United States Government Accountability Office

Report to Congressional Requesters

February 2022

BANKING SERVICES

Regulators Have Taken Actions to Increase Access, but Measurement of Actions' Effectiveness Could Be Improved

GAO-22-104468

GAO Highlights

Highlights of GAO-22-104468, a report to congressional requesters

Why GAO Did This Study

Access to reliable and affordable banking services is essential for household financial well-being. In 2019, FDIC estimated that 5.4 percent of surveyed U.S. households were unbanked. GAO used the survey data to estimate another 17.9 percent had a bank account but used alternative financial services, such as check cashing or payday loans that can have high fees or interest rates.

GAO was asked to review factors affecting household access to basic banking services. Among other objectives, this report examines factors associated with households' use of basic banking services, statutory and regulatory factors affecting service availability and cost, and the efforts of selected federal financial regulators to address these issues. GAO analyzed survey data from FDIC on unbanked and underbanked households, reviewed studies on laws and regulatory factors, examined agency documentation, and interviewed market participants and observers and agency officials.

What GAO Recommends

GAO recommends that FDIC, NCUA, and OCC establish outcome-based performance measures reflecting the full scope of their efforts to achieve strategic objectives related to access to banking services. The agencies generally agreed with these recommendations.

View GAO-22-104468. For more information, contact Michael E. Clements at (202) 512-8678 or clementsm@gao.gov.

February 2022

BANKING SERVICES

Regulators Have Taken Actions to Increase Access, but Measurement of Actions' Effectiveness Could Be Improved

What GAO Found

Lower-income, less-educated, and minority households are more likely to be unbanked (not have a checking or savings account) or be underbanked (have a checking account but use alternative financial services, which can be costly), according to GAO analysis of Federal Deposit Insurance Corporation (FDIC) survey data (see table). Consumers might not use banks for reasons including lack of money, unexpected or high bank fees, lack of trust, and privacy concerns, according to FDIC's survey and market participants and observers.

Banking Status by Household Income, Education, and Race, 2015–2019 (percentage)

		Unbanked	Underbanked	Fully banked
Income	Less than $15,000	25	22	53
	$15,000–29,999	12	23	66
	$30,000 or more	2	18	81
Education	No high school degree	22	26	51
	High school degree or more	5	18	77
Race and ethnicity	Black	16	31	53
	Hispanic	14	30	56
	White	3	14	83
Total	**—**	**6**	**19**	**75**

Source: GAO analysis of Federal Deposit Insurance Corporation (FDIC) data. | GAO-22-104468

Note: For more details, see table 2 in GAO-22-104468. Totals do not always add to 100 percent due to rounding.

Several laws and regulatory factors may intentionally or unintentionally affect the cost and availability of basic banking services. For example, two studies found large banks may have increased checking account fees to offset regulatory limits on their fees for processing debit card transactions. By contrast, regulations requiring consumers to choose to receive overdraft protection may have reduced overdraft fees paid by consumers who did not opt in, according to market observers and three studies by the Consumer Financial Protection Bureau.

Actions of the selected regulators GAO reviewed related to unbanked and underbanked households generally focused on research, education, and oversight. But some regulators lack outcome-oriented measures of their efforts to increase banking access or their measures do not cover all their key initiatives. For example, FDIC piloted a public awareness campaign on the benefits of bank accounts. Yet, its measures indicate only whether a task was completed and do not incorporate information on the outcomes (which could be used to assess the activities). The National Credit Union Administration (NCUA) measures how long it takes to process credit union charters, which helps assess timeliness but does not provide information to assess agency performance in facilitating access to credit union services. The Office of the Comptroller of the Currency (OCC) launched an initiative to increase access to credit, including small-dollar loans. But OCC did not incorporate performance measures for a key initiative to enhance banking access. By using outcome-oriented performance measures for their efforts to increase access to banking services, FDIC, NCUA, and OCC could better identify opportunities for improvement across all key initiatives and set priorities accordingly.

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Figures

Abbreviations

BSA	Bank Secrecy Act
CFPB	Consumer Financial Protection Bureau
CRA	Community Reinvestment Act
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FDIC	Federal Deposit Insurance Corporation
FDIC survey	FDIC Survey of Household Use of Banking and Financial Services
Federal Reserve	Board of Governors of the Federal Reserve System
MSA	metropolitan statistical area
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
PAL	Payday Alternative Loan
Payday Lending Rule	[CFPB final rule on] Payday, Vehicle Title, and Certain High-Cost Installment Loans

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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February 14, 2022

The Honorable Gary C. Peters
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable M. Michael Rounds
Unites States Senate

Access to reliable and affordable banking services is generally agreed to be essential for households' financial stability and well-being. According to the Consumer Financial Protection Bureau (CFPB), basic banking services—such as insured checking and savings accounts, and loans—contribute to an individual's increased financial well-being.

Since 2009, the Federal Deposit Insurance Corporation (FDIC) has surveyed households' use of banking and financial services.[1] In 2019, FDIC estimated that 5.4 percent of U.S. households were unbanked (did not have a checking or savings account at a bank or credit union), signifying that more than 7 million households lacked these fundamental financial tools. Based on the survey data, we estimated that an additional 17.9 percent of households were underbanked—meaning they had a checking or savings account but also used alternative financial services.[2] Using alternative financial services can be costly, because they can carry larger fees or higher interest rates than similar services offered by banks or credit unions. FDIC also reported that unbanked households more often used reloadable prepaid cards than banked households to conduct

[1]FDIC has conducted the survey biennially since 2009 in partnership with the U.S. Census Bureau. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020).

[2]Before 2019, FDIC defined unbanked households as those in which no one had a checking or savings account at a bank or credit union and underbanked households as those that had such accounts but also used at least one alternative financial service in the past 12 months. FDIC defined alternative financial services as money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, and auto title loans. We use these definitions of unbanked and underbanked in this report. In FDIC's report on the 2019 survey results, the agency used the same definition for unbanked but did not define underbanked. However, the 2019 survey included the same questions about alternative financial services so that the underbanked group could be recreated by researchers and others.

financial transactions, such as to pay bills, withdraw cash at ATMs, make purchases, deposit checks, and receive direct deposits.

The Coronavirus Disease 2019 pandemic and subsequent economic downturn has further highlighted the importance of access to bank accounts. For example, some people (often already at high risk of economic hardship as a result of the pandemic) could not receive CARES Act stimulus payments by direct deposit because they were unbanked.[3] Instead, they waited weeks or months to receive a check by mail. They then likely incurred additional fees to cash their stimulus checks, reducing the funds they received.

You asked us to review the factors—including laws and regulations—that have affected the availability and costs of basic banking services to unbanked and underbanked households and how these households use prepaid cards.[4] This report examines (1) factors associated with unbanked and underbanked households' use of basic banking services, (2) statutory and regulatory factors that can affect the availability and cost of basic banking services to these households, (3) what is known about how such households use prepaid cards and trends in the prepaid card market, and (4) the extent to which selected federal financial regulators have taken actions related to the availability and cost of basic banking services to these households.

To address the first objective, we analyzed survey data from 2015–2019 and reviewed academic literature and other studies on the characteristics of unbanked and underbanked households, the types of financial services used by these households, and the factors that influence their decisions to use banking and alternative financial services. For the second objective, we identified the most frequently cited laws and regulatory factors in interviews with market participants and observers. We then reviewed relevant academic literature and other studies on the effects of these factors and regulatory actions related to these factors. We also analyzed regulatory reporting data on credit union lending from 2011–2021.

To address the third objective, we analyzed survey data on prepaid card use by unbanked and underbanked households. To understand trends in

[3]Some people without bank accounts received direct deposit to prepaid cards.

[4]In this report, we define basic banking services as checking accounts, savings accounts, and small-dollar, short-term personal loans from a bank or credit union.

the prepaid card market, we analyzed Nilson Report data on the market share held by the top 25 prepaid card issuers over the last 10 years. We also interviewed representatives from three of the top 10 prepaid card issuers and the Innovative Payments Association (a trade organization in the electronic payments sector, which includes prepaid products) on trends in the prepaid card market and how unbanked and underbanked households used prepaid cards.

We reviewed documentation on and conducted testing of all of the data we used and determined they were sufficiently reliable for reporting on trends in unbanked and underbanked households, credit union lending, and the prepaid card market. For these three objectives, we also conducted interviews with 40 market participants and observers—representing industry groups, consumer groups, research organizations, banks, credit unions, and prepaid card issuers—on each of these topics. The interviews were conducted in two rounds.[5]

To address the fourth objective, we reviewed the federal financial regulators' external guidance, press releases, program documents, and other documentation of actions taken on these issues. For this report, we define the federal financial regulators as CFPB, the Board of Governors of the Federal Reserve System (Federal Reserve), FDIC, the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA). We examined regulators' strategic plans and annual performance plans for goals in these areas and their assessment of performance on these goals, using leading practices and attributes developed and identified in past GAO reports.[6] Finally, we interviewed

[5]To characterize these market participants' and observers' views throughout the report, we consistently defined modifiers to quantify the views of participants as follows: "nearly all" represents 80–99 percent of the overall group, "most" represents 50–79 percent of the group, and "some" represents 20–49 percent of the group. The number of interviews each modifier represents differs based on the number of interviews in the interview round and is described in footnotes throughout the report. The information collected from this sample of market participants and observers cannot be generalized to the larger population of all consumer groups, industry groups, research organizations, banks, credit unions, or prepaid card issuers. See app. I for more details.

[6]For example, see GAO, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans*, GAO/GGD-10.1.20 (Washington, D.C.: Apr. 1, 1998). For examples of our prior work on successful performance measures, see GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1, 1996) and *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

regulators' staff about these actions. Appendix I provides additional details on our objectives, scope, and methodology.

We conducted this performance audit from August 2020 to February 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Basic Banking Services and Fees

Basic banking services refer to those financial services needed to allow the average consumer to engage in necessary day-to-day banking activities, such as cash withdrawals, payments, deposit taking, and simple transaction or savings account programs. Fees for these services may be levied for monthly account maintenance, ATM usage, nonsufficient funds, and overdrafts. A nonsufficient funds fee is charged when a check or automated clearing house transaction is returned unpaid, because there are not enough funds in the account to cover the transaction.[7] According to CFPB, overdrafts occur when a bank or credit union pays a debit transaction (payment or withdrawal) that exceeds the consumer's account balance.[8] For a fee, the bank may cover these transactions and collect the funds, including all associated fees, from the consumer's next deposit into the account.

According to a study by the Federal Reserve Bank of Cleveland, service charges have grown as a percentage of banks' noninterest income since the 2007–2009 financial crisis.[9] The study noted that this growth is partially associated with the decline in banks' net interest margins—the difference between the interest rate they can earn on loans and the interest they pay on deposits. Banks may make up for some of their lost

[7]The automated clearing house is a payment processing system that clears and settles batched electronic transfers for participating depository institutions.

[8]Consumer Financial Protection Bureau, *Study of Overdraft Programs: A White Paper of Initial Data Findings* (Washington, D.C.: June 2013).

[9]Joseph G. Haubrich and Tristan Young, "Trends in the Noninterest Income of Banks," *Economic Commentary,* 2019-14 (September 2019).

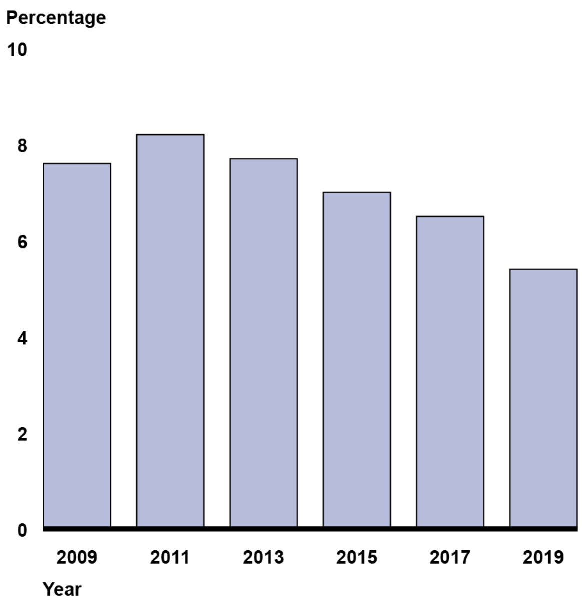
interest income by raising charges related to basic banking and other services.

While there is no single, universal definition of small-dollar loans, the term generally includes unsecured, nonmortgage consumer loans that are less than $2,500. These loans may include various fees, interest rates, and terms.

Unbanked and Underbanked Households in the United States

According to FDIC's Survey of Household Use of Banking and Financial Services (FDIC survey), the percentage of unbanked households had declined since 2011 and was at its lowest rate in 2019 (see fig. 1). The percentage of underbanked households also declined from a high of an estimated 20.1 percent in 2011 to an estimated 17.9 percent in 2019.[10]

Figure 1: Estimated Percentage of Unbanked Households in the United States, 2009–2019



Source: Federal Deposit Insurance Corporation. | GAO-22-104468

[10]As previously discussed, because FDIC did not report on the number of underbanked households in 2019, we estimated the number by recreating the underbanked group in the 2019 data (using FDIC's 2017 definition).

Prepaid Cards

Prepaid cards include private-label prepaid cards used on proprietary networks for purchases at specific merchants, government benefit cards used to provide a variety of state and federal benefits, electronic benefits transfer cards used to provide government assistance to low-income families, and general-purpose reloadable prepaid cards that share the same networks as non-prepaid debit cards.

Prepaid cards can be for one-time use or be reloadable. A general-purpose reloadable prepaid card is generally available to the public, allows customers to load funds via cash and direct deposit, and provides the ability to spend money at unaffiliated merchants and to access funds through ATMs. Most cards have additional features, such as online bill-paying capabilities. These cards are widely available online or at merchants. They function almost exactly like a bank debit card, except they are not linked to a checking account and generally do not include the ability to write checks. In 2016, CFPB issued a final rule related to disclosure requirements and overdraft credit features intended to create comprehensive consumer protections for prepaid financial products.[11]

Federal Prudential Regulators and CFPB

All depository institutions that have federal deposit insurance have a federal prudential regulator, which oversees its respective institutions for safety and soundness and generally may issue regulations and take enforcement actions against institutions within its jurisdiction (see table 1).[12] The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) transferred consumer financial protection oversight and

[11]Prepaid accounts are generally covered under Regulation E, which implements the Electronic Fund Transfer Act. CFPB's 2016 rule modified general Regulation E requirements to create tailored provisions governing disclosures, limited liability and error resolution, and periodic statements for prepaid accounts. It also added new requirements regarding the internet posting and submission of prepaid account agreements to CFPB. Additionally, the rule addresses overdraft credit features on prepaid accounts, which are covered under Regulation Z.

[12]Depository institution charter types include commercial banks; savings associations (or thrifts), which include federal savings banks and certain state savings banks, and savings and loans; and credit unions, which are member-owned cooperatives run by member-elected boards. Unless otherwise indicated, we use "banks" to refer to commercial banks and thrifts in this report.

other authorities over certain consumer financial protection laws from multiple federal regulators to CFPB.[13]

Table 1: Overview of Selected Federal Financial Regulators

Regulator	Responsibility
Board of Governors of the Federal Reserve System	Supervises state-chartered banks that are members of the Federal Reserve System, and bank and savings and loan holding companies, among others.
Federal Deposit Insurance Corporation	Supervises insured state-chartered banks that are not members of the Federal Reserve System, as well as state-chartered savings associations and insured state-chartered branches of foreign banks.
Office of the Comptroller of the Currency	Supervises federally chartered national banks and savings associations and federally chartered branches and agencies of foreign banks.
National Credit Union Administration	Supervises federally chartered credit unions.
Consumer Financial Protection Bureau	Supervises large banks (with over $10 billion in assets, including affiliates), mortgage and payday lenders, and certain nonbank entities, such as credit reporting agencies and debt collection companies. It also enforces Federal consumer financial laws.

Source: GAO. | GAO-22-104468

Demographic and Financial Characteristics Are Associated with Use of Banking Services

Factors Associated with the Likelihood of Being Banked Include Income, Education, and Race

Historically, banking status has varied by income, education, and race, and these differences persist today although unbanked households are at their lowest level in 30 years. Between 1989 and 2019, lower-income households, households with a high school degree or less, Black households, and Hispanic households saw larger growth in the percentage of banked households within their respective groups, according to the Federal Reserve's Survey of Consumer Finances (see

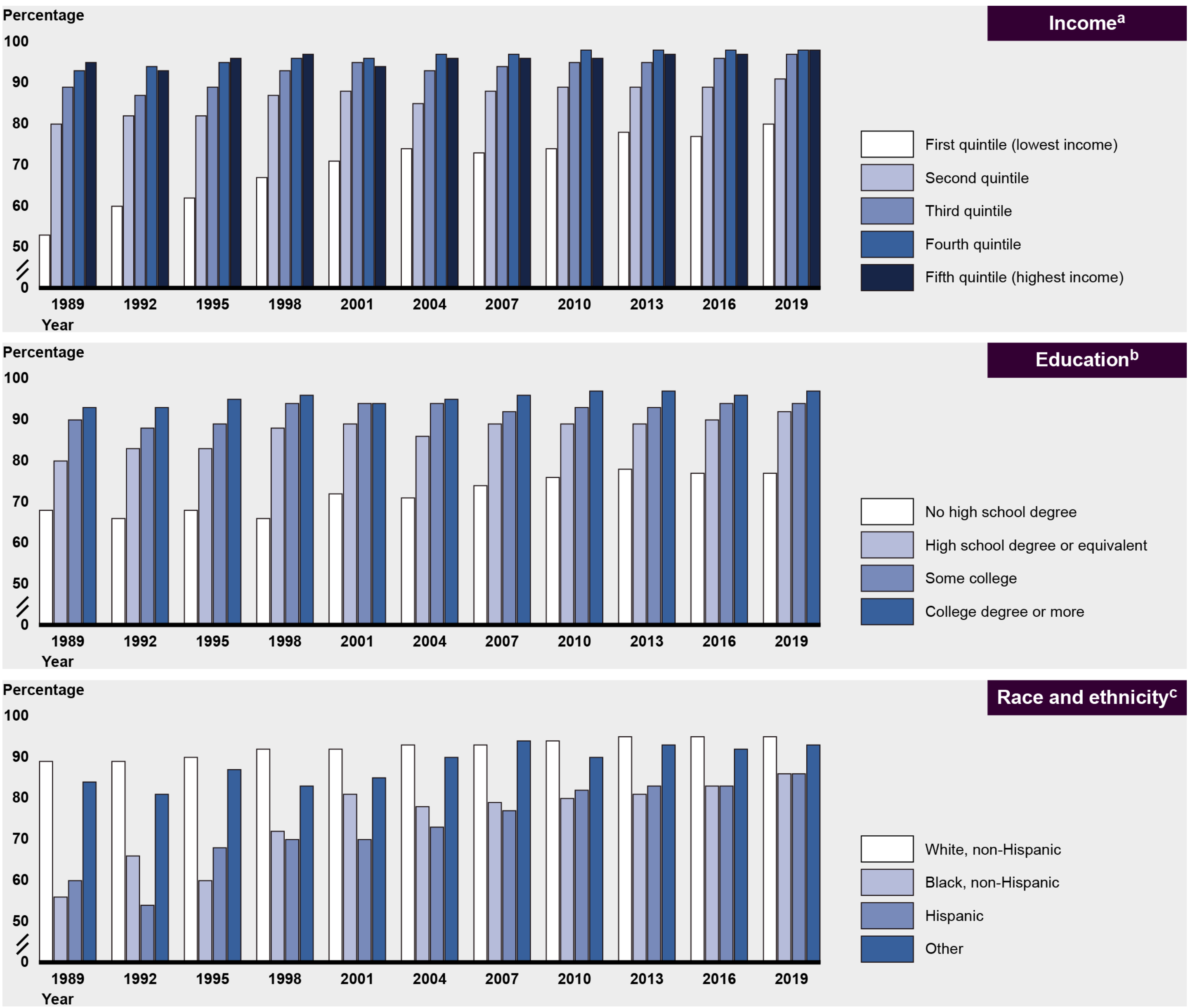
[13]The Dodd-Frank Act defines Federal consumer financial laws to include the Consumer Financial Protection Act of 2010 (Title X of the Dodd-Frank Act) and a number of other laws and the implementing regulations. 12 U.S.C. § 5481(14). Such laws include the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Debt Collection Practices Act, and most provisions of the Fair Credit Reporting Act. 12 U.S.C. § 5481(12).

fig. 2).[14] For example, an estimated 56 percent of Black households had a checking or savings account in 1989, while an estimated 86 percent of Black households had one in 2019. In contrast, an estimated 89 percent of White households had a checking or savings account in 1989, while an estimated 95 percent of White households had one in 2019.[15]

[14]The Survey of Consumer Finances defines a household as banked if it has a checking or savings account at a bank, credit union, or other financial institution. For person-level characteristics, such as education and race, the survey assigns characteristics of the designated reference person—a single individual not in a couple, the male in a mixed-gender couple, and the older person in a same-gender couple—to represent the household. According to the Survey of Consumer Finances, no judgment about the internal organization of the households was implied by this organization of the data. For convenience, we use abbreviated language to refer to certain household characteristics. For example, “Hispanic household” refers to a household for which the designated reference person identifies as Hispanic or Latino regardless of race.

