account, or uses high-cost financial services despite having accounts. In New York City, the numbers are even starker, with one in three New Yorkers—and more than half of Bronx residents—among the so-called "unbanked" or "underbanked." Households without a bank account are concentrated in neighborhoods with high poverty and unemployment rates; that are majority Black and/or Latinx; and that have the least access to brick-and-mortar bank branches.[1] (See attached map, *Absence of Bank Branches in NYC Communities of Color.*)

The consequences of banking inequality are manifold. As in other parts of our economy, poor people pay more—up to hundreds of dollars each year—for typically inferior and under-regulated financial services, from check cashing and pawn shops to prepaid debit cards and rent-to-own schemes that fill the void left by banks. Lack of a banking or credit history can, in turn, block fair access to housing, jobs, insurance, and other opportunities.[2] Bank redlining has long fueled residential segregation, racial disparities in home- and small business-ownership, the subprime lending and foreclosure crises, and widening racial wealth inequality.

During the COVID-19 pandemic, we saw how people without bank accounts faced longer wait times to receive stimulus payments and other emergency relief. Nonprofit organizations that raised funds for excluded workers faced formidable challenges, at the height of the pandemic, delivering those funds to community members who did not have accounts or other means of accessing electronic payments. Small businesses and those without banking relationships were largely excluded from the first round of the Paycheck Protection Program (PPP), as Wall Street banks prioritized larger and more lucrative clients. By contrast, CDFIs played an outsized role during the pandemic channeling PPP and other relief funds to their communities. LES People's, for example, made more than $18 million in PPP loans, averaging $32,000, despite the credit union's relatively small size, at just $87 million in assets.

At the same time, Wall Street banks charged New Yorkers nearly $1 billion in overdraft fees during the pandemic—disproportionately extracting wealth from low-income, Black, brown, and immigrant New Yorkers.[3] Through New Economy Project's legal advocacy and community education, we have worked with countless New Yorkers whose accounts were closed by banks when they were unable to repay exorbitant overdraft fees, which can quickly add up to hundreds of dollars or more.[4] Banks not only expel these low-income customers from their institutions, but

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[1] *Where are the Unbanked in NYC?*, at on.nyc.gov/3hMU7VY

[2] *Data Point: Credit Invisibles*, at files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf; *Background On: Credit Scoring*, at www.iii.org/article/background-on-credit-scoring

[3] *New Analysis Shows Banks Drained $1.7 Billion in Fees From New Yorkers' Accounts During Pandemic*, at bit.ly/3roPLYy

[4] Just nine percent of all account holders pay 84 percent of the billions banks charge in overdraft fees, according to the Center for Responsible Lending. These account holders typically carry low balances—averaging less than $350—and effectively subsidize "free" checking for banks' more affluent customers. See *Overdraft Fees: Banks Must Stop Gouging Consumers During the COVID-19 Crisis, at* responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-overdraft-covid19-jun2019.pdf

also report them to consumer reporting databases such as ChexSystems—effectively blacklisting people from opening accounts elsewhere.[5]

We need fundamental change to build a financial system that serves the real economy and the public good. In the immediate term, Congress and federal banking regulators must take strong action to address entrenched barriers to fair banking access. These steps include:

Strengthening consumer protection, fair lending and community reinvestment regulations and enforcement. For starters, Congress, the Consumer Financial Protection Bureau, and federal banking regulators must crack down on predatory overdraft and finally correct the regulatory framework applied to this predatory loan product. Regulators have effectively let banks off the hook when it comes to predatory overdraft, by inappropriately categorizing this clearly usurious form of lending as a savings product.

Regulators also should crack down on banks that have implemented discriminatory identification and other account-opening policies. For example, New York City's population is 40% foreign-born, yet banks routinely deny accounts to people on the basis of presumed immigration status, and none of the big banks accepts the IDNYC municipal identification card as a primary form of ID—despite strong security measures and clear guidance from federal regulators confirming that the card meets federal Know Your Customer requirements. Banks' rejection of IDNYC, held by an estimated 1.4 million New Yorkers, serves to exclude a huge swath of NYC residents, and constitutes a blatant form of discrimination that regulators have yet to address.

Reining in fintechs that claim to "serve the unbanked" as a smokescreen to evade regulation. Many fintech companies target low-income people and communities for inferior, high-cost, or outright predatory products–from payday loans to high-fee prepaid debit accounts. In New York, our organization has joined with others to oppose ongoing efforts by fintech companies to circumvent our state's usury law–including by entering into sham partnerships with national and out-of-state banks. We were pleased by Congress's recent action to repeal the OCC's True Lender rule, which had given cover to such schemes, and we urge strengthened oversight of the fintech sector, as a whole.

Increasing support for CDFIs that responsibly meet community banking and credit needs. As banks continue to consolidate and become further removed from communities and local economies, CDFIs play an increasingly important role financing small businesses, affordable housing, and other development in economically-distressed neighborhoods. CDFI-certified credit unions like LES People's, for example, serve more than 15 million people and manage $180 billion in assets. Despite serving low-income communities, CDFIs consistently exceed the financial growth and performance of their mainstream peers. At the height of the pandemic in spring 2020, CDFIs approved more than $7 billion in loans, outperforming other PPP lenders.[6]

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[5] *Banks Must Stop Gouging Consumers During the COVID-19 Crisis*, at bit.ly/3kBrT2u; *Bank Clients Might Be Unfairly Denied Accounts*, at nyti.ms/2U3lNdT

[6] *CDFI Credit Unions Build Inclusive Economies*, at inclusiv.org/2021-cdfi-credit-unions-build-%ef%bb%bfinclusive-economies

Since its first funding round in 1996 through last year, the U.S. Treasury's CDFI Fund has provided more than $3.9 billion to CDFIs to create jobs and grow businesses, build and preserve affordable housing, expand affordable healthcare and childcare, and more. CDFI Fund investments have helped LES People's, for example, to make more than $120 million in small business, affordable housing, and consumer loans since our inception, and to expand our service area citywide. The CDFI Fund's Rapid Response Program and Treasury's Emergency Capital Investment Program have proven especially timely during the pandemic.

CDFIs typically leverage $12 in private capital for every dollar in public investment. Given the massive benefits that CDFIs provide to communities and our economy, Congress should continue to expand funding and other support for CDFIs as a matter of sound public policy. Our organization has worked with others to win crucial funding for New York State's CDFI Fund—the only state fund of its kind in the country—to further strengthen these vital institutions and expand fair banking access throughout our state.

Public Banking and CDFIs

We are especially pleased to share our perspective on public banking, which we see as critical to fostering strong local economies and a just recovery. Public banks are financial institutions owned by public entities—such as a city, county, or state—that hold public deposits and are chartered to serve the public good. Public banks serve as a powerful tool for local governments to address local needs.

Through public banking, local governments can partner with CDFIs and others to expand fair banking access and deepen investment in affordable housing, small and worker-owned businesses, renewable energy, and other local needs. Significantly, public banks promote transparency and accountability with respect to public finance. They allow local governments to move their public funds out of banks that engage in redlining and predatory financial practices, and that finance fossil fuel extraction, real estate speculation and evictions, and other activities that harm communities and run counter to a locality's public policy goals.

New Economy Project coordinates two broad-based coalitions that are laying critical groundwork for local public banking in New York City and across our state.[7] Our coalitions are advocating for passage of the "NY Public Banking Act," which would create "special purpose" public bank charters, paving the way for cities and counties to establish public banks.[8] The bill includes strong safeguards to ensure public banks' safety, soundness, adherence to mission, transparency and accountability. The bill has gained major traction, with 65 co-sponsors in the NYS Legislature and broad-based support from more than 100 community and labor organizations, and New York-based CDFIs.

The federal Public Banking Act would be a game-changer in our local endeavors, by providing technical assistance and grants to support formation of mission-driven public banks. The

[7] See publicbanknyc.org and equityagendany.org
[8] See, www.neweconomynyc.org/resource/legislative-memo-new-york-public-banking-act

proposal also would give local public banks access to the Federal Reserve's payment systems and FDIC insurance. We support the federal bill as an important complement to our state-level public banking legislation.

Specifically, New York's local public banks will:

- Partner with, and support the expansion of, CDFIs, to bring these critical institutions to greater scale, through participation lending, secondary purchases of loans, credit enhancements and other services.[9] Thanks to the century-old Bank of North Dakota, for example, North Dakota has more local banks and credit unions per capita than any other state in the U.S.[10]

- Support cooperative and community-owned renewable energy initiatives and other green infrastructure. In Germany, the Sparkassen, a network of more than 400 local public banks, have reportedly been a contributor to community renewable energy infrastructure. In Costa Rica, the Banco Popular, a hybrid public/cooperative bank, has played a similar role.[11]

- Expand financing available to small and worker-owner businesses that provide living-wage jobs, and improve working conditions for immigrants, women, and other populations that consistently face obstacles accessing financing from commercial banks.

- Invest in community land trusts, mutual housing associations, limited equity cooperatives, and other social housing models. Public banks could finance community-controlled housing through direct investments, or in collaboration with CDFIs, including through partnership lending and by establishing a secondary market.

Public banking would serve as an especially powerful tool as cities and states throughout the country work to advance a just recovery and withstand future crises. Countries with public banks are significantly more resilient in the face of crises, than those without them. That's because local public banks specifically invest in sectors that provide direct economic, social, and environmental benefits.[12] To support a just recovery, local public banks in New York, for example, could make emergency funds available to small and minority- and women-owned businesses, enabling them to remain in business and preserve jobs.

Thank you again for the opportunity to testify today. I would be pleased to answer any questions you might have and to provide additional information and examples about our work.

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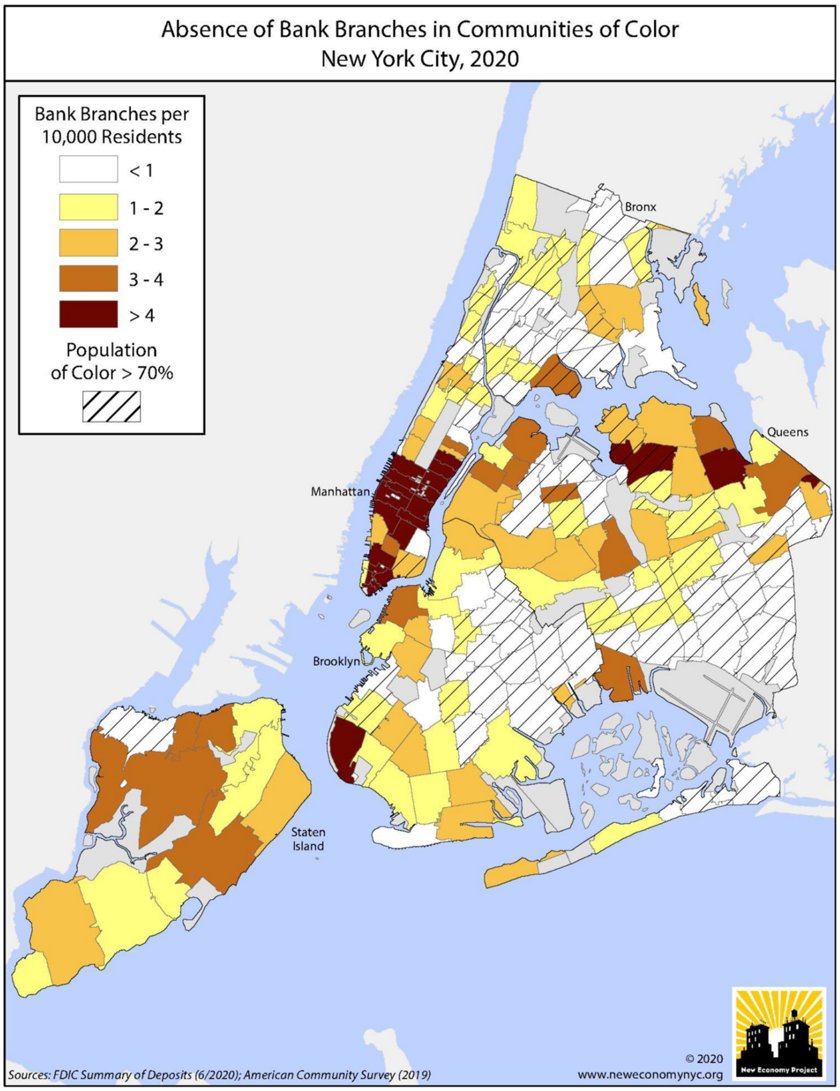
[9] Letter in Support of S.5565-D/A.9665-E, at bit.ly/3rmcFQ5
[10] *AB 310: A Just Recovery from COVID-19*, at bit.ly/3ezSN6K
[11] *Costa Rica's Banco Popular shows how banks can be democratic, green–and financially sustainable*, at bit.ly/3xM67g5
[12] *Public Banks and COVID-19*, at bit.ly/3eCuaGH


Absence of Bank Branches in Communities of Color
New York City, 2020
Bank Branches per 10,000 Residents
< 1
1 - 2
2 - 3
3 - 4
> 4
Population of Color > 70%
Bronx
Queens
Manhattan
Brooklyn
Staten Island
Sources: FDIC Summary of Deposits (6/2020); American Community Survey (2019)
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New Economy Project

TESTIMONY BEFORE THE

U.S. House of Representatives Committee on Financial Services

Subcommittee on Consumer Protection and Financial Institutions

Hearing On

"Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System"

July 21, 2021

Ameya Pawar

Fellow – Open Society Foundations
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Senior Adviser -The Academy Group
Former Alderman – City of Chicago (2011-2019)

With Special Thanks To

Naveen Agrawal - Public Bank Los Angeles

Thank you, Chair Perlmutter, Ranking Member Luetkemeyer, and the Members of the Subcommittee on Consumer Protection and Financial Institutions, for the opportunity to testify today.

My name is Ameya Pawar. I hold fellowships with the Economic Security Project (funded in part by the Chicago Community Trust) and the Open Society Foundations, where I advocate for guaranteed income and public banking. This work serves as the guidepost for my forthcoming book Organize Capital: The Case for Public Banks.[1]

I am here to express my support for the Access to the No Fee Accounts (Fed Accounts) Act and Public Banking Act. Together, these robust proposals create the financial infrastructure necessary for people to manage their finances and access wealth-creating loans.

Today, 25% of Americans are unbanked or underbanked and rely on non-bank financial services such as payday lenders and currency exchanges to manage their finances.[2] Tellingly, 36% of unbanked households reported a lack of trust in banks as a reason for not having a bank account.[3] Fed Account can help rebuild that trust and bring tens of millions of people into the formal banking system by establishing no-fee bank accounts made available through the Federal Reserve, the nation's central bank. Private banks and the post office[4] would serve as the conduit for Fed Accounts – making it possible to receive money, deposit earnings, pay bills, and save without paying exorbitant fees.

The Public Banking Act creates the necessary infrastructure so states and communities can launch public banks. These banks would be set up as public entities with membership in the Federal Reserve and originate wealth-creating home and business loans. In addition, state and local public banks can partner with community banks to expand their balance sheets and channel capital to small-business owners. And the goal would be to originate profitable loans but structure loan terms that set up people to succeed, an issue in which private banks struggled mightily in the leadup to the subprime mortgage crisis. These loans would be responsibly priced and based on risks, not solely based on where people live or their skin color.

Furthermore, there are opportunities for public banks to finance innovative projects such as revenue-generating public enterprises – public options – for housing, childcare, broadband.

Moreover, state and local public banks can finance transformational infrastructure projects, including transitioning to a green economy. By financing these projects locally, public banks would save taxpayers billions in interest payments that currently flow to wealthy investors. And finally, the savings could fund innovative programs such as a guaranteed income and baby bonds.

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[2] https://www.cnbc.com/2019/03/08/25percent-of-us-households-are-either-unbanked-or-underbanked.html
[3] https://www.fdic.gov/analysis/household-survey/index.html
[4] https://theconversation.com/postal-banking-could-provide-free-accounts-to-21-million-americans-who-dont-have-access-to-a-credit-union-or-community-bank-161626

To be clear, we need both proposals to pass. The financial system we currently have is not meeting the needs of many people, communities, or our economy and it is time for policymakers to work beyond the margins.

Ten years ago, I was elected to the Chicago City Council. At the time, I believed the best way to tackle poverty and inequality was to pass laws and reform government programs. So, after I took office, I worked with my colleagues to pass legislation to raise the minimum wage, guarantee paid sick leave, and combat wage theft. I advanced reforms to affordable housing policy and supported more transparency in tax incentive programs. I interfaced with market-based tools such as grants, tax-increment financing, philanthropy, and opportunity zones. But in the end, these efforts, while critically important, only worked on the margins.

I was frustrated by an increasing divergence. The ward I represented was then and still is a solidly middle-class community with pockets of significant wealth. As a result, banks were eager to lend to homebuyers, business owners, and developers. I worked to secure a slew of public infrastructure projects to improve public schools, park facilities, streetscapes, and other amenities. These public investments made it easier to secure additional private investments, and the inflow of private dollars greased the wheels for more public projects. In sum, money followed money.

I did the job my constituents elected me to do. Yet, at the same time, I realized that no amount of well-intentioned legislation was going to be enough. Even if alderpersons and the mayor rowed together, the city lacked the proper tools to create a current for change.

Case in point. A 2020 investigative report by WBEZ-Chicago and City Bureau found that the majority-white neighborhood of Lake View, a neighborhood near the one I represented, received $6 billion in mortgage loans between 2012 and 2018--more than all of Chicago's 18 majority-Black neighborhoods, spanning enormous sections of the south and west sides of the city.[5] Yet, when this story broke, the banks involved made pledges to set aside funds for grants and loans but would not commit to equalizing their lending across the city. What's more, between 2008 and 2016, Chicago lost 13% of its bank branches[6] , and another 8%[7] closed between 2017 and 2020. In total, over 200 bank branches closed over the last 13 years. And the best we (the city) had to offer was more tax credits, subsidies, and grants. These market-based tools made for great press releases but often failed to multiply into additional projects. So we were trying to address a lack of bank lending with everything but bank lending. It was, in effect, "pushing on a string."

If we are to move beyond the margins, it is essential to recognize a bank's superpower. They exercise public policy through lending. When banks lend to people and businesses in a community, the loans drive up property values, increase local revenues, and broaden the tax base. As a result, schools and other public services get better funded, driving more demand for

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[5] Loury, Linda Lutton, Andrew Fan, Alden. *Home Loans in Chicago: One Dollar To White Neighborhoods, 12 Cents To Black*. https://interactive.wbez.org/2020/banking/disparity.

[6] https://ncrc.org/wp-content/uploads/2017/05/NCRC_Branch_Deserts_Research_Memo_050517_2.pdf

[7] https://ncrc.org/research-brief-bank-branch-closure-update-2017-2020/

home and business loans. In time, new wealth gets created. This cycle of development is elegant and powerful. Unfortunately, however, there are few requirements for banks to serve all communities, despite requiring a public charter. Financial institutions should and must function as the catalyst for *local* economies and *local* stakeholders, not just distant shareholders.

Former Republican Congressman Tom Ridge said it best: "communities without credit are very much like land without rain; nothing grows."[8] So, taken in sum, we must ask ourselves: should we continue to concentrate this much power in the hands of private banks? Or, might there be a better way?

The issue before you today is at its heart an issue of public infrastructure. As this chamber considers how to define infrastructure, including broadband internet and affordable child care, we should consider what else has changed in the post-war era. Right now, millions of people (about 80 million) have no way to receive money quickly or cheaply. They either don't have bank accounts or have a bank account and depend on payday loans, check cashers, and tax refund loans. And the lack of access is often incredibly costly, with unbanked households spending more annually on financial transaction costs than on food.[9] They also lack access to loans that can help them build a financial cushion for rainy days and create generational wealth.

To move into a post-Covid era, we must continue to push for progressive governance rather than accepting market mechanisms that will, by design, prioritize profits over the public good. For example, we know investments in roads, child care, and internet provision have a multiplier effect on our economy's growth. Similarly, adding public banks to the financial infrastructure will pay dividends to local economies and private financial institutions alike. Policymakers need additional tools, and consumers need additional options, and healthy markets don't allow this many people and communities to be left behind. That's why Fed Accounts and public banks should be part of the nation's economic recovery agenda.

