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Financial Inclusion: Access to Bank Accounts

Most U.S. consumers choose to open a bank account, such as a checking or savings account, because it is considered a safe and secure way to store money, particularly as the Federal Deposit Insurance Corporation (FDIC) insures up to $250,000 per depositor against an institution's failure. In addition, consumers gain access to payment services through checking accounts, such as the ability to make electronic payments online, direct deposit, and paper checks. Frequently, a checking account includes access to a debit card, which increases a consumer's ability to make payment transactions through the account. For most consumers, a bank account is less expensive than alternative ways to access these types of services.

Opening a bank account is relatively easy for most people. Consumers undergo an account verification process, and they sometimes provide a small initial opening deposit of money into the account. Many consumers open their first bank accounts when they get their first jobs or start post-secondary education. Checking and savings accounts are often the first relationships that a consumer has with a financial institution, which can later progress into other types of financial products and services, such as loan products or financial investments. However, many U.S. households—often those with low incomes, lack of credit histories, or credit histories marked with missed debt payments—do not use banking services.

Bank Accounts Economics

Depository institutions, such as banks or credit unions, incur expenses to provide bank accounts to consumers, which include providing monthly statements, settlement risks, and fraud. In addition, physical banking branches incur costs to hire staff and maintain retail locations. To recoup these costs and make profits, depository institutions make money from interest rate spreads (i.e., loaning out funds they take in from checking and savings accounts at a higher interest rate than they pay the account holders) and account fees. Historically, some banks have been willing to lose money on bank accounts to begin a relationship with a client and later get more profitable business, such as a credit card or mortgage loan. Checking and savings account data might allow a bank to better underwrite and price loans to a consumer. In this way, banks with a checking account relationship with a consumer might be able to provide more attractive loan terms than other banks without this relationship.

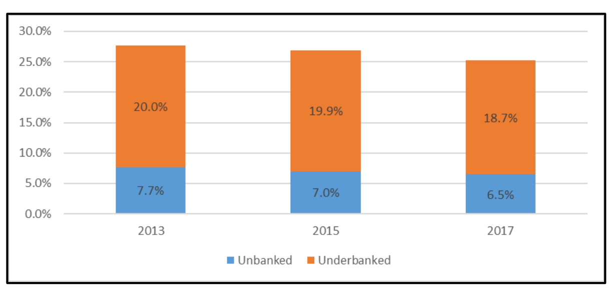
Lower balance or less creditworthy consumers may generally be less profitable for banks to serve. Consumers with low checking or savings account balances provide banks minimal funds to lend out and make a profit with. Less creditworthy consumers may be less likely to develop into profitable relationships for banks if such consumers are not in a position to obtain loans from the banks in the near future. Therefore, bank fees may be seen as the best way for banks to recoup their account costs for these consumers.

Because of the way bank fees are structured, consumers with lower balances tend to incur more fees than higher balance consumers. In the past decade or so, the availability of free or low-cost checking accounts has reportedly diminished, and fees associated with checking accounts have grown. Some bank accounts require minimum account balances to avoid certain maintenance or service fees. The most common fees that checking account consumers incur are overdraft and nonsufficient fund fees. Overdraft services can help consumers pay bills on time, but the associated fees can be costly, particularly if used repeatedly. For consumers living paycheck to paycheck, maintaining bank account minimums and avoiding account overdrafts might be difficult. Unpaid fees can lead to involuntary account closures, making it more difficult to obtain a bank account in the future.

The Unbanked and Underbanked

According to the FDIC's 2017 National Survey of Unbanked and Underbanked Households, 6.5% of households in the United States were *unbanked*, meaning that these households did not have a bank account (**Figure 1**). In addition, another 18.7% of households were *underbanked*, meaning that although these households had a bank account, they obtained certain nonbank financial services at least once in the past year. These nonbank financial products, called *alternative financial services*, include check cashing, money orders, payday loans, auto title loans, pawn shop loans, refund anticipation loans, and rent-to-own services.

Figure 1. Percentage of American Households Unbanked or Underbanked



Source: Gerald Apaam et al., *FDIC National Survey of Unbanked and Underbanked Households*, October 2018, p. 2, at https://www.fdic.gov/householdsurvey/2017/2017report.pdf.

Unbanked consumers are more likely to be lower-income, younger, a racial or ethnic minority, disabled, less formally educated, or have more variable monthly income compared with the general U.S. population.