[15]Based on a 95 percent confidence interval, the percentage of Black households that had a bank account was 50.5–61.1 percent in 1989 and 83.5–87.7 percent in 2019, and the percentage of White households that had a bank account was 87.2–89.7 percent in 1989 and 94.9–96.0 percent in 2019.

Figure 2: Percentage of Households with a Checking or Savings Account, by Household Income, Education, and Race, 1989–2019



Source: GAO analysis of Board of Governors of the Federal Reserve System data. | GAO-22-104468

Notes: The data include households that have a checking or savings account at a bank, credit union, or other financial institution. For person-level characteristics, such as education and race, the characteristics of the designated reference person—a single individual not in a couple, the male in a mixed-gender couple, and the older person in a same-gender couple—are used to represent the household. According to the Survey of Consumer Finances, no judgment about the internal organization of the households was implied by this organization of the data.

[a]Households were ranked by household income and then broken into five even groups, or quintiles. The first or bottom quintile refers to the 20 percent of households with the lowest incomes. The fifth or top quintile refers to the 20 percent of households with the highest incomes. In 2019, income in the first quintile was less than $28,400; income in the second quintile was greater than or equal to $28,400 but less than $47,900; income in the third quintile was greater than or equal to $47,900 but less than $75,300; income in the fourth quintile was greater than or equal to $75,300 but less than $127,300; and income in the fifth quintile was greater than or equal to $127,300. All estimates have a 95 percent margin of error of no more than plus or minus 6 percentage points.

[b]All estimates have a 95 percent margin of error of no more than plus or minus 4 percentage points.

[c]All estimates have a 95 percent margin of error of no more than—plus or minus—2 percentage points for White non-Hispanic households, 6 percentage points for Black, non-Hispanic households, 7 percentage points for Hispanic households, and 8 percentage points for all other households.

While the percentages of banked households was greater within these groups over time, they generally had a larger percentage of unbanked households than did other groups in recent years. In 2015–2019, lower-income, less educated, and minority households were more likely to be unbanked and underbanked, according to our analysis of data from the FDIC survey (see table 2).[16]

Table 2: Banking Status by Household Income, Education, and Race, 2015–2019 (percentage)

	Unbanked[a]	Underbanked[b]	Fully banked[c]
Income			
Less than $15,000	25.1	22.4	52.6
	(24.1–26.0)	(21.6–23.2)	(51.6–53.6)
$15,000-29,999	11.7	22.7	65.6
	(11.1–12.3)	(21.9–23.5)	(64.7–66.5)
$30,000-49,999	4.9	23.4	71.8
	(4.5–5.3)	(22.6–24.1)	(71.0–72.6)
$50,000-74,999	1.6	19.5	79.0
	(1.4–1.8)	(18.8–20.2)	(78.3–79.7)
$75,000 or more	0.5	13.1	86.4
	(0.4–0.6)	(12.7–13.5)	(85.9–86.8)

[16]Unless otherwise noted, our analysis used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys). For person-level characteristics from the FDIC survey, such as race and education, the characteristics of the owner or renter of the home (head of household) are used to represent the household. For convenience, we use abbreviated language to refer to certain household characteristics. For example, “Hispanic household” refers to a household for which the head of household identifies as Hispanic or Latino regardless of race.

	Unbanked[a]	Underbanked[b]	Fully banked[c]
Education[d]			
No high school degree	22.4	26.2	51.3
	(21.4–23.5)	(25.2–27.3)	(50.1–52.5)
High school degree or equivalent	9.1	20.9	70.0
	(8.7–9.5)	(20.4–21.5)	(69.3–70.6)
Some college	5.0	20.7	74.4
	(4.7–5.3)	(20.1–21.2)	(73.8–75.0)
College degree or more	1.0	14.0	85.0
	(0.9–1.2)	(13.6–14.4)	(84.5–85.4)
Race or ethnicity[d]			
Black	16.3	30.6	53.1
	(15.5–17.2)	(29.6–31.6)	(52.1–54.2)
Hispanic	14.1	30.2	55.7
	(13.4–14.9)	(29.2–31.2)	(54.6–56.8)
Asian	2.6	19.3	78.2
	(2.1–3.2)	(17.8–20.8)	(76.6–79.7)
American Indian or Alaska Native	16.4	29.3	54.3
	(13.6–19.6)	(26.2–32.7)	(50.3–58.3)
Native Hawaiian or Other Pacific Islander	6.3	27.3	66.4
	(3.8–10.3)	(21.1–34.5)	(59.0–73.0)
White	2.9	13.9	83.2
	(2.7–3.0)	(13.6–14.3)	(82.8–83.6)
Multiracial	7.2	23.6	69.2
	(5.8–9.0)	(20.7–26.7)	(65.8–72.4)
Total	**6.3**	**18.9**	**74.8**
	(6.1–6.5)	**(18.6–19.2)**	**(74.4–75.2)**

Source: GAO analysis of Federal Deposit Insurance Corporation data. | GAO-22-104468

Notes: Ninety-five percent confidence intervals are in parentheses. This analysis used data from the Federal Deposit Insurance Corporation's biennial survey of households' use of banking and financial services. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020). We used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys).

[a]Unbanked households are those that did not have a checking or savings account at a bank or credit union.

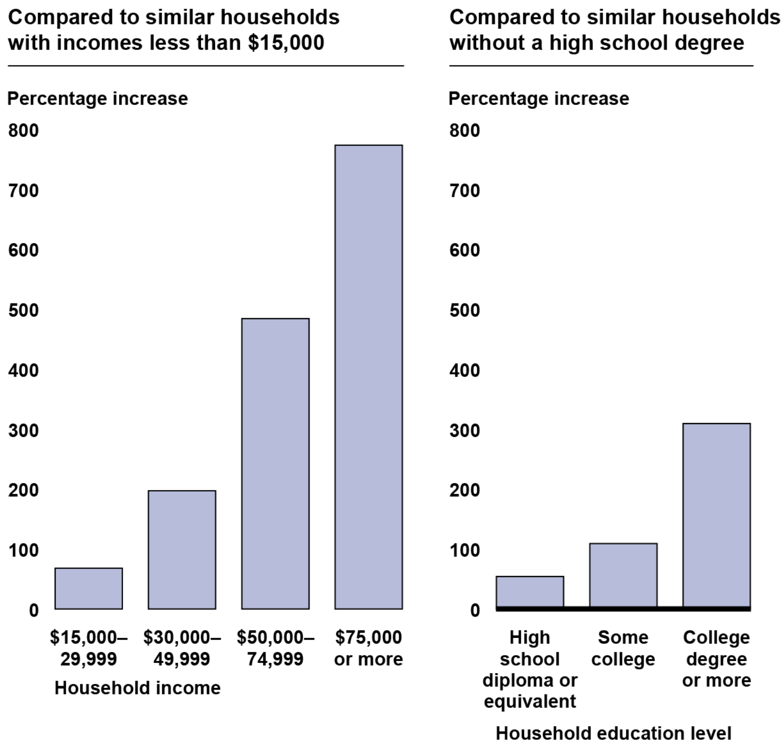
[b]Underbanked households are those that had a checking or savings account at a bank or credit union but used an alternative financial service in the last 12 months. Alternative financial services are nonbank money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, and auto title loans.

[c]Fully banked households are those that had a checking or savings account and did not use an alternative financial service in the last 12 months.

[d]For person-level characteristics, such as education and race or ethnicity, the characteristics of the owner or renter of the home are used to represent the household.

Even when controlling for other factors, income, education, and race were associated with the likelihood of a household having a bank account, according to our analysis of the FDIC survey.[17] On average, as household income increased so did the likelihood of having a bank account. Similarly, on average, households with more education were more likely to be banked (see fig. 3). As discussed below, most unbanked households said not having enough money was one of the reasons they did not have a bank account.

Figure 3: Estimated Percentage Increase in Likelihood of Having a Bank Account, 2015–2019



Source: GAO analysis of Federal Deposit Insurance Corporation data. | GAO-22-104468

[17]We used a multivariate regression analysis to compare similar households by controlling for household type, age, race and ethnicity, education, income, indicators of household financial stability (such as income volatility, labor force participation, and homeownership), region, location, and access to technology.

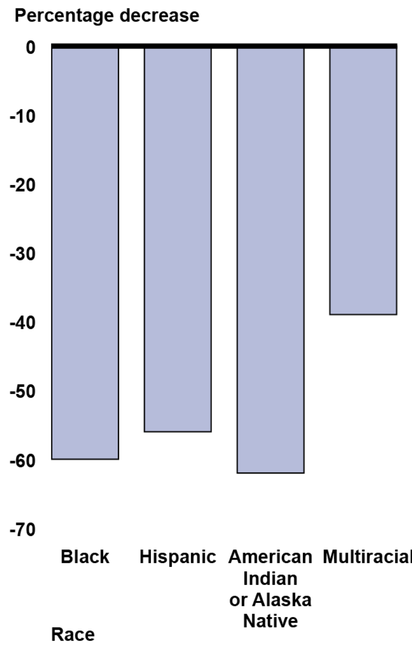
Notes: We analyzed households' simple banking status—whether or not households had a bank account. We used a multivariate regression analysis to compare similar households by controlling for household type, age, race and ethnicity, education, income, indicators of household financial stability (such as income volatility, labor force participation, and homeownership), region, location, and access to technology. For person-level characteristics, such as education, the characteristics of the owner or renter of the home are used to represent the household. This analysis used data from the Federal Deposit Insurance Corporation's biennial survey of households' use of banking and financial services. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020). We used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys).

Conversely, non-White households were generally less likely than White households to have a bank account, on average, even when controlling for other factors, according to our analysis of FDIC survey data (see fig. 4). In a 2015 qualitative research study by FDIC, several consumer counselors spoke about the legacy of historic discrimination by banks with one noting that mistrust of banks might be passed down from generation to generation.[18] Additionally, immigrants and those who work with immigrants said attitudes towards banks may be influenced by experiences in their countries of origin. A 2020 academic study found that banks charge more for entry-level checking accounts in neighborhoods and cities with larger Black and Hispanic populations.[19]

[18]Federal Deposit Insurance Corporation, *Bank Efforts to Serve Unbanked and Underbanked Consumers* (Washington, D.C.: May 15, 2016).

[19]Jacob W. Faber and Terri Friedline, "The Racialized Costs of 'Traditional' Banking in Segregated America: Evidence from Entry-Level Checking Accounts," *Race and Social Problems,* vol. 12, no. 4 (December 2020): 344–361.

Figure 4: Estimated Percentage Decrease in Likelihood of Having a Bank Account Compared to Similar White Households, 2015–2019



Source: GAO analysis of Federal Deposit Insurance Corporation data. | GAO-22-104468

Notes: We analyzed households' simple banking status—whether or not households had a bank account. We used a multivariate regression analysis to compare similar households by controlling for household type, age, race and ethnicity, education, income, indicators of household financial stability (such as income volatility, labor force participation, and homeownership), region, location, and access to technology. For person-level characteristics, such as race or ethnicity, the characteristics of the owner or renter of the home are used to represent the household. This analysis used data from the Federal Deposit Insurance Corporation's biennial survey of households' use of banking and financial services. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020). We used the 2015–2019 5-year combined data set (combined data from the 2015, 2017, and 2019 surveys).

Our analysis also shows that other factors are associated with the likelihood of being banked on average, such as financial stability, better access to technology, and marital status.[20] See appendix II for more details about our analysis and findings.

Some households moved in and out of the banking system. In addition, recent previous experience with banking influenced household interest in

[20]Households that are more financially stable include those with more stable income streams, those with employed heads of household, and those that own their homes.

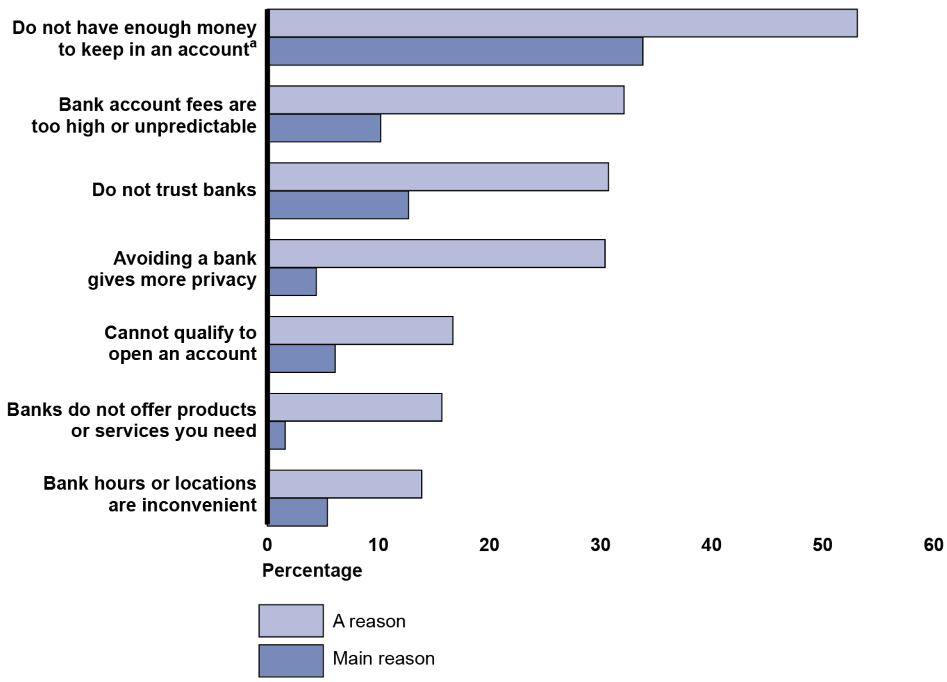
having a bank account. According to our analysis of FDIC survey data, almost half of unbanked households previously had a bank account and about half never had an account. An estimated 55 percent of households unbanked for less than a year were interested in opening or likely to open a bank account in the future, while less than 30 percent of households who had been unbanked for more than a year or were never banked were interested in opening or likely to open an account.

Unbanked Households Cited Lack of Funds, Fees, and Distrust as Reasons for Not Having an Account

Reasons consumers may not have bank accounts include a lack of money, high and unpredictable bank fees, distrust of banks, privacy concerns, and qualification problems, according to agency survey data and market participants and observers. The most-cited reason for not having a bank account was not having enough money to keep in an account or meet minimum balance requirements, according to our analysis of the FDIC survey (see fig. 5).[21] Over half of unbanked households said this was one of the reasons (when providing multiple responses), and about one-third said it was the main reason. The cost and unpredictability of bank account fees was the second-most-cited main reason, followed by a lack of trust in banks and privacy concerns.

[21]The wording for this survey question changed in 2019. In 2015 and 2017, the survey respondents were asked if not having enough money to keep in an account was one of their reasons for not having a bank account. In 2019, respondents were asked if not having enough money to meet minimum balance requirements was one of their reasons.

Figure 5: Reasons Cited for Not Having a Bank Account, 2015–2019



Source: GAO analysis of Federal Deposit Insurance Corporation data. | GAO-22-104468

Notes: All estimates have a 95 percent margin of error of no more than plus or minus 2 percentage points. This analysis used data from the Federal Deposit Insurance Corporation's biennial survey of households' use of banking and financial services. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020). We used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys).

[a]The wording for this survey question changed in 2019. In 2015 and 2017, survey respondents were asked if not having enough money to keep in an account was one of their reasons for not having a bank account. In 2019, respondents were asked if not having enough money to meet minimum balance requirements was one of their reasons.

Households that were unbanked for less than a year more frequently cited not having enough money as the main reason for not having a bank account than other unbanked households. Households with family incomes less than $30,000 also were more likely to say they did not have enough money to keep in a bank account than households with higher incomes. Black and Hispanic households also cited this reason more often than White households.

Market participants and observers we interviewed most often cited qualification problems, bank fees and costs associated with maintaining an account, and a lack of trust in banks as the main factors limiting access to checking and savings accounts.[22] Most market participants and observers noted a variety of qualification problems, such as prior negative account activity, complications with verifying the consumer's identity, or low or no credit scores. Most of the banks and credit unions we interviewed said that they used a consumer reporting agency, such as ChexSystems, when considering applicants for new accounts. While the banks and credit unions said they used this information to varying degrees, eight said they offered accounts with more restrictions to people with negative account histories.

Some market participants and observers also cited challenges providing some of the identification information the Bank Secrecy Act (BSA) regulations require as a common reason for not having bank accounts.[23] The BSA customer identification program rule for banks and credit unions requires them to obtain a customer's name, date of birth, address, and government identification number before opening an account. They noted that some requirements can be especially difficult for certain groups, such as immigrants who may not have a government identification number accepted by the bank and homeless and transient populations who may not have a street address.[24] We discuss the possible effects of BSA requirements in more detail later in the report.

In addition, most market participants and observers cited fees and other costs, or consumer perceptions of these costs, as a common barrier to opening or maintaining a bank account. Some noted that overdraft fees specifically had driven people out of the banking system. For example, The Pew Charitable Trusts stated that based on its research among consumers who previously had a bank account, overdraft fees were the biggest driver for leaving the banking system. Some market participants and observers also noted that unbanked consumers were concerned

[22]Unless otherwise noted, market participants and observers in this section refer to 40 interviewees who represented seven industry groups, five consumer groups, two research organizations, 18 banks, five credit unions, and three prepaid card issuers.

[23]BSA is an important tool in federal law enforcement efforts to detect and deter the use of financial institutions for criminal activity, including money laundering and terrorist financing. BSA and its implementing regulations generally require financial institutions, including banks, to collect and retain various records of customer transactions, verify customers' identities, maintain anti-money laundering programs, and report potentially suspicious activity.

[24]The customer identification program rule provides flexibility on the information and supporting documents banks and credit unions can use to establish identity.

about hidden or unpredictable fees. They noted that some consumers chose check cashing and other alternative financial services because they perceived the fees to be clear and transparent as opposed to bank account fees that could vary monthly depending on consumer activity.