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[1] I also advise the Academy Group, a Chicago-based social enterprise focused on breaking the racial wealth gap. In addition, I co-lead Green Climate Finance Illinois, a fiscally sponsored project of the National Climate Jobs Center to help pension funds align their investments with ESG and Paris Climate goals.

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[8] Baradaran, Mehrsa. 2015. *How the other half banks: exclusion, exploitation, and the threat to democracy*.

And finally, I hold advisory positions with the UChicago Inclusive Economy Lab and am an adjunct lecturer at the Crown School of Social Work, Policy, and Practice at the University of Chicago.

[2] Loury, Linda Lutton, Andrew Fan, Alden. *Home Loans in Chicago: One Dollar To White Neighborhoods, 12 Cents To Black*. https://interactive.wbez.org/2020/banking/disparity.

[3] Baradaran, Mehrsa. 2015. *How the other half banks: exclusion, exploitation, and the threat to democracy*.

[4] Baradaran, Mehrsa. 2015. *How the other half banks: exclusion, exploitation, and the threat to democracy*.

[5] https://www.marketplace.org/2021/07/14/with-child-tax-credit-payments-coming-fdic-wants-more-people-to-use-banks/

[6] How the Decline in Community Banks Has Hurt U.S. Entrepreneurship | Barron's (barrons.com)

[7] Jesse Eisinger, Jeff Ernsthausen,Paul Kiel. "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax." *ProPublica*, https://www.propublica.org/article/the-secret-irs-files-trove-of-never-before-seen-records-reveal-how-the-wealthiest-avoid-income-tax. Accessed July 19 2021.

Written Testimony Submitted to the U.S. House Committee on Financial Services, House Subcommittee on Consumer Protection and Financial Institutions. Hearing on "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System."

Wednesday July 21, 2021

Submitted by David Rothstein, Senior Principal, Cities for Financial Empowerment Fund
Drothstein@cfefund.org
Joinbankon.org

Mr. Chairman Perlmutter, Ranking Member Luetkemeyer, and members of the Subcommittee on Consumer Protection and Financial Institutions –

My name is David Rothstein, a senior principal with the Cities for Financial Empowerment Fund (CFE Fund) where I lead the national Bank On initiative. The CFE Fund's mission is to work with municipal and other partners to provide financial empowerment programs and services on a large scale, and our work spans across more than 100 city, county, and even state governments. Our Bank On program harmonizes financial institutions of all sizes and types, local government, nonprofit partners, and consumer advocates together through a national product certification program with the goal of bringing un- and under-banked households into safe, affordable, and fully transactional bank and credit union accounts. On behalf of the more than 100 financial institutions with certified Bank On accounts and our 90 plus coalitions around the country, I am honored to testify before you with how Bank On is here to meet the moment you are so admirably prioritizing here today.

Bank On is a success on a number of measurable levels. Eight years ago, we established the first ever National Account Standards (NAS) with close consultation of regulators like the Federal Deposit Insurance Corporation, advocates, financial institutions, local elected officials, and community organizations. These Standards directly address principal concerns of those who are unbanked: monthly costs, predictability of fees, and the absence of penalties like overdraft and insufficient fund fees. We started with the 4 largest banks in the country having certified products, but have quickly grown to 110 banks and credit unions. In fact, certified accounts can now be found in 40% of all the branches in the United States. Banks offering a Bank On certified account represent more than 51% of the deposit market share, according to the FDIC. And almost two dozen of these accounts can be opened online by new customers, further expanding access to rural and urban neighborhoods that don't have branches in their communities.

The market for Bank On accounts is thriving. Led by our partners at the Federal Reserve Bank of St. Louis, the Bank On National Data Hub finds that these accounts are extremely popular and the market is robust. In 2019, nearly 2 million Bank On certified accounts were opened that year alone. We also know that more than 85% of the new account openings were completely new clients to the financial institution, a strong proxy for banking access success. We know that Bank On is helping the unbanked in the hardest to reach markets. The FDIC finds that households of color are 5 times more likely than white households to have a bank account. A recent analysis by the Bank Policy Institute found that more than 60% of Bank On accounts opened were in neighborhoods with more than 50% minority population.

The widespread availability of Bank On certified accounts is of course only part of the banking access equation. It's *connecting* people to these accounts that makes the difference. The Bank On equation looks for ways to integrate banking access into large-scale funding streams. And our 90 Bank On coalition partners help make that happen in their communities. Almost 2 dozen cities, for example, integrate account opening into their summer youth employment programs … and the ability to rely upon national Bank On certification assures those government leaders that these are the right accounts. The State of Maryland is now facilitating Bank On account opening for unemployment benefits recipients. And now the Treasury Department and the IRS has been facilitating Bank On account opening, in partnership with the robust efforts of the FDIC, with facilitating account opening as a way to get both EIP and now Child Tax Credit payments.

All this is to say here today that, while we are thrilled that policymakers and agencies are interested in wide-spread banking access, Bank On is demonstrating – today – both that you can get institutions to offer the right accounts and that people will open them, by the millions each year. Why create a separate-but-equal system that will be incredibly complex and years in the making? Why ignore that very tangible solution, rather than amplify it?

Thank you for your time this morning and I am happy to answer any questions that the Committee has.

Attachments to this testimony:

Bank On National Account Standards 2021-2022.

Updated as of July 19, 2021, a list of Bank On Certified accounts.

The 2020 Bank On Data Hub Report by the Federal Reserve Bank of St. Louis.

Bank Policy Report on Bank On, branch locations, and the Community Reinvestment Act.

Cities for FINANCIAL EMPOWERMENT Fund

BankOn

BANK ON NATIONAL ACCOUNT STANDARDS (2021 - 2022)

TERMS	STANDARDS
Core Features	
Transaction Account at Insured Depository Institution	Checking account (including checkless checking) or bank- or credit union-offered prepaid
Debit Card	Debit card network (e.g., Visa, Mastercard, Discover) for point of sale and bill payment; free
Minimum Opening Deposit	$25 or less
Monthly Maintenance Fee	If not waivable: $5 or less
	If waivable: $10 or less; offer at least two options to waive fee entirely with a single transaction (e.g. direct deposit with no minimum deposit, online bill pay, or debit card purchase)
Overdraft or Non-Sufficient Funds (NSF) Fees	None
Account Activation, Closure, Dormancy, Inactivity, and Low Balance Fees	None
Customer Service	
Branch Access	For financial institutions with branches: free and unrestricted
	For financial institutions without branches: access to free ATM network and free remote deposits
Telephone Banking (Including Live Support)	Free and unrestricted
ATM Access	Free and unrestricted in network
	$2.50 or less out-of-network fee; or up to $3.00 if also provide free access to a partner ATM network
Functionality	
Deposit Capability	Free cash and checks in branch and at ATM (when available), and direct deposit
Bill Pay	Free by financial institution if available, otherwise at least four free money orders and/or cashier checks per month
Check Cashing for Checks Issued by that Institution	Free
Online Banking, Mobile Banking, Banking Alerts	Free (if offered)
Monthly Statements	Free electronic; $2 or less for mailed paper (if offered)
Insured Account Deposits	Insured by FDIC or NCUSIF
Strongly Recommended Features	
Account Screening (e.g. ChexSystems, Early Warning Services)	Only deny new customers for past incidences of actual fraud
Alternative IDs (Municipal, Consular, etc.)	Accept alternative IDs
Online Account Opening and Deposits	Free at financial institutions with branches
Linked Savings Accounts	Free savings accounts and account transfers
Funds Availability	Immediate availability for known customers cashing government, payroll, or checks from that financial institution
Money Orders	$1.70 or less (based on U.S. Postal Service rate)
Remittances (International Wire)	Competitively priced by country ($5.00 - $20.00)
Credit-Building Product Offerings	Secured credit card or secured personal loan, e.g.

www.cfefund.org/bankon

Bank On Certified Accounts

Financial Institution	Bank On Account Name	FDIC Cert #	Branches	Certification Start Date
1st Choice Credit Union	Freedom Checking		2	2/1/2019
AllNations Bank	Simply Safe Checking	4051	2	1/16/2020
BancFirst	E-Connect Account	27476	104	6/3/2020
BancorpSouth	Budget Smart Checking	11813	357	9/21/2020
Bank Five Nine	Achieve Checking	12517	21	1/17/2020
Bank of America	Advantage SafeBalance Banking	3510	4385	10/1/2015
Bank OZK	Freedom Advantage Checking	110	263	12/23/2020
Berkshire Bank	MyFreedom Checking	23621	125	4/7/2021
BMO Harris Bank	BMO Harris Smart Money Account	16571	529	6/14/2021
BOM Bank	EZ Checking	1373	16	5/14/2021
Cadence Bank	eChecking	4999	66	1/16/2019
Carrollton Bank	Basic Banking Account	12383	9	12/20/2017
CASE Credit Union	Load N Go Account		6	10/3/2019
Cathay Bank	Community Checking	18503	66	4/4/2019
Centennial Bank	Simply 100 Checking	11241	180	2/24/2020
CIBC Bank USA	EasyPath Access Account	33306	24	9/19/2018
Citi	Access Account	7213	697	10/1/2015
Columbia Bank	Foundation Account	33826	151	5/19/2020
Credit Union of Atlanta	EZAccess Account		1	7/3/2019
Denver Community Credit Union	Clear Card		5	5/4/2021
Diamond Lakes FCU	Breakfree Checking		3	8/23/2018
Discover Bank	Cashback Debit	5649	0	1/4/2021
Dollar Bank	No Overdraft Checking	32245	71	6/1/2018
Equitable Bank	EZ Checking	31485	6	3/30/2021
Financial Partners Credit Union	EZ Card Checking Account		19	5/22/2020
First Bank	Thrive Checking Account	12229	93	3/1/2020
First Bank Richmond	Easy Fit	28533	9	5/5/2021
First Commonwealth Bank	SmartPay Card	74688	139	5/19/2017
First Commonwealth Federal Credit Union	Fresh Start Checking		11	6/21/2021
First Fed	Compass Checking	29058	13	7/2/2021
First Federal Bank of Wisconsin	Fresh Start Checking	30422	4	2/10/2021
First Financial Bank, N.A.	First Access Checking	4382	78	3/15/2021
First Harrison Bank	Easy Checking	31223	18	5/18/2021
First Home Bank	NuStart Checking	34997	6	5/25/2021
First Horizon Bank	Access Checking Account	4977	471	8/21/2019
First Independence Bank	First Choice Checking	20179	3	4/20/2020

First Midwest Bank	Foundation Checking	3709	115	4/29/2021
First National Bank of Omaha	Access Debit Account	5452	105	5/19/2017
First National Bank of Pandora	Easy Banking Account	6671	5	4/23/2021
First National Bank of Pulaski	On Us	15572	12	6/11/2021
First National Bank Texas	eAccount	3285	338	2/19/2021
First Security Bank	First Steps Checking	5633	77	8/1/2019
First State Bank of Anadarko	eChoice Account	12757	2	1/2/2020
Flagstar Bank	SimplyOne	32541	160	1/17/2018
Fulton Bank	Xpress Account	15966	205	3/1/2021
Georgia's Own Credit Union	Bank On Account		20	6/14/2019
Great Lakes Credit Union	Fresh Checking		12	2/21/2020
Guaranty Bank	Second Chance Checking	28670	17	4/9/2021
Hope Credit Union	Choice Card		29	3/10/2020
Horizon Bank	Fresh Start	14327	74	4/9/2021
IBERIABANK	Ability Banking	4977	233	2/21/2018
Independent Bank	IntroChecking	3076	71	3/22/2018
JP Morgan Chase Bank N.A.	Chase Secure Banking	628	4967	2/25/2019
Kearny Bank	Simple Checking	28765	48	7/16/2021
Keybank National Association	Hassle Free Checking	17534	1111	5/15/2017
LifeStore Bank	Progress Account	31217	4	4/1/2021
M&T Bank	MyWay Checking Account	588	690	4/23/2021
Mechanics Bank	Bank On - Personal Checking	1768	45	2/13/2019
Metro Credit Union	Safeguard Checking		14	3/18/2021
Middletown Valley Bank	Simple Spend	14017	8	6/1/2021
Mid-Southern Savings Bank, FSB	Worry Free Checking	30133	3	10/1/2020
MidWest Bank Centre	Life Happens Checking	3711	17	6/17/2020
Montgomery Bank	New Start Checking	8255	10	2/1/2021
Movement Bank	Anywhere Checking	9502	2	7/2/2021
Mutual Federal	Easy Fit		5	5/5/2021
New Haven Bank	Bank On	58952	1	11/24/2020
Newtown Savings Bank	New Start Checking	18199	15	3/25/2021
North Shore Trust and Savings	Fresh Start Checking	27683	3	3/26/2021
Northwest Bank	Compass Digital Account	32647	18	1/15/2019
Nusenda Credit Union	Breeze Account		18	5/17/2021
Old National Bank	EZ Access Account	3832	173	3/20/2017
Orrstown Bank	Growth Checking	713	26	5/5/2021
PCSB Bank	PCSB Total Checking Account	15995	15	3/25/2021
Peninsula Credit Union	Vista Renew Account		5	10/11/2019
PNC Bank	Foundations Checking	6384	2296	3/22/2021
PNC Bank	Smart Access	6384	2242	12/23/2020
Portage Community Bank	Financial Empowerment Checking	34760	3	4/1/2020
Providence Bank & Trust	Neighborhood Connect	57754	16	1/16/2020
Provident Bank	eVantage	90141	13	11/30/2020
QNB Bank	Opportunity Account	7714	12	4/29/2021
Reading Cooperative Bank	Honest Checking	26620	6	11/11/2020

Red River Bank	New Opportunity Checking	34980	26	1/12/2021
Rio Grande Credit Union	Fresh Start Checking		6	6/7/2021
River City Federal Credit Union	Fresh Start Checking		3	7/12/2019
S&T Bank	Easy Banking	11124	58	10/29/2018
SCE Federal Credit Union	Checkless Checking		9	1/17/2018
Self-Help Federal Credit Union	Access Checking Account		27	6/12/2018
Simmons Bank	Affordable Advantage Checking	3890	187	3/15/2019
Southern Bancorp Bank	Opportunity Card	1528	44	3/12/2018
Spring Bank	Green Checking	58668	2	4/13/2018
Stearns Bank, N.A.	BankONStearns Account	10988	8	4/6/2021
Summit Credit Union	Balance Account		45	3/16/2021
The Citizens Bank	Spark Banking	17211	20	11/2/2018
The First, a National Banking Association	First AID Checking	34217	72	5/9/2018
The Westchester Bank	Banking Made Personal	58652	8	12/21/2020
Thomaston Savings Bank	Uncommon Account	18258	14	2/4/2021
Tri Counties Bank	Money Smart Checking	21943	71	6/1/2021
Tri-Valley Service FCU	Essential Checking		1	2/1/2021
Truist	Money Account	9846	2922	2/6/2020
Trustmark National Bank	Advantage Checking	4988	183	3/26/2021
U.S. Bank	Safe Debit Account	6548	2775	8/22/2016
UP Federal Credit Union	Level Up Checking		2	9/21/2020
US Eagle FCU	Flex Checking		9	5/27/2021
USALLIANCE Financial	Dora Everyday Checking		15	3/1/2021
Valley National Bank	Valley Journal Checking	9396	227	1/27/2021
Wells Fargo Bank	Clear Access Banking	3511	5399	9/7/2020
Wintrust Community Banks	Money Smart Checking	33935	80	6/28/2021

The Bank On National Data Hub:

Findings from 2019

BankOn

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Executive Summary

About 5.4% of U.S. households are unbanked, according to the Federal Deposit Insurance Corp. (FDIC), meaning they do not have checking or savings accounts. While this figure represents the lowest rate of unbanked individuals since the FDIC began compiling this type of data in 2009, it means that 7.1 million U.S. households and businesses are still operating on the sidelines of the financial mainstream because they feel:

- They don't have enough money for an account
- They don't trust banks
- Avoiding banks affords more privacy
- Bank fees are too high or unpredictable[1]

The purpose of the **Bank On movement** is to improve the financial stability of unbanked and underbanked individuals and families by making safe, low-cost transaction accounts available and accessible to all. A way in which the movement reaches its target markets is by professionalizing, or building a formal structure, for banking access efforts for financial institutions and their customers. Paramount to the professionalization of such efforts are high-quality data showing the take-up, or engagement with and usage of, Bank On-certified accounts.

The St. Louis Fed's Bank On National Data (BOND) Hub serves as a national reporting platform for all financial institutions offering certified Bank On accounts. For this report, 10 financial institutions submitted data to the BOND Hub. The institutions were asked to submit their 2019 account data on 25 metrics related to account openings, usage and consistency, and online access.

These data allow stakeholders to better understand the market nationally, regionally and locally. The BOND Hub also allows financial institutions to benchmark the performance of Bank On-certified products and use this information for regulator examinations of their community services. It helps Bank On coalition partners illustrate their progress in promoting local banking access without requiring multiple data requests. The ability to quantify the national impact of Bank On—and how consumers are opening and using safe, affordable transaction accounts—is an important asset for banking access efforts and demonstrates the market for Bank On-certified accounts.

1 See the **FDIC National Survey of Unbanked and Underbanked Households.**

KEY TAKEAWAYS

- The demand and use of Bank On accounts is strong and continues to grow. To date, more than 5.8 million Bank On-certified accounts have been opened across the 10 reporting institutions. Of those, 2.6 million accounts were open and active in 2019. Bank On accounts have been opened in more than 31,000 ZIP codes, or 75% of all U.S. ZIP codes.

- Bank On account take-up and opening activity look different for banks of varying sizes. Certified accounts at large financial institutions appeal more to new customers, whereas those at community financial institutions are more likely to be opened by existing customers. In addition, the highest number of certified accounts were opened in August 2019 at large financial institutions; for community financial institutions, the most account opening occurred in April 2019.

- Account holders actively use many of the services provided by certified Bank On accounts. Nearly $23 billion were deposited into Bank On-certified accounts in 2019 and 26% of account holders used direct deposit. The average monthly balance was $345 per account and 75% of account holders were digitally active.

Part One — The BOND Hub

OVERVIEW

Each year, the St. Louis Fed invites all financial institutions with accounts certified as meeting the Bank On National Account Standards to report data to its BOND Hub. The metrics collected have been determined in consultation with the CFE Fund and its Bank On National Advisory Board. Data are aggregated and released annually. The following financial institutions were part of the 2019 data submission effort:

- Bank of America
- Carrollton Bank
- First Commonwealth Bank
- IBERIABANK
- JPMorgan Chase
- Old National Bank
- Southern Bancorp
- The First, A National Banking Association
- U.S. Bank
- Wells Fargo

BACKGROUND

Approximately 7.1 million households across the United States are unbanked.[2] Without a bank account, households face challenges in saving reliably or automatically, or establishing a banking relationship that can lead to accessing affordable credit. Consequently, being unbanked makes it harder to achieve other important financial goals. The national Bank On movement works to expand professional banking access efforts by supporting local Bank On coalitions. The movement also seeks to increase the availability of safe and affordable banking products that meet Bank On national account standards, while connecting unbanked and underbanked people to these products.

The CFE Fund provides a public certification seal for transactional consumer accounts offered by financial institutions that meet Bank On national account standards. Local coalitions can rely on these certifications when choosing to highlight accounts available to local residents and when choosing partners for banking access programs. Additionally, financial institutions market their product-specific national certification seal to highlight that their accounts meet these standards. The CFE Fund also promotes Bank On-certified accounts by including them in Bank On marketing materials and in communications with local Bank On coalitions, as well as in its own program investments.

Bank On-certified accounts help financial institutions reach unbanked and underbanked customers by bringing them into the financial mainstream and starting a new banking relationship. This benefits consumers who need accounts with low- or minimum-required balances, including those who have left the mainstream banking system because of overdraft issues, those looking for accounts with flexible account screening or those who were turned off by high or unpredictable fees. Bank On-certified accounts seek to provide a safe, affordable and functional banking experience that allows consumers to build or rebuild a relationship with a mainstream financial institution. Financial institutions offering Bank On-certified accounts are also poised to attract people entering the banking world for the first time, including young people and students, as they tend to build new, long-term banking relationships.