Unbanked persons may elect not to open a bank account due to costs, a lack of trust, or other barriers. According to the FDIC survey, these households reported that they did not have a bank account because they did not have enough money, did not trust banks, and sought to avoid high and unpredictable bank fees.

Banking Account Alternatives

Unbanked households rely on nonbank alternative financial products and services, particularly transaction-related offerings such as check cashing and money orders, to pay bills and receive income. Alternative financial products can sometimes be less expensive, faster, and more convenient for some consumers. Although these nonbank transaction products might charge high fees, some consumers may incur higher or less predictable fees with a checking account. For example, a consumer may incur overdraft fees unexpectedly with a bank account, where for that consumer, other nonbank product options may have a clear upfront fee. In addition, such alternative financial products might allow consumers to access cash more quickly, which might be valuable for consumers with tight budgets and little liquid savings or credit to manage financial shocks or other expenses. Nonbank stores often are open longer hours than banks, including evenings and weekends, which might be more convenient for working households who want in-person interactions. Nonbank stores might also be more likely to cater to a local ethnic or racial community, for example, by hiring staff who speak a particular language and live in the local community. Although consumers may find benefits in using nonbank alternative financial products and services, these may not always have all of the benefits of bank accounts, such as FDIC insurance or other consumer protections.

General purpose prepaid cards are another popular alternative to a traditional checking account. These cards can be obtained through a bank, at a retail store, or online, and they can be used in payment networks, such as Visa and MasterCard. General purpose, reloadable prepaid cards generally have features similar to debit and checking accounts, such as the ability to pay bills electronically, get cash at an ATM, make purchases at stores or online, and receive direct deposits. However, unlike checking accounts, prepaid card funds are not always federally insured against an institution's failure. Prepaid cards often have a monthly maintenance fee and other particular service fees, such as for using an ATM or reloading cash. Some banks offer prepaid cards, yet unbanked consumers are much more likely to use a prepaid card from a store or website that is not a bank.

Possible Policy Responses

In regard to helping consumers manage their finances, some research suggests that consumers may particularly benefit from (1) access to affordable electronic payment system services and (2) a safe way to accumulate and hold emergency savings. In addition, developing a relationship with a bank may make it easier for a consumer to gain access to credit from the bank in the future. The government, the private sector, and the nonprofit sector all may be in a position to help increase access to these types of financial products for the underserved.

The Community Reinvestment Act (CRA; P.L. 95-128, 12 U.S.C. §§2901-2908) currently encourages banks to provide credit in the areas where they collect deposits, and it encourages banks to provide outreach initiatives to low- and moderate-income customers that would promote access to bank accounts and relationships. Certain policymakers suggest that changes to CRA or other regulations could encourage more banks to increase access to bank accounts. In addition, financial education programs or outreach initiatives coordinated by the government or nonprofit organizations also could promote access to bank accounts.

New technologies may have the potential to reduce the cost of providing more affordable financial products to unbanked and underbanked consumers. Yet, concerns exist for internet-based products around data privacy and cybersecurity issues. Policymakers debate whether existing regulation can accommodate financial innovation or whether a new regulatory framework is needed.

Payment system improvements, either by the government or the private sector, may also have the potential to improve welfare for unbanked or underbanked consumers. Many of these consumers choose alternative financial payment products, such as check cashers, to access their funds quickly. These consumers might not require such alternative services if bank payment systems operated faster. Both the private sector and the government are currently working on faster payment initiatives.

Other policy proposals include the government directly providing accounts to retail customers (e.g., offering banking services at post offices or providing banking services online to the public through the Federal Reserve, which already provides accounts to banks). Opposition to these proposals often centers on the appropriate role for the government. Some argue that the government is not to compete with the private sector to provide these services to consumers, especially in the competitive banking market. Moreover, government bank accounts may fail to attract consumer demand.

Selected Legislation: 116th Congress

Access to bank accounts continues to be a subject of congressional interest and legislative proposals. In the 116th Congress, the House passed H.R. 4067, directing the Consumer Financial Protection Bureau to report regularly to Congress on unbanked, underbanked, and underserved consumers.

CRS Resources

CRS Report R45979, *Financial Inclusion and Credit Access Policy Issues*, by Cheryl R. Cooper.

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