While alternative financial services might have higher up-front costs, some consumers see them as better options because of their predictability, according to some of these market participants and observers. A report by the Boston Consulting Group noted that bank accounts often have overdraft fee policies that are unclear or difficult to navigate and that the lack of fee transparency, high overdraft fees, and difficulty in navigating banks' terms were barriers to sustained use of traditional bank accounts.[25] As discussed later in the report, some banks are trying to address this issue by reducing overdraft fees, alerting customers when their account balances are low, and introducing accounts that do not allow for overdrafts.

Most market participants and observers also cited a lack of trust in banks as a common reason for not having a bank account. They noted that negative past experiences with banks, the view that bank accounts include hidden or unpredictable fees, or a culture of not trusting banks may have contributed to a lack of trust. For example, representatives from Prosperity Now told us that a legacy of redlining, the Great Recession, and negative experiences with some lenders damaged some communities' trust in banks, especially for people of color.[26] Market participants and observers less frequently noted other reasons for not having a bank account, including bank branch closures, a lack of financial education and awareness of bank services, and simply not wanting a bank account.

Our analysis of FDIC survey data showed that unbanked households often turn to alternative financial services to meet their needs. According to our analysis of the survey data, in 2015–2019, about half of unbanked households used nonbank transaction services, such as check cashing,

[25]Boston Consulting Group, *Racial Equity in Banking Starts with Busting the Myths* (Boston, Mass.: February 2021).

[26]Redlining is a form of illegal disparate treatment in which a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located.

money orders, and international remittances in the previous 12 months.[27] Unbanked households who previously had a bank account were more likely to use these services than households that had never been banked. Some banked households also used these services.

Most market participants and observers noted that convenience, the need for immediate cash, low or no credit scores, or cost transparency were the main reasons unbanked and underbanked households used alternative financial services. High fees were the most cited disadvantage of these services. In May 2021, CFPB reported that consumers who used payday loans, auto title loans, and pawn loans frequently had difficulty paying their bills and were more likely to have experienced a financial shock, such as job loss, loss of income from illness, and loss of government benefits.[28]

There was no consensus among the market participants and observers we interviewed on how people transition into the banking system, but one study found that providing information about the benefits of checking accounts increased unbanked consumers' intention to open an account.[29] In our interviews, the most commonly cited events or means by which people transition into the banking system were getting a job that requires direct deposit, financial counseling, and increased availability of free or low-cost deposit accounts. Research conducted by the Cities for Financial Empowerment Fund found statistically significant increases in interest in learning more about opening a bank account and an intent to open an account after hearing marketing messages about the benefits of checking accounts. The study found unbanked consumers responded strongly to

[27]Based on a 95 percent confidence interval, the percentage of unbanked households that used nonbank transaction services was 51–54 percent.

[28]Consumer Financial Protection Bureau, *Consumer Use of Payday, Auto Title, and Pawn Loans: Insights from the Making Ends Meet Survey* (Washington, D.C.: May 2021).

[29]Cities for Financial Empowerment Fund, *Making the Case for Banking Access, Talking to Unbanked People about Bank Accounts* (New York, N.Y.: October 2019).

information on building savings, decreasing debt, and certain product features, such as no fees, fraud protection, and direct deposit.[30]

Stakeholders Identified Several Regulatory Factors That Affected the Cost or Availability of Basic Banking Services

Laws and regulatory factors may have significantly affected the cost and availability of basic banking services over the past 10 years, according to market participants and observers we interviewed. They most frequently cited five sets of laws and regulatory factors (see table 3).[31]

[30]The Cities for Financial Empowerment Fund conducted two online surveys of (1) 650 unbanked people (living in a household without a banking relationship) ages 18–54 and (2) 600 unbanked people (living in a household without a banking relationship) ages 18–54 with an equal number of English- and Spanish-speakers. The study also conducted eight focus groups in both English and Spanish in Houston, Texas; Memphis, Tennessee; New York, New York; and Los Angeles, California, in addition to seven in-depth phone interviews with rural unbanked people.

[31]To identify laws and regulations significantly affecting the cost and availability of basic banking services, we interviewed a nongeneralizable sample of market participants and observers, including those with a range of characteristics and geographic locations. The sample comprised six industry groups, five consumer groups, two research organizations, 13 banks, and four credit unions. We subsequently conducted a second round of interviews with a slightly larger group of market participants (adding five banks and one credit union) to collect additional information on the most frequently identified statutory and regulatory factors.

Table 3: Laws and Regulatory Factors Cited by Selected Market Participants and Observers as Having Significantly Affected the Cost or Availability of Basic Banking Services

Laws and regulatory factors	Number of times cited	Description
Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Durbin Amendment) and Regulation II	9	• Implemented by the Board of Governors of the Federal Reserve System (Federal Reserve) with a final rule (Regulation II) effective on October 1, 2011. • Established limits on certain interchange fees that a merchant's bank pays to a cardholder's bank as part of a debit card transaction, among other things. It was intended to make interchange fees for debit card transactions reasonable and proportional to the cost incurred by the issuer. All types of depository institutions (including banks, savings institutions, and credit unions) are potentially subject to Regulation II's interchange fee cap. • Provided an exemption from the interchange fee cap for issuers that, together with their affiliates, have less than $10 billion in consolidated assets.
Regulation E overdraft protections	10	• Amended by the Federal Reserve in November 2009 as part of the Electronic Fund Transfer Act's implementing regulations, effective on January 19, 2010, with a mandatory compliance date of July 1, 2010. Recodified by the Consumer Financial Protection Bureau (CFPB) in 2011 when the agency assumed rulemaking responsibilities for the act. • Established notice requirements to help consumers better understand the cost of overdraft services for certain electronic fund transfers and limited the ability of financial institutions to assess a fee for paying ATM and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents, or opts in, to the institution's payment of overdrafts for these transactions.
Regulatory uncertainty for small-dollar lending	10	• CFPB, the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) released various statements and guidance documents and established and rescinded small-dollar lending rulemakings and guidance in 2013–2020. • The Federal Reserve, FDIC, and OCC issued a joint statement, for example, on principles to encourage banks and credit unions to offer responsible small-dollar loans to customers for both consumer and small business purposes in May 2020.[a] In November 2017, CFPB issued a final rule establishing mandatory underwriting requirements for certain small-dollar loans and then rescinded those requirements in July 2020.
Bank Secrecy Act customer identification program requirements	9	• The Financial Crimes Enforcement Network within the Department of the Treasury is responsible for administering the Bank Secrecy Act, which has been amended multiple times, and issuing implementing regulations. • Requires banks and credit unions to establish and maintain an anti-money laundering compliance program and a written customer identification program. The customer identification program must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. At a minimum, the institution generally must obtain from each customer their name, date of birth, address, and government identification number before opening an account.

Laws and regulatory factors	Number of times cited	Description
Community Reinvestment Act (CRA) and implementing regulations	6	• Enacted in 1977, the federal banking regulators—the Federal Reserve, FDIC, and OCC—oversee CRA's implementation. CRA and its implementing regulations have been amended multiple times. • Encouraged banks to meet the credit needs of the communities in which they operate, including low- and moderate-income communities as defined by census tract. Has evolved to include a greater emphasis on consumer and business lending, community investments, and accessibility to low-cost services that benefit such communities and individuals.

Source: GAO. | GAO-22-104468

Note: We interviewed representatives of 30 organizations, to which we collectively refer as market participants and observers: six industry groups, five consumer groups, two research organizations, 13 banks, and four credit unions.

[a]The National Credit Union Administration was also a part of this joint issuance.

Some market participants and observers with whom we spoke also identified non-regulatory factors as having a potentially significant effect (either positive or negative) on the cost or availability of basic banking services. For checking and savings accounts, these factors include, but are not limited to, competition from financial technology companies, increased availability of mobile banking, and branch closures. For example, representatives of the Filene Research Institute told us the widespread consolidation of banks and credit unions, especially for smaller institutions, may have a range of effects. They noted that some communities may lack bank branches, especially in border counties, rural areas, and Indian reservations and lands. However, they also noted some mergers may preserve the presence of a physical branch or expand digital financial services access in those same areas.

Studies Found That Debit Card Interchange Fee Regulations Increased the Cost of Checking Accounts

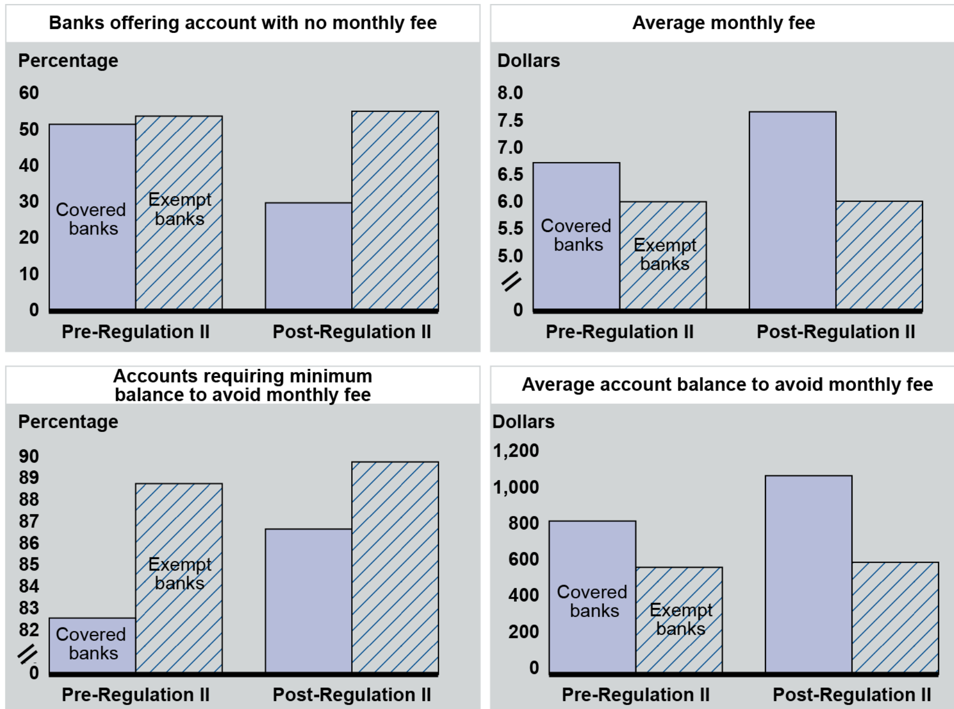
Debit card interchange fee limits imposed by the Durbin Amendment and Regulation II are associated with increases in the costs of checking accounts, according to studies we reviewed and some market participants and observers we interviewed. For example, a study conducted by Federal Reserve economists showed that certain banks subject to the interchange fee cap increased prices for checking accounts by increasing monthly service fees.[32] The study also found that after the regulation was in place, covered banks were about 35 percent less likely to offer noninterest checking accounts without monthly fees.[33] Based on this finding, the researchers estimated that if the regulation had not been implemented, 65 percent of noninterest checking accounts offered by covered banks would have been free.[34] As shown in figure 6, the researchers found that before the implementation of Regulation II, about half of noninterest checking accounts offered by covered banks were free, compared with less than one-third after implementation.

[32]Mark D. Manuszak and Krzysztof Wozniak, "The Impact of Price Controls in Two-sided Markets: Evidence from US Debit Card Interchange Fee Regulation," *Finance and Economics Discussion Series,* 2017-074 (Washington, D.C.: 2017). The Durbin Amendment established limits on certain interchange fees that banks charge merchants for processing debit card transactions. It was intended to make interchange fees for debit card transactions reasonable and proportional to the cost incurred by the issuer.

[33]Issuers, including banks together with their affiliates, with consolidated assets of $10 billion or more are subject to the interchange fee cap and are referred to as covered banks. Banks, together with their affiliates, with less than $10 billion in consolidated assets are exempt from the interchange fee cap. The data used in the study included 183 covered banks and 5,374 exempt banks.

[34]The study defines a free checking account as an account with no monthly service fee. Other references to free checking in this report use the same definition.

Figure 6: Selected Changes to Noninterest Checking Accounts, Pre- and Post-Regulation II, January 2009–June 2014



Source: GAO (charts), Manuszak and Wozniak (2017) (data). | GAO-22-104468

Notes: The data in this figure are taken from Table 1 in Mark D. Manuszak and Krzysztof Wozniak, "The Impact of Price Controls in Two-sided Markets: Evidence from US Debit Card Interchange Fee Regulation," *Finance and Economics Discussion Series*, 2017-074 (Washington, D.C.: 2017). Regulation II limits debit card interchange fees charged by covered banks and exempts certain banks from the limitation. The pre-Regulation II time frame used covered January 2009 to September 2011 and the post-Regulation II time frame covered October 2011 to June 2014.

The study noted that covered banks raised monthly fees on noninterest checking accounts by 20 percent on average and increased the average minimum balance to avoid a monthly fee by 50 percent for these accounts.[35] The study reported a similar increase in the average minimum balance requirement for interest checking accounts. The study results also showed that certain banks that were exempt from Regulation II raised their monthly service fees, although to a lesser extent than covered banks, depending on the prevalence of covered banks in their local markets. For example, the results suggested that exempt banks that

[35]This analysis used data that covered a pre-Regulation II time frame from January 2009 to September 2011 and a post-Regulation II time frame from October 2011 to June 2014.

experienced a significant amount of competition from covered banks reduced the availability of free noninterest checking accounts by about 16 percent compared to a 35 percent reduction by covered banks.

Another study conducted by academic researchers estimated that covered banks' annual interchange revenue fell by over 25 percent as a result of the interchange fee cap and that banks offset these losses by raising other account fees.[36] According to the researchers, prior to Regulation II, interchange fees ranged from 1 to 3 percent of transaction value. Regulation II capped interchange fees at $0.21 plus a small percentage of the transaction amount.[37] For example, after Regulation II was implemented, interchange fees on an average transaction (with an amount of $38.00) fell from $0.43 to $0.24 for covered banks, according to the study. After the regulation's implementation, the share of free noninterest checking accounts decreased from 60 percent to 20 percent for covered banks. According to this study, banks increased the average fee on checking accounts from $4.34 per month to $7.44 per month and the monthly account minimum to avoid these fees increased by around 25 percent.

Some market participants and observers who commented on the effects of the Durbin Amendment and Regulation II said the interchange fee cap limited banks' ability to offer free checking accounts.[38] Some market participants and industry organizations noted banks used revenue generated from interchange fees to help cover the cost of accounts. In addition, some banks and credit unions told us the regulation affected their revenue stream, including five banks that said they charged a

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[36]Vladimir Mukharlyamov and Natasha Sarin, "The Impact of the Durbin Amendment on Banks, Merchants, and Consumers" *Faculty Scholarship at Penn Law* (2019)*:* 2046. The study's sample of banks' interchange income covered from January 2008 to December 2013. The data used in the study included 3,707 unique bank branches, corresponding to 628 holding companies. This analysis used data that covered the pre-Regulation II time frame from January 2008 to March 2010 and the post-Regulation II time frame from April 2010 to December 2013.

[37]Interchange fees are capped at $0.21 plus 0.05 percent of the transaction amount. The effective cap varies by transaction due to the portion of the fee based on a percentage of the transaction amount. In addition to any interchange transaction fee, there is a $0.01 charge per transaction for the implementation of fraud prevention policies.

[38]Twenty-five market participants and observers (14 banks, five credit unions, one consumer group, and five industry groups) commented on the effects of the Durbin Amendment and Regulation II.

monthly fee for their checking accounts.[39] However, four of the 14 banks and credit unions subject to the interchange fee cap told us the regulation did not affect the cost and availability of their checking accounts.

Most of the banks and credit unions we interviewed told us they offered a free checking account. The remaining banks and credit unions told us that they charged a monthly maintenance fee, although most noted customers could avoid the monthly fee by taking steps, such as receiving direct deposits, maintaining a minimum balance, or receiving electronic statements.

Federal Reserve officials told us they are aware of the effects of Regulation II on the cost of checking accounts. The Federal Reserve publishes a biennial report that contained summary information on costs incurred by debit card issuers for 2015.[40] According to that report, average per-transaction authorization, clearing, and settlement costs, excluding issuer fraud losses, for issuers subject to the interchange fee standard, declined by a cumulative 45 percent since the Federal Reserve began data collection in 2009. In a 2017 joint report to Congress by the federal banking regulators, the Federal Reserve reported that these data and any other industry developments would inform any future consideration by the Federal Reserve on whether changes to the interchange fee standard were appropriate.[41] The Federal Reserve has stated that it will continue to review the cost component of the regulation as it collects more recent data and may propose additional revisions in the future.[42]

[39]When setting the terms of their accounts, the banks considered many factors such as customer needs, profitability, and competition, according to representatives of the five banks.

[40]Board of Governors of the Federal Reserve System, *2015 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions* (Washington, D.C.: Nov. 30, 2016).

[41]Federal Financial Institutions Examination Council, *Joint Report to Congress, Economic Growth and Regulatory Paperwork Reduction Act* (Washington, D.C.: March 2017).

[42]Debit Card Interchange Fees and Routing, 86 Fed. Reg. 26189, 26190 (May 13, 2021).

Market Participants and Observers Said Overdraft Protection Requirements Limited Fees for Some Consumers

According to CFPB studies and some market participants and observers we interviewed, overdraft protection requirements have benefitted consumers.[43] In 2013, a CFPB study estimated that the Regulation E overdraft rule, for which compliance became mandatory in July 2010, led to a material decrease in the amount of overdraft fees paid by consumers.[44] The study found that accounts for which consumers did not opt in to overdraft coverage experienced an estimated 45 percent decrease in fees in the second half of 2010, while opt-in accounts saw an estimated 8 percent increase in fees.

CFPB also reported that consumers who did not opt in but had heavily used overdraft programs in the first half of 2010 experienced the greatest reduction in overdraft and nonsufficient funds fees in the second half of 2010. The fees on these consumers' accounts decreased by about 63 percent, or over $450 per account, on average. CFPB found that accounts with more than 10 overdraft or nonsufficient funds items during the 6 months prior to the implementation of Regulation E were the most likely to opt in (45 percent), while accounts with no overdraft or nonsufficient funds transactions during the same period were the least likely to opt in (11 percent).[45]

A separate CFPB report published in 2014 showed that overdraft and nonsufficient funds fees constituted the majority of the total checking account fees that consumers incurred.[46] The research noted that consumers who opted in to overdraft incurred more than seven times as many overdraft fees as those who had not opted in.[47] In a study conducted in 2017, CFPB found that frequent overdrafters who opted in

[43]The overdraft protection rule limits the ability of a bank to assess an overdraft fee for paying ATM and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents (opts in) to the institution's payment of overdrafts for these transactions.

[44]Consumer Financial Protection Bureau, *Study of Overdraft Programs: A White Paper of Initial Data Findings* (Washington, D.C.: June 2013).

[45]A nonsufficient funds fee is charged when a check or automated clearing house transaction is returned unpaid because there are not enough funds in the account to cover the transaction.

[46]Consumer Financial Protection Bureau, *Data Point: Checking Account Overdraft* (Washington, D.C.: July 2014).

[47]The Regulation E opt-in requirement applies only to ATM and one-time debit card transactions. Consumers who have not opted in can still incur overdraft fees on checks and electronic transactions through automated clearing house network transactions.