In addition, products certified as meeting the Bank On national account standards (see Appendix A) support Community Reinvestment Act (CRA) service test examinations. Recent guidance for CRA questions and answers highlights the availability of low-cost deposit accounts, the extent to which they reduce costs and the degree to which services are tailored to meet the needs of Low to Moderate Income (LMI) individuals.

2 FDIC, 2020.

The Bank On national account standards offer guidance for financial institutions to prioritize account offerings that highlight their commitment to:

- Meeting consumers' needs
- Connecting with banking access opportunities or programs
- Expanding their customer base
- Meeting regulatory requirements for community reinvestment

DATA COLLECTION DESIGN

The goal of this data collection is to understand the demand for and use of Bank On-certified accounts. Results from analyses with a descriptive cross-sectional study design allow us to examine national activity for three categories of metrics: account opening, account usage and consistency, and online access. Further, the design enables the St. Louis Fed to provide detail on take-up and usage rates based on geographic location, proximity to a Bank On coalition, and unbanked and underbanked rates by developing an **interactive data tool**.

Since the St. Louis Fed used a non-experimental design, and did not study the outcomes of Bank On accounts for account holders, this report presents no causal relationship with Bank On account ownership and the effectiveness of the Bank On initiative. We hope the report's findings will inform financial institutions' decisions to implement certified Bank On account programs and submit their annual data to the St. Louis Fed through its secure online portal.

Data for this study were collected using a purely quantitative method. The 10 participating financial institutions in the 2019 data submission were asked to enter into a data sharing agreement with the St. Louis Fed. Upon full execution of the data sharing agreement, each institution was invited to securely submit their data to the St. Louis Fed. Once the St. Louis Fed received the data from all participating institutions, the data were compiled, cleaned, aggregated by ZIP code (with three or more reporting institutions) and combined into a national data set.

Participating financial institutions provided data for 289 fields, with 24 metrics reported in monthly increments and one metric ("total number of certified accounts opened") reported as annual. Monthly figures were used for most of the metrics to ensure seasonal and cyclical trends were apparent. To simplify the data reporting process, this is completed once a year. Understanding that all institutions may not have data to report for all fields, the St. Louis Fed asked participating institutions to provide the data they could for each of the metrics.

TABLE 1. Bank On Metrics for 2019 Data

Account Opening	Total number of certified accounts opened
	Number of accounts currently open (2019)
	Number of accounts newly opened (2019)
	Number of account-opening customers new to institution (2019)
	Number of accounts newly closed (2019)
Account Usage and Consistency	Number of account holders using direct deposit
	Number of account holders making debit transactions
	Frequency of debit transactions
	Total value of debit transactions
	Number of account holders making withdrawals
	Frequency of withdrawals
	Total value of withdrawals
	Number of account holders making deposits
	Frequency of deposits
	Total value of deposits
	Average monthly balance
Online Access	Total number of account holders using bill pay
	Frequency of online bill pay
	Total value of online bill pay
	Number of accounts using peer-to-peer (P2P) transactions
	Number of P2P transactions
	Value of P2P transactions
	Number of accounts that are digitally active

Part Two — Data Collection Findings

Through data submission to its BOND Hub, the St. Louis Fed tracked activity and usage of banking accounts certified as meeting the Bank On national account standards across the data metrics stated in Table 1. Full descriptions of each metric can be found in Appendix B, and Appendix C contains a data dictionary to assist in interpreting the data file.

Across the 10 institutions participating in the 2019 data submission, the sample of Bank On accounts studied for each metric represents 31,496 ZIP codes throughout the United States and its territories. The St. Louis Fed also aggregated the data by ZIP code with three or more reporting institutions, representing accounts in 15,652 ZIP codes. The data for each metric discussed in this section were calculated based on the combined total of Bank On-certified accounts during the 2019 data submission. All data presented were rounded to the nearest whole dollar or percent and were calculated using the monthly data.[3]

The aggregated data are publicly available at the ZIP code level on the **St. Louis Fed website** for areas where three or more participating financial institutions are reporting. The ZIP code identifier is essential to local Bank On coalitions for identifying where markets and coalition activity are strong. The combined data at the national level are reflected in the interactive data tool produced by the St. Louis Fed at the state and metropolitan statistical area (MSA) levels.

The data from 2019 show the robustness of the market for Bank On-certified accounts. Across the 10 financial institutions participating in the 2019 data submission, more than 5.8 million Bank On-certified accounts were opened. Of those, over 2.6 million accounts were open and active in 2019, and they represented approximately 75% of ZIP codes nationwide.

Following the data submission, the St. Louis Fed team hosted the BOND Hub Advisory Committee to discuss the results. Common themes were identified among the institutions and are included in this section for additional context.

TABLE 2. ZIP Codes Reporting

	2018	2019
Total Number of Reported ZIP Codes with Bank On Accounts	27,305 (65% of U.S. ZIP codes)	31,496 (75% of U.S. ZIP codes)
Total Number of Reported ZIP Codes with 3 or More Reporting Institutions	11,321 (27% of U.S. ZIP codes)	15,652 (37% of U.S. ZIP Codes)

ACCOUNT OPENING

Account opening is a key measurement used by financial institutions and Bank On coalitions to understand the growth and popularity of an account, as well as account attrition. To provide insight into account opening trends across the country, included in the key metrics are the number of:

- Total certified accounts ever opened
- Accounts currently open
- Accounts opened during reporting year
- Accounts opened by customers new to the institution
- Accounts newly closed

These data look at account opening in a few ways that offer different measures of demand for products certified as meeting Bank On national account standards. The running total of accounts opened over time and number of accounts newly opened during the reporting period offer a perspective on growth and momentum, which has allowed and will continue to allow for annual comparisons that show the growth of the marketplace.

3 For instance, the calculation for the number of accounts using the debit functionality was (acct_debit_jan/curr_open_jan)+(acct_debit_feb/curr_open_feb)+, then repeating for each month and dividing the total by 12.

TABLE 3. Bank On Account Opening at Participating Institutions (Combined)

	2018	2019
Total Number of Accounts Ever Opened	3,440,379	5,849,583
Total Number of Accounts Currently Open	1,345,252	2,634,502
Total Number of Accounts Opened during Reporting Year	792,389	1,921,651
Customers New to Financial Institution	75%	85%
Accounts Closed during Reporting Year	31%	30%

The 2019 data reflect an increase of 2,409,204 accounts ever opened, 70% higher than the previous reporting year. The total number of accounts currently open—over 2.5 million—represents the combined total of all participating institutions as of Dec. 31, 2019, or 51% higher than the previous reporting year. The percentage of customers new to the participating financial institutions—85%—was in line with financial institutions' expectations that they have seen higher demand from new customers for these accounts than during the previous year, when 75% of customers were new. The percentage of accounts closed—30%—is consistent with the expectation of financial institution and data findings from the previous year.

TABLE 4. Bank On Account Opening at Large Financial Institutions 2017-2019 (Combined)

	2017	2018	2019
Total Number of Accounts Ever Opened	2,647,990[4]	3,436,948	5,844,536
Total Number of Accounts Currently Open	1,386,362[5]	1,341,898	2,630,509
Total Number of Accounts Opened during Reporting Year	595,286	789,400	1,917,540
Customers New to Financial Institution	72%	75%	85%
Accounts Closed during Reporting Year	25%	31%	30%

Per the 2019 data, the month with the highest number of account openings for the large institutions was August, when 190,922 accounts were opened. The month with the lowest number of account openings was February, with 124,011 accounts. The median for monthly account openings was 159,237, and the average for monthly account openings was 159,795.

TABLE 5. Bank On Account Opening at Community Financial Institutions (Combined)

	2018	2019
Total Number of Accounts Ever Opened	3,431	5,047
Total Number of Accounts Currently Open	2,802	3,993
Total Number of Accounts Opened during Reporting Year	2,989	4,111
Customers New to Financial Institution	24%	24%
Accounts Closed during Reporting Year	30%	51%

There is a notable contrast in the data for account openings at large institutions and community financial institutions. At large institutions, 85% of customers were new to the institution compared to 24% at community institutions. For community institutions, April was the month with the most accounts opened in 2019—with 397 account openings—compared to larger financial institutions, which saw the most account openings in August. The month for community institutions with the lowest number of account openings overall was January, at 265. The median for account openings was 346 per month, with the average per month being 343 account openings. The number of accounts closed at community institutions increased by 21% in 2019. As data are collected for future years, we will examine whether this increase is part of a trend or a feature of that particular year.

4 Number of total accounts ever opened updated from 2018 report to because of metric interpretation discrepancy.

5 Number of accounts currently open differed from pilot year, because 2017 data were based on an annual figure representing total accounts open in the reporting year. Figure for 2018 data was based on accounts open as of Dec. 31, 2018.

ACCOUNT USAGE AND CONSISTENCY

Beyond account openings, it's critical to understand how account holders are using Bank On-certified accounts for everyday transactions to determine the functionality of the accounts and ability to meet consumers' transactional needs. These metrics also help inform the Bank On national account standards by providing quantitative data that demonstrate the usage and the importance of specific account characteristics. The St. Louis Fed assessed overall account activity for debit, deposit and withdrawal transactions, as well as the average monthly balance of the accounts.

TABLE 6. Bank On Account Holders' Debit Transactions at Participating Institutions (Combined)

	2018	2019
Account Holders Making Debit Transactions	76%	74%
Average Number of Debits per Account per Month	24.5	25.5
Average Debit Amount	$33	$32
Total Debit Transactions	251,756,747	466,612,619
Total Value of All Debit Transactions	$8,192,010,530	$15,016,793,322

Tracking debit transactions is a key way to show how account holders are using Bank On products. The 10 participating financial institutions processed nearly 38 million debit transactions on average per month for their account holders, creating an average of over $1.25 billion in debit transaction value per month. Overall, the majority of Bank On account holders use debit functionality, with 74% making debit transactions. These data indicate that account holders value, use and largely rely on this mainstream feature for regular financial transactions.

Direct deposit is a telling indicator of consistent usage by account holders, as well as an indication that account holders are using different features of the account (e.g., paychecks, tax refunds and public benefits). While just over a quarter of Bank On account holders use direct deposit, these rates tend to be lower among LMI workers.

TABLE 7. Bank On Account Holders' Deposits and Withdrawals at Participating Institutions (Combined)

	2018	2019
Account Holders Using Direct Deposit	24%	26%
Account Holders Making Deposits	71%	72%
Average Number of Deposits per Month	3,567,387	7,477,667
Average Number of Deposits per Month per Account	4.4	4.96
Average Value of Deposits	$269	$258
Total Value of all Deposits	$11,502,744,381	22,969,251,972
Account Holders making Withdrawals	83%	80%
Average Number of Withdrawals per Month	23,880,706	45,436,123
Average Number of Withdrawals per Month per Account	26	28
Average Withdrawal Amount	$57	$57
Total Value of All Withdrawals	$16,331,234,017	$31,164,061,614
Average monthly balance per account	$234	$345

Customers are accessing their money using account withdrawal and deposit capabilities, both of which are indicators of safe banking and money management. Among the 10 reporting financial institutions, 72% of all account holders were making non-automatic clearing house (ACH) deposits with an average value of $258.

The average number of withdrawals increased from the previous year—from 26 to 28 times per month. Account holders making withdrawals represented 80% of the 2019 data, averaging $57 per transaction. This demonstrates a majority of account holders were actively using their accounts.

The average monthly balance of all accounts is approximately $718.5 million, which averages to a monthly balance of $345 per account.

ONLINE ACCESS

Online banking capabilities, such as bill pay and online access, serve as trusted and convenient options for paying bills or transferring funds between accounts or to other people, all while keeping funds and customers' accounts safe.

TABLE 8. Bank On Account Holders' Online Usage at Participating Institutions

	2018	2019
Account Holders Digitally Active	70%	75%
Average Number of Digitally Active Accounts	787,703	1,546,226
Account Holders Using Bill Pay	2%	2%
Average Number of Bill Pays per Month per Account	3	2.4
Average Bill Pay Amount	$192	$214
Account Holders Using P2P	17%	22%
Average Number of P2P Transactions per Month	989,213	2,536,730
Average Amount of P2P Transaction	$164	$158

Three-quarters of account holders were digitally active (up from 70% in the previous year), which speaks to the appeal and importance of the online banking capabilities that Bank On accounts offer. P2P payments were used by 22% of account holders, also an increase from the previous year. The average number of P2P transactions per month increased, while the value of transactions decreased slightly. With only 2% of account holders using bill pay, participating financial institutions noted that it is more common for account holders to pay their bills through debit transactions and withdrawals.

CONCLUSION

Overall, the 2019 Bank On data continued to demonstrate the growing demand for and widespread use of Bank On-certified accounts by 10 financial institutions. The geographic coverage of accounts has expanded to 75% of all U.S. ZIP codes. The growth of open accounts from approximately 1.3 million at the end of 2018 to approximately 2.6 million at the end of 2019 shows the increased demand for Bank On-certified accounts over the reporting period.

This data collection also signifies that take-up and opening activity for Bank On-certified accounts looks different for banks of varying sizes. Accounts at large financial institutions continued to appeal more to new customers, whereas those at community financial institutions were more likely to be opened by existing customers. In addition, the highest number of certified accounts were opened in August 2019 at large financial institutions; for community financial institutions, the most account openings occurred in April 2019.

The use of Bank On-certified accounts is consistent with the expectations of financial institutions. Nearly $23 billion was deposited into Bank On-certified accounts in 2019, and 26% of account holders used direct deposit. The average monthly balance was $345 per account and 75% of account holders were digitally active.

The BOND Hub continues to allow all financial institutions with accounts that meet the national account standards to submit their data to a federal regulator, ensuring the reporting process is consistent, accurate and secure. These data are critical to sustaining the momentum of the Bank On movement, but more important, the availability of safe and affordable banking products. To illustrate the growth of the Bank On market and to support local banking access efforts, the St. Louis Fed has published these data on its website and created an **online interactive data tool** to display accounts at the ZIP code, MSA and state levels.

APPENDIX A:

2019 Bank On Data Metrics

ACCOUNT OPENING METRICS

Accounts Opened

This metric refers to the number of Bank On-certified accounts opened since the product was available at the institution. Reporting on the running total of certified accounts opened provides the Bank On community with numbers that support and identify how the movement is scaling its impact through Bank On national account certification, as well as the general appeal of products that meet the certification standards. Beyond the national movement, this metric also provides data locally and regionally to demonstrate local successes. The number of opened Bank On-certified accounts can serve as a benchmark for local coalition efforts to help residents open accounts or move to safer, more affordable accounts. Accurate and consistent account-opening metrics can also be useful for gaining government and philanthropic support for banking access efforts and helping coalitions attract new financial institutions and social service partners.

Accounts Newly Opened

This metric refers to the number of Bank On-certified accounts opened within the reporting year. Tracking the number of these accounts provides coalitions with data to assess the impact from their year's efforts and to study how this number varies by city, region or ZIP code.

Number of New Account Customers New to the Institution

This metric is the number of Bank On-certified accounts opened by individuals who were not account holders on the day of account opening. It helps demonstrate to financial institutions how an account is attracting a new customer base, often key to the longer-term sustainability of such accounts. While this metric does not capture whether a customer was unbanked or underbanked prior to opening a Bank On-certified account, it may serve as an indicator for previously unbanked and underbanked and/or new customers opening the accounts—data that are otherwise difficult to track. The percentage of new accounts opened is calculated by dividing the number of accounts opened by individuals who weren't deposit account holders by the total number of accounts opened in the same year.

Number of Accounts Newly Closed

This metric represents the total number of certified accounts closed for any reason during the reporting period. The account attrition rate is a key part of the equation in assessing the vitality of a product. For example, a low closure rate could help demonstrate the vitality and usage of accounts, and financial institutions' internal comparisons of the rate with that of other accounts in their portfolios may prove useful. The percentage of new accounts closed is calculated by dividing number of accounts closed in that year by the total number of accounts that were open by the end of the year.

Number of Accounts during the Reporting Year

This metric represents the total number of accounts open at any point during the reporting year and captures the entire universe of Bank On-certified accounts open during 2018. The number of individual accounts that were open and potentially active at any point during the reporting year is used as the basis for estimating the percentage of account holders using direct deposit and online banking, along with other key metrics. The number of open accounts helps show a complete picture of account usage across all accounts that were being used during the reporting year.

ACCOUNT USAGE AND CONSISTENCY METRICS

Direct Deposit

This metric represents the total number of accounts with any ACH deposits made in the reporting year. The Bank On national account standards require that account holders have free deposit capability at a branch, an ATM or through direct deposit. Understanding direct deposit usage and frequency helps demonstrate the importance of this requirement. These metrics can be used to indicate whether account holders are consistently using the account's full functionality—such as free direct deposit of paychecks—without turning to alternative financial services such as check-cashing businesses that charge high fees. Direct deposit usage can also show the continuity of the account, and often indicates that account holders will keep it, since they are using it for their main transactions. The percentage of account holders using direct deposit is calculated in the report by dividing the total number of accounts with any ACH deposit by the total number of accounts that were open by the end of that year.

Debit Transactions

- Number of account holders making a debit transaction: The number of account holders who make a debit transaction through online or point-of-sale (POS) purchases in the reporting year
- Number of debit transactions per month
- Value of debit transactions per month

These metrics demonstrate how consumers are using products for everyday transactions and how account holders are interacting with the mainstream, noncash economy. Tracking this usage also can help financial institutions further identify product sustainability and demand by helping show the amount of account usage.

These debit metrics represent a primary way that most people use bank accounts. The number of accounts making debit transactions provides information about the spending habits of the account holders, specifically on noncash transactions and purchases. The data also help illustrate how Bank On account holders are generating interchange revenue for financial institutions.

In addition, cross-referencing the number of accounts making debit transactions and the total number of debit transactions monthly with the dollar value of these transactions can provide more detail on the frequency and value of average debit transactions. These transactions have the potential to show that for some financial institutions, these products are truly profitable and sustainable, while also meeting consumer needs. The percentage of account holders making debit transactions is calculated by dividing the number of accounts used for any debit transaction by the total number of accounts open by the end of that year. The average debit amount is calculated by dividing the total dollar value of all debit transactions by the total number of accounts used for any debit transaction.

Withdrawals

- Number of accounts making withdrawals: The number of accounts used for any form of withdrawal within the reporting year
- Number of withdrawals per month
- Value of withdrawals per month

Tracking withdrawals is crucial to understanding account usage and the ways customers access their money using their Bank On-certified accounts. Withdrawal types may include ATM usage, teller withdrawal or transfers to another account. The total number of withdrawals made, as well as their value, helps identify the amount of money that customers are regularly obtaining, how often and how they are withdrawing their money.

Withdrawal behavior is an indicator of safe banking and money management. For example, all certified Bank On accounts are required to offer free, unrestricted in-network ATM and branch withdrawals, with no overdraft or nonsufficient fees (NSF). Thus, account holders could make smaller, regular cash withdrawals as needed, rather than concentrating them into a few large withdrawals to avoid fees. This withdrawal behavior would indicate that account holders are carrying cash in smaller amounts and using their accounts as money management tools, rather than for one-time lump-sum withdrawals. The percentage of account holders making withdrawals is calculated by dividing the number of accounts used for any withdrawal by the total number of accounts open by the end of that year.

Deposits

- Number of account holders making deposits: The number of accounts making any non-ACH deposit by check or cash
- Number of deposits per month
- Value of deposits per month

Tracking deposits helps measure a product's effectiveness in helping account holders keep all their earnings by being able to deposit money without fees, and without using a check casher or other alternative financial service.

Similar to withdrawals, deposits are also an indicator of account usage. Additionally, the collective value of these deposits represents the size of the market of people using Bank On-certified accounts, which can help make the case for other financial institutions to offer accounts that meet Bank On national account standards. In the report, the percentage of account holders making deposits is calculated by dividing the number of accounts with any non-ACH deposit by the total number of accounts open by the end of that year. The average value of deposits is calculated by dividing the total dollar value of all non-ACH deposits by the total number of non-ACH deposits.

Average monthly balance

This metric represents the average monthly balance of all accounts currently open at each financial institution. In addition to account usage, account balances are critical indicators for financial institutions in assessing the behavior of a new account holder. The data can serve as a general indicator of account usage and activity, and also provide insight on the income level of the account's customer base. The average monthly balance per account is calculated by dividing the sum of the average month-end balance by the number of accounts open by the end of that year.

