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Financial Access in a Brave New Banking World

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Introduction and summary

Basic financial services can be expensive for working families that cannot easily afford them. In June 2013, a McDonald's employee in Pennsylvania named Natalie Gunshannon sued her local franchise over the fees on the prepaid debit card that the store used to pay its employees—a card on which employees were forced to receive their wages. These fees included $1.50 for each ATM withdrawal, $5 to withdraw cash at a bank, $1 to check the account balance at ATMs, and 75 cents to pay bills online.[1] In response to the lawsuit, the franchise owner agreed to give workers the options to get paid by a paper paycheck or by direct deposit to an account of their choice, rather than the payroll card.[2]

Since Natalie had a free account at a local credit union, she was better off without the card. But according to the Federal Deposit Insurance Corporation, or FDIC, 17 million American adults lack a bank account, and that number is growing.[3] An additional 51 million adults are considered "underbanked" by the FDIC, meaning that while they may have bank accounts, they also rely on some nonbank financial institutions such as check cashers and pawn shops.

These unbanked and underbanked consumers are the ones that banks are trying to reach with their prepaid "payroll" cards, recognizing that switching to direct deposit can save money for both the employer and the employee. Similarly, the federal government estimates saving $1 billion over the next 10 years by largely shifting from paper checks to electronic payments.[4] Getting by without a bank account can be expensive; in some states, check cashers may charge as much as 5 percent of someone's paycheck.[5] But despite the convenience, getting by with a bank account or prepaid card can also be increasingly expensive. Today, only about half as many banks offer free checking accounts as they did in 2009, and on average, monthly maintenance fees for accounts that are not free have more than doubled in the past few years.[6] Clearly the recession has had an impact, since lower interest rates in the overall economy limit the revenue that financial institutions are able to get from interest. But economic conditions only explain part of the change.

Technology has ushered in a brave new world of banking services. "Checking" accounts increasingly have fewer checks, or complement "checkless checking" accounts. In 2010, for the first time in 15 years, the number of bank branches in the United States declined.[7] Meanwhile, mobile banking technology has emerged as a substitute for some of the activities that would normally lead someone to a bank branch, such as depositing checks and transferring funds.[8] And prepaid debit cards that have many of the same benefits as a bank account—such as mobile tools, access to cash at ATMs, and the ability to make purchases online—increasingly look like bank accounts, even if they are not all regulated this way.[9] Regulators have also been paying attention to these issues, including the new Consumer Financial Protection Bureau, which has fielded thousands of consumer complaints.[10]

The European Commission introduced a proposal in May to require EU member states to offer basic banking accounts for all EU citizens.[11] While such a bold proposal would not likely succeed in the United States, it is important to recognize the need for affordable financial services and tools that can help create better options for the millions of Americans without bank accounts and the millions more who may not be satisfied with their existing banking options. There are a number of possibilities for expanding financial access in this brave new banking world, from better relationships with employers to city-led outreach programs to leveraging or expanding existing "public options" in banking, such as the prepaid debit cards that states and the federal government use to deliver benefits.

This report will walk through the newfound problems—and recognize the progress—of the current banking environment for low- and moderate-income consumers, and briefly discuss cities' efforts to address these concerns before suggesting potential recommendations to expand financial access.

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