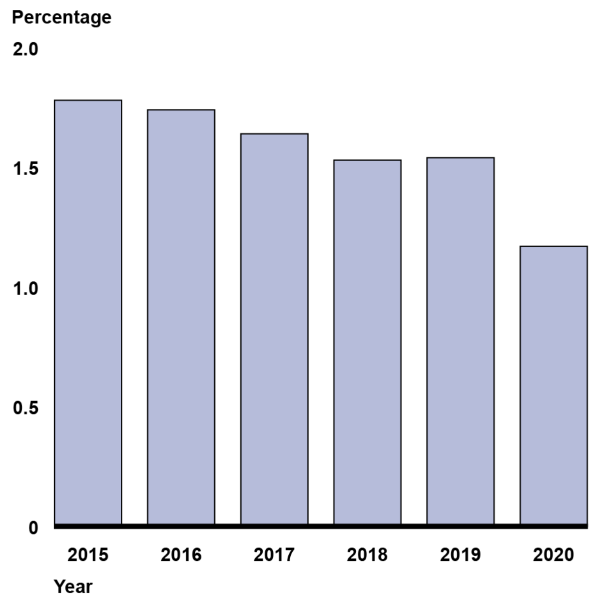
paid significantly more fees than frequent overdrafters who did not opt in.[48]

Some market participants and observers who commented on the effects of Regulation E's overdraft requirements told us that the opt-in requirement was a positive change for consumers.[49] For example, one bank's representatives told us the requirements empowered consumers to choose whether they wanted overdraft protection for ATM and one-time debit card transactions. According to the National Consumer Law Center, the regulation has had a modest effect in reducing overdraft fees. Regulatory reporting data show that overdraft fees on consumer deposit accounts at U.S. banks with $1 billion or more in assets as a percentage of operating revenue gradually decreased from 1.78 percent in 2015 to 1.17 percent in 2020 (see fig. 7).

[48]Consumer Financial Protection Bureau, *Data Point: Frequent Overdrafters* (Washington, D.C.: August 2017). CFPB defined frequent overdrafters as accounts with more than 10 overdraft and nonsufficient fund transactions in a 12-month period. Under Regulation E, banks may authorize one-time debit card and ATM transactions that result in a negative balance on accounts that have not opted in but may not assess overdraft fees on these transactions. One way that consumers who have not opted in can incur overdrafts is through transactions that occur between authorization and settlement that cause an insufficient balance.

[49]Twenty market participants and observers (13 banks, one credit union, four consumer groups, one industry group, and one research organization) commented on the effects of Regulation E's overdraft requirements.

Figure 7: Overdraft Fees on Consumer Deposit Accounts at U.S. Banks with $1 Billion or More in Assets as a Percentage of Operating Revenue, 2015–2020



Source: GAO analysis of Standard & Poor's Capital IQ data | GAO-22-104468

Note: Operating revenue is equal to interest income minus interest expense plus noninterest income.

Although Regulation E limits the ability of a bank to assess overdraft fees, these fees remain a concern among market participants and observers. As previously discussed, some market observers noted overdraft fees had caused consumers to leave the banking system. Some banks are trying to address the overdraft issue. For example, representatives of one bank told us it offers automatic features, including zero balance alerts, to help customers manage their accounts to avoid overdraft fees. As of July 2021, the Cities for Financial Empowerment Fund reported that 108 bank and credit union accounts were nationally certified as meeting the Bank On National Account Standards.[50] Bank On accounts have no overdraft fees. According to the Cities for Financial Empowerment Fund, banks and credit unions offering certified accounts represent more than 50 percent of the U.S. deposit market, and 40 percent of all U.S. bank branches offer

[50]The Cities for Financial Empowerment Fund's Bank On national initiative comprises locally led partnerships of local, city, state, and federal agencies, financial institutions, and community organizations to expand banking access, including through the Bank On National Account Standards. The standards identify critical product features, such as low costs, no overdraft fees, and bill pay.

a certified account. Additionally, the organization reported that almost two million Bank On certified accounts were opened in 2019. Nine of the 23 banks and credit unions we interviewed told us their banks offer Bank On accounts. In addition, several large banks have announced they are making changes to their overdraft fees in 2022. For example, one bank stated it will reduce overdraft fees from $35 to $10 in May 2022, and another one stated it will eliminate all overdraft fees, starting in early 2022.

Some market participants and observers also told us Regulation E may have increased costs for banks because of the regulation's disclosure requirements, including three banks that said it had increased their compliance costs. For example, representatives from one bank said Regulation E increased the cost of the bank's checking accounts, primarily resulting from the multiple disclosures the rule requires. These included disclosures provided at account openings when consumers decide to opt-in and in the event that overdrafts remain outstanding for more than a few days.

In 2020, CFPB reported that it reviewed the impacts of Regulation E's overdraft protection requirements on small banks and credit unions. The agency did not identify any aspects of the rule that created a unique burden or cost to small banks or credit unions and concluded there was a continued need for the rule. According to CFPB, commenters overwhelmingly supported continuing the rule without change.[51]

Market Participants and Observers Indicated That Regulatory Uncertainty around Small-Dollar Lending Affected Availability

Most of the market participants and observers who commented on regulatory uncertainty around small-dollar loans told us banks are hesitant to offer such loans in part because of changes to related rules or guidance in recent years.[52] In particular, some market participants and observers noted that banks do not want to offer small-dollar products

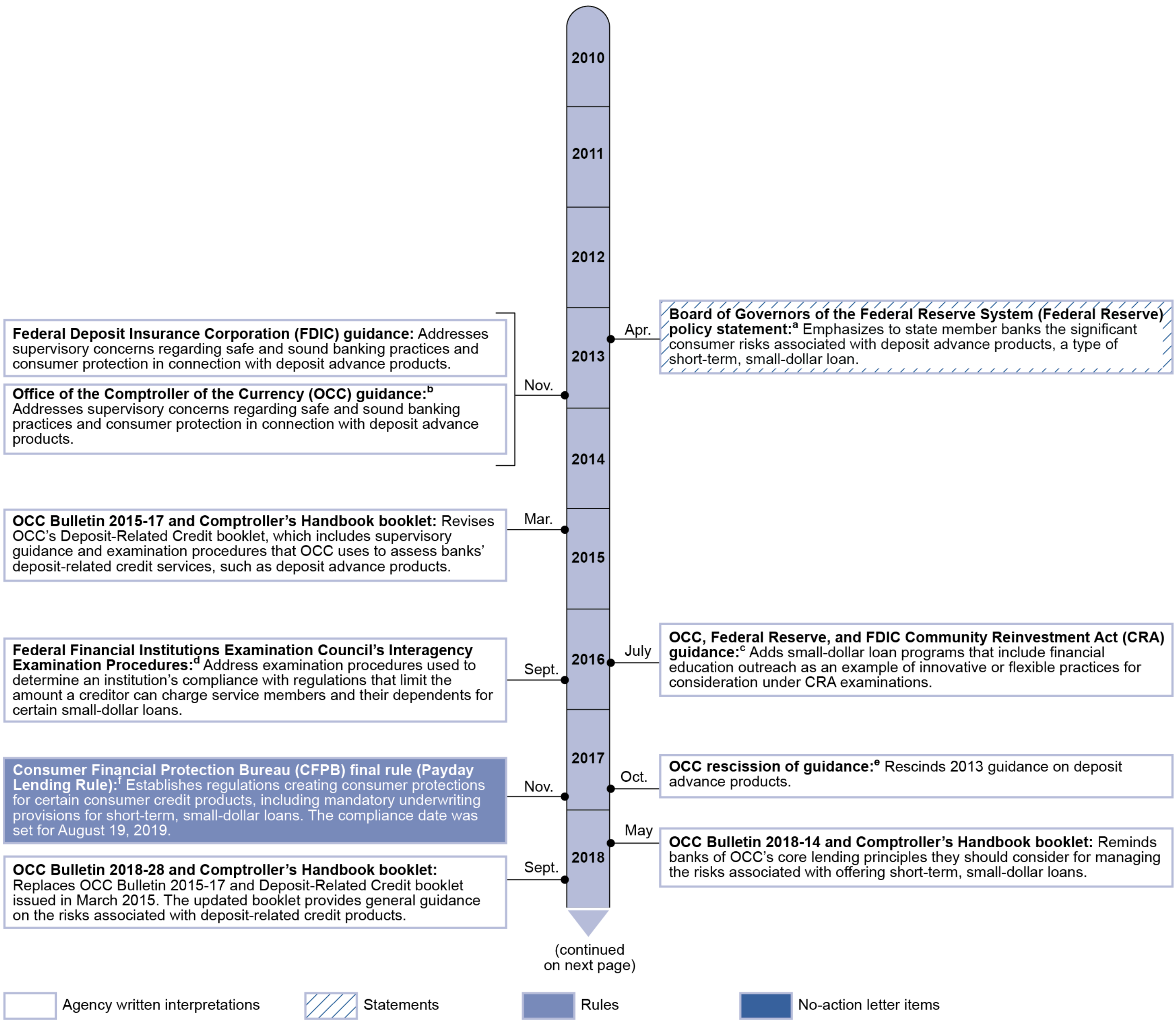
[51]CFPB completed this review as part of Regulatory Flexibility Act requirements, which call for agencies to review rules assessed as having a significant economic impact on a substantial number of small entities within 10 years of the final rule's publication. The reviews are to determine if the rules should be continued without change, amended, or rescinded, consistent with statutory objectives, to minimize any significant economic impact on small entities. 5 U.S.C. § 610(a).

[52]Eighteen market participants and observers (nine banks, three consumer groups, five industry groups, and one research organization) commented on the effects of regulatory actions on small-dollar lending.

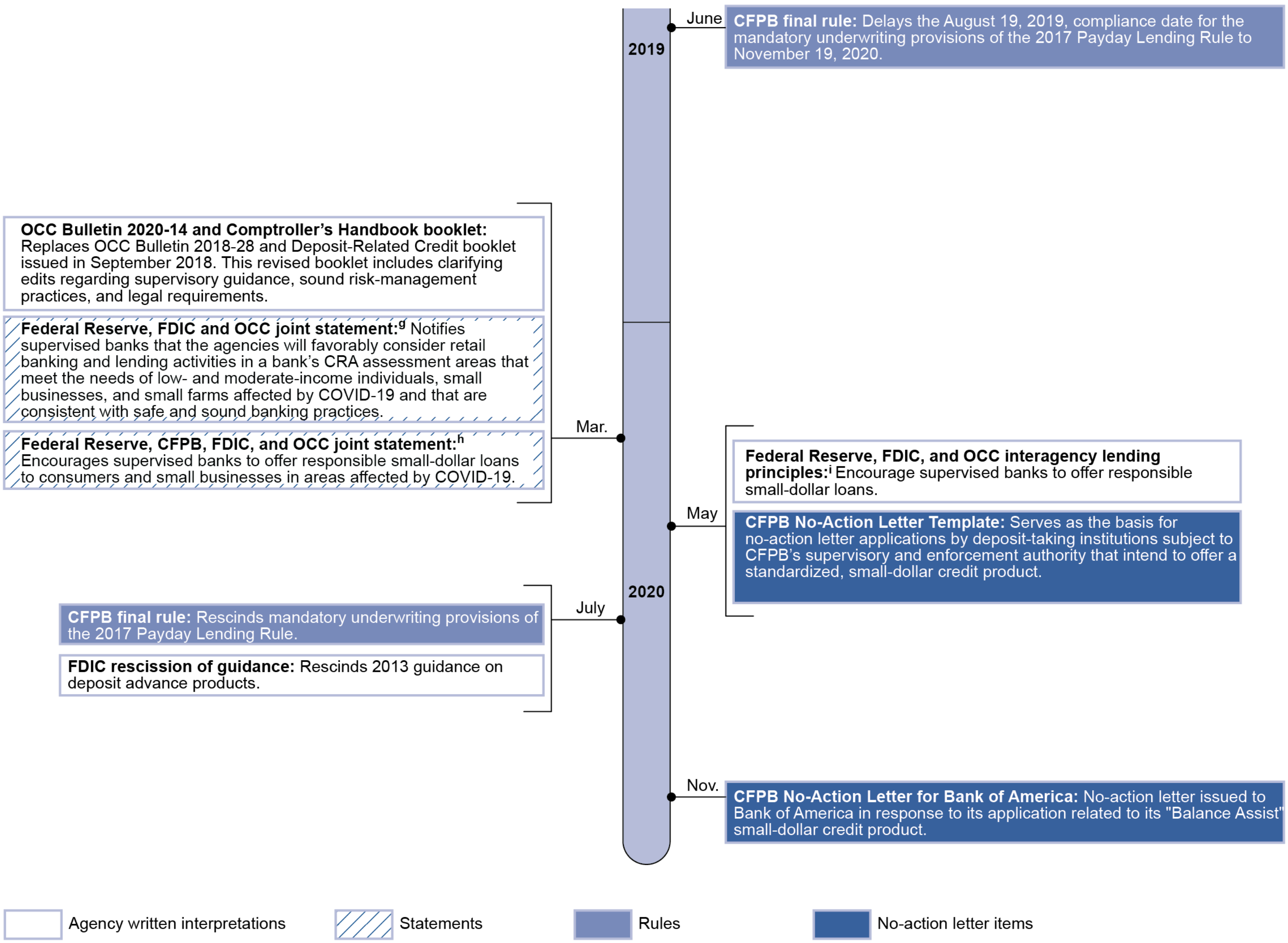
because they are expensive to develop and the regulations or supervisory expectations may change.

From 2010 through 2020, CFPB, the Federal Reserve, FDIC, and OCC issued or rescinded at least 19 actions related to small-dollar loans (see fig. 8). These actions included issuing rulemakings, statements, agency booklets, and principles.

Figure 8: Timeline of Regulatory and Supervisory Actions Involving Bank Small-Dollar Lending, 2010–2020



Part 1 of 2



Source: GAO analysis of Federal Reserve, FDIC, OCC and CFPB regulatory actions. | GAO-22-104468

Part 2 of 2

[a]The Federal Reserve used CA13-7 to transmit this statement.

[b]OCC used OCC Bulletin 2013-40 to announce the issuance of the agency's final supervisory guidance.

[c]This guidance was not exclusively related to small-dollar loans.

[d]The Federal Reserve, CFPB, FDIC, and OCC issued examination procedures tailored for use by each agency. We excluded the agency-specific procedures from the timeline. These examination procedures were not exclusively related to small-dollar loans.

[e]OCC also rescinded OCC Bulletin 2013-40.

[f]A legal challenge to the rule was filed on April 9, 2018, and is pending appeal in the United States Court of Appeals for the Fifth Circuit. In October 2021, the Fifth Circuit extended the compliance date of the rule until 286 days after resolution of the appeal.

[g]The Federal Reserve, FDIC, and OCC transmitted this statement using CA 20-4, FIL-19-2020, and OCC Bulletin 2020-19, respectively.

[h]The Federal Reserve, FDIC, and OCC transmitted this statement using SR20-7/CA 20-5, FIL-26-2020, and OCC Bulletin 2020-25, respectively. The National Credit Union Administration was also a part of this joint issuance.

[i]The Federal Reserve, FDIC, and OCC transmitted these lending principles using SR20-14/CA 20-8, FIL-58-2020, and OCC Bulletin 2020-54, respectively. OCC's bulletin notified financial institutions that OCC was rescinding OCC Bulletin 2018-14 issued on May 23, 2018. The National Credit Union Administration was also a part of this joint issuance.

For example, the banking regulators have issued and rescinded supervisory information related to deposit advance products.[53] In 2013, the Federal Reserve issued a statement highlighting potential consumer harm and elevated compliance risk associated with these products.[54] That same year, OCC and FDIC issued supervisory guidance that also described the products' potential to harm consumers and elevated compliance risks.[55] The OCC and FDIC guidance encouraged banks offering deposit advance products to apply more scrutiny in underwriting these loans and to discourage repetitive borrowing. According to representatives of the Consumer Bankers Association, OCC and FDIC's 2013 guidance were restrictive, which made it difficult for banks to offer deposit advance products. Representatives from one bank told us the bank stopped offering advances on direct deposits in 2014, following OCC's new guidance.

Although OCC rescinded its 2013 guidance in 2017, the regulatory landscape for small-dollar lending products remained fluid. According to OCC, the agency rescinded this guidance in preparation for the implementation of a new CFPB rule on small-dollar loans. FDIC also rescinded its guidance in 2020, stating it was in response to the issuance that same year of the interagency lending principles for offering responsible small-dollar loans. The Federal Reserve told us its statement on deposit advance products was at a higher level than the other banking

[53]Deposit advance products are a type of short-term, small-dollar loan offered to certain account holders who have recurring electronic deposits to their accounts—such as direct deposit of their paycheck.

[54]Board of Governors of the Federal Reserve System, *Statement on Deposit Advance Products,* CA 13-7 (Washington, D.C.: Apr. 25, 2013).

[55]Federal Deposit Insurance Corporation, *Guidance on Supervisory Concerns and Expectations Regarding Deposit Advance Products* (Washington, D.C.: Nov. 26, 2013); and Office of the Comptroller of the Currency, *Guidance on Supervisory Concerns and Expectations Regarding Deposit Advance Products* (Washington, D.C.: Nov. 26, 2013).

regulators' guidance (as it discussed applicable laws and regulations associated with offering these loans) and was in effect as of January 2022.

Furthermore, in November 2017, CFPB issued its final rule on Payday, Vehicle Title, and Certain High-Cost Installment Loans (Payday Lending Rule), which included underwriting requirements for small-dollar loans.[56] In a July 2020 rule, CFPB revoked the underwriting provisions prior to the corresponding compliance date.[57] CFPB stated it amended the regulation based on its reevaluation of the legal and evidentiary bases for these provisions.[58]

Some market participants and observers told us they did not believe the Payday Lending Rule was sufficiently stable for banks to offer small-dollar loans. According to the Independent Community Bankers of America, when the rule was issued, some banks that offered small-dollar loans stopped doing so because of the mandatory underwriting requirements. Although CFPB has since rescinded these requirements, four market participants and observers told us that banks believe CFPB again could change the rule. In March 2021, the CFPB Acting Director addressed small-dollar lending by mentioning that ability to repay is an important underwriting standard and that, if appropriate, the agency will consider

[56]These provisions, referred to as the mandatory underwriting provisions, stated that it is an unfair and abusive practice for a lender to make a covered short-term or longer-term balloon payment loan, including payday and vehicle title loans, without reasonably determining that consumers have the ability to repay those loans according to their terms. The provisions prescribed mandatory underwriting requirements for making the ability-to-repay determination; exempted certain loans from the mandatory underwriting requirement; and established related definitions, reporting, recordkeeping, and compliance date requirements. A legal challenge to the rule was filed on April 9, 2018. Community Financial Services Association of America, Ltd. and Consumer Service Alliance of Texas v. CFPB, 1:18-cv-295 (W.D. Texas). In August 2021, the district court issued a summary judgment in favor of CFPB permitting the regulation to stand. The plaintiff appealed to the United States Circuit Court of Appeals for the Fifth Circuit, Case No. 21-50826. In October 2021, the Fifth Circuit extended the compliance date of the rule until 286 days after resolution of the appeal.

[57]Under the July 2020 rule, CFPB revoked the mandatory underwriting provisions prior to the corresponding compliance date.

[58]In developing the 2019 Notice of Proposed Rulemaking, the agency stated it took into account the input it received from stakeholders through its efforts to monitor and support industry implementation of the 2017 final rule, as well as comments received in response to other agency initiatives.

the use of rulemaking to address the need for such a standard.[59] However, based on its most recent regulatory agenda (Fall 2021), CFPB did not include any regulations related to small-dollar lending.

More recently, the banking regulators and CFPB have taken several actions to encourage banks and credit unions to offer small-dollar loans. For example, in May 2020, OCC, FDIC, and the Federal Reserve issued interagency lending principles that encouraged banks to offer these loans.[60] In May 2020, CFPB also issued a no-action letter template for small-dollar credit products.[61] The agency noted that it approved the template to increase competition in the small-dollar lending market, foster access to credit, and include important protections for consumers. In November 2020, CFPB granted a no-action letter to Bank of America for certain small-dollar credit products based on the template.