ONLINE ACCESS METRICS

Online Bill Pay

- Number of accounts using online bill pay
- Number of online bill pay transactions per month
- Value of online bill pay transactions per month

Online bill pay usage metrics not only display robust account usage but also help make the case for the importance of this functionality. For example, financial institutions with high money order usage rates and low bill pay take-up might seek to make product changes that meet customer needs and lead to cost savings through greater bill-pay capabilities.

Tracking the total number of accounts used for bill pay in the reporting year, as well as the monthly number and value of online bill payments, demonstrates how account holders are managing payments and paying bills. It shows how, and if, customers are fully leveraging the benefits and features of their banking product. The percentage of account holders using bill pay is calculated by dividing the number of accounts using bill pay by the total number of accounts open by the end of that year.

Peer-to-Peer Transactions

- Number of accounts used for P2P transactions
- Number of P2P transactions per month
- Value of P2P transactions per month

Usage of P2P capabilities—which allow customers to transfer and receive money, and pay and be paid by someone through their accounts—demonstrates how they are using the accounts for a full range of financial needs.

As financial technology advances, P2P capabilities are seen as critical functionality for consumers of all ages. Additionally, financial institutions often obtain interchange revenue from P2P transactions. Thus, tracking P2P capabilities and their usage also supports further analysis of how payments outside the checking systems work and benefit financial institutions. The percentage of account holders using P2P is calculated by dividing the number of accounts using P2P functionality by the total number of accounts open by the end of that year.

Number of Digitally Active Accounts

The reporting system also documents the total number of customers who are digitally active, as defined by the financial institution, to assess the number of account holders who have online access and use it for transactions. An often articulated concern from financial institutions is that account holders will have a high demand for in-branch customer assistance. Digitally active accounts indicate that customers can leverage online functionality, such as to check account balances or deposit checks, lessening the burden on bank branches. These data can help stakeholders understand the value of, and demand for, online access. Similarly, tracking digitally active accounts provides financial institutions with a high-level view of how customers with Bank On-certified products embrace and use non-branch features that come with their new banking relationships. This is calculated by dividing the number of customers who are digitally active, as defined by the reporting institution, by the total number of accounts open by the end of that year.

APPENDIX C:

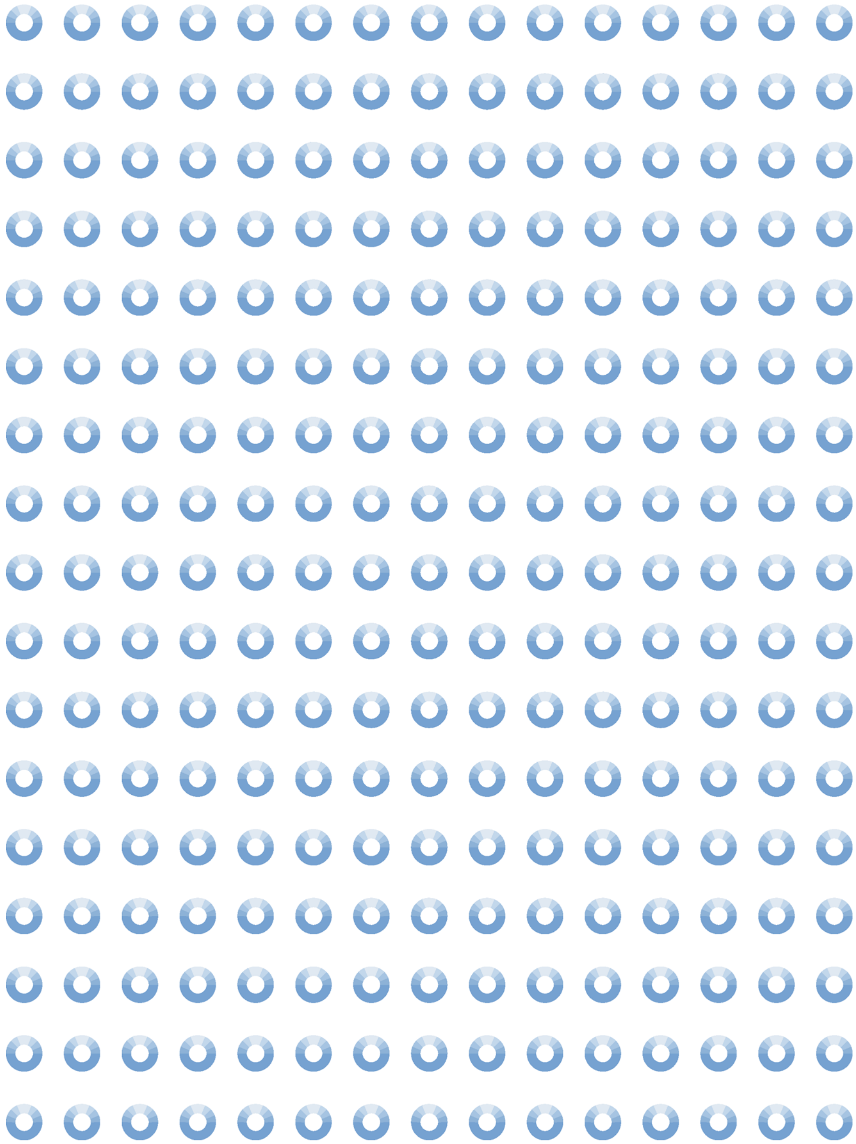
2019 Bank On Data Dictionary

Name	Description	Definition	Data Points Reported
Year	Calendar year for reported data (format: yyyy)	Indicates the calendar year reporting period	---
zip_code	ZIP code (five digits)	All data are based on the ZIP code of the account holders	---
acct_open	Total number of accounts that have ever been opened at the institution	Total number of accounts that have ever been opened at the institution (running total)	1 number annually
acct_open_*mmm**	Number of accounts opened per month	Total number of accounts opened per month	1 number per month (12 annually)
new_inst_*mmm**	Number of accounts opened to individuals who weren't deposit account holders per month	Total number of accounts opened to individuals who weren't deposit account holders (checking, savings or CD) the month before they opened the account (subset of the prior number – only new account openings) per month	1 number per month (12 annually)
curr_open_*mmm**	Number of accounts that were open at any point during the month	Total number of accounts that were open at any point during the month	1 number per month (12 annually)
rep_clsd_*mmm**	Number of accounts closed per month	Total number of accounts closed during the month for any reason	1 number per month (12 annually)
use_ach_*mmm**	Number of accounts with any ACH deposit per month	Total number of accounts with any ACH deposit per month	1 number per month (12 annually)
ach_trans_*mmm**	Number of ACH deposit transactions per month	Number of ACH deposit transactions per month	1 number per month (12 annually)
ach_valu_*mmm**	Total dollar value of ACH deposit transactions per month	Total dollar value of all ACH deposit transactions per month	1 number per month (12 annually)
acct_debit_*mmm**	Number of accounts used for any debit transaction per month	Total number of accounts used for any debit transaction (online purchases, point of sale purchases or cash back) per month	1 number per month (12 annually)
dbt_trans_*mmm**	Number of debit transactions per month	Total number of account debit transactions per month	1 number per month (12 annually)
dbt_trans_valu_*mmm**	Total dollar value of all debit transactions per month	Total dollar value of all account debit transactions per month	1 number per month (12 annually)
withdrl_per_acct_*mmm**	Number of accounts used for any withdrawal per month	Total number of accounts used for any withdrawal (ATM, teller withdrawal or transfer to another account) per month	1 number per month (12 annually)

* mmm represents the applicable month on the submission template

	Description	Definition	Data Points Reported
withdrls_tot_*mmm**	Number of withdrawals per month	Total number of account withdrawals per month	1 number per month (12 annually)
withdrl_valu_*mmm**	Total dollar value of all withdrawals per month	Total dollar value of all account withdrawals per month	1 number per month (12 annually)
dep_accts_*mmm**	Number of accounts with any non-ACH deposit per month	Total number of accounts with any non-ACH deposit (check or cash deposit) per month	1 number per month (12 annually)
non_ach_*mmm**	Number of non-ACH deposits per month	Total number of account, non-ACH deposits per month	1 number per month (12 annually)
non_ach_valu_*mmm**	Total dollar value of all non-ACH deposits per month	Total dollar value of all account, non-ACH deposits per month	1 number per month (12 annually)
online_billpay_accts_*mmm**	Number of accounts using bill pay per month	Total number of accounts using bill pay per month	1 number per month (12 annually)
online_billpay_*mmm**	Number of bills paid per month	Total number of bills paid per month for all accounts	1 number per month (12 annually)
online_billpay_valu_*mmm**	Total dollar value of all bills paid per month	Total dollar value of all bills paid per month for all accounts	1 number per month (12 annually)
p2p_accts_*mmm**	Number of accounts using P2P functionality	Total number of accounts using P2P functionality per month	1 number per month (12 annually)
p2p_trans_*mmm**	Number of P2P transactions per month	Total number of P2P transactions (inflow and outflow) per month for all accounts	1 number per month (12 annually)
p2p_trans_valu_*mmm**	Total dollar value of all P2P transactions per month	Total dollar value of all P2P transactions (inflow and outflow) per month for all accounts	1 number per month (12 annually)
avg_accts_bal_*mmm**	Sum of average month-end balance	Sum of the average month-end balance of all accounts currently open in the financial institution	1 number per month (12 annually)
digt_actv_*mmm**	Number of customers who are digitally active, as defined by the reporting institution, per month	Number of account customers who are digitally active, as defined by the reporting institution, per month	1 number per month (12 annually)

* *mmm* represents the applicable month on the submission template



"Bank On" Transaction Accounts: Making Traditional Banking More Inclusive

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Introduction

"Bank On" is a national program whose goal "is to ensure that everyone has access to a safe and affordable bank or credit union account." It comprises local partnerships of city, state, and federal government agencies, financial institutions and nonprofit organizations. These local Bank On coalitions are joined nationally under the leadership of the Cities for Financial Empowerment (CFE) Fund, with the common goal of promoting financial inclusion through expanded access to low-cost transaction accounts.

A focal point of the Bank On effort is to have banks and credit unions offer deposit accounts that meet the National Account Standards developed for the program by the CFE Fund, its Advisory Board and other stakeholders. Financial institutions with appropriately low-cost accounts that meet these standards, which include having low minimum balances and no overdraft fees, can apply for national Bank On certification by the CFE fund.

This research note offers a brief introduction to the Bank On program, and examines data on number, use and geographic distribution of Bank On certified accounts, collected for a study launched in 2017 by the CFE Fund and the Federal Reserve Bank of St. Louis and later made available to the public.

These data show that the take-up rate for Bank On accounts is greatest in areas with high concentrations of lower-income and minority households, as indicated by the ZIP codes associated with the accounts. For instance, close to 60 percent of Bank On certified accounts opened in 2017 were for customers residing in areas with more than 50 percent minority population, whereas only 30 percent of the branches of the banks participating in the study were located in such areas. Similarly, about 46 percent of accounts opened in 2017 were in ZIP codes with more than 50 percent LMI population, more than double the share of participating institutions' branches within this neighborhood category. Thus, Bank On appears to be achieving significant success in reaching the population it has targeted.

Background on Bank On

Since its inception in 2006 as an effort to expand banking access in the cities of New York and San Francisco, Bank On has transformed into a national effort joining together more than 75 local Bank On coalitions.[1] The local coalitions work to increase public awareness about the importance of banking access; negotiate account terms that meet the program's National Account Standards; and engage in outreach efforts to build awareness of Bank On products.

[1] As of October 2018. The discussion in this section draws on material in bankon_data.pdf (stlouisfed.org)

The CFE Fund provides national leadership for the local initiatives by providing technical assistance, grant funding and a central infrastructure that connects nationally with banking, regulatory and nonprofit organization partners to facilitate the local efforts. Information about best practices is shared with local Bank On coalitions in the form of the CFE Fund's Bank On Coalition Playbook, which covers a range of topics including guidelines for launching a Bank On Coalition and recommendations on effective communication with unbanked individuals. The CFE Fund also ensures that the program's National Account Standards are maintained by implementing the Bank On account validation and certification process.

The National Account Standards define core features of a convenient and affordable transaction account for households that may have difficulty meeting minimum balance requirements or paying monthly maintenance or other fees associated with traditional accounts. The current, full set of Standards is presented in Appendix 1.

The Standards include a minimum opening deposit of $25 or less, and no or low ($5 or less) monthly maintenance fee. They disallow surprise or penalty fees for overdrafts, non-sufficient funds, low balances or account dormancy. Accounts may allow for negative balances, but customers cannot be charged fees if this occurs.[2]

The Standards also call for much of the same functionality as the typical bank transaction account, including direct deposit; free and unrestricted in-network ATM access; debit card issuance; and online bill pay and mobile banking (for institutions with these online banking capabilities). The Standards strongly encourage lifting common barriers to consumers opening accounts. For example, consumers should not be excluded from opening a bank account by screening for prior incidence of bounced checks; they should be denied only for past incidences of actual fraud, and they should be able to utilize alternative forms of identification, such as municipal or consular IDs.

Banks and credit unions with accounts that meet the Standards may apply for certification from the CFE Fund through an online portal. The "public certification seal" granted by the CFE Fund facilitates marketing efforts. Also, the CFE Fund promotes Bank On certified accounts through inclusion in Bank On marketing materials and in communications with local Bank On coalitions.

Bank On certified accounts help financial institutions reach currently unbanked and underbanked customers with the potential to build a long-term banking relationship. These may be consumers who have volatile incomes needing accounts with low minimum required balances and low, predictable fees, or individuals entering the banking world for the first time, including young people, students and recent immigrants.

The number of financial institutions offering Bank On certified accounts tripled from 2018 to January 2021 to 60 firms, with 76 institutions currently offering the accounts. The accounts are offered at banks and credit unions that hold nearly half of the national deposit market share (45 percent as of January 2021) with branches located in every state and in 99 of the largest 100 metro markets.[3] The program continues to grow its footprint.

Bank On Pilot Study and National Data Hub

The Federal Reserve Bank of St. Louis and the CFE Fund launched a data collection and pilot study in 2017 to examine take-up and use of Bank On accounts, with participation of four financial institutions: Bank of America,

[2] There are no grace period, warning, or fee reversal exceptions to this requirement. Transactions may be denied when an account balance is insufficient, and the bank may cancel a customer's account after repeated overdraw attempts. Bank On participating institutions are encouraged to minimize the possibility of overdraft by offering checkless transaction accounts; low balance alerts; and smartphone apps or other money management tools.

[3] See About – BankOn (joinbankon.org)

JPMorgan Chase, U.S. Bank and Wells Fargo. Each of the institutions volunteered to work with the CFE Fund on building out the data reporting pilot, including agreeing to submit their account data to the Reserve Bank.

The primary goal of the data pilot study was to design and test a centralized data collection process in anticipation of establishing a national reporting platform for institutions offering Bank On certified accounts. Another aim was to develop an understanding of the take-up and use of these accounts. In particular, the pilot study aimed to identify practical and informative metrics for gauging account take-up and use:

> "In formulating and finalizing which data points would be reported, the priorities were to establish a list that not only accurately represented how customers were using these certified products, but that also balanced the feasibility of reporting components critical to representing Bank On progress."[4]

The pilot study demonstrated how data on Bank On certified accounts could be collected in a consistent and centralized manner across institutions. Following the conclusion of the pilot study, the Federal Reserve Bank of St. Louis made available to the public a version of the study dataset that aggregates the metrics by ZIP code (available here.)

Building on the experience of the pilot study, the CFE fund and St. Louis Fed afterwards initiated an annual, standardized data collection. The stated goal is to establish and maintain a "National Data Hub" to support analytics that advances understanding of the market for these accounts.[5]

A list of the 23 account activity metrics included in the annual data collection is presented in Appendix 2. There are three categories of metrics: account opening and closing; account usage and consistency; and online or digital access.[6] These are collected from each institution at the ZIP code level. This geographic granularity enables financial institutions to use this information for Community Reinvestment Act reporting purposes.

The first post-pilot year of data collection was 2018, with 10 institutions participating. The Federal Reserve Bank of St. Louis recently published a report presenting various aggregated statistics based on these data. The report indicated that about 1.35 million Bank On certified accounts were currently open, with nearly 800,000 opened at the ten reporting banks in 2018. Three-fourths of the newly opened accounts were associated with customers new to the institution. Only a quarter of the open accounts had direct (ACH) deposit activity, but three-fourths had electronic debits. Most (70 percent) customers used online banking (were digitally active) during the year.

Unlike the sample for the pilot study, the data collected for the National Data Hub are not available to the public at the ZIP code or any such granular level. However, the Federal Reserve Bank of St. Louis makes available a data query tool (accessible here) that enables stakeholders and other interested parties to examine local metrics.[7]

Analysis of Data from the Pilot Study Sample

As noted previously, following the conclusion of the pilot study the Federal Reserve Bank of St. Louis provided a public version of the dataset that aggregates the data by ZIP code. The St. Louis Fed also published a report

[4] See bankon_data.pdf (stlouisfed.org), page 8.
[5] Informed by the pilot experience, minor changes were made to the collection procedures and set of metrics. See 2019_bankon_report_final.pdf (stlouisfed.org), page 6.
[6] For identification of seasonal and cyclical trends, the usage and consistency metrics and most of the online access metrics are broken out by month.
[7] The "Bank On Coalition Playbook" includes a chapter detailing how to use the local data query tool.

describing and presenting summary statistics for the metrics included in the study. This section revisits the public dataset from the pilot study, merging in neighborhood income and demographic variables to analyze account take-up and usage patterns by neighborhood category.

The public dataset limits the sample to ZIP codes with data from at least three of the four reporting institutions, resulting in exclusion of more than half of the ZIP codes in the original sample: whereas the latter has 26,761 ZIP codes according to the St. Louis Fed report, the public version has 10,935. However, the public version of the dataset has only 10 percent fewer currently open accounts: 1,249,741 are in the public dataset, compared to 1,386,362 in the full sample. Therefore, and as confirmed below, excluding the ZIP codes with only one or two reporting institutions does not materially affect the findings of the analysis.

Neighborhood demographic information by Census tract is obtained from the 2010 Decennial Census dataset. Demographic measures utilized are share of the population that identifies as non-white (Black or African American, Hispanic, Asian-American, or Native American or Native Hawaiian); and share of the working-age population (age 21 or older) that is under 35. These tract-level variables are allocated to ZIP codes using the tract-to-ZIP mapping available from the U.S. Department of Housing and Urban Development (HUD).[8]

The share of the ZIP code's population that is low- or moderate-income (LMI) is based on low- or moderate-income population share by Census tract, which is derived from 2011-2015 American Community Survey (ACS) data, based on Census 2010 geography, and obtained from HUD. These tract-level LMI shares are then allocated to ZIP codes by again using the HUD mapping.

***Take-up by neighborhood classification*.** Table 1 presents findings on account take-up by neighborhood classification. Two take-up metrics are considered alongside two comparison benchmarks. The take-up metrics are number of accounts currently open and number of new accounts opened in 2017 within each ZIP code category, as a percentage of all currently open and newly opened accounts, respectively.[9] The first comparison benchmark is based on the pilot study sample's ZIP code distribution: the percent of sample ZIP codes within each category. The second comparison benchmark is based on the overall branch location distribution of the four institutions that participated in the pilot study: the percent of these institutions' branches within each ZIP code category (including branches with ZIP codes that are not in the analysis sample).[10]

Clearly, from Table 1, Bank On certified accounts disproportionately associate with areas that are predominantly minority-populated. Close to 60 percent of accounts opened in 2017 were in ZIP codes that are more than 50 percent minority, more than double the share of participating institutions' branches within this neighborhood category. Conversely, only 7 percent of accounts opened in 2017 were in areas with less than 15 percent minority population, whereas 19 percent of the participating institutions' branches are in these areas.

Likewise, Bank On certified accounts are disproportionately in areas that are predominantly low- or moderate-income. About 46 percent of accounts opened in 2017 were in ZIP codes with more than 50 percent LMI population, more than double the share of participating institutions' branches within this neighborhood category.

[8] For each ZIP code, the weighted average of each measure is calculated using the weights provided by the HUD mapping. This mapping, which weights each Census tract fully or partially contained within a given ZIP code by the tract's share of the total residential population in that ZIP code, is available here.
[9] Accounts currently open is defined in the pilot study as accounts open at any point during the calendar year.
[10] This is calculated using branch location data from the FDIC's 2017 Summary of Deposits. Branches are excluded from the denominator if they are located in ZIP codes for which the relevant demographic data are missing.

Conversely, only 7 percent of accounts opened in 2017 were in areas with less than 15 percent LMI population, about one third the share of participating institutions' branches within this neighborhood category. In addition, Table 1 indicates a relatively high concentration of Bank On certified accounts in neighborhoods with a relatively large share of younger, working-age population (the 21-35 age grouping).

Other findings on account take-up and usage. Table 2 presents several additional statistics on account take-up, usage and online access, by neighborhood category. See Appendix 3 for specific metric definitions. The distinction by age of neighborhood residents does not exhibit any notable differences from the overall sample and is excluded from the table for the sake of brevity.

Rates of account opening substantially exceed rates of account closing, indicating robust growth of the Bank On customer population. For the most part, similar values for the metrics are observed across ZIP code categories. A notable exception is that the percent of recently opened accounts that are associated with individuals new to the institution is greater in areas with higher concentrations of minority and LMI residents. Also, a lower rate of account opening is observed in areas where less than 25 percent of the population is LMI. Finally, note that the full sample and public dataset exhibit similar values for these statistics, consistent with the previous observation that exclusion of ZIP codes from the public dataset does not have a material effect.

Conclusion

Bank On, coordinated by the CFE Fund, seeks to connect traditional banks with unbanked and underbanked individuals and families—those that currently lack a bank account or still use high-cost, nonbank financial service providers for some payment services. This research note has highlighted that the program is succeeding in focusing on minority and low-income populations and has successfully scaled up to become a national program. These results argue for policymakers taking further actions to publicize and encourage even broader customer usage of Bank On accounts, and for more banks to offer them.

Table 1: Share of Account Openings by Neighborhood Category, Relative to Benchmarks

	Neighborhood (ZIP Code) Categories				
	> 50% Minority	< 15% Minority	> 50% LMI	< 25% LMI	> 30% age 21-35
% of accounts currently open	59.5%	6.4%	45.9%	7.8%	37.2%
% of accounts opened in past year	59.2%	7.0%	46.3%	7.3%	37.1%
% of in-sample ZIP codes	25.6%	26.2%	22.2%	14.4%	19.6%
% of all branch locations of the 4 institutions	27.0%	19.3%	21.0%	20.9%	25.6%

Table 2: Other Take-up and Usage Statistics by Neighborhood Category

	Full Sample	Public Dataset	Neighborhood (ZIP Code) Categories			
			> 50% Minority	< 15% Minority	> 50% LMI	< 25% LMI
Rate of Account Opening	52.3%	51.4%	52.7%	53.3%	54.5%	42.8%
Rate of Account Closing	30.5%	30.9%	31.3%	31.0%	28.3%	26.9%
% New to Institution	72.0%	72.1%	74.7%	67.5%	75.9%	60.6%
% Using Debit	85.0%	85.6%	86.7%	82.4%	86.9%	81.4%
% Digitally Active	NA	73.8%	73.1%	72.3%	71.4%	79.2%

Note: Statistics for the full sample are as reported by the St. Louis Fed.

Appendix 1: The National Account Standards for Bank On

Cities for FINANCIAL EMPOWERMENT Fund

Bank On

BANK ON NATIONAL ACCOUNT STANDARDS (2021 - 2022)

TERMS	STANDARDS
Core Features	
Transaction Account at Insured Depository Institution	Checking account (including checkless checking) or bank- or credit union-offered prepaid
Debit Card	Debit card network (e.g., Visa, Mastercard, Discover) for point of sale and bill payment; free
Minimum Opening Deposit	$25 or less
Monthly Maintenance Fee	If not waivable: $5 or less
	If waivable: $10 or less; offer at least two options to waive fee entirely with a single transaction (e.g. direct deposit with no minimum deposit, online bill pay, or debit card purchase)
Overdraft or Non-Sufficient Funds (NSF) Fees	None
Account Activation, Closure, Dormancy, Inactivity, and Low Balance Fees	None
Customer Service	
Branch Access	For financial institutions with branches: free and unrestricted
	For financial institutions without branches: access to free ATM network and free remote deposits
Telephone Banking (Including Live Support)	Free and unrestricted
ATM Access	Free and unrestricted in network
	$2.50 or less out-of-network fee; or up to $3.00 if also provide free access to a partner ATM network
Functionality	
Deposit Capability	Free cash and checks in branch and at ATM (when available), and direct deposit
Bill Pay	Free by financial institution if available, otherwise at least four free money orders and/or cashier checks per month
Check Cashing for Checks Issued by that Institution	Free
Online Banking, Mobile Banking, Banking Alerts	Free (if offered)
Monthly Statements	Free electronic; $2 or less for mailed paper (if offered)
Insured Account Deposits	Insured by FDIC or NCUSIF
Strongly Recommended Features	
Account Screening (e.g. ChexSystems, Early Warning Services)	Only deny new customers for past incidences of actual fraud
Alternative IDs (Municipal, Consular, etc.)	Accept alternative IDs
Online Account Opening and Deposits	Free at financial institutions with branches
Linked Savings Accounts	Free savings accounts and account transfers
Funds Availability	Immediate availability for known customers cashing government, payroll, or checks from that financial institution
Money Orders	$1.70 or less (based on U.S. Postal Service rate)
Remittances (International Wire)	Competitively priced by country ($5.00 - $20.00)
Credit-Building Product Offerings	Secured credit card or secured personal loan, e.g.

Source: *Bank On National Account Standards 2020.2021 (netdna-ssl.com)*

Appendix 2: Metrics Collected for the Bank on Data Hub

Account Opening	Total number of certified accounts opened
	Number of accounts currently open
	Number of accounts newly opened
	Number of account-opening customers new to institution
	Number of accounts newly closed
Account Usage and Consistency	Number of account holders utilizing direct deposit
	Number of account holders making debit transactions
	Frequency of debit transactions
	Total value of debit transactions
	Number of account holders making withdrawals
	Frequency of withdrawals
	Total value of withdrawals
	Number of account holders making deposits
	Frequency of deposits
	Total value of deposits
	Average monthly balance
Online Access	Total number of account holders using bill pay
	Frequency of online bill pay
	Total value of online bill pay
	Number of accounts using peer-to-peer (P2P) transactions
	Number of P2P transactions
	Value of P2P transactions
	Number of accounts that are digitally active

Source: https://www.stlouisfed.org/~/media/files/pdfs/community-development/bank-on/2019_bankon_report_final.pdf?la=en

Appendix 3: Metrics Included in Table 2

1. Rate of account opening (respectively, closing), calculated as Bank On certified accounts opened (closed) during 2017 as a percent of accounts open at the start of the year. (Accounts currently open is defined in the pilot study as accounts open at any point during the year. Therefore, number of accounts open at the start of the year is calculated as number of accounts currently open plus number of accounts closed minus number of accounts open during the year.)
2. Percent of accounts new to the institution, defined as the share of new accounts that were opened by individuals who were not account holders on the day of account opening.
3. Percent of accounts using debit, defined as the percent of currently open accounts with debit transaction through online or point-of-sale purchases in the reporting year.
4. Percent of accounts that are reported to be "digitally active" by the institution, such that the customer conducts online transactions.

Statement for the Record

On Behalf of the

American Bankers Association

Before the

Subcommittee on Consumer Protection and Financial Institutions

Of the

Financial Services Committee

July 21, 2021

American Bankers Association®

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July 21, 2021

Chairman Perlmutter, Ranking Member Luetkemeyer, and members of the subcommittee on Consumer Protection and Financial Institutions, the American Bankers Association (ABA) appreciates the opportunity to submit a statement for the record on the hearing titled *Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System*. ABA is the voice of the nation's $22.5 trillion banking industry, which is composed of small, midsize, regional and large banks that together employ more than two million people.

Today's hearing is extremely important and timely. Sustainable economic opportunity requires a long-term banking relationship, but according to the most recent FDIC data, 7.1 million Americans are unbanked. Notably, approximately 14% of Black households and 12% of Hispanic households did not have bank accounts in 2019, compared to white households, whose unbanked rate has dropped to below 3%. While these rates have declined to their lowest levels yet, as a nation and as an industry, we can do better.

We appreciate the opportunity to update the Subcommittee on ABA's efforts to reduce the number of unbanked in the country. While we and our members have multiple initiatives underway to expand access to banking services and reduce the number of unbanked and underbanked in our country, we will limit this statement to our support for the Bank On movement, which we believe is making measurable progress in addressing this issue.

Bank On connects consumers to easy to use, low fee accounts. First inspired by the FDIC's Safe Account Pilot, the Bank On National Account Standards were created by the Cities for Financial Empowerment Fund (CFE Fund) and are widely endorsed by both consumer advocates and banking industry leaders. Bank On-certified accounts are designed to address the structural challenges facing unbanked households with features including low costs, online bill pay, no overdraft fees, and transaction capabilities, such as a debit or prepaid cards. The Bank On certification is an important, recognizable "seal of approval" that a customer will have access to an account that meets their needs.

ABA has always been supportive of the Bank On movement, but last year our leadership decided to dramatically expand our efforts in support of Bank On because we view the initiative as the single best opportunity to reduce the number of American households operating outside the financial mainstream. ABA President and CEO Rob Nichols launched our new campaign at our annual convention last October by encouraging all banks to join the Bank On movement. Together, ABA and the CFE Fund – working with the nation's core-service providers – are making it possible for banks of all sizes to offer low-cost, Bank On-certified accounts at branches across the country.

It is important to note that Bank On-certified accounts provide customers with much more than simple payment capabilities. Unlike payment cards offered by uninsured payments companies, which do not provide a path to a full banking relationship and lack the consumer protections that come with an FDIC-insured account, Bank On accounts offered by FDIC-insured banks are a critical step to consumers building a full banking relationship, which might grow to include a savings account, small business loan, mortgage credit, investment accounts, and so much more.

Being banked matters: as the government rushed to distribute millions of Economic Impact Payments during the COVID-19 pandemic, the FDIC, the IRS, Bank On and the ABA, among others, worked to promote awareness of such accounts so American taxpayers could receive their payments quickly and securely, and the FDIC has continued its efforts through its #getbanked campaign.

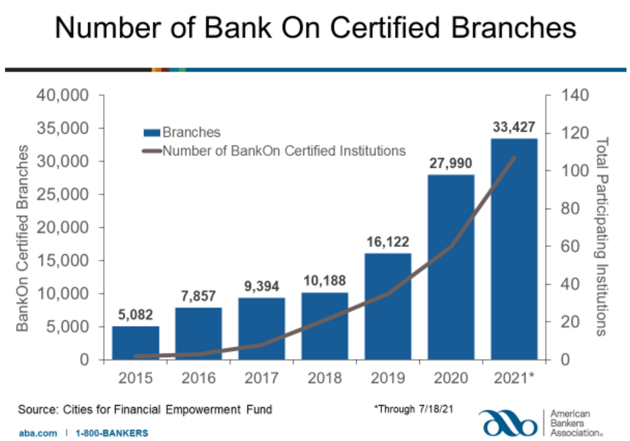
Recurring Advanceable Child Tax Credit (ACTC) payments provide another ongoing opportunity to encourage unbanked individuals to find a bank account that meets their needs. On July 15, 2021 the U.S. Treasury disbursed approximately $15 billion to families with nearly 60 million children – 85% of these payments hit families' bank accounts quickly and securely through direct deposit. We are encouraged that the IRS has posted a prominent link on the portal landing page to direct unbanked consumers to learn more about the benefits of being banked, including a link to the FDIC's #getbanked landing page. According to early data, more than 360,000 ACTC recipients have added direct deposit information through the IRS' ACTUP payment portal, allowing them to receive their payments via ACH.

ABA's Bank On Campaign

ABA's national campaign in support of Bank On has targeted both banks and consumers. Since Rob Nichols encouraged every bank in the country to offer a Bank On account last October, we have promoted our support for Bank On at dozens of virtual events; in podcasts and webinars; in paid social and digital media campaigns; and even at Washington Nationals games. We continue to highlight the growing number of banks offering Bank On-certified accounts across all of our member communication platforms, so bank leaders can see their peers participating in the program successfully.

Encouraging banks to offer at least one Bank On-certified account – and making it easy for them to do so – can have an impact at enormous scale. For community banks, that means working with one of the nation's core processing companies, which provide the operational backbone behind many banks. ABA received commitments from 20 core processing companies (including Fiserv, FIS, Jack Henry, and Finastra) to make it easier for community banks to develop and offer these accounts. While some banks are creating new accounts, many banks may already offer accounts that meet the Bank On standards but do not realize they qualify for certification. We have asked the core providers to help develop an inventory of such accounts so we can make banks aware of the ease with which they could certify and market Bank On-ready accounts.

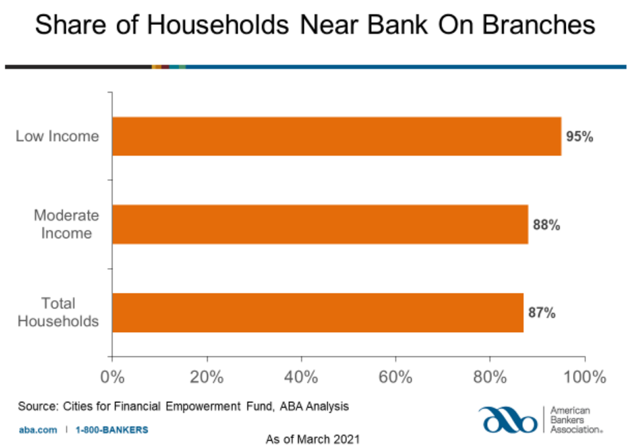
We are making an impact. Since we launched our Bank On campaign in October 2020, *the number of Bank On-certified accounts has more than doubled* – with notable growth in participating banks under $10 billion – and we see growing momentum toward achieving nationwide scale.[1] With 108 Bank On-certified accounts available at 33,427 active branches across the United States (or more than 41% of active bank branches nationwide), 25 additional certified accounts are expected to go live by September, adding nearly 4,000 more branches. According to the FDIC, banks offering Bank On-certified accounts make up more than 51 percent of the US deposit market share. Beyond these figures, hundreds of banks have initiated contact with the CFE Fund to learn more about Bank On certification.



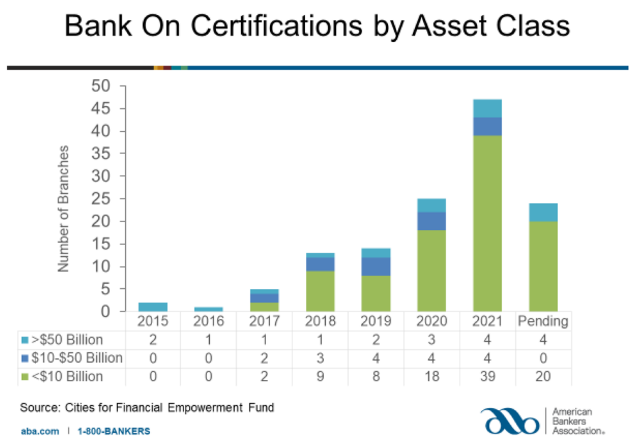
As of March 2021, Bank On-certified institutions were within commuting distance[2] of 95% of households living in low-income census tracts and 88% of households in

[1] 39 of the 47 institutions certified in 2021 are smaller than $10 billion. This is particularly important for growth in rural markets, in which community banks tend to have a large presence.
[2] Defined as within 10 miles of the geographic center of rural or mixed census tracts and within a 2-mile radius of urban census tracts.

moderate-income tracts, representing more than 30 million of the approximately 33 million LMI households in the United States.



Since ABA ran this analysis, 36 more institutions gained Bank On certifications representing more than 4,500 branches, demonstrating the rapid growth in physical access to low fee banking products for households.



	2015	2016	2017	2018	2019	2020	2021	Pending
>$50 Billion	2	1	1	1	2	3	4	4
$10-$50 Billion	0	0	2	3	4	4	4	0
<$10 Billion	0	0	2	9	8	18	39	20

In addition to branch banking, Bank On-certified accounts offer robust mobile and on-line services, with one pending institution operating entirely digitally. FDIC data shows that underrepresented groups are among the most rapid adopters of mobile banking, making this a promising avenue for outreach to unbanked populations.

ABA's 2021 Bank Access report, published May 25, 2021, provides an overview of how America's nearly 5,000 banks offer communities across the nation important products and services through, collectively, more than 83,000 branches and increasingly robust digital service channels. One clear takeaway is that technological innovation is rapidly transforming the way Americans want to access financial services. According to the FDIC, even before the global health pandemic, more than a third (34%) of American households used mobile channels as their primary method of accessing bank accounts in 2019, up 18.4 percentage points from 2017. By requiring robust online and mobile capabilities, Bank On national standards ensure that consumers who choose a Bank On account will have access to a full suite of capabilities that a growing share of American consumers say they value.

The Federal Reserve Bank of St. Louis' 2019 (latest) Bank On National Data (BOND) Hub report, which examines data that predates the ABA's Bank On initiative, suggest that Bank On accounts are achieving key objectives. We would call the Subcommittee's attention to some key takeaways from the report, which demonstrate that such accounts meet consumer needs and are also sustainable for banks:

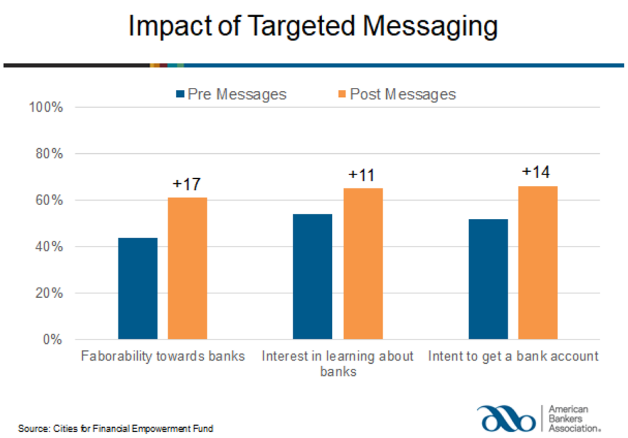
- The demand and use of Bank On accounts is strong and continues to grow.
- Account holders don't just open Bank On accounts and forget about them. They actively use many of the services provided by certified Bank On accounts
  - 75% of customers are digitally active
  - 74% make debit transactions
  - Although accounts do not have minimum balance requirements, monthly balances across all reported Bank On accounts average $345 per account
- Bank On accounts grow the pie, with approximately 85% of Bank On account holders being "new to the bank."

The data generated by the BOND Hub is a critical resource to policymakers, and the ABA will continue to encourage banks that offer Bank On accounts to participate in this important data project.

We are encouraged by the recent progress, but we know the availability of Bank On-certified accounts is just one piece of the puzzle.

While Bank On accounts address many of the structural challenges facing unbanked households, focused messaging and outreach can help address what the

CFE Fund calls the motivational challenges to getting banked. Through focus groups and surveys to help home in on messages that resonate the most with unbanked populations in its 2019 Making the Case for Banking Access report, CFE Fund found that tailored messaging and education can help move the needle with unbanked households.



Two-thirds of the focus group participants became interested in getting an account after learning how having a bank account can help them increase savings, pay down debt, and build emergency funds. After exposure to tailored messaging, the report found favorability towards banks increased 17 percentage points (pp), interest in learning about banks increased 11 pp, and intent to get a bank account increased 14 pp. America’s banks are committed to working with government and nonprofit partners to encourage recipients to consider a Bank On-certified account at a bank in their community.

As we work to develop trust with unbanked consumers and increase consumer recognition of the Bank On name – and what it stands for – local Bank On coalitions, which bring together government agencies, financial institutions and community organizations, are working to ensure that unbanked consumers understand that there is a place for them in the mainstream banking system. With over 90 coalitions nationwide and new coalitions being formed as the movement grows (North Carolina's new Bank On Coalition is the latest example), these partnerships demonstrate what can be accomplished through collaboration to bring consumers into the financial mainstream. Colorado, for example, has two Bank On coalitions, one in Denver and the other in Boulder County. The Colorado Bankers Association is working to launch a targeted recruitment campaign among its members to increase participation in that important work.