Despite these actions by the regulators, some market participants and observers said regulatory uncertainty remains among banks. For instance, representatives for two banks expressed concern that the interagency principles would be subject to revision with a change in administration. Representatives from The Pew Charitable Trusts told us the Payday Lending Rule, CFPB's 2020 no-action letter template, and the 2020 interagency lending principles on small-dollar lending were helpful in establishing clear regulatory expectations for small-dollar lending products. But they also stated that CFPB's 2020 rescission of certain

[59]Dave Uejio, "Our commitment to protecting vulnerable borrowers"; blog post by the CFPB Acting Director (March 23, 2021). Accessed at https://www.consumerfinance.gov/about-us/blog/our-commitment-to-protecting-vulnerable-borrowers/.

[60]The joint statement listed three core lending principles: (1) loan products are consistent with safe and sound banking, treat customers fairly, and comply with applicable laws and regulations; (2) financial institutions effectively manage the risks associated with the products they offer, including credit, operational, and compliance; and (3) loan products are underwritten based on prudent policies and practices governing the amounts borrowed, frequency of borrowing, and repayment requirements. NCUA was also a part of this joint issuance.

[61]According to CFPB, no-action letters are intended to provide increased regulatory certainty that CFPB will not bring a supervisory or enforcement action against a company for providing a product or service under certain facts and circumstances. The May 2020 template identified certain features that would serve as "guardrails" and be included in applications for no-action letters using the template.

provisions of the Payday Lending Rule created the appearance of regulatory uncertainty that the 2017 rule previously addressed.

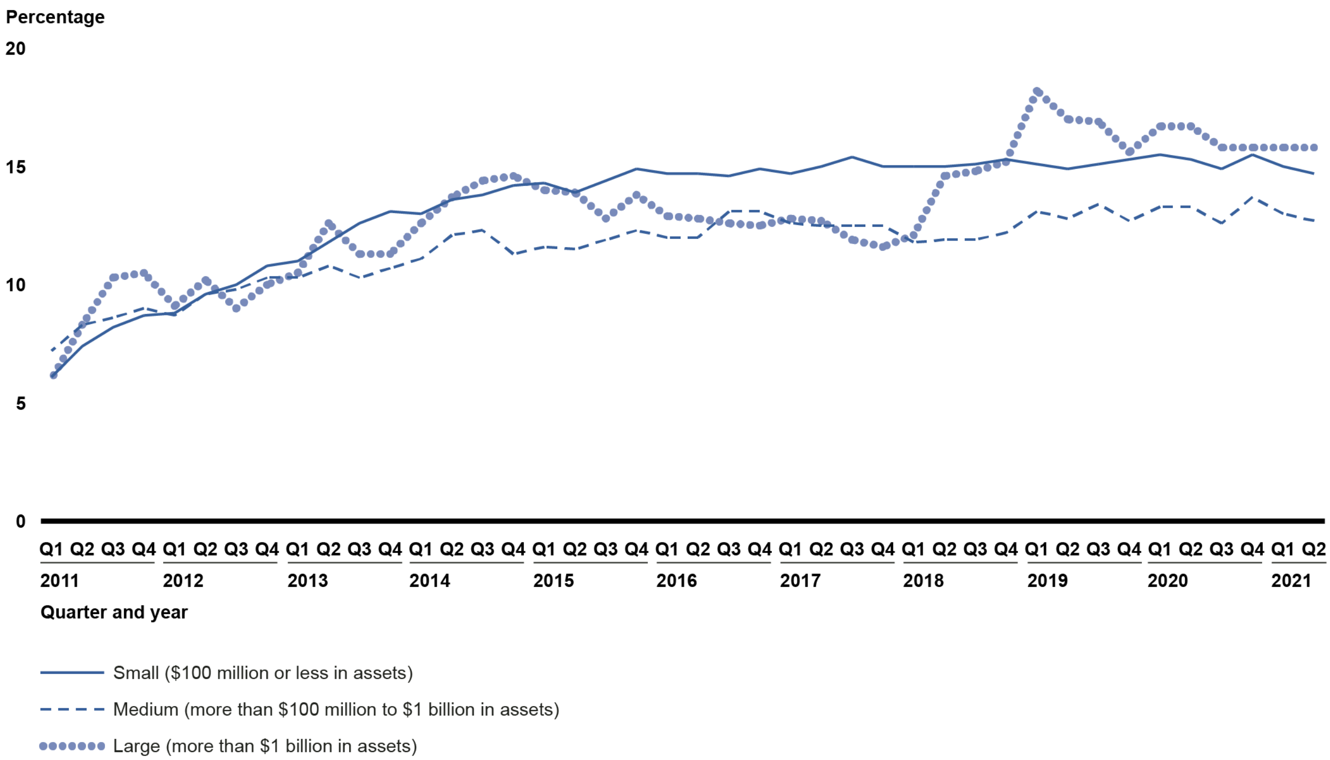
Lastly, some market participants and observers who commented on regulatory uncertainty, including four banks, had concerns that the current guidance did not provide clear guidelines for banks that would shield them from regulatory risks. For example, representatives of one bank noted that the interagency principles were defined at a high level and did not provide any specificity on how a bank could provide these loans and be reasonably assured that it would be shielded from regulatory risks.

With regard to federal credit unions, NCUA established a rule in 2010 to provide a regulatory framework for federal credit unions offering short-term, small-dollar loans. The Payday Alternative Loans (PALs) I rule permits a federal credit union to offer its members a small-dollar loan at a higher interest rate than is permitted for other credit union loans as long as the loans meet certain term, amount, and fee requirements.[62] In October 2019, NCUA issued its PALs II rule to provide federal credit unions additional flexibility to offer PALs to new members and increased the maximum loan amount to $2,000.[63] Our analysis of regulatory reporting data shows that about 14 percent of federal credit unions issued PALs in the second quarter of 2021. The data also indicate little difference in the issuance of these loans based on the asset size of the credit unions (see fig. 9). One of the five credit unions we interviewed told us it offered PALs.

[62]NCUA allows federal credit unions to offer PALs at an annual percentage rate of 1,000 basis points (10 percentage points) above the maximum interest rate established by the NCUA Board of Directors plus a maximum $20 application fee.

[63]The PALs I rule limits loan amounts to a minimum of $200 and a maximum of $1,000. PALs II loans do not have a minimum loan amount. PALs II also extended the maturity limit to 12 months and prohibited charging an overdraft fee resulting from a PALs II loan payment.

Figure 9: Percentage of Federal Credit Unions with an Outstanding Payday Alternative Loan, by Institution Size, January 2011–June 2021



Source: GAO analysis of National Credit Union Administration data. | GAO-22-104468

Although most credit unions have not issued these small-dollar loans since NCUA's 2010 rule, PALs credit risk has been comparable to credit risk from other loan types at most credit unions that issued PALs.[64] Our analysis of credit union regulatory reporting data from January 2011 through June 2021 indicates that among credit unions that issued PALs, delinquency rates for these loans at most credit unions were generally no greater than delinquency rates for credit card loans or used vehicle loans over the period. Though, delinquency rates for PALs at most credit unions

[64]For each quarter and for each credit union with PALs outstanding, we computed the delinquency rate for each loan type by calculating the dollar amount of delinquent loans as a percentage of the total loan amount outstanding. For each reported quarter, we analyzed the median delinquency rate for each type of loan for all credit unions in that quarter. We then reviewed the resulting time-series data on median credit union delinquency rates, which formed the basis for the loan delinquency determinations in this paragraph.

exceeded delinquency rates for certain types of loans, such as new vehicle and mortgage loans. Over the same period, the amount of delinquent PALs typically made up a small percentage of total delinquent loans among PAL-issuing credit unions (less than 6 percent of delinquent loan amounts for at least 90 percent of those credit unions).

Market Participants and Observers Cited Other Laws and Regulations That May Have Affected the Availability of Basic Banking Services

The Bank Secrecy Act and the Community Reinvestment Act also may have affected the availability of basic banking services, according to some market participants and observers we interviewed.

Bank Secrecy Act

Most of the market participants and observers commenting on the effects of BSA told us some customer identification program requirements have limited the ability of certain individuals to open accounts.[65] According to some of these commenters, this effect was apparent especially among immigrant or homeless populations who may not be able to provide the required street address or forms of identification.[66] Some banks and credit unions told us they try to address these challenges by accepting alternative addresses, such as a local homeless shelter, family member's address, or a state confidentiality address (used to protect domestic abuse victims) as a customer's address of record to open an account.

In addition, we previously found that the effects of BSA identification requirements included additional compliance costs for banks and limitation of services for customers. In 2020, we reported that customer due diligence requirements (which includes customer identification) generally were the most costly BSA compliance area for the 11 banks we reviewed—representing, on average, 29 percent of their total BSA compliance costs.[67]

[65]Twenty-nine participants and observers (15 banks, four credit unions, four consumer groups, and six industry groups) commented on the effects of BSA customer identification program requirements.

[66]The customer identification program rule provides flexibility on the information and supporting documents banks and credit unions can use to establish identity.

[67]GAO, *Anti-Money Laundering: Opportunities Exist to Increase Law Enforcement Use of Bank Secrecy Act Reports, and Banks' Costs to Comply with the Act Varied*, GAO-20-574 (Washington, D.C.: Sept. 22, 2020).

Furthermore, in 2018, we found that many banks in the Southwest border region may have been limiting certain services or ending their relationships with customers to avoid perceived regulatory concerns about facilitating money laundering—a practice known as derisking.[68] Such derisking could be another way in which BSA affects the availability of banking services for certain consumers. An estimated 80 percent of banks we surveyed said they had limited or did not offer accounts to some customers that drew heightened regulatory oversight. Additionally, we reported that counties in the Southwest border region had been losing bank branches since 2012. While this was similar to national and regional trends, we reported that money laundering-related risks likely were relatively more important drivers of branch closures in the Southwest border region.

In 2015, FDIC issued a statement recognizing that some insured depository institutions might be hesitant to provide certain types of banking services due to concerns that they will be unable to comply with BSA requirements. The statement encouraged institutions to take a risk-based approach when assessing individual customer relationships rather than declining to provide banking services to entire categories of customers without regard to the risks presented by an individual customer or the bank's ability to manage the risk. In a 2021 update to the Bank Secrecy Act/Anti-Money Laundering Examination Manual, the federal banking regulators noted that no specific customer type automatically presents a higher risk of money laundering, terrorist financing, or other illicit financial activity and banks are neither prohibited nor discouraged from providing banking services to any specific class or type of customer.

Community Reinvestment Act

Most market participants and observers that commented on the effects of CRA noted both positive and negative ways in which CRA had affected the availability or cost of basic banking services.[69] For instance, CRA regulations could give banks incentives to provide banking services—such as checking accounts—in underserved communities, according to the Cities for Financial Empowerment Fund and the National Community

[68]GAO, *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews,* GAO-18-263 (Washington, D.C.: Feb. 26, 2018).

[69]Eight market participants and observers (three banks, three consumer groups, and two industry groups) commented on the effects of CRA on the availability or cost of basic banking services. Credit unions are not subject to CRA.

Reinvestment Coalition. However, one bank noted that CRA regulations also may have increased compliance costs for banks.

In 2018, we reported that federal banking regulators' procedures for conducting CRA evaluations did not require an evaluation of financial institutions' provision of basic banking services, small-dollar, nonmortgage consumer lending, or support for community development in low- and moderate-income areas for every institution.[70] For example, while large institutions are subject to evaluations of their lending, investment, and services (including support of community development), smaller institutions are primarily evaluated on their lending.

Furthermore, federal banking regulators typically evaluated small-dollar, nonmortgage consumer lending if consumer lending was a substantial majority of the institution's lending or a major product of the institution. A representative from one bank told us its regulator cited the bank's small-dollar lending as a benefit to the community during its CRA examination. The representative noted it would be helpful for CRA regulations to continue providing incentives to banks for offering these loans. In our 2018 report, we recommended that the Department of the Treasury consider several options to provide additional incentives for these services.[71] Treasury implemented our recommendation that year, including by recommending to the banking regulators that they expand the types of loans and services eligible for CRA credit. In March 2020, federal banking regulators issued a joint statement on CRA consideration for bank activities in response to the pandemic. The Independent Community Bankers of America told us this statement was a positive gesture, but that community banks remain uncertain about the effects of pandemic relief programs on future CRA examinations.

The federal banking regulators have been considering changes to modernize CRA regulations, but they have not yet finalized the revisions. OCC published a final rule in June 2020, but rescinded it in December 2021. OCC stated that the rescission was intended to facilitate the ongoing interagency work to modernize the CRA regulatory framework and to promote consistency for all insured depository institutions. In fall 2020, the Federal Reserve issued an Advance Notice of Proposed

[70]GAO, *Community Reinvestment Act: Options for Treasury to Consider to Encourage Services and Small-Dollar Loans When Reviewing Framework*, GAO-18-244 (Washington, D.C.: Feb. 14, 2018).

[71]GAO-18-244.

Rulemaking on an approach to modernize the regulations that implement CRA. According to officials from the Federal Reserve and FDIC, the agencies have been reviewing comments received on the Advance Notice of Proposed Rulemaking in preparation for the revision. The three regulators announced the agencies are committed to working together to amend the CRA regulations, but officials told us that it is too early to comment on details of the changes.

Prepaid Cards Often Serve as Alternatives to Checking Accounts and Are Largely Issued by a Few Companies

Unbanked households more often used prepaid cards to buy goods and services and pay bills, but there is no consensus on whether these cards help people transition into the banking system. Prepaid card use has increased in the last 10 years, and five prepaid card issuers hold most of the market share.

Use by households. Unbanked and underbanked households are more likely to use these cards for more of their monthly purchases than fully banked households. In 2015–2019, unbanked households that previously had a bank account more frequently used prepaid cards than other households, according to our analysis of the FDIC survey (see table 4). However, more unbanked and underbanked households used nonbank transaction services (such as check cashing, money orders, or international remittances) than prepaid cards. More underbanked households also used nonbank peer-to-peer payment services, such as PayPal or Cash App, than prepaid cards. Nonbank peer-to-peer payment services were used less among unbanked households, possibly because these services encourage users to connect to a bank account.

Table 4: Percentage of Households That Used Selected Transaction Services by Banking Status, 2015–2019

	Prepaid cards	Nonbank transaction services[a]	Nonbank peer-to-peer payments[b]
Unbanked			
Unbanked less than one year	30.2	60.4	15.4
	(25.9–34.9)	(55.6–65.0)	(10.4–22.2)
Unbanked one year or more	37.2	58.6	8.2
	(34.8–39.7)	(55.8–61.3)	(5.9–11.2)
Never banked	19.2	47.7	6.5
	(17.6–20.9)	(45.6–49.9)	(4.6–9.1)
Unbanked, unknown duration	32.9	26.1	38.6
	(24.6–42.5)	(18.5–35.5)	(21.9–58.4)

	Prepaid cards	Nonbank transaction services[a]	Nonbank peer-to-peer payments[b]
Subtotal	**27.2**	**52.5**	**8.8**
	(25.9–28.5)	**(50.8–54.2)**	**(7.2–10.7)**
Banked			
Underbanked	14.7	83.5	36.9
	(14.1–15.3)	(82.9–84.1)	(35.2–38.6)
Fully banked	6.2	0[c]	31.3
	(6.0–6.4)	(0)	(30.6–32.0)
Subtotal	**7.9**	**16.8**	**32.3**
	(7.7–8.1)	**(16.5–17.1)**	**(31.7–33.0)**
Total	**9.1**	**19.1**	**31.1**
	(8.9–9.4)	**(18.8–19.4)**	**(30.4–31.7)**

Source: GAO analysis of Federal Deposit Insurance Corporation data. | GAO-22-104468

Notes: Ninety-five percent confidence intervals are in parentheses. This analysis used data from the Federal Deposit Insurance Corporation's biennial survey of households' use of banking and financial services. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020). We used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys).

[a]Nonbank transaction services are check cashing services, money orders, and international remittances.

[b]This survey question was new in 2019; therefore, data are from 2019 only. Peer-to-peer payments refers to the use of a website or mobile device application to send or receive money inside the United States. Examples of these services include PayPal, Venmo, and Cash App.

[c]The definition of fully banked precludes the use of nonbank transaction services.

Market participants and observers with knowledge of prepaid cards told us these households generally used the cards as alternatives to checking accounts, as budgeting tools, or as options for employers to make direct deposits.[72] According to our analysis of the Federal Reserve Bank of Atlanta's Survey of Consumer Payment Choice, prepaid cards on average accounted for 24–37 percent of unbanked card users' typical monthly transactions in 2020, compared to 3–5 percent of banked card users' monthly transactions. Unbanked consumers used prepaid cards most frequently to make retail in-person payments (46–74 percent), online bill payments (42–70 percent), and in-person bill payments (38–66

[72]Twenty-nine market participants and observers (four community groups, seven industry groups, two research organizations, 10 banks, three credit unions, and three prepaid card issuers) told us they had some knowledge of prepaid cards.

percent). According to the Federal Reserve Payments Study, the average transaction amount of general-purpose prepaid cards was $32 in 2018.[73]

Transition to banking system. As previously discussed, there was not consensus among the market participants and observers we interviewed on the ways that people transition into the banking system. However, five noted that prepaid cards could serve as a tool to help people move into a traditional checking account. For example, representatives of one very large bank said it used its prepaid card as a way to transition people into its checking products by helping them repair their financial history and learn money management. In contrast, three others noted that prepaid cards generally do not help people transition, with one prepaid card issuer saying that prepaid cards take the place of checking accounts, making a traditional checking account unneeded. Additionally, two market observers stated households that use prepaid cards could be considered banked because these cards provide essentially the same services to the consumer as a checking account.

Advantages and disadvantages. Some market participants and observers we interviewed with knowledge of prepaid cards cited an inability to overspend, a lack of qualification requirements, and the convenience of obtaining a prepaid card as advantages for consumers. They most frequently cited high fees as the main disadvantage of prepaid cards for consumers. Our analysis of the Survey of Consumer Payment Choice found that consumers generally rated prepaid cards as worse than other payment methods (such as cash, check, and debit cards) on cost (see table 5).[74] They also rated prepaid cards worse on recordkeeping, security, and set-up characteristics, but better on acceptance for payment.

[73]The Federal Reserve Payments Study is a triennial study of trends in noncash payments in the United States, and 2018 was the most recently available data at the time of this report.

[74]We used consumers' assessments of each payment method's acceptance, convenience, cost, recordkeeping, security, and set-up characteristics (such as time and effort), ranked on a scale from one (worse assessment) to five (best assessment). For each consumer and for each characteristic, we measured each payment method's ranking relative to the rankings of all the other methods. For each characteristic, we then measured each payment method's average relative ranking for all consumers.

Table 5: Consumers' Perceptions of Bank and Nonbank Payment Methods, 2015–2020

Payment Method	Acceptance	Convenience	Cost	Recordkeeping	Security	Setup
Cash	Better	Better	Better	Worse	Worse	Better
Checks	Worse	Worse	Better	Better	Same or better[a]	Mixed[b]
Debit cards	Better	Better	Better	Better	Same or better[a]	Better
Credit cards	Better	Better	Worse	Better	Better	Same or better[a]
Prepaid cards	Better	Same or better[a]	Worse	Worse	Worse	Worse
Bank account number payments[c]	Worse	Worse	Better	Better	Worse	Worse
Online banking bill payments	Worse	Better	Better	Better	Better	Same or worse[d]
Money orders	Worse	Worse	Worse	Worse	Better	Worse

Source: GAO analysis of Federal Reserve Bank of Atlanta data. | GAO-22-104468

Notes: This analysis reports whether consumers, on average, perceived a payment method to be better, the same, or worse than other payment methods. The analysis used data from the Federal Reserve Bank of Atlanta's annual Survey of Consumer Payment Choice. We combined data from the 2015, 2016, 2017, 2018, 2019, and 2020 surveys. We used consumers' assessments of each payment method's acceptance, convenience, cost, recordkeeping, security, and set-up characteristics (such as time and effort) ranked on a scale from one (worse assessment) to five (best assessment). For each consumer and for each characteristic, we measured each payment method's ranking relative to the rankings of all the other methods. For each characteristic, we then measured each payment method's average relative ranking for all consumers.