Notably, the Bank On Denver coalition has distributed more than $130,000 in financial assistance to Denverites negatively impacted by the COVID-19 pandemic via a Financial Empowerment with Personal Access to Capital Grant program, launched in October 2020. And Bank On Boulder County in June hosted a Behavioral Economics Symposium with the FDIC, providing an in-depth look at how members of the Boulder County community make financial decisions. Four individual panels discussed real-world dynamics that impact how people earn, spend, save, and protect their funds and highlighted some steps banking access stakeholders can take to support these efforts.

To complement our on-the-ground initiative, the ABA believes it is also important to add to the growing body of data-driven research that validates the path forward to decreasing the number of unbanked Americans. On May 18, 2021, ABA joined The

Clearing House, the Consumer Bankers Association, the Credit Union National Association, the Mid-Sized Bank Coalition of America, and the National Bankers Association in releasing a new report, Delivering Financial Products and Services to the Unbanked and Underbanked in the United States – Challenges and Opportunities, which outlines the obstacles and viable solutions for improving financial inclusion, providing access to bank accounts to the unbanked population in the United States.

As noted in the joint press release, the report concludes that instead of establishing a large, duplicative and potentially expensive banking infrastructure to create bank accounts through the Federal Reserve or the U.S. Postal Service (postal banking), there are more effective and less costly ways to make progress in reducing the number of unbanked consumers, including through addressing barriers such as verifiable identification and access to broadband, while at the same time increasing efforts to promote successful "ready now" solutions with proven track records, like Bank On.

Conclusion

Banks have built the foundation for Americans to have consistent, simple, and secure access to financial services. Today, bank branches are easily accessible to nearly all Americans and households can bank from anywhere via online or mobile channels. And yet, while the vast majority of Americans are already making use of these services, more than 7 million households remain outside the banking system without a deposit account. America's banks believe everyone should have access to the banking system and the safety, convenience and other benefits that come with a bank account – and we are committed to continuing our efforts to build trust with unbanked consumers, both directly and in partnership with trusted intermediaries. As CFE Fund's Bank On brand becomes increasingly visible and recognizable, together with a growing number of banks offering Bank On-certified accounts, we believe the number of unbanked consumers will continue to drop. As an industry, we will seek out new and innovative ways to reach those without access to traditional financial services. We would welcome the opportunity to work collaboratively with the Subcommittee or other community stakeholders. When safe, affordable, and accessible financial products and services are readily available, families, communities, and the economy can prosper.

AMERICAN FINANCIAL SERVICES ASSOCIATION

July 21, 2021

The Honorable Ed Perlmutter
Chairman
U.S. House Subcommittee on Consumer Protection
and Financial Institutions
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member
U.S. House Subcommittee on Consumer Protection
and Financial Institutions
Washington, D.C., 20515

Dear Chairman Perlmutter and Ranking Member Luetkemeyer:

On behalf of the American Financial Services Association (AFSA),[1] I am writing today in advance of your hearing, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System."

Access to financial services is a cornerstone of the American way of life. In the United States, a competitive and robust consumer marketplace allows families and individuals to access financial services and credit products to meet their household needs. While many communities and neighborhoods absorbed an extraordinary shock last year during the COVID-19 pandemic, AFSA's members continued to improve the lives of millions and ensure quality credit products are readily accessible and affordable. AFSA's members offer traditional installment loans, vehicle financing, credit cards, and mortgage loans.

Traditional installment loans are fixed-rate, fully amortizing small-dollar loans repaid in substantial equal monthly payments. They have been one of the safest and most affordable forms of consumer credit in America for over a century. Today, installment lenders continue to serve consumers of all economic backgrounds, including under-banked consumers – particularly those in small towns – by offering personal loans through branches in their communities.

Similarly, vehicle finance companies help increase levels of financial inclusion and mobility. Vehicle ownership can increase the number of jobs available to an individual and ensure that once a good-paying job has been secured, an individual is more likely to keep his/her job.

Towards the end of 2020, 63% of Americans had been living paycheck to paycheck since Covid hit,[2] and a third of U.S. adults said they were having difficulty covering everyday costs such as food, rent or car payments.[3] Today, 66 million adults (28% of all adults in the United States) reported it was somewhat or very difficult for their household to cover usual expenses in the past seven days, according to data collected this past June.[4]

For customers like these, and many others who require access to credit to meet emergency needs, traditional installment loans can serve as a lifeline, allowing for the purchase of a new refrigerator, emergency auto repairs, or recovery from weather-related events. This is especially true for consumers who might be unbanked, underbanked, or have impaired credit histories.

[1] Founded in 1916, AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including direct and indirect vehicle financing, traditional installment loans, mortgages, payment cards, and retail sales finance.
[2] CNBC, *63% of Americans have been living paycheck to paycheck since Covid hit* (December 2020)
[3] NPR, *Paycheck-To-Paycheck Nation: Why Even Americans With Higher Income Struggle With Bills* (December 2020)
[4] Center on Budget and Policy Priorities, *COVID Hardship Watch* (July 2021)

According to a 2019 survey by the FDIC, 7.1 million households are unbanked, meaning they do not have a checking or savings account.[5] In that survey, individuals cited several reasons for not having a banking account, including 49% who said they "don't have enough money to meet minimum balance requirements" and 20% who indicated, "banks do not offer needed products and services."

For decades, AFSA's members have been responsible for reviewing a borrower's ability to repay, verify application elements, have robust compliance processes, and check and report to credit bureaus to ensure our customers are in the best possible position financially.

Last year, over 13 million individuals held a traditional installment loan. These "plain vanilla" loans with transparent, easy-to-understand terms, due dates, and payment amounts can serve as an entry point into the financial system for those who otherwise might be left out entirely. Sixty-five percent of personal loans to consumers with non-prime credit scores (below 650 FICO score) in 2020 were made by consumer finance companies. This is more than double the number of loans issued to these borrowers by credit unions (22%) and banks (13%). The same data showed that 42% of prime customers (above 650 FICO score) receiving personal loans in 2020 also choose to use a consumer finance company product.

There are currently several proposals by Congress that include options for expanding banking services. One such proposal would allow the United States Postal Service (USPS) the authority to offer small-dollar loans to consumers. AFSA is strongly opposed to Congress proceeding in this direction. The USPS is not equipped to provide consumers the high-quality financial products nor the consumer protections offered by consumer finance companies. However, AFSA encourages Congress to promote fair and transparent access of credit for consumers through competitive markets.

Increasing participation in the financial system is critical to keeping individuals from poverty and instability. As the Subcommittee on Consumer Protection and Financial Institutions discusses several banking related proposals, AFSA and our members are proud to highlight how its members have supported customers' access to the financial system for over 100 years.

Thank you again for your hard work during this Congress. AFSA appreciates your attention to these important issues. If you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,

Celia Winslow

Celia Winslow

Senior Vice President
American Financial Services Association

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

BANK POLICY INSTITUTE

"Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System"

Statement for the Record from the Bank Policy Institute for
U.S. House of Representatives Committee on Financial Services,
Subcommittee on Consumer Protection and Financial Institutions

July 21, 2021

The Bank On program, which connects banks with unbanked and underbanked consumers, has shown notable success in expanding access to low-cost, no-overdraft bank accounts, particularly in predominantly minority and low-income communities. Currently, more than 100 banks, comprising 52 percent of national deposits, offer Bank On certified accounts. During 2019, the most recent data available, those banks added nearly 2 million new Bank On certified accounts.

As described in a BPI blog post published this week by SVP of Research Paul Calem, new data suggests that Bank On take-up is greater in places with a larger concentration of unbanked households. In particular there is a significant positive correlation between rate of Bank On account openings and the proportion of unbanked households across the vast majority of states – suggesting that the program reaches the communities that need it most, and that it has the scale to make a meaningful impact on financial inclusion. Policymakers should encourage broader use of the program, which enables underserved Americans to build financial stability and security for their families.

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"Bank On" Transaction Accounts and Financial Inclusion

July 19, 2021

Paul Calem

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Having a bank account is important for the personal economic growth and independence of American individuals and households. Unfortunately, not everyone in America has an account. Those without them are referred to as the unbanked, and they are predominantly poorer Americans. Solving the problem of the unbanked is a major public policy challenge. Fortunately, a solution is materializing: "Bank On" is a national program, being implemented through many local Bank On coalitions in collaboration with the Cities for Financial Empowerment (CFE) Fund, whose goal is to advance financial inclusion through expanded access to low-cost bank transaction accounts.

Some of the core features of the program include offering simple checking accounts with low minimum balances and no overdraft fees. Currently, more than 100 banks, comprising 52 percent of national deposits, offer Bank On certified accounts.

A previous BPI research note presented a descriptive overview of the program and provided a geographic analysis of take-up and usage of Bank On certified accounts, based on a pilot data collection conducted in 2017 by the CFE Fund and the Federal Reserve Bank of St. Louis. This research note focuses on the program's importance as a conduit for financial inclusion as measured by account take-up rates in relation to financial inclusion metrics across states.

The study relies on data from larger and more formalized (post-pilot) collections in 2018 and 2019 (mostly on the latter), analyzed jointly with data from the Federal Deposit Insurance Corporation (FDIC) on household use of banking products and services. The analysis demonstrates a significant positive correlation between the rate of Bank On account openings (net of closings) and the proportion of unbanked households across states, consistent with Bank On being a successful program to enhance financial inclusion.

In addition, as in the prior BPI note, the results show relatively high take-up rates for Bank-On accounts in areas with high concentrations of low- or moderate-income (LMI) and minority households. For instance, 42 percent of account openings in 2019 occurred in neighborhoods (ZIP codes) with more than 50 percent LMI population (whereas only 21 percent of the branches of the associated banks are in majority-LMI neighborhoods).

The study also finds that take-up of Bank On accounts has been material in relation to the size of the unbanked household population. Specifically, a net addition of more than 750,000 Bank On certified accounts during 2019 was recorded at banks that participated in the 2019 data collection, in states where these banks have a major presence (where their share of bank branches is at least 20 percent). Relative to the 3.3 million unbanked households as of mid-year 2019 in these states, this is a substantial take-up rate. Notably, the study sample understates the full contribution of Bank On. Although the 2018 and 2019 Bank On data collections included four of the largest U.S. retail banks (including the top three), many small and regional banks that participate in Bank On are still in the process of being incorporated into future data collections.[1]

[1] More than 100 institutions currently offer Bank On certified accounts. See here for a full listing of Bank On participating institutions and the accounts they offer.

DATA SOURCES

The Federal Reserve Bank of St. Louis and the CFE Fund launched a data collection and pilot study in 2017 to examine take-up and use of Bank On accounts, with participation of four financial institutions: Bank of America, JPMorgan Chase, U.S. Bank and Wells Fargo. The pilot study demonstrated how data on Bank On certified accounts could be collected in a consistent and centralized manner across institutions.

Building on this experience, the CFE Fund and St. Louis Fed in 2018 initiated an annual, standardized data collection to establish and maintain a "National Data Hub" to support analytics that advance understanding of the market for these accounts.[2] The four large banks from the pilot study were joined by six community and regional banks (Carrollton Bank, First Commonwealth Bank, IBERIABANK, Old National Bank, Southern Bancorp, and The First – A National Banking Association) as participants. The same group of institutions participated in a second annual collection for the National Data Hub in 2019.

Both the 2018 and 2019 data, fully disaggregated to the ZIP code level, were made publicly available just in the past two months (subject to exclusion of ZIP codes for which fewer than three of the participating banks are reporting data).[3] These samples constitute the core data for our analysis. Some summary information about the samples is presented in Table 1, alongside corresponding information about the full (non-public) sample from reports published by The Federal Reserve Bank of St. Louis.

Table 1: Summary information from the National Data Hub 2018 and 2019 samples

	Public Dataset		Full (Non-Public) Dataset	
	2018	2019	2018	2019
Number of ZIP codes represented	11,321	15,652	27,305	31,496
Number (1,000's) of accounts ever opened	2,968	5,472	3,440	5,850
Number (1,000's) of open accounts as of year-end	1,208	2,418	1,345	2,635
Number (1,000's) of (new) accounts opened during the year	708	1,762	792	1,922
Percent of new accounts opened by customers new to the institution	77	85	75	85

Sources: National Data Hub public data and Federal Reserve Bank of St. Louis 2018 and 2019 reports.

The 2018 and 2019 public data samples span 11,321 and 15,652 ZIP codes, representing 27 and 37 percent of U.S. ZIP codes, respectively. The restriction to ZIP codes with at least three reporting institutions reduces geographic coverage by more than half compared to the full, non-public samples, but results in the exclusion of no more than 10 percent of accounts by any of the three measures shown in Table 1 (accounts ever opened, accounts currently open, or accounts opened during the year.)

Bank On account take-up activity at the participating banks increased sharply in 2019. As reported for the full sample, about 2.6 million Bank On certified accounts were open at these banks as of year-end 2019, double the number open as of year-end 2018. About 1.9 million new accounts were added in 2019, of which 85 percent were opened by customers new to the institution, while just under 800,000 were added in 2018, with 75 percent of these opened by customers new to the institution.

Data merges. The next step is to merge the Bank On data with information on the demographic and income composition of each ZIP code and with financial inclusion data, by state, from the FDIC's survey.

[2] A list of the 23 account activity metrics included in the annual data collection was included in the previous BPI research note on Bank On. There are three categories of metrics: account opening and closing; account usage and consistency; and online or digital access. These are collected from each institution at the ZIP code level.

[3] The data can be downloaded from the National Data Hub webpage maintained by the Federal Reserve Bank of St. Louis.

Neighborhood demographic information is obtained, by census tract, from the 2010 Decennial Census dataset. The demographic measures utilized are share of the population that identifies as non-white (Black or African American, Hispanic, Asian-American, or Native American or Native Hawaiian). These tract-level variables are allocated to ZIP codes using the tract-to-ZIP mapping available from the U.S. Department of Housing and Urban Development (HUD).[4]

The share of a ZIP code's population that is low- or moderate-income (LMI) is based on low- or moderate-income population share by census tract, which is derived from the 2011-2015 American Community Survey (ACS), based on Census 2010 geography, and obtained from HUD. These tract-level LMI shares are then allocated to ZIP codes by again using the HUD mapping.

Selected information on financial inclusion status of the population is merged in, by state, to complete the study sample. Financial inclusion metrics by state are obtained from the biennial FDIC Survey of Household Use of Financial Services. This survey gathers data on the number of U.S. households that are unbanked and underbanked, their demographic characteristics, and their reasons for being unbanked and underbanked.[5] Our analysis utilizes data from the 2013 through 2019 survey samples.

An unbanked household in the survey is one in which no one in the household has a checking or savings account at a bank, thrift or credit union. The survey also collects information on whether a household has (during the previous 12 months) relied on a type of nonbank financial service company that typically is associated with providing high-cost products or services, such as payday loans or check-cashing. For our analysis, we characterize a household as underbanked if it is either unbanked or has utilized alternative providers of *transactions* services; specifically, check-cashing or money orders.[6] Note that in other contexts, individuals utilizing alternative providers of high-cost credit also are generally classified as "underbanked," but the focus here is on the degree to which households have access to affordable deposit or transactions accounts.

Table 2 shows estimated counts of unbanked and underbanked households based on the 2019 FDIC survey, the percentages of U.S. households these correspond to and the estimated proportions of unbanked and underbanked households in the areas covered by our (merged) study sample. The survey results indicate that 5.4 percent of U.S. households are unbanked, and another 12 percent tend to utilize alternative providers of transactions services and therefore are included in our definition of underbanked. Nearly the same proportions are observed for our study sample.

Table 2: Financial inclusion statistics

	FDIC 2019 Survey		Study Sample
	Count (1,000s)	(Percent)	(Percent)
Unbanked Households	7,056	5.4	5.5
Other Underbanked Households	15,840	12.0	11.8

Sources: FDIC 2019 financial inclusion report and National Data Hub 2019 public data.

BANK ON TAKE-UP ACTIVITY IN RELATION TO FINANCIAL INCLUSION AND OTHER METRICS

The Bank On program as a conduit for financial inclusion can be assessed by quantifying account take-up activity in relation to the proportion of unbanked households across states or regions. To the extent that the program has

[4] For each ZIP code, the weighted average of each measure is calculated using the weights provided by the HUD mapping. This mapping, which weights each Census tract fully or partially contained within a given ZIP code by the tract's share of the total residential population in that ZIP code, is available here.
[5] It is conducted by the U.S. Census Bureau as a special supplement to the Current Population Survey (CPS).
[6] The survey collects information on both credit and transactions dimensions of underbanked households.

been effective at expanding financial inclusion, take-up activity should be greater in areas with larger financial inclusion gaps.

This section examines Bank On account take-up activity in 2019 in relation to the proportion of unbanked households across states. The focus on 2019 is motivated by the greatly accelerated pace of account openings occurring that year.

An intuitive measure of account take-up activity is the *rate of account openings net of closings*, calculated as number of accounts opened minus the number closed during a year, divided by the beginning-of-year number of open accounts. A higher net rate of opening of Bank On accounts in areas where there is a higher concentration of unbanked households would suggest a favorable effect on financial inclusion.

Chart 1 presents a scatter plot of the net rate of account opening in 2019 in relation to the proportion of unbanked households by state, for the 45 states (inclusive of the District of Columbia) where the group of participating banks has a material branch presence (each dot represents a state).[7] As indicated by the positively sloped trendline, on average the net rate of account opening is higher in states with a larger concentration of unbanked households, reflected in a correlation coefficient of 31 percent.

Table 3 presents results from a regression equation for the relationship in Chart 1 and several related regression equations. Summary statistics for the state-level variables used in these regressions are shown in Table 4.

Table 3: Estimated regression equation for account take-up activity
Dependent variable: net rate of account opening

Equation 1	Independent variables		
	Intercept	Unbanked ratio	
Estimated coefficient	0.480***	5.84**	
Standard error	0.136	0.025	
Number of observations = 45; R-squared = 0.10			
Equation 2			
	Intercept	Unbanked ratio	Lagged take-up activity
Estimated coefficient	0.569**	5.88**	-0.211*
Standard error	0.140	0.024	0.111
Number of observations = 45; R-squared = 0.17			
Equation 3			
	Intercept	Underbanked ratio	Lagged take-up activity
Estimated coefficient	0.457**	2.36**	-0.183
Standard error	0.200	0.011	0.112
Number of observations = 45; R-squared = 0.15			
Equation 4			
	Intercept	Unbanked ratio	Lagged take-up activity
Estimated coefficient	0.678***	3.95*	-0.200*
Standard error	0.123	0.020	-0.107
Number of observations = 51; R-squared = 0.12			

** Statistically significant at 10 percent level ** Statistically significant at 5% level*
Sources: FDIC 2019 financial inclusion report and National Data Hub public data. Excludes states where branch share of participating banks is < 5%

[7] We exclude six states where their share of total bank branches is less than 5 percent.

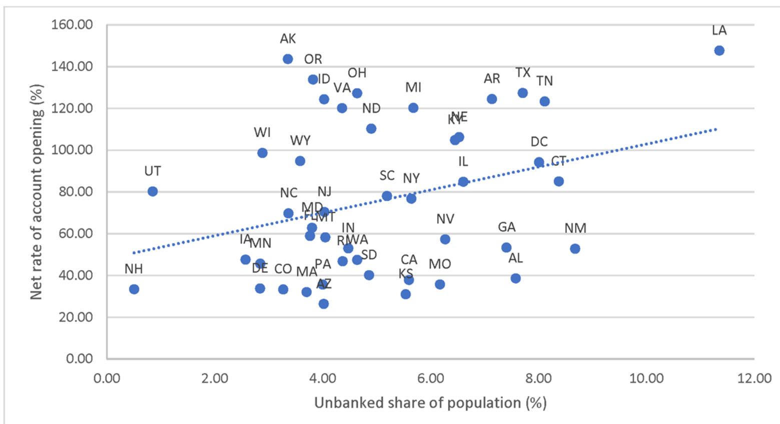
Table 4: Summary statistics for the state-level data

Variable	Mean	Standard Deviation
	(Percent)	(Percent)
2019 % Unbanked	5.1	2.1
2019 % Underbanked	16.7	4.7
2019 Net rate of account opening	75.8	36.2
2018 Net rate of account opening	51.4	45.9

Source: National Data Hub 2019 public data.