[a]On average, consumers rated the payment method as the same as other payment methods in some years and better than other payment methods in other years.

[b]On average, consumers rated setting up checks as better than other payment methods in two years, the same in three years, and worse in one year.

[c]Bank account number payments are payments made by providing a bank account number to a third party, such as an employer or utility company. The number can be provided using websites, paper forms, and other methods.

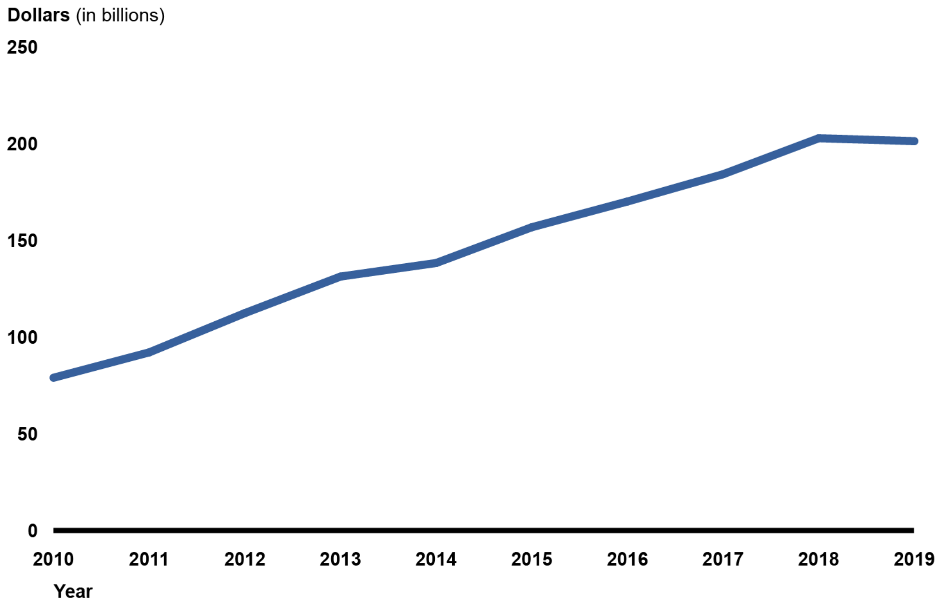
[d]On average, consumers rated setting up online bank bill payments as the same as other payment methods in some years and worse than other payment methods in other years.

Volume, issuers, and market share. Prepaid card use increased over the last 10 years, although most of the market share of the top 25 issuers was consolidated in five banks. According to Nilson Report data, the total purchase volume of all types of prepaid cards from the top 25 issuers increased by almost 155 percent from 2010 to 2019 when adjusted for inflation (see fig. 10).[75] The Nilson Report data indicates the increase was

[75]These data are not limited to general-purpose reloadable cards, but includes prepaid cards purchased by consumers to pay for goods and services as well as cards issued on behalf of commercial companies and government entities for payroll, tax and other refunds, government benefits, rebates, rewards, and corporate and employee incentives. Cash withdrawals at ATMs or obtained over-the-counter are not included in purchase volume totals. The Nilson Report is a trade journal that provides news and analysis of the global card and mobile payment industry.

mainly due to an increase in the number of cards over the same period. The purchase volume increased each year from 2010 to 2018 but had a modest decrease of 1 percent from 2018 to 2019 when adjusted for inflation. According to the Federal Reserve Payments study, general-purpose prepaid cards accounted for about 54 percent of prepaid card purchase volume in 2018.[76]

Figure 10: Purchase Volume for the Top 25 Prepaid Card Issuers, 2010–2019



Source: GAO analysis of Nilson Report data. | GAO-22-104468

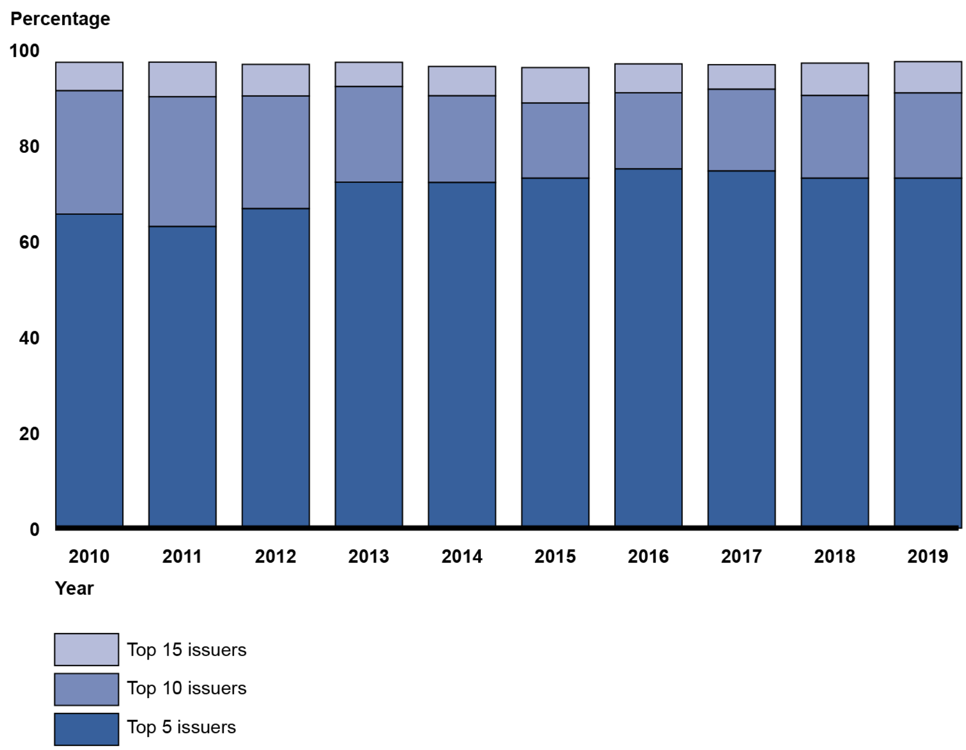
Notes: These data include prepaid cards purchased by consumers to pay for goods and services as well as cards issued on behalf of commercial companies and government entities for payroll, tax and other refunds, government benefits, rebates, rewards, and corporate and employee incentives. Cash withdrawals at ATMs or obtained over the counter are not included in purchase volume totals. The data are adjusted for inflation to 2020 dollars.

Nilson Report data showed that the top five prepaid card issuers accounted for almost 75 percent of the total purchase volume of the top 25 issuers in 2019 (see fig. 11). The total purchase volume market share among the top five issuers increased slightly from 2011–2013, but their market share remained relatively consistent in 2013–2019. In addition, the same five banks occupied the top five spots in 2013–2019. The

[76]Board of Governors of the Federal Reserve System and Federal Reserve Bank of Atlanta, *The 2019 Federal Reserve Payments Study* (December 2019).

Bancorp Bank and MetaBank were the top two prepaid card issuers by purchase volume in 2011–2019. Both of these banks partner with other companies to market and provide program management for some of their prepaid card offerings, such as the NetSpend Prepaid MasterCard issued by MetaBank.

Figure 11: Cumulative Market Share of the Top 25 Prepaid Card Issuers, by Purchase Volume, 2010–2019



Source: GAO analysis of Nilson Report data. | GAO-22-104468

Notes: These data include prepaid cards purchased by consumers to pay for goods and services as well as cards issued on behalf of commercial companies and government entities for payroll, tax and other refunds, government benefits, rebates, rewards, and corporate and employee incentives. Cash withdrawals at ATMs or obtained over the counter are not included in purchase volume totals.

Of the 23 banks and credit unions we interviewed, representatives for two said their institution currently offers a prepaid card, while representatives for six said their institution previously offered prepaid cards and representatives for five said they had considered offering them. Of those that do not offer prepaid cards, most said the reason was lack of demand from their customers, and some said the reason was that the bank offered low-cost alternatives, such as checking accounts. Bank and credit union representatives also noted less-commonly cited reasons for not offering prepaid cards, such as costs to create the product, risks associated with these cards, and regulatory burden. According to our analysis of the FDIC survey, more unbanked and underbanked households obtained a prepaid card from a store or website than any other source, including banks, in 2015–2019.

Recent trends. Recent developments in the general-purpose reloadable prepaid card market may be an indicator of changes in the future. Representatives from the Innovative Payments Association told us that many new financial technology firms are opting to offer demand deposit accounts that can offer credit options under current regulations.[77] In addition, a representative from one of the top 10 prepaid card issuers said that financial technology debit cards now make up a larger share of its business than general-purpose reloadable prepaid cards.[78] Other top issuers have replaced such prepaid cards with demand deposit accounts.[79] For example, Green Dot Bank (the third-largest issuer of prepaid cards in 2019) announced that its prepaid card partnership with Walmart would transition to a demand deposit account in June 2021. In March 2019, JPMorgan Chase & Co. (the fifth-largest issuer of prepaid cards in 2019) announced it was discontinuing its prepaid card and replacing it with a checking account.

[77]The Innovative Payments Association is a trade organization in the electronic payments sector, which includes prepaid products, mobile wallets, and peer-to-peer technology for consumers, businesses, and governments.

[78]Financial technology, or "fintech," debit cards are offered through partnerships between technology and financial services firms and generally are not issued by traditional banks.

[79]A demand deposit account is a bank account from which deposited funds can be withdrawn at any time, without advance notice. Checking accounts and savings accounts are common types of demand deposit accounts.

Financial Regulators Took Actions to Increase Banking Access, but Some Took Limited Steps to Measure Performance

Actions Focused on Unbanked and Underbanked Households Include Research, Education, and Oversight

Federal financial regulators' actions related to increasing access to basic banking services comprised four main areas: research; financial education; outreach; and regulatory oversight through rulemaking and guidance. As shown in table 6, all the regulators have undertaken financial education and outreach initiatives or programs and most conducted research on the issue.

Table 6: Examples of Actions Taken by Selected Federal Financial Regulators Related to Accessing Banking Services

Regulator	Research	Financial education	Outreach
Board of Governors of the Federal Reserve System	• Conducted an annual nationwide survey since 2013 on the economic well-being of households, including access to banking services. • Conducted a triennial nationwide survey since 1983 on consumers' finances, including information on use and access to bank accounts. • Researched in 2019 the effect branch closures had on rural communities.	• Serves on the Financial Literacy and Education Commission, an interagency group created by Congress to improve the nation's financial literacy and education, including on basic banking services.	• Established the Community Advisory Council to offer diverse perspectives on the financial service needs of consumers, especially low- and moderate-income populations. • Hosted events related to accessing banking services, such as an interagency webinar on fair lending topics.

Regulator	Research	Financial education	Outreach
Consumer Financial Protection Bureau	• Conducted nationwide surveys in 2017, 2019, and 2020 on consumers' financial experiences and decisions, including the use of checking accounts and nonbank credit services. • Evaluated the effectiveness of financial coaching in 2016 on increasing financial well-being, including improving credit scores, which can increase access to bank small-dollar lending. • Researched the use of bank account overdraft services and the effects of regulations related to overdraft protection in 2013, 2014, and 2017.	• Produced ready-to-use materials for organizations to use in their financial education programs, including information on accessing credit and other banking services. • Provides direct-to-consumer toolkits and materials on its website to help consumers understand and choose financial products, including the process of opening a checking account. • Piloted the Financial Coaching Initiative in 2015–2019, which focused on veterans and economically vulnerable consumers, including access to basic banking services. • Issued blogs designed to help consumers open and manage a checking account. • Serves as Vice Chair of the Financial Literacy and Education Commission.	• Established the Start Small, Save Up initiative in 2019, working with employers, community organizations, financial institutions, and others to engage consumers in building their savings, such as by providing information on the importance of savings accounts. • Hosted events on topics related to accessing banking services, including innovative ways consumers can access credit and financial coaching initiatives.

Regulator	Research	Financial education	Outreach
Federal Deposit Insurance Corporation	• Conducted a biennial nationwide survey since 2009 of household use of financial services, including bank status, reasons for not having a bank account, and use of nonbank financial services. • Conducted qualitative research in 2011 and 2016 on banks' efforts to serve unbanked and underbanked consumers.[a] • Researched in 2014 and 2016 ways in which mobile financial services can encourage consumers to open bank accounts. • Conducted pilot programs to review affordable banking services, such as small-dollar loans in 2009 and checking accounts in 2011.	• Created Money Smart, a financial literacy program that includes materials for organizations and banks to incorporate into their financial education programs and materials for consumers to access directly, including information on the importance of having a bank account. • Developed the FDIC Youth Banking Network, which connects banks with financial education tools and resources for school-aged children's savings accounts. • Maintains an online resource center that supports financial education and access to federally insured accounts for youth participating in employment programs. • Serves on the Financial Literacy and Education Commission.	• Established the Advisory Committee on Economic Inclusion to bring consumer groups, industry groups, and regulators together to provide the agency with advice and recommendations on expanding access to banking services. • Piloted the #GetBanked public awareness campaign in 2021 on the benefits of bank account ownership, collaborating with financial institutions, local government, and community organizations in selected cities to encourage unbanked consumers to open accounts. • Supported coalitions of local financial institutions, consumers, and community and local government leaders with the goal of promoting the availability of safe, affordable, and sustainable banking services. • Hosted events on increasing access to banking services, such as an economic inclusion summit on strategies to bring consumers into the banking system.
National Credit Union Administration	• None[b]	• Developed a consumer-focused website in English and Spanish to provide educational information and financial tips on topics, including checking accounts and consumer loans. • Serves on the Financial Literacy and Education Commission.	• Hosted events on financial inclusion, such as how minority depository institutions help provide basic banking services to underserved communities, overcoming barriers to opening checking accounts for low-income populations, and credit union alternatives to payday loans.

Regulator	Research	Financial education	Outreach
Office of the Comptroller of the Currency	• Created a working group to research the potential links between innovative financial technologies and fair access to banking services, such as bank small-dollar loans.	• Maintains information on its website that provides banks' effective practices in community development finance, including offering basic banking services to low- and moderate-income populations, including unbanked and underbanked consumers. • Maintains several topic-specific directories that provide educational information and resources, including on banking the unbanked. • Partnered with educational institutions, service organizations, banks, and others to provide financial education in minority communities to increase the use of basic banking services and build relationships between banks and the community. • Serves on the Financial Literacy and Education Commission.	• Launched Project REACh in 2020, an initiative that brings together leaders from banking, business, civil rights organizations, and others to reduce barriers and promote financial inclusion through greater access to credit, such as bank small-dollar loans. • Produced a bimonthly electronic newsletter that provides information on events, new initiatives, and government resources, such as the Bank On initiative that creates standards for safe and affordable checking accounts. • Hosted events on topics related to community development and financial inclusion, such as a webinar on affordable banking services that meet the needs of low- and moderate-income communities.

Source: GAO analysis of documents from federal financial regulators. | GAO-22-104468

[a]Unbanked households are those that did not have a checking or savings account at a bank or credit union. Underbanked households are those that had a checking or savings account but used an alternative financial service in the last 12 months. Alternative financial services are nonbank money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, and auto title loans.

[b]The National Credit Union Administration collected data on credit unions' financial and merger activity, but it did not conduct research related to accessing banking or credit union services.

For example, FDIC and CFPB have financial literacy programs with ready-to-use materials for financial institutions and other organizations to incorporate into their own programs. As previously mentioned, some market participants and observers told us that financial education helped some consumers transition into the traditional banking system, and some studies have shown that financial education reduces some consumers' use of alternative financial services.[80] For instance, the Department of the Treasury reported that there is some evidence that completing FDIC's financial education program increases a participant's likelihood of planning to open a bank account.[81] FDIC stated the agency designed a customizable version of its financial education program so that diverse organizations (such as banks, nonprofit organizations, government agencies, and schools) can use it. According to FDIC, more than 1,400 organizations, including over 400 banks, have agreed to use and promote its program. In addition to financial education, CFPB, FDIC, and OCC launched new outreach initiatives in recent years focused on increasing access to basic banking services.

In addition, CFPB, FDIC, Federal Reserve, and OCC have conducted research related to accessing basic banking services. This research covered a wide range of topics and was intended to help regulators target their efforts, inform banks about how they can most effectively expand access by addressing certain populations, or provide information to decision makers and the public on consumers' challenges in accessing banking services. FDIC also has conducted pilot programs to research specific products, such as small-dollar loans and low cost checking accounts. Officials from NCUA said the agency does not conduct research in this area because it collects limited information from credit unions, which does not include information on checking and savings accounts. However, agency officials said NCUA has been working on new software for managing its examination information that may be able to provide aggregate reporting in the future that can be used for additional research.

Finally, officials from each of the regulators told us they addressed access to basic banking services through rulemaking and guidance. For example, all the regulators mentioned actions they took related to addressing the cost and availability of small-dollar loans. They cited the previously discussed interagency principles (2020), OCC's small-dollar

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[80]Melody Harvey, "Impact of Financial Education Mandates on Younger Consumers' Use of Alternative Financial Services," *Journal of Consumer Affairs*, vol. 53, no. 3 (2019): 731-769; Alicia S. Modestino, Rachel Sederberg, and Liana Tuller, "Assessing the Effectiveness of Financial Coaching: Evidence from the Boston Youth Credit Building Initiative," *Journal of Consumer Affairs*, vol. 53, no. 4 (2019): 1825-1873; and Cliff A. Robb, et al., "Bounded Rationality and Use of Alternative Financial Services," *Journal of Consumer Affairs,* vol. 49, no. 2 (2015): 407-435.

[81]Department of the Treasury, *Federal Financial Literacy Reform Coordinating and Improving Financial Literacy Efforts* (Washington, D.C.: July 2019).

lending guidance (2018), CFPB's no-action letter, and NCUA's PAL I and II regulations. CFPB officials also said Regulation E overdraft protections had affected the cost of checking accounts. Federal Reserve officials noted that they anticipated that CRA modernization would include provisions intended to encourage bank activities that offer low-cost accounts and basic banking services to low- and moderate-income consumers.

Some Regulators Lack Outcome-Oriented Performance Measures

Four of the five financial regulators we reviewed have a strategic goal or objective related to increasing access to basic banking services (see table 7). The regulators established performance measures related to these strategic goals, but some regulators lack outcome-oriented measures of their efforts to increase banking access or do not have measures that cover all of their key initiatives.

Table 7: Strategic Goals and Objectives of Selected Federal Financial Regulators Related to Accessing Banking Services, Fiscal Years 2018–2022

Regulator	Strategic goal	Strategic objective
Board of Governors of the Federal Reserve System[a]	None[b]	None[b]
Consumer Financial Protection Bureau	Ensure that all consumers have access to markets for consumer financial products and services.	Ensure that consumers are provided with timely and understandable information to make responsible decisions about financial transactions. Ensure that markets for consumer financial products and services operate transparently and efficiently to facilitate access and innovation.
Federal Deposit Insurance Corporation (FDIC)	Ensure consumers' rights are protected and FDIC-supervised institutions invest in their communities.	Ensure the public has access to safe and affordable products and services from insured depository institutions and the opportunity to benefit from a banking relationship.
National Credit Union Administration	Provide a regulatory framework that is transparent, efficient, and improves consumer access.	Facilitate access to federally insured credit union financial services.
Office of the Comptroller of the Currency[c]	Foster a safe, sound, and fair federal banking system that is a source of economic strength and opportunity that meets the evolving needs of consumers, businesses, and communities.	Promote financial inclusion and economic opportunity through fair access to financial services and fair treatment of bank customers and communities.

Source: GAO analysis of documents from federal financial regulators. | GAO-22-104468

[a]The Board of Governors of the Federal Reserve System's current strategic goals and objectives covered fiscal years 2020–2023.

[b]The Board of Governors of the Federal Reserve System is not required to have a strategic goal or objective related to accessing banking services, and while it has not established one, various objectives within its strategic plan relate to the topic. Some of the other financial regulators are not required to have a strategic goal or objective related to accessing banking services. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act charged the Consumer Financial

Protection Bureau with facilitating access to financial services and the Office of the Comptroller of the Currency with assuring fair access to financial services.

[c]The Office of the Comptroller of the Currency's current strategic goals and objectives covered fiscal years 2019–2023.

We have defined performance measurement as the ongoing monitoring and reporting of program accomplishments, particularly progress toward pre-established goals.[82] Performance measures may address the direct products and services delivered by a program (outputs), or the results of those products and services (outcomes). We developed criteria for assessing agencies' performance plans and stated that agencies should make every attempt to identify and use outcome goals whenever possible to reflect the results of their activities.[83] We also identified leading practices for successful performance measurement, including that such measures align with goals, demonstrate results, cover multiple priorities, and provide useful information for decision-making.[84]

More specifically, CFPB uses a range of measures, including outcome-oriented, in its annual performance plan to assess performance towards its strategic goal (and related objectives) of ensuring access to financial services. For example, the agency identified the satisfaction rate for users of its online educational resources as an outcome measure to assess its strategic objective of ensuring consumers have understandable information to make responsible decisions about financial transactions. CFPB set a goal of an 80 percent satisfaction rate for this measure. CFPB also established another outcome measure (the share of organization staff reporting increased confidence in discussing financial management with their clients after participating in CFPB's financial education training) for the same objective. CFPB set a goal of 60 percent for this measure. In addition to outcome-based performance measures, CFPB developed survey instruments for it and other entities to evaluate the effectiveness of efforts associated with its Start Small, Save Up

[82]GAO, *Performance Measurement and Evaluation: Definitions and Relationships*, GAO-11-646SP (Washington, D.C.: May 2, 2011).

[83]See GAO/GGD-10.1.20. The Government Performance and Results Act of 1993 (GPRA), as updated and expanded by the GPRA Modernization Act of 2010, generally requires agencies to have performance goals that are objective, measurable, and quantifiable.

[84]For example, see GAO/GGD-96-118. We also identified attributes of successful performance measurement in our prior work. For example, see GAO-03-143.

initiative. These surveys are designed to track changes in program participants' attitudes and behaviors.

In contrast, NCUA and FDIC lack outcome-oriented measures to assess performance towards their strategic goals related to ensuring access to financial services. NCUA's annual performance plan includes task-oriented measures to assess its strategic objective of facilitating access to credit union services. For example, the agency identified the measures of establishing processing time standards for applications for credit union charters and expansion requests and providing quarterly reports on actual processing times. These measures help in tracking and assessing the timeliness of application processing. But they do not provide information that would allow NCUA to assess its performance in facilitating access to credit union financial services. NCUA officials said that they strive to use outcome-oriented measures in their performance plans whenever possible, but data are sometimes not available to measure outcomes. However, NCUA currently collects a range of information from credit unions—including data on membership growth and account openings for credit unions serving low-income and underserved communities—and officials told us that NCUA has been updating its software to better aggregate reporting data.

FDIC has made a number of efforts to assess its performance related to increasing access to banking services, but it lacks outcome-oriented annual performance measures. For example, in 2014, FDIC conducted an impact evaluation of its financial education program, finding that the training had a long-term positive effect on participants' financial knowledge and understanding. The agency also produced a separate strategic plan focused on economic inclusion in 2019.

But the performance measures in that plan and FDIC's annual performance plan are task-oriented and do not assess the outcomes of efforts to facilitate consumer's access to banking services. For example, the economic inclusion plan established measures focused on tasks, such as documenting the results of initiatives and tracking lessons learned. These measures indicate whether the task was completed but do not incorporate the information obtained or documented, which could be used to assess the outcomes or effectiveness of activities. Similarly, FDIC's annual performance plan includes task-oriented measures, such as conducting the biennial survey of household use of banking and financial services, but it does not identify any outcome-oriented measures. Task-oriented measures are generally not useful in assessing progress in meeting goals or improving performance, because they do not evaluate whether agency actions have had the intended effect.

FDIC officials said the agency has not established outcome-oriented performance measures for this strategic objective because consumers' access to banking services is influenced by several factors outside the agency's control. While we acknowledge that developing outcome-oriented measures on this topic can be challenging, such measures help ensure agency management can assess whether programs and initiatives achieve their intended results.

Our past work also acknowledged these challenges and highlighted strategies agencies can use to overcome them, such as selecting outcomes closely associated with the program.[85] For example, the Office of National Drug Control Policy used a survey to measure the outcomes of a media campaign. Additionally, to help interpret the results of performance measures, we have reported the importance of including adequate contextual information, such as factors inside or outside the agency's control that might affect performance.[86]

While OCC's annual performance plan includes an outcome-oriented performance measure, it is limited in scope, and OCC lacks other performance measures to fully cover the range of its efforts towards its strategic objective on access to banking services. OCC established one performance measure (examination of bank performance against consumer protection requirements) to assess progress towards its financial inclusion objective. However, OCC did not incorporate performance measures for Project REACh, a key initiative to enhance banking access that began in July 2020. To mark the first anniversary of the project, OCC's Acting Comptroller noted that Project REACh could be transformative in helping reverse the harmful effects of economic inequality, and added the project should develop goals to create positive outcomes for underserved communities. But the agency has not incorporated Project REACh into its annual performance measures. According to agency officials, OCC plans to include several actions for

[85]GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results,* GAO-04-38 (Washington, D.C.: Mar. 10, 2004); and *Program Evaluation: Strategies for Assessing How Information Dissemination Contributes to Agency Goals*, GAO-02-923 (Washington, D.C.: Sept. 30, 2002).

[86]GAO, *Federal Prison System: Justice Could Better Measure Progress Addressing Incarceration Challenges*, GAO-15-454 (Washington, D.C.: June 19, 2015).

Project REACh as part of its fiscal year 2022 internal strategic priorities. We previously noted that effective performance measures should cover multiple priorities, demonstrate results, and provide useful information for decision-making.[87]

By using outcome-oriented performance measures for its efforts to increase access to banking services, FDIC, NCUA, and OCC could better identify opportunities for improvement across all key initiatives and set priorities accordingly.

The Federal Reserve is not required to have a strategic goal or objective related to accessing banking services, and while it has not established one, various objectives in its strategic plan relate to the topic.[88] For example, the Federal Reserve includes modernizing CRA under its strategic objective to promote understanding of community development and consumer risks. According to Federal Reserve officials, one of the ways the agency encourages inclusion of more people into the banking system is by providing banks CRA credit for offering low-cost deposit accounts to low- or moderate-income consumers. In addition, Federal Reserve officials said the agency has partnered with initiatives to broadly support access to safe and affordable bank or credit-union accounts through research and engagement. For example, the Federal Reserve Bank of St. Louis partners with Bank On to collect, store, and analyze financial institutions' data on these low-cost accounts.

Conclusions

Basic banking services, such as checking and savings accounts, are key to consumers' financial stability and well-being. While the share of U.S. households with such accounts steadily increased in recent decades, millions of households lack them. Moreover, lower-income, less-educated, and minority households remain less likely to have accounts. Lack of funds, distrust of banks, and privacy concerns are commonly cited reasons for not having a bank account.

To address these continuing challenges, federal financial regulators have taken a wide range of actions, including educating consumers, encouraging them to open accounts, and engaging stakeholders to help

[87]GAO-03-143.

[88]Some of the other federal financial regulators also are not required to have a strategic goal or objective related to accessing banking services. The Dodd-Frank Act charged CFPB with facilitating access to financial services and OCC with assuring fair access to financial services.

expand access for unbanked households. While many of the regulators have identified strategic goals or objectives related to ensuring access, NCUA and FDIC lack outcome-oriented performance measures for these efforts and OCC's single outcome-oriented measure does not include a key initiative.

Developing outcome-oriented performance measures that are consistent with leading practices—that align with goals, demonstrate results, cover multiple priorities, and provide useful information for decision-making—would help these three agencies better assess the effect of their initiatives on consumer access to banking services and make any necessary changes.

Recommendations for Executive Action

We are making the following three recommendations (one each to FDIC, NCUA, and OCC):

The Chairman of FDIC should develop and implement outcome-oriented performance measures for its strategic objective of ensuring access to safe and affordable bank services that reflect leading practices, including demonstrating results, measuring outcomes, and providing useful information for decision-making. (Recommendation 1)

The Chairman of NCUA should develop and implement outcome-oriented performance measures for its strategic objective of facilitating access to credit union services that reflect leading practices, including demonstrating results, measuring outcomes, and providing useful information for decision-making. (Recommendation 2)

The Comptroller of the Currency should complete efforts to develop and implement performance measures to cover the agency's key efforts for its strategic objective to promote financial inclusion through fair access to financial services—including Project REACh—that reflect leading practices, including demonstrating results, measuring outcomes, and providing useful information for decision-making. (Recommendation 3)

Agency Comments and Our Evaluation

We provided a draft of this report to CFPB, the Federal Reserve, FDIC, NCUA, and OCC for review and comment. FDIC, NCUA, and OCC provided written comments, which are summarized below and reproduced in appendixes III, IV, and V, respectively. CFPB, FDIC, the Federal Reserve, and OCC provided technical comments, which we incorporated as appropriate.

FDIC agreed with our recommendation and noted that outcome-oriented measures are essential in guiding and informing future programmatic decisions. FDIC said it will include a new performance target to identify, track, and report key outcome-based performance measures in its 2022 Annual Performance Plan.

NCUA generally agreed with our recommendation. The agency stated that it has proposed establishing a new strategic goal to improve individuals' and communities' financial well-being through access to affordable and equitable financial products and services. NCUA said that as it finalizes its 2022–2026 Strategic Plan and 2022 Annual Performance Plan, it will work to incorporate more outcome-oriented performance measures, where feasible.

OCC generally agreed with our recommendation and stated that it plans to complete efforts to develop and implement performance measures to evaluate the impact of Project REACh by the fourth quarter of 2022. OCC noted that it is not in a position to establish specific performance measures for the external organizations participating in the initiative and would focus on measuring outcomes consistent with its convener role.

We believe these would be positive steps by FDIC, NCUA, and OCC and note that these performance measures should demonstrate results, measure outcomes, and provide useful information for decision-making.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 21 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Acting Chairman of the Federal Deposit Insurance Corporation, Chairman of the National Credit Union Administration, Acting Comptroller of the Currency, Director of the Consumer Financial Protection Bureau, Chair of the Board of Governors of the Federal Reserve System, and other interested parties. In addition, the report will be available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or clementsm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

Michael Clements

Michael E. Clements
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines (1) factors associated with unbanked and underbanked households' use of basic banking services, (2) statutory and regulatory factors that affected the availability and cost of basic banking services to these households, (3) what is known about how such households use prepaid cards and trends in the prepaid card market, and (4) the extent to which selected federal financial regulators have taken actions related to the availability and cost of basic banking services to these households.

Factors Associated with Unbanked and Underbanked Households' Use of Basic Banking Services

For this objective, we analyzed survey data on the characteristics of unbanked and underbanked households, the types of financial services used by these households, and the factors that influence their decisions to use banking and alternative financial services. To describe long-term trends in households' adoption of bank or credit union accounts, we analyzed data from the Board of Governors of the Federal Reserve System's Survey of Consumer Finances—a nationally representative triennial survey of U.S. families performed in cooperation with the Department of the Treasury that collects information about family income, net worth, balance sheet components, credit use, and other financial outcomes. A different sample of households participates in the survey each year, which allowed us to compare the experiences of the typical or average household over time, but not the experiences of any specific household. Most of the variables in the survey that originally contained a missing value have been imputed using a multiple imputation procedure, and the survey used a complex sample design. We incorporated both of these features in our analysis, including the use of household weights and replicate weights.

We used data from each year of the survey from 1989 to 2019. We defined households as banked if at least one member of the household had either a checking account or savings account with a positive balance at a bank, credit union, or other financial institution. Otherwise, we defined households as unbanked. We also identified other household characteristics (race and ethnicity, education, and income quintile).[1] For each year, we estimated the percentage of households that were banked overall and by race and ethnicity, education, and income quintile.

To describe patterns in household adoption of bank or credit union checking and savings accounts and other nonbank financial services, we analyzed the Federal Deposit Insurance Corporation's (FDIC) Survey of Household Use of Banking and Financial Services—a biennial survey of U.S. families performed in partnership with the Census Bureau, starting in 2009.[2] The survey asks a nationally representative sample of U.S. households about their use of banking and other financial services. Unless otherwise indicated, we used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys). We used this data set to provide large enough sample sizes to conduct our analysis. To account for the complex survey design, we used household and replicate weights.

We defined households as banked if at least one member of the household had a checking or savings account with a bank or credit union at the time of the survey and unbanked if no member of the household had a checking or savings account. We further subdivided banked households according to whether they used certain nonbank products or services (check cashing services, money orders, payday loans, international remittances, pawn shop loans, refund anticipation loans, rent-to-own agreements, or auto title loans). We defined banked households as underbanked if a member of the household used any of these products or services in the 12 months prior to the survey and as fully banked otherwise. In addition, we identified the amount of time unbanked households had been unbanked—less than one year, one year

[1]The unit of observation in the Survey of Consumer Finances is a "primary economic unit," which consists of an economically dominant single individual or couple (married or living together as partners) in a household and all other individuals in the household who are financially interdependent with that individual or couple. We referred to this unit of observation as a household. The survey designated a member of the household a "reference person." For person-level characteristics, such as education and race, the characteristics of the designated reference person—a single individual not in a couple, the male in a mixed-gender couple, and the older person in a same-gender couple—was used to represent the household. According to the Survey of Consumer Finances, no judgment about the internal organization of the households was implied by this organization of the data.

[2]Before 2019, the survey was named the National Survey of Unbanked and Underbanked Households.

or more, never banked, and unknown. Finally, we identified other household characteristics (race and ethnicity, education, and household income).[3]

We used two-way tables to describe the following:

- For all households and for households by race and ethnicity, education, and income, the percentages of households that are banked and unbanked—as well as the percentages of households that are fully banked, underbanked, unbanked less than one year, unbanked one year or more, never banked, and unbanked for an unknown amount of time;
- For unbanked households, the percentages of households interested in opening a bank account or likely to open a bank account in the future by the amount of time they have been unbanked;
- For unbanked households (by the amount of time they have been unbanked, as well as by race and ethnicity, education, and income), the percentages of households citing the following reasons and main reasons for not having a bank account: (1) bank hours or locations are inconvenient, (2) bank account fees are too high or unpredictable, (3) banks do not offer needed products or services, (4) lack of trust in banks, (5) not enough money to keep in account or to meet minimum balance requirements, (6) avoiding banks provides more privacy, (7) cannot open an account due to personal identification, credit, or former bank account problems, or (8) some other reason.

To further examine household characteristics associated with household adoption of bank accounts, we used multivariate regression analysis of the data (for technical details of this analysis, see app. II).

[3]FDIC's Survey of Household Use of Banking and Financial Services was administered as a supplement to the June Current Population Survey. Socioeconomic and demographic characteristics that were defined at the person level rather than the household level were assigned to households based on the socioeconomic or demographic classification of the reference person. In general, the reference person is the person (or one of the people) in whose name the housing unit is owned or rented (maintained) or, if there was no such person, any adult member, excluding roomers, boarders, or paid employees. If the house is owned or rented jointly by a married couple, the reference person may be either spouse. In a few cases, the reference person was classified as an ineligible respondent for the Current Population Survey, but another eligible household resident participated in the survey and in the FDIC supplement. In these cases, we used the attributes of the eligible respondent to characterize the household.

For both data sources, we reviewed documentation on and tested the data we used. We determined data from the Survey of Consumer Finances were sufficiently reliable for reporting on long-term trends in the unbanked population. We also determined data from the Survey of Household Use of Banking and Financial Services were sufficiently reliable for reporting the characteristics of the unbanked and underbanked, reasons given for being unbanked, types of financial services used by these households, and characteristics associated with the likelihood that a household has a bank account.

We also reviewed academic literature, regulatory reports, and other studies on the reasons households are unbanked or underbanked and the ways in which they transition to the traditional banking system. We identified the reports and studies through interviews with the regulators, review of sources cited in documents we obtained, and internet searches.

We interviewed a nongeneralizable selection of 40 market participants and observers to obtain information and perspectives on factors that affected unbanked and underbanked households' use of financial services. Our selection of market participants included 18 banks, five credit unions, and three prepaid card issuers. We selected banks and credit unions of varying size: very large banks (more than $250 billion in total assets as of December 2020), large banks ($51–$250 billion in total assets as of December 2020), mid-sized banks ($11–$50 billion in total assets as of December 2020), small banks ($10 billion or less in total assets as of December 2020), large credit unions (more than $1 billion in total assets as of December 2020), and mid-sized credit unions ($101 million to $1 billion in total assets as of December 2020).

To get a mix of regional perspectives, we incorporated geographic location into our selection when possible. For example, we selected at least one bank and credit union from each of four U.S. regions defined in FDIC's Survey of Household Use of Banking and Financial Services.[4] For prepaid card issuers, we selected three of the top 10 issuers by purchase volume in 2019, according to the Nilson Report.[5] The information collected from this sample of market participants cannot be generalized to all banks, credit unions, or prepaid card issuers.

[4]Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020).

[5]"Prepaid Cards in the U.S.," *The Nilson Report*, issue 1182 (2020): 8-9.

Our selection of market observers included five consumer groups, seven industry groups, and two research organizations to represent a range of perspectives. We selected these market observers through recommendations from previous GAO engagements, studies and reports, and referrals obtained during interviews for this report. For consumer groups and research organizations, we selected organizations that published reports or studies on their websites on at least one transactional financial service and at least one credit financial service in the last 3 years to ensure the organization had current knowledge or experts in our subject area.[6] For industry groups, we selected nationally focused organizations that represented a large number of banks or credit unions. We also selected at least one industry group that represented smaller banks and at least one that represented smaller credit unions—as specified on their websites—to ensure a variety of perspectives were represented. The information collected from this sample of market observers cannot be generalized to the larger population of all consumer groups, industry groups, or research organizations.

Statutory and Regulatory Factors Affecting the Availability and Cost of Basic Banking Services

For the second objective, we first identified factors through an initial round of interviews and then analyzed their possible effects. In the initial round, we interviewed 30 market participants and observers, including representatives of six industry groups, five consumer groups, two research organizations, 13 banks, and four credit unions. These interviews represent a subsection of the interviews discussed above for our first objective.

From these interviews, we identified the five most frequently cited laws and regulatory factors for further analysis by counting the number of times each one was mentioned in interviews.

We then reviewed relevant academic literature and other studies on the effects of these factors on the availability and cost of basic banking services. We reviewed studies related to the Durbin Amendment and Regulation II published by economists with the Federal Reserve and researchers from Georgetown University and the University of

[6]We defined transactional services as traditional insured checking and savings accounts as well as alternative transactional financial services defined by the FDIC's 2017 National Survey of Unbanked and Underbanked Households: money orders, check cashing, and international remittance. We defined credit financial services as small-dollar personal loans provided by banks and credit unions as well as FDIC's 2017 definition of alternative credit financial services: payday loans, refund anticipation loans, rent-to-own services, auto title loans, or pawn shop loans.