The regression equation in column 1 of Table 3 provides a statistical representation of the data in Chart 1. The estimated coefficient on proportion of unbanked households is positive and statistically significant, consistent with the visual relationship observed in the chart.

Chart 1: Net rate of Bank On account opening in relation to unbanked share of the population in 2019



The regression equation in column 2 appends lagged (2018) account take-up activity to the column 1 equation. Inclusion of the states lagged take-up rate controls for factors that might cause atypically high (or low) take-up rates in some states to persist over time or, conversely, to moderate (return to a more typical rate) over time. The results confirm a strong, positive association across states between the net rate of account openings and percentage of unbanked households, as indicated by statistical significance (at the 5 percent level) of the estimated coefficient. The estimated coefficient on lagged take-up activity is negative and statistically significant (at the 10 percent level), consistent with a reversion-to-mean effect.

The column 3 equation swaps in unbanked plus underbanked share as the dependent variable for the column 2 equation. The equation in column 3 is identical to that in column 2 but is estimated using the full sample of states. Together, these results demonstrate robustness of the relationship between rate of account opening and financial inclusion.

Take-up by neighborhood classification. Since unbanked individuals and households are concentrated among lower-income and minority populations, another way to assess the reach of Bank On into the unbanked population is to examine the distribution of account take-up at the neighborhood level. This was the approach utilized in the previous research note, and we update that analysis here.

Table 5 presents the updated findings on 2019 account take-up activity by neighborhood classification.[8] Three take-up metrics are considered alongside two comparison benchmarks.

Table 5: Account take-up activity as of year-end 2019 by neighborhood category, relative to benchmarks

	Neighborhood (ZIP Code) Categories			
	> 50% Minority	< 15% Minority	> 50% LMI	< 25% LMI
	(Percent)			
Neighborhood share of ever-opened accounts	57.2	7.8	43.8	8.6
Neighborhood share of currently open accounts	56.6	7.3	41.9	10.1
Neighborhood share of accounts opened in past year	56.6	7.5	42.3	9.5
Percent of new accounts opened by customers new to an institution	85.3	81.7	85.9	79.8
Neighborhood share of in-sample ZIP codes	25.6	26.5	21.8	14.7
Neighborhood share of branch locations of the 10 banks	26.6	19.9	20.9	20.9

Source: National Data Hub 2019 public data and 2010 Decennial Census

The take-up metrics are the ZIP code category's share of ever-opened accounts; the category's share of accounts open as of year-end; the category's share of new accounts opened in 2019. In addition, the table shows the percentage of new accounts within each category that are associated with customers new to the institution.

The first comparison benchmark is based on the study sample's ZIP code distribution: the percentage of sample ZIP codes within each category. The second benchmark is based on the overall branch location distribution of the 10 reporting institutions: the percentage of total branches (including branches with ZIP codes that are not in the analysis sample) within each ZIP code category.[9]

Consistent with the findings based on the pilot sample discussed in the previous BPI research note, Bank On certified accounts disproportionately are associated with areas that have predominantly minority populations. About 57 percent of accounts ever opened, currently open (as of year-end 2019) or opened in 2019 were in ZIP codes that are more than 50 percent minority, more than double the share of participating institutions' branches within this neighborhood category.

Likewise, Bank On certified accounts are disproportionately associated with areas that are predominantly LMI. About 44 percent of ever-opened accounts, and about the same percentages of accounts currently open and of those opened in 2019, were in ZIP codes with a greater than 50 percent LMI population, compared to 21 percent of the participating institutions' branches.

Materiality of account take-up activity. The preceding analysis suggests that Bank On account take-up activity is greater where there is a larger concentration of unbanked households, consistent with the program's goal of reaching the unbanked. But is the program sufficiently scalable to have a material impact on financial inclusion?

[8] For these calculations, 266 ZIP codes associated with 5,474 open accounts are dropped from the sample due to missing demographic information.
[9] For additional context, note that about 11 percent of U.S. ZIP codes are majority minority and about 17 percent are majority low- or moderate-income.

Because many of the Bank On institutions have yet to participate in the data collection, the study sample will understate the program's full reach in states where the 10 participating banks have a relatively minor presence. Therefore, to address the question of materiality, we first restrict attention to the 18 states where the banks that participated in the 2019 data collection together account for at least 20 percent of bank branches statewide.

In these states, there were about 3.3 million unbanked households as of mid-year 2019 based on the FDIC survey, and the 2019 study sample records a net addition of about 763,000 Bank On accounts during the year at the participating banks. Thus, the scale of the program appears substantial, with a take-up rate in 2019 equal to 20 percent of the unbanked population in these states.

CONCLUSION

The Bank On program, coordinated by the CFE Fund, seeks to connect traditional banks with unbanked and underbanked individuals and families. This note highlights a strong correlation between Bank On account take-up activity and the percentage of households that are unbanked across states. Also, along with a previous research note, it shows that take-up activity has been particularly strong in neighborhoods with predominantly minority and lower-income populations.

As the analysis is based on data from just 10 of the more than 100 banks currently offering Bank On accounts, it provides only a partial view. As the program builds on its current momentum, and as more of the Bank On institutions join the National Data Hub effort, a fuller picture will emerge. Nonetheless, the findings are suggestive of a material role of the Bank On program in fostering financial inclusion. These findings argue for policymakers to take further action to publicize and encourage even broader customer usage of Bank On accounts, and for more banks to consider joining the Bank On movement.

Center for Responsible Lending
Statement for the Record: Overdraft Fees Cause Financial Exclusion; Policymakers Must Act

Hearing on
"Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System"
Before the U.S. House Committee on Financial Services,
Subcommittee on Consumer Protection and Financial Institutions

July 21, 2021

The Center for Responsible Lending appreciates the opportunity to submit a statement for the record for today's hearing.

We write to highlight the profound barrier unreasonable overdraft fees present to financial inclusion efforts and will continue to pose absent meaningful intervention from policymakers -- even despite any advances in other noble efforts to provide safe banking options.

For at least 20 years, the checking account market has been perverted by overdraft practices that prey upon those with the least. In recent typical years, banks and credit unions have drained approximately $15 billion in overdraft fees annually. They engage in a number of practices that each contributes to the extremely punishing impact overdraft fees have on their account holders: unreasonably high fees per overdraft transaction, multiple fees per day and per month; opaque and often manipulative practices involving deposit clearing, debit holds, and transaction posting order; fees on debit card purchases and ATM withdrawals that used to simply be declined at no charge when the account lacked sufficient funds; and immediate repayment straight off the top of the customer's next incoming deposit.

About 80% of the billions drained annually come from those whose daily account balances average about $350.[1] And accounts where the bank charges overdraft fees on debit card overdrafts -- which tend to be far smaller than the size of the overdraft fee itself -- are 2.5 times as likely to be closed by the bank than when the account is spared such fees.[2]

There is no question that overdraft practices push people out of the banking system altogether. Of unbanked households, the FDIC found that half had previously had a bank account.[3] And of those previously banked, nearly 40% cite high or unpredictable fees or not having enough money as the primary reason they no longer have an account.[4] Overdraft fees likely dwarf other checking account fees for those no longer in the system, and they harshly penalize those with relatively small account balances. Moreover, of those who were previously banked, nearly half are "not at all interested" in having a bank account.[5]

Black and brown account holders pay far more than their representative share of these unreasonable overdraft fees.[6] This is not surprising in light of the dramatic wealth disparities between Black and brown communities and whites. But it means that a meaningful conversation about financial inclusion absolutely must confront this problem. By causing account closures and eroding trust in financial institutions, bank overdraft practices fuel financial *exclusion*.

It also means that as financial institutions claim to reexamine structural racism and their part in it, they must confront the affirmative harm they inflict daily through their overdraft practices. Banks that are pledging millions or billions of dollars in investment in underserved communities while continuing to rake in hundreds of millions, or billions, of dollars annually in overdraft fees, are stripping wealth from the same communities they are claiming to support.

Banks, and their trade associations, are touting safe checking accounts more than they ever have before. We strongly support Bank On accounts and believe every financial institution should offer a low-cost, no-overdraft fee account. But we are under no illusion that these accounts will rid the need for policy intervention. Offering one safe account does not give a bank a free pass to continue to offer a predatory one, nor does offering a responsible small loan product permit banks to continue to drain checking accounts dry through their exploitative overdraft practices.

The CFPB clearly has the authority to address this problem, and addressing the unfair practices in the overdraft space falls squarely within its mission. The prudential regulators hold responsibility as well: Bank accounts should be fundamentally safe places for people to keep their money, and for too many low-income families, they are not. In addition, banks that generate a significant share of their revenue from overdraft fees are not operating in a safe and sound manner -- particularly if new regulations put an end to these predatory fees or competitive pressures reduce them. Congress must hold these regulators accountable while itself ensuring that all checking accounts are free from destructive overdraft practices.

Thank you for consideration of our input. If you would like to discuss our concerns further, please contact Rebecca Borné at rebecca.borne@repsonsiblelending.org.

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[1] CFPB Data Point: Checking Account Overdraft at 12, Table 3 (2014) https://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf; *see also* CFPB Data Point: Frequent Overdrafters at 16, Table 2 (2017), https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_frequent-overdrafters.pdf.

[2] CFPB Study of Overdraft Programs: A white paper of initial findings at 34 (2013), https://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf.

[3] https://www.fdic.gov/analysis/household-survey/2019execsum.pdf at 2 (50.4 percent of those unbanked had previously had a bank account).

[4] https://www.fdic.gov/analysis/household-survey/2019appendix.pdf at 13, Table A.8.

[5] https://www.fdic.gov/analysis/household-survey/2019execsum.pdf at 3, Table ES.2 (48.2 percent of those previously banked are not at all interested in having a bank account).

[6] About 14 percent of Black and 12 percent of Latino households are unbanked, compared to 2.5 percent of white households. https://www.fdic.gov/analysis/household-survey/2019execsum.pdf at 2. Yet Pew found that African Americans and Hispanics each represented 19% of those who paid three or more overdraft-related fees in 2014, while representing only 12% and 17% of the U.S. population as a whole. The Pew Charitable Trusts, *Heavy Overdrafters* at 8 (April 2016), https://www.pewtrusts.org/-/media/assets/2016/04/heavyoverdrafters.pdf.

July 20, 2021

The Honorable Ed Perlmutter, Chairman
U.S. House Subcommittee on Consumer Protection
and Financial Institutions
2128 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer, Ranking Member
U.S. House Subcommittee on Consumer Protection
and Financial Institutions
2128 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Perlmutter and Ranking Member Luetkemeyer:

The Consumer Bankers Association ("CBA") appreciates the opportunity to submit the following comments for the hearing entitled, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System." CBA is the voice of the retail banking industry whose products and services provide access to credit to millions of consumers and small businesses. Our members operate in all 50 states, serve more than 150 million Americans and collectively hold two-thirds of the country's total depository assets.

CBA member banks conduct regular outreach to underserved communities for the purpose of educating unbanked or underbanked consumers about the benefits of becoming part of the mainstream financial marketplace. Most banks offer free or low-cost checking account options to consumers along with other affordable financial products with the intent to create greater financial stability for consumers and the communities they serve. We applaud the subcommittee's interest in reducing the number of unbanked consumers in our country and we have provided our views below on the legislative items considered during this hearing that could impact our members and the consumers they serve.

H.R. ____, the Public Banking Act of 2021

CBA opposes legislation that would create a new government-owned public bank framework to offer consumer banking services. The American financial system is a well-regulated, highly complex marketplace that operates under free market principles. Thousands of depository institutions currently operate a complex network of branches staffed by professionals that have significant expertise serving the financial needs of consumers and their communities. These highly trained professionals with years of experience at banks across the country effectively and safely provide decades of earned experience in risk management, regulatory compliance, consumer protection, and privacy protection—areas that these newly created public banks would have significant issues scaling to size.

The entrance of another government-subsidized entity into the consumer financial market would not only affect the competitiveness of the nation's thousands of financial institutions currently serving consumers and small businesses, it would also expose American taxpayers to increased financial risk. Public banking entities would operate exempt from both taxes and the Bank Holding Company Act while being open to federal financing and resources. The creation of a government sponsored public bank option with endless resources will likely leave many private institutions with a distinct competitive disadvantage within the financial services marketplace.

H.R. ____, the Access to No-Fee Accounts Act

CBA opposes legislation creating new consumer accounts through the Federal Reserve. The American banking system is founded on the core principle of accepting deposits and then using those deposits to make

CONSUMER BANKERS ASSOCIATION

loans to consumers and businesses. This proposal would divert a portion of those deposits into publicly subsidized accounts at the Federal Reserve, leaving established and well-functioning depository institutions without the capital necessary to meet loan demand. Fewer deposits can also lead to safety and soundness concerns along with limited loan products for customers.

Most banks today offer free or low-cost checking accounts to provide consumers entry into the banking system. The creation of a "free" taxpayer subsidized government-mandated deposit account alternative will create an unfair disadvantage to the thousands of depository institutions already competing for customers with incentives like free or low-cost checking and other features. In addition to checking accounts, banks offer a full complement of products designed to enhance the financial well-being of consumers. If a consumer were to open one of the free accounts contemplated by this legislation, there is a greater likelihood they would be less informed of the full complement of financial products offered by depository institutions that help traditional bank consumers build greater financial independence and stability.

Providing consumers access to highly regulated bank products is a goal shared by banks across the country. As the committee considers legislative options to decrease the number of unbanked consumers in our country, we look forward to working with Congress to find solutions that create financial stability for all consumers while promoting the benefits of a healthy and competitive banking system.

Sincerely,

Richard Hunt
President and CEO

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July 21, 2021

The Honorable Ed Perlmutter Chairman, Subcommittee on Consumer Protection and Financial Institutions Committee on Financial Services House of Representatives Washington, DC 20515	The Honorable Blaine Luetkemeyer Ranking Member, Subcommittee on Consumer Protection and Financial Institutions Committee on Financial Services House of Representatives Washington, DC 20515

Dear Chairman Perlmutter, Ranking Member Luetkemeyer, and Members of the Subcommittee:

On behalf of the members of the Electronic Transactions Association (ETA), I appreciate the opportunity to submit this statement for the record before the Subcommittee's hearing, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System."

ETA is the world's leading advocacy and trade association for the payments industry. Our members span the breadth of significant payments and fintech companies, from the largest incumbent players to the emerging disruptors in the U.S and in more than a dozen countries around the world. ETA members make commerce possible by processing more than $21 trillion in purchases worldwide and deploying payments innovation to merchants and consumers.

One of the goals of our financial system is to provide high-quality, affordable financial services to the broadest possible set of consumers. Over the past decade, financial institutions and fintech companies have transformed the financial landscape through the development and deployment of innovative products that expand access to and provide new financial offerings for consumers at lower costs. These products and services — which support improved financial management, increased transaction security, and stronger financial stability —continue to expand financial opportunities for traditionally underserved consumers.

ETA publishes an annual white paper[1] that highlights the many ways in which our members are using technology to address the financial needs of underserved consumers and expand access to financial services. A few of these efforts, discussed in greater detail in the white paper, include the following:

COVID-19 Pandemic Response

Since the outbreak of COVID-19, ETA members have been focused on helping consumers and small businesses mitigate economic hardship by assisting with the delivery of billions of dollars in stimulus payments and small business loans through the Paycheck Protection Program (PPP) as well as by helping the government disburse additional benefits.

As federal and state governments provided stimulus and unemployment payments to Americans struggling with the fiscal impacts of COVID-19, the electronic payments industry was there to help deliver those benefits quickly and securely, so people got the help they needed.

[1] Electronic Transactions Association (2021). *How Fintech Is Addressing the Needs of the Underserved* [online] Available at: https://www.electran.org/wp-content/uploads/2021-ETA-WP-FinTech-UnderServed.pdf

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized economic impact payments (EIPs) totaling $290 billion. The Treasury Department and the Social Security Administration turned, in part, to two longstanding prepaid card programs — Mastercard's Direct Express and Visa's U.S. Debit — along with P2P systems to distribute stimulus funds. Federal agencies used these payment solutions to distribute more than $9 billion to 5.7 million Americans.[2]

By using prepaid cards and peer-to-peer services for distribution, the EIP stimulus reached consumers quickly, with funds that could be used immediately. To expedite the EIP delivery for individuals without bank accounts, Square allowed individuals to create free bank accounts.[3] By using these digital payment options, government agencies ensured that individuals would not have to wait weeks or months for a physical check or figure out how and where to cash that check. Instead, armed with the prepaid card, these individuals could immediately use stimulus funds, directly advancing the goals of this important program.

Prepaid Products

According to the latest FDIC survey, 5% of households do not have a bank account and rely on other products to complete basic financial services.[4] In particular, prepaid cards are popular with consumers seeking to manage or protect their finances, including college students, low-income individuals who may not have access to a traditional checking account, and consumers traveling internationally. In fact, the federal government uses prepaid cards as an alternative to paper checks for many of its benefit programs.

One of the goals of prepaid products is to increase use of these cards as payment tools rather than as a means to access cash, so that consumers have a more secure way to manage their money. Prepaid cards have shown demonstrable benefits for the underserved. For example, Netspend's prepaid debit card offers direct deposit and online bill-pay[5] features that used to be reserved for customers of traditional banks. Now, debit cardholders can open savings accounts and budget their money in ways that open the door to financial security and stability.

Providing America's underserved consumers with access to prepaid cards makes their money safer and helps move them into the increasingly important world of online transactions.

Nontraditional Payments

In 2019, the Federal Reserve Bank of San Francisco[6] reported that 73% of payments in the U.S. were made in-person. For these in-person payments, cash accounted for 35% of the volume. With the services and products offered by ETA member companies, underserved consumers

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[2] IRS, "Treasury, IRS Announce Delivery of 159 Million Economic Impact Payments," at https://home.treasury.gov/news/press-releases/sm1025
[3] Cash App, "Cash App, The Stimulus, and You," at https://cash.app/help/us/en-us/1018-cashapp-the-stimulus-and-you
[4] Federal Deposit Insurance Corporation. (2019). *FDIC National Survey Use of Banking and Financial Services*
[5] About Netspend | Netspend Prepaid Debit Cards. (2017). Retrieved from https://www.netspend.com/about_netspend.
[6] Findings from the Diary of Consumer Payment Choice (2019). Federal Reserve Bank of San Francisco.

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have additional options to pay for their purchases in cash and a pathway to participate in the digital economy. ETA member companies such as Amazon, Western Union, and PayPal have specifically developed tools for the needs of consumers to add cash directly to their accounts and shop online.

These companies offer safe, secure, and convenient ways for consumers to add cash directly to their accounts and pay for online purchases. eCash solutions allows consumers to pay for online purchases *but then complete the process at a physical payment point with cash*. Participating merchants provide the option at checkout for consumers to pay with cash. The consumer receives a barcode to complete the payment amount via text, email, or printable PDF, and then they can pay in cash at participating retail locations, such as CVS and Walgreens, via the barcode to complete the online purchase.

Other eCash solutions enable customers to load cash onto their digital wallet accounts so they have alternative ways to shop or pay their bills online. These solutions even allow individuals to directly deposit their paychecks into their account for free and enjoy the benefits of spending their balance anywhere.

Mobile Payments

In the U.S., 98% of the adult population has a mobile phone and, of those, 81% are smartphones, a steady increase from previous years. The FDIC has found that mobile banking, as a primary method of account access, continues to increase sharply (from 9.5% in 2015 to 34% in 2019), overtaking online banking as the most prevalent primary banking method. Mobile payments are a convenient and secure alternative to cash and checks that allow consumers to pay for goods and services in a safe and cost-effective manner. These products also enable greater financial literacy by allowing consumers to manage their accounts from their mobile phones.

The adoption rate of mobile payments by consumers and merchants is on the rise. Research has shown that more than 62% of adult U.S. consumers own at least one credit card, and 40% of those have downloaded at least one mobile payments app.[7]

Mobile payments aren't just for commerce but are being used by employees nationwide. ETA members empower workers with immediate access to their money and multiple options for receiving it, helping them manage their day-to-day cash needs more efficiently and effectively.

Cross River helps those in the marketplace economy — such as workers in ridesharing, food delivery, and other freelance occupations — by partnering with payments companies to provide workers with quicker access to their earnings through push-to-card payments. Providing consumers with the ability to quickly access their funds helps to deter the necessity businesses that trap consumers with high-interest predatory loans. Ultimately, these solutions help consumers break cycles of debt.

[7] eMarketer, US Mobile Payment Users 2019 Report

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More than half of all U.S. consumers have downloaded mobile card apps and use them on a weekly or even daily basis. ETA is encouraged by this trend and sees value for consumers in the access, ease, ubiquity, and security of mobile payments.

When using mobile wallets for in-store payments, both customers and merchants are protected by the latest innovations in payments security. Mobile wallets require a passcode, fingerprint, or facial recognition before a transaction can occur, and thus are highly secure. This two-step authentication and encryption makes them a great option for businesses to reduce the risk of fraud and ensure that their customers' data is safe. In addition, the standard for mobile payments is tokenization, a process that replaces the card number with a unique string of digital numbers during the transaction so that the account information remains secure.

ETA member companies are creating innovative offerings in financial services and revolutionizing the way commerce is conducted with safe, responsible, convenient, and rewarding payment solutions and lending alternatives that are available to a broad set of consumers. As the leading trade association for the digital transactions industry, ETA encourages policymakers to support these efforts through policies that encourage innovation and the use of technology to improve financial outcomes for all consumers.

We appreciate the Subcommittee's leadership on this topic as well as the opportunity to submit this letter for the record. If you have any questions, please contact me or ETA's Senior Vice President of Government Affairs, Scott Talbott at stalbott@electran.org.

Sincerely,

Jeff Patchen
Senior Manager of Government Affairs
Electronic Transactions Association

cc: Members of the Subcommittee of Consumer Protection and Financial Institutions

INDEPENDENT COMMUNITY BANKERS of AMERICA®

July 21, 2021

Banking the Unbanked: Solutions Must Be Based on Established Financial Institutions

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing titled: "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System."

Community bankers are committed to serving their communities, including unbanked populations. A community cannot thrive without inclusive access to the banking system. When a significant population remains outside the banking system, predatory practices flourish. These include high-cost payday loans and car title loans that can trap borrowers in a cycle of debt. Without broadly available bank credit, homeownership rates decline. It becomes harder to build wealth, and the racial and ethnic wealth gap widens. Exclusion from the banking system promotes an underground cash economy. Unbanked individuals who carry cash on their person or keep it in their homes are vulnerable to violent crime. The issue of the unbanked is a significant hurdle to full prosperity. This concern is too important to entrust to untested proposals.

ICBA is concerned about the unintended consequences of proposals that would establish public banks or expand the mission of the United States Postal Service or the Federal Reserve to include retail banking, as well as proposals that would expand the reach of tax-exempt credit unions. In this statement, we offer realistic, viable alternatives for reaching more of the unbanked based on new technologies and established financial institutions.

Leverage community banks for greater financial inclusiveness

Community banks have distinguished themselves as ideal partners in bold initiatives to increase financial inclusion. Community banks recently demonstrated their geographic versatility and commitment to underserved communities by originating more than 55.8 percent of all Paycheck Protection Program (PPP) loans, despite accounting for just over 18 percent of total bank industry assets. This program enabled more than 3800 community banks to act as the conduit for more than 2.8 million distressed small businesses seeking federal loan assistance within 98.5 percent of low-income counties, 97 percent of rural counties, and 93.8 percent of urban counties.

Community banks are investing the same energy that they brought to the PPP to increasing financial inclusion. Solutions include: credit building initiatives that allow consumers with thin or nonexistent credit files to build a credit history with special savings and loan products. Some community banks are using alternative data, such as cash flow, or utility and rent payment history, in their underwriting to supplement traditional credit data. Community banks are finding new ways to surmount barriers to serving new immigrants to the U.S. including accepting alternative forms of identification to satisfy customer due diligence rules and other Bank Secrecy Act regulations.

We encourage Congress and the banking agencies to build on the success of a 2008 FDIC pilot program designed to encourage more financial institutions to provide affordable small-dollar loans. Over the course of two years, 31 participating community banks originated more than 30,000 small-dollar loans totaling over $40.1 million. They averaged more than 1,000 loans per quarter. Additional pilot programs examining the sustainability of community banks offering no- or low-cost checking and savings accounts are a viable alternative to public or postal banking proposals or expanded credit union powers.

ICBA has a robust set of recommendations for Congress and the banking agencies to further leverage the community ties and resources of community banks.

INDEPENDENT COMMUNITY BANKERS *of* AMERICA®

Minority Depository Institutions and Community Development Financial Institutions

Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) specialize in serving minority or low-income communities that are disproportionately unbanked. Without the work of these institutions, the unbanked population would be markedly higher. There are currently 143 MDIs holding over $299 billion in assets touching 600 minority-majority communities nationwide. There are 250 CDFI banks, primarily serving low-to-moderate income markets and maintaining accountability to those target markets. Their impact in the communities they serve is significant and must be leveraged for greater reach.

Minority banks are expert in reaching at-risk demographics. They are effective in these communities because of their understanding of their cultural practices, differences, languages, and norms, allowing them to customize products and services that meet their unique needs. Critically, reaching the unbanked requires the ability to overcome barriers to trust. Trust and cultural understanding are the core value propositions such institutions offer. A public or postal bank would not be similarly qualified. What's worse, these banks could accelerate the closure of MDIs and harm the communities they serve.

Congress should enact legislation to promote and strengthen MDIs and support their reach into unbanked households. Measures could include permitting MDIs to utilize nontraditional means of raising capital to support additional lending. MDIs typically lack access to the public capital markets that larger banks enjoy. In addition to capital, Congress and the federal banking agencies should create programs to promote investments, technical assistance, mentorship, and collaborative relationships between minority banks and community banks at large. A new "Impact Designation" for banks with a specified percentage of loans extended to low-income borrowers would ensure that assistance is directed to those institutions that are having the greatest impact in low-income communities.

The Promoting Access to Capital in Underbanked Communities Act of 2021 (H.R. 2561) is intended to promote de novo community bank formation, including MDIs, by phasing in capital standards over three years. Start-up capital is often the greatest impediment to forming a new bank, and this provision would help spur the creation of new MDIs and Impact Banks. This kind of regulatory flexibility, recognizing the financing disparities of different types of banks, is critical to promoting the formation of additional, mission-driven banks positioned to serve unbanked and underbanked communities.

Measures to strengthen CDFIs include: Funding the CDFI Fund's Loan Loss Reserve Fund for small dollar loans and providing additional appropriations for the CDFI Fund to provide technical assistance to CDFIs. Policymakers should also streamline the application and recertification process for MDIs to receive the CDFI designation. This would not only provide the flexibility for these institutions to reach first-time customers, but also encourage the formation of de novo MDIs, increasing the number of private, community banks focused on serving financially underserved communities. MDIs and CDFIs must be a solution to the challenge of the unbanked.

Financial technology has the potential to dramatically expand access to banking services

According to FDIC data, 49.5 percent of unbanked households and 83.2 percent of underbanked households have regular access to a smartphone, while 28.5 percent of unbanked households and 76.1 percent of underbanked households have regular access to the internet. Smartphone and internet access can and will continue to expand with the support of targeted policy initiatives. Younger people of all demographics are already predisposed to use mobile banking and mobile payments, according to the Federal Reserve's most recent survey on Consumers and Mobile Financial Services.

Partnerships between community banks and fintech providers are a critical part of ensuring greater access to financial services beyond the reach of physical branches. ICBA supports initiatives to expand affordable access to broadband and other technologies and promote the use of fintech as a means for unbanked and underbanked households to access banks with low-cost product offerings. Bank-fintech partnerships are the future of banking, and we must ensure that it expands in an inclusive and affordable manner.

ICBA Opposes Legislation That Would Expand Public Banking or Enhance the Powers of Tax-Exempt Credit Unions

ICBA offers the following comments on the three bills before this committee today.

The Public Banking Act of 2021

This legislation would promote the formation of public banks operated by local or state governments through the creation of a public banking incubator program.

ICBA opposes the formation of new public banks whether they are owned by states, municipalities, or any other federal or quasi-federal instrumentality. Such banks would directly compete with community banks, diverting deposits from local communities and create undue taxpayer risk. Financial services are best provided in a competitive, private, and free marketplace that openly and efficiently benefits customers. These objections to public banking are further examined below.

<u>No public need to establish a state-owned bank</u>. Today's financial services industry meets the banking needs of both consumers and businesses. In particular, community banks provide 60 percent of all small business loans under $1 million, as well as customized mortgage and consumer loans suited to the unique characteristics and needs of their customers and local communities. Community banks compete with large and regional banks, tax-subsidized credit unions and farm credit entities, and nonbank lenders. In this financial services ecosystem, there is no public policy need for a state or publicly owned bank that would directly or indirectly compete with community banks, leveraging a tax exemption and virtually unlimited access to capital.

<u>Taxpayer risk associated with publicly owned banks</u>. Public banks create undue risk and exposure for taxpayers. Notably, a 2019 report by the San Francisco Office of the Treasurer and Tax Collector on the feasibility of three different models of public banking concluded that the bank would break even anywhere between 10 and 56 years with a total capital investment between $184 million and $3.9 billion of public funds. Public banks are not financially viable.

<u>Political interference.</u> A public bank would be subject to the political whims of a state or local government which would dictate the type of products, services, and loans it would offer or even mandate certain loans through political pressure. This would violate the principle of impartial allocation of credit and sound lending. It would create undue risk ultimately borne by the taxpayer. Moreover, history clearly indicates that even public banks founded for narrow, specialized purposes inevitably expand beyond their original scope. Tax-exempt credit unions and the Farm Credit System have expended well beyond their original limitations and now compete directly with community banks and

erode the federal, state and local tax base. Once established, a state or public bank would advocate relentlessly for additional powers to assure its longevity and survival.

For these reasons, ICBA opposes the Public Banking Act of 2021.

The Access to No-Fee Accounts Act of 2021

This legislation would require the Federal Reserve to establish no-fee digital transaction accounts that would be available to individuals and small businesses. 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.

ICBA believes we must be attentive to the concerns of the Federal Reserve, which has repeatedly said it is not suited to offer direct accounts to consumers. "That's never been our role and it's really not been the role of other central banks," Fed Chairman Jerome Powell recently told members of the Senate Banking Committee. "It would be quite a dramatic change in our role in the economy, and one that would require very careful thought." ICBA believes we should not jeopardize the resources of the Federal Reserve with a major new initiative about which the agency has expressed clear reservations.

Among the reasons to oppose the Act, the Fed is required to meet certain requirements under the Monetary Control Act, including recovering its costs. But that doesn't appear possible for FedAccounts without charges and fees, which wouldn't be permitted under the legislation.

Finally, the USPS is ill suited to offer financial services. Managing assets and liabilities, as well as the significant task of securing consumers' personal financial data against the constantly evolving threat of data breach, is a complex and inherently risky venture. The agency would likely lose money and further jeopardize its precarious financial condition. USPS must focus on its core mission: timely delivery of the mail on which consumers and commerce depend.

The Expanding Financial Access for Underserved Communities Act

This legislation would allow federal credit unions to expand their field of membership to include underserved communities, including communities that lack a depository institution branch within 10 miles. It would also exempt loans made by credit unions to businesses in underserved areas from the credit union member business lending cap. ICBA opposes this legislation for the following reasons:

Ineffective targeting of unbanked households. There is no rationale for basing an initiative to reach the unbanked on a geographical area, rather than unbanked households. To do so would distort the policy goals of the legislation. For example, the legislation contains no mandate that credit unions actually serve low-income consumers. A gentrifying area may be situated in a low-to-moderate income census tract but be home to may high net worth households. Allowing CUs to expand service to those consumers would only exacerbate gentrification. Notably, NCUA doesn't monitor whether credit union services are actually provided to LMI individuals.

Low-income credit unions already accept non-member deposits and are exempt from the member business lending cap. Because low-income credit unions are already allowed to accept non-member deposits, there is no reason to expand their fields of membership. Moreover, low-income credit unions are exempt from the cap on member business loans.

National Credit Union Administration does not examine for Fair Lending. NCUA currently lacks the resources and the willingness to examine CUs for fair lending concerns. The agency simply does not have the ability to scrutinize CUs to ensure they're lending to minority or unbanked populations in LMI areas.

Closing

Thank you for convening today's hearing. Banking the unbanked is a policy priority for ICBA. We urge this committee to reject ill-conceived and ineffective proposals and to focus instead on leveraging established community banks with a track record of effectively serving their communities.

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NAFCU
National Association of Federally-Insured Credit Unions

July 20, 2021

The Honorable Ed Perlmutter
Chairman
Subcommittee on Consumer Protection and Financial Institutions
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Subcommittee on Consumer Protection and Financial Institutions
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System"

Dear Chairman Perlmutter and Ranking Member Luetkemeyer:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts ahead of tomorrow's hearing, "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 125 million consumers with personal and small business financial service products. NAFCU supports the Subcommittee's efforts to examine ways to expand access to quality financial services to Americans who are unbanked or underbanked, and we thank you for holding a hearing on this critical issue.

NAFCU strongly supports the *Expanding Financial Access for Underserved Communities Act* discussion draft, which would expand the ability of credit unions to add underserved areas to their field of membership (FOM). In 1998, as part of the *Credit Union Membership Access Act*, Congress provided federal credit unions with the ability to add underserved areas to their FOM. However, subsequent legal challenges by the banking industry over the reading of the statute led the National Credit Union Administration (NCUA) to limit this authority to only multiple common bond credit unions in 2006.

As Congress grapples with ways to ensure that underserved and unbanked populations have access to affordable financial services, credit unions want to be able to help. Unfortunately, many credit unions are limited by the restriction on adding underserved areas to their FOM. One area where this legislation would be extremely helpful is in rural areas. According to a recent report by the Federal Reserve, between 2012 and 2019 credit unions grew their branch presence in rural areas by 2 percent, while community banks decreased rural branches by 5 percent and large banks decreased rural branches by 19 percent. Credit unions are proud to be at the forefront of efforts to expand financial services access to rural areas, many of which are underserved, and want to do more. However, not all credit unions can add underserved areas to their field of membership, making it challenging for some to expand in rural areas. We urge the Committee to support this draft legislation that would allow all types of credit unions to add underserved areas and make it easier to make critical member business loans to small businesses in those areas.

The Honorable Ed Perlmutter, The Honorable Blaine Luetkemeyer
July 20, 2021
Page 2 of 2

TABLE 2.1: BRANCH CHANGES BETWEEN 2012 AND 2019

Institution Type	County Type	Starting branches	Ending branches	Net change	Percent Change
Large Banks	Urban	48,707	42,298	-6,409	-13
	Rural	6,479	5,267	-1,212	-19
Community Banks	Urban	23,798	22,240	-1,558	-7
	Rural	13,890	13,137	-753	-5
Credit Unions	Urban	17,513	17,599	+86	+0
	Rural	3,458	3,537	+79	+2

Notes: Urban counties are those that were part of a metropolitan statistical area in 2017. Excludes U.S. territories as well as counties that have undergone code changes. Bank branches are assigned according to the institution it last reported under. Community banks are those with assets below $10 billion in June 2019 or the last reported total. Bank branches include only those coded as types 11 or 12 in the FDIC data.

We would also like to take this opportunity to reiterate our concerns with proposals before the Subcommittee today to create an entirely new government-run consumer banking system, such as the "FedAccounts" proposal and postal banking. These proposals could cause major disruptions in the U.S. banking system that have not been fully vetted. Tasking the Federal Reserve with developing a wholly new retail banking operation would divert resources away from other important initiatives. The Federal Reserve may not have the bandwidth to develop a FedAccounts system, and NAFCU believes its resources would be better directed toward finalizing FedNow, its proposed real-time payment system. As for postal banking, NAFCU and our member credit unions are very concerned that allowing the USPS to provide banking services will be beyond its core competencies, will raise serious regulatory and consumer protection questions, and will present significant competitive issues for private sector entities. For these reasons, we do not support expanding the capabilities of the USPS to provide additional banking services. We believe there are better, and already established, approaches to address access to financial services, such as allowing all credit unions the ability to add underserved areas to their field of membership as discussed above.

We thank you for your leadership and ongoing efforts to help American consumers. We appreciate the opportunity to share our input and look forward to continuing to work with the Subcommittee on these issues. Should you have any questions or require any additional information, please contact me or Sarah Jacobs, NAFCU's Associate Director of Legislative Affairs, at (571) 289-7550 or sjacobs@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Subcommittee on Consumer Protection and Financial Institutions

PROSPERITY NOW

Statement for the Record by Prosperity Now

"Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System"

House Financial Services Subcommittee on Consumer Protection and Financial Institutions

July 21, 2021

Prosperity Now is a national, nonpartisan nonprofit organization based in Washington, D.C. that works to expand economic opportunity for all Americans by promoting and advocating for asset-building policies and programs. Since 1979, we have helped millions of people, especially people of color and those of limited incomes, to achieve financial security, stability, and, ultimately, prosperity. We offer a unique combination of practical solutions, in-depth research and proven strategies, all aimed at building wealth for those who need it most. We recognize the devastating impact of the racial wealth divide on people and our economy, and we strive to equip organizations of color and others with the capacity, tools, and cultural competency necessary to address structural and systemic barriers facing families of color.

Last March, Prosperity Now released Financial Access for All: Putting Banking within Reach through a Universal Account System, which looked at how universal access to banking could support vulnerable households. Among the many inequities that the COVID-19 pandemic revealed, a glaring example is the number of people in the United States lacking sufficient access to a bank account. This led to millions of households—especially those with lower incomes—facing delays in receiving their Economic Impact Payments.

The extent of financial exclusion is large—6.5% of U.S. households are unbanked, having no access to a bank account, while 18.7% are underbanked, meaning they may have a bank account but also rely on alternative financial services, such as payday loans. These disparities are even worse for Black and Latinx households, who are unbanked at a rate of 16.9% and 14% respectively, compared to 3% of White households.

Aside from streamlining government payments, like stimulus checks, financial access can help families better manage their money, avoid costly alternative financial services and even build wealth.

As our report outlines, a good way to connect households to banking would be to establish universal accounts—transaction or savings accounts that are

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accessible to everyone. These accounts should have four key features to ensure equitable access:

- **Minimal fees and no minimum balances:** The cost of having a bank account, which can include expensive overdraft fees, presents an obstacle for many low-income households. For those living paycheck to paycheck, minimum balance requirements can also be hard to meet. Given this, universal accounts should have minimal fees and no minimum balances.
- **Real-time payments:** Real-time payments would allow consumers to access deposited funds instantly, instead of having to wait for days. This could help low-income individuals reduce their reliance on predatory products, like payday loans, while they wait for their paychecks to clear.
- **Smarter anti-money laundering (AML) requirements:** AML requirements mean some applicants for bank accounts may be denied for reasons such as incurring overdraft fees or having an account closed involuntarily in the past. In order to not bar these innocent people from the financial system, universal accounts should be exempt from or have smarter AML requirements.
- **Additional services like mobile banking, debit cards, automatic bill-pay, and savings incentives and tools:** These features would allow households to access their bank accounts quickly and conveniently, as well as help them manage their spending and savings.

A universal account system could take several forms. One possibility is for federal regulators to require banks and credit unions to offer basic, low-cost accounts. The Bank On initiative, which has worked to increase access to safe, affordable bank accounts, is a good example of how this model could be successful and benefit both consumers and banks.

As an alternative to being offered through banks, universal accounts could also be provided by the government. For example, government-issued bank accounts called FedAccounts, administered by the Federal Reserve, would be accessible to all individuals and have minimal associated fees. Additional features, like online banking, and a partnership with the United States Postal Service (USPS) could contribute to FedAccounts' ease of use.

Finally, legislation could allow USPS locations around the country to offer low-cost banking services, including transaction and savings accounts. Postal banking could increase banking access for low-income households—particularly households of color—living in banking deserts, while also raising some much-needed revenue for USPS.

A universal account system can help ensure that those in need are not left waiting for assistance. Most importantly, it can increase financial access among low-income households, which is key to helping them build financial security and long-term wealth.