Pennsylvania.[7] We also reviewed studies published by the Consumer Financial Protection Bureau (CFPB) related to Regulation E overdraft protections.[8] Finally, we reviewed prior GAO reports, including on the Bank Secrecy Act and the Community Reinvestment Act and their implementing regulations.[9]

To describe the extent to which federal credit unions offer Payday Alternative Loans (PAL) and the performance of the loans, we analyzed regulatory reporting data from the National Credit Union Administration (NCUA) from the first quarter of 2011 through the second quarter of 2021. To describe the extent to which federal credit unions offer PALs, for each quarter, we calculated the percentage of federal credit unions with one or more PALs outstanding, overall and by size ($100 million or less in assets, more than $100 million and less than or equal to $1 billion in assets, and more than $1 billion in assets). To describe the performance of PALs, we defined the delinquency rate as the amount of delinquent loans (loans 60 days or more past due) as a percentage of total loan amounts outstanding. For each quarter and for each federal credit union with PALs outstanding, we calculated the delinquency rate for each of the following loan types: PALs, credit card loans, non-federally guaranteed student loans, new vehicle loans, used vehicle loans, first mortgage loans, and leases. For each quarter, we then compared median delinquency rates for PALs to the median delinquency rates for the other loan types. Finally, for each quarter and federal credit union with PALs outstanding, we calculated the amount of delinquent PALs as a percentage of the total amount of delinquent loans. We reviewed relevant documentation and electronically tested the data and determined they

[7]Mark D. Manuszak and Krzysztof Wozniak, "The Impact of Price Controls in Two-sided Markets: Evidence from US Debit Card Interchange Fee Regulation," *Finance and Economics Discussion Series*, 2017-074 (Washington, D.C.: 2017). Also see Vladimir Mukharlyamov and Natasha Sarin, "The Impact of the Durbin Amendment on Banks, Merchants, and Consumers," *Faculty Scholarship at Penn Law* (2019): 2046.

[8]Consumer Financial Protection Bureau, *Study of Overdraft Programs: A White Paper of Initial Data Findings* (Washington, D.C.: June 2013); *Data Point: Checking Account Overdraft* (Washington, D.C.: July 2014); and *Data Point: Frequent Overdrafters* (Washington, D.C.: August 2017).

[9]GAO, *Anti-Money Laundering: Opportunities Exist to Increase Law Enforcement Use of Bank Secrecy Act Reports, and Banks' Costs to Comply with the Act Varied,* GAO-20-574 (Washington, D.C.: Sept. 22, 2020); *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews,* GAO-18-263 (Washington, D.C.: Feb. 26, 2018); and *Community Reinvestment Act: Options for Treasury to Consider to Encourage Services and Small-Dollar Loans When Reviewing Framework*, GAO-18-244 (Washington, D.C.: Feb. 14, 2018).

were sufficiently reliable for reporting on trends in the percentage of federal credit unions with PALs outstanding and on the performance of PALs compared to other loan types at federal credit unions that offer PALs.

We analyzed bank regulatory reporting data to estimate recent trends in consumer overdraft fee income as a percentage of bank operating revenue. Specifically, we obtained aggregated annual data on overdraft fee, net interest, and noninterest income for U.S. commercial banks, savings banks, and savings and loan associations with assets of $1 billion or more from 2015 through 2020 from S&P Capital IQ. We reviewed documentation on the data we used and determined they were sufficiently reliable for reporting on trends in certain bank fees.

To examine the banking regulators' and CFPB's actions related to small-dollar lending, we compiled a list of regulatory actions obtained through a search of the regulators' websites. Specifically, we reviewed individual and joint statements, guidance, examination procedures, final rules, supervisor letters and bulletins, and compliance aids targeted or addressed to depository institutions from 2010 through 2020. We then assessed the extent to which these regulators took additional action to modify or rescind any rules or other guidance documents during this period. We obtained information from the regulators on the completeness of this list.

We also conducted a second round of interviews on the five statutory and regulatory factors we identified during the first round. We asked our original 30 market participants and observers to provide additional information, if any, on the factors. We also interviewed representatives of an additional five banks and one credit union for a total of 36 market participants and observers. These 36 interviews are included in the 40 interviews discussed for the first objective.

How Unbanked and Underbanked Households Use Prepaid Cards and Trends in the Prepaid Card Market

For the third objective, we analyzed survey data on prepaid card use by unbanked and underbanked households. We analyzed FDIC's Survey of Household Use of Banking and Financial Services to compare the use of prepaid cards with use of nonbank transactional financial services. We used two-way tables to describe the following:

- For all households, banked and unbanked households, and unbanked households by the amount of time they had been unbanked, the percentages of households that used the following bank and nonbank financial products and services in the past year: (1) prepaid cards, (2) nonbank transaction products or services (check cashing, money orders, or international remittances), (3) nonbank credit products or services (payday loans, pawn shop loans, tax refund anticipation loans, rent-to-own, or auto title loans), or (4) nonbank person-to-person or peer-to-peer payment service.[10]

- For all households that used prepaid cards, banked and unbanked households that used prepaid cards, and unbanked households that used prepaid cards by the amount of time they had been unbanked, the percentage of households who used prepaid cards from a bank, a nonbank store or website, a government agency, or an employer.

To describe how consumers use prepaid cards and their perceptions of various payment methods, we analyzed the Federal Reserve Bank of Atlanta's Survey of Consumer Payment Choice—a nationally representative annual survey conducted as part of the Understanding America Study (University of Southern California, Dornsife Center for Economic and Social Research). We used data for each year from 2015 through 2020, and we used weights to account for the complex survey design. To describe how consumers used prepaid cards, for each year, we used two-way tables to describe the following:

- For banked and unbanked consumers, the percentage who used prepaid cards.
- For banked and unbanked consumers who used prepaid cards, the average percentage of typical monthly transactions made with prepaid cards.
- For unbanked consumers who used prepaid cards, the percentage of consumers who used prepaid cards for the following types of transactions: (1) automatic bill payments, (2) online bill payments, (3) in-person bill payments, (4) online (non-bill) payments, (5), retail payments (in-person), and (6) services and other payments (in-person).

In addition, we summarized consumers' perceptions of the characteristics of eight different payment methods (bank account number payments, cash, checks, credit cards, debit cards, money orders, online banking bill

[10]FDIC's Survey of Household Use of Banking and Financial Services asked about use of nonbank bill payment services and nonbank person-to-person or peer-to-peer payment services starting in 2019, so estimated percentages of households using these services are for 2019 only.

payments, and prepaid cards) on six characteristics (acceptance, convenience, cost, getting and setting up, payment records, and security).

For each payment method and characteristic, we measured the average of a consumer's perceptions relative to all the other payment methods. We first calculated how much better or worse a consumer rated a specific payment method j to another payment method j' on a specific characteristic k using the following transformation:

$$relative\ characteristic_k(j, j') = \ln\left(\frac{characteristic_{k,j}}{characteristic_{k,j\prime}}\right).$$

With this transformation, a positive value indicates that payment method j rates better than payment method j' on characteristic k and a negative value indicates that it rates worse. For example, a consumer's rating of the cost of prepaid cards relative to checks would be

$$relative\ cost(prepaid\ cards, checks) = \ln\left(\frac{cost_{prepaid\ cards}}{cost_{checks}}\right).$$

A negative value indicates that a consumer rates prepaid cards as more costly to use than checks and a positive value indicates that a consumer rates prepaid cards as less costly than checks. We then averaged each payment method's rating for a specific characteristic relative to all other payment methods:

$$average\ relative\ characteristic_k(j) = \frac{1}{7}\sum_{j\prime \neq j} relative\ characteristic_k(j, j').$$

We then averaged consumers' perceptions of payment methods' characteristics for all consumers and interpreted the averages as follows:

- Average relative perception greater than zero: Consumers perceived payment method to be better on average than other payment methods.
- Average relative perception equal to zero: Consumers perceived payment method to be about the same on average as other payment methods.
- Average relative perception less than zero: Consumers perceived payment method to be worse on average than other payment

methods.

We reviewed documentation on and conducted testing of the data we used and determined they were sufficiently reliable for describing households' use of the different payment options and their views on those payment options, including a comparison between those views.

To understand trends in the prepaid market, we analyzed Nilson Report data on the market share the top 25 prepaid card issuers held in 2010–2019. The Nilson Report is a trade journal that reports on and analyzes the global card and mobile payment industry. We reviewed documentation on and manually spot tested the data we used. We determined they were sufficiently reliable for reporting on trends in total purchase volume and transactions.

As discussed above, we interviewed representatives from three of the top 10 prepaid card issuers and one industry organization—the Innovative Payments Association—on trends in the prepaid card market and how unbanked and underbanked households used the cards. We also used information from interviews with other market participants and observers to inform our analysis for this objective.

Federal Financial Regulators Actions Related to the Availability and Cost of Basic Banking Services

For the fourth objective, we reviewed the federal financial regulators' external guidance, press releases, research, program documents, and other documentation of actions taken on the availability and cost of basic banking services. (For this report, we defined federal financial regulators as CFPB, the Federal Reserve, FDIC, the Office of the Comptroller of the Currency, and NCUA.) To identify the actions, we searched each regulator's website, using search terms, such as financial education, financial literacy, unbanked, underbanked, outreach, and financial inclusion.

We also reviewed regulators' most recent strategic plans to identify goals and objectives related to increasing access to basic banking services. We then assessed corresponding performance measures in their fiscal year 2020 and 2021 annual performance plans, using criteria we developed for, or leading practices or attributes we identified in, past GAO reports.[11] We previously defined performance measurement as the ongoing monitoring and reporting of program accomplishments, particularly progress toward pre-established goals.[12]

We also reviewed internal documentation on program evaluations and other steps the regulators had taken to measure performance of programs under these strategic goals. For example, we reviewed FDIC's evaluation of its Money Smart financial education program. Finally, we interviewed regulators' staff on the establishment of their strategic goals, objectives, and annual performance measures and actions they had taken related to the cost and availability of basic banking services for unbanked and underbanked households.

We conducted this performance audit from August 2020 to February 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[11]For example, see GAO, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans*, GAO/GGD-10.1.20 (Washington, D.C.: Apr. 1, 1998). For examples of our prior work on successful performance measures, see GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1, 1996) and *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

[12]GAO, *Performance Measurement and Evaluation: Definitions and Relationships*, GAO-11-646SP (Washington, D.C.: May 2, 2011).

Appendix II: Econometric Analysis of Household Adoption of Bank Accounts

This appendix presents an in-depth look at the multivariate results we describe in the report for household characteristics that are associated with adoption of bank accounts. (Details on our overall scope and methodology are presented in app. I.)

Data

We used data from the Federal Deposit Insurance Corporation's (FDIC) Survey of Household Use of Banking and Financial Services. FDIC has conducted the survey biennially since 2009 in partnership with the U.S. Census Bureau.[1] The survey asks a nationally representative sample of U.S. households about their use of banking and financial services.

To assess the reliability of these data, we reviewed documentation on and conducted testing of the data we used in our analysis. We determined that data from the survey were sufficiently reliable for analyzing the characteristics that make a household more or less likely to have a bank account.

Methodology

We used logistic regressions to examine the association between household characteristics and the probability that a household has a bank account.[2] We used household weights and replicate weights to account for the complex survey design. We used groups of indicator variables to control for household characteristics, and we expressed the differences in the probability of having a bank account using odds ratios.

Odds ratios convey the odds of an event occurring in one group compared to the odds of the event occurring in the reference group. For this analysis, the relevant event is having a bank account. Odds ratios greater than one indicate that a household is more likely to have a bank account than households in the reference group. For example, an odds ratio of 1.74 would be interpreted as the dependent variable being 1.74 times more likely to occur in a certain group than in the comparison group. Odds ratios less than one indicate that a household is less likely to have a bank account than households in the reference group. For example, an odds ratio of 0.74 would be interpreted as the dependent variable being 0.74 times as likely to occur in a certain group, compared

[1]Prior to 2019, the survey was named the National Survey of Unbanked and Underbanked Households.

[2]For person-level characteristics, such as race and education, the characteristics of the owner or renter of the home (i.e., head of household) are used to represent the household. For convenience, we use abbreviated language to refer to certain household characteristics. For example, the term "Hispanic household" refers to a household for which the head of household identifies as Hispanic or Latino regardless of race.

to the comparison group. This can also be phrased as being 26 percent less likely to occur in a certain group than in the comparison group. Odds ratios equal to one indicate that a household is just as likely to have a bank account as households in the reference group. Table 8 lists the household characteristics that we included in our analysis and their distributions.

Table 8: Estimated Distributions of Selected Household Characteristics, 2015–2019

Characteristic type	Characteristic	Values	Estimated percentage of population	95 percent confidence interval
Dependent variable	Household banking status	Has a bank account	93.69	(93.49, 93.88)
		Does not have a bank account	6.31	(6.12, 6.51)
Demographic characteristics	Household type	Married couple	47.17	(46.8, 47.53)
		Unmarried female-headed family	11.93	(11.73, 12.13)
		Unmarried male-headed family	4.94	(4.78, 5.1)
		Female individual	18.61	(18.36, 18.86)
		Male individual	17.14	(16.92, 17.36)
		Other	0.22	(0.19, 0.27)
	Household age	15–24 years	5.00	(4.85, 5.15)
		25–34 years	16.48	(16.33, 16.63)
		35–44 years	16.93	(16.8, 17.06)
		45–54 years	17.98	(17.83, 18.14)
		55–64 years	18.83	(18.67, 18.98)
		65 years or more	24.79	(24.63, 24.94)
	Household race and ethnicity	Black	12.72	(12.58, 12.87)
		Hispanic	14.11	(13.96, 14.26)
		Asian	4.95	(4.85, 5.06)
		American Indian or Alaska Native	0.74	(0.67, 0.81)
		Native Hawaiian or Other Pacific Islander	0.24	(0.21, 0.27)
		White	65.97	(65.77, 66.17)
		Multiracial	1.27	(1.19, 1.35)
Education	Household education	No high school diploma	9.75	(9.5, 10)
		High school diploma	25.64	(25.32, 25.97)
		Some college	28.81	(28.49, 29.15)
		College degree	35.80	(35.41, 36.18)
Income	Household income	Less than $15,000	12.35	(12.1, 12.61)
		$15,000–$29,999	15.42	(15.16, 15.69)
		$30,000–$49,999	19.48	(19.2, 19.77)

Characteristic type	Characteristic	Values	Estimated percentage of population	95 percent confidence interval
		$50,000–$74,999	18.20	(17.93, 18.47)
		At least $75,000	34.55	(34.16, 34.93)
Financial stability characteristics	Income volatility	Income was about the same each month	73.54	(73.25, 73.84)
		Income varied somewhat from month to month	17.01	(16.75, 17.27)
		Income varied a lot from month to month	4.16	(4.01, 4.31)
		Unknown	5.29	(5.11, 5.47)
	Household labor force status	Employed	61.84	(61.53, 62.14)
		Unemployed	2.65	(2.53, 2.78)
		Not in labor force	35.51	(35.22, 35.81)
	Homeownership status	Homeowner	63.81	(63.39, 64.22)
		Non-homeowner	36.19	(35.78, 36.61)
Geographic characteristics	Region	Northeast	17.53	(17.37, 17.68)
		Midwest	21.55	(21.41, 21.69)
		South	38.21	(38.01, 38.41)
		West	22.72	(22.56, 22.87)
	Location type	Metropolitan statistical area (MSA) principal city	29.19	(28.69, 29.7)
		MSA balance	43.09	(42.55, 43.63)
		Non-MSA	13.49	(12.53, 14.51)
		Not identified	14.23	(13.15, 15.37)
Technology	Smartphone	Smartphone	75.27	(74.92, 75.62)
		Non-smartphone	12.50	(12.25, 12.75)
		No mobile phone	6.97	(6.76, 7.19)
		Unknown	5.26	(5.08, 5.44)
	Home internet access	Has access	74.95	(74.6, 75.31)
		Does not have access	19.91	(19.58, 20.25)
		Unknown	5.13	(4.96, 5.32)
Number of households				104,655
Population of households				130,105,898

Source: GAO analysis of Federal Deposit Insurance Corporation data. | GAO-22-104468

Note: For person-level characteristics, such as race and education, the characteristics of the owner or renter of the home are used to represent the household. This analysis used data from the Federal Deposit Insurance Corporation's biennial survey of households' use of banking and financial services. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020). We used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys).

Caveats and Limitations

Our analysis does not identify causal relationships between household characteristics and the likelihood of adopting a bank account. Thus, our regression results describe associations between household characteristics and bank account adoption that may shed light on the types of households that are more likely to have a bank account, but do not explain why differences exist.

In addition, we did not explore reverse relationships where household adoption of a bank account may affect other household characteristics. The extent to which bank account adoption could affect the household characteristics we analyzed varies. For example, age may affect a household's decision to adopt a bank account, but adopting a bank account seems unlikely to affect a household's age. However, adopting a bank account may be more likely to affect other household characteristics, such as the likelihood that a household has internet access or a smartphone. For this reason, our analysis may be identifying the effect of bank account adoption on some household characteristics rather than the effect of those household characteristics on bank account adoption.

Furthermore, we did not account for all factors that may affect a household's decision to adopt a bank account. For example, we could not control for households' geographic proximity to bank and credit union branches.

Finally, our results reflect associations between bank account adoption and household characteristics for households in the United States for 2015–2019, but they may not generalize to other time periods, and they may differ for subsets of U.S. households.

Results

Our estimates suggest there are key differences in the likelihood of having a bank account by several household characteristics (see table 9). For example, as previously discussed, on average, households with higher incomes and more education are more likely to have a bank account. In another example, households that own their home are about 130 percent more likely to have a bank account, on average, than consumers that do not own their home, and households with a smartphone are about 92 percent more likely to have a bank account than households with no mobile phone.

Table 9: Estimated Difference in Likelihood of Having a Bank Account by Household Characteristics, 2015–2019

Characteristic	Values	Estimated odds ratio[a]	Standard error
Household type: Compared to similar households with a married couple			
	Unmarried female-headed family	0.617[b]	(0.033)
	Unmarried male-headed family	0.735[b]	(0.058)
	Female individual	0.943	(0.055)
	Male individual	0.732[b]	(0.042)
	Other	0.664	(0.201)
Household age: Compared to similar households age 15–24 years			
	25–34 years	0.700[b]	(0.051)
	35–44 years	0.711[b]	(0.060)
	45–54 years	0.890	(0.077)
	55–64 years	1.285[c]	(0.114)
	65 years or more	3.572[b]	(0.343)
Household race and ethnicity: Compared to similar White households			
	Black	0.401[b]	(0.020)
	Hispanic	0.437[b]	(0.022)
	Asian	1.034	(0.122)
	American Indian or Alaska Native	0.379[b]	(0.050)
	Native Hawaiian or Other Pacific Islander	0.682	(0.214)
	Multiracial	0.614[b]	(0.090)
Household education: Compared to similar households without a high school diploma			
	High school diploma	1.539[b]	(0.077)
	Some college	2.085[b]	(0.110)
	College degree	4.091[b]	(0.357)
Household income: Compared to similar households with incomes less than $15,000			
	$15,000–$29,999	1.683[b]	(0.079)
	$30,000–$49,999	2.971[b]	(0.181)
	$50,000–$74,999	5.838[b]	(0.526)
	At least $75,000	8.726[b]	(0.972)
Income volatility: Compared to similar households with incomes that varied a lot from month to month			
	Income was about the same each month	1.760[b]	(0.139)
	Income varied a lot from month to month	1.267[c]	(0.107)
	Unknown	0.739	(0.173)
Household labor force status: Compared to similar unemployed households			
	Employed	2.023[b]	(0.154)
	Not in labor force	1.179[d]	(0.087)

Characteristic	Values	Estimated odds ratio[a]	Standard error
Homeownership status: Compared to similar households that do not own their home			
	Homeowner	2.276[b]	(0.111)
Region: Compared to similar households in the Northeast region			
	Midwest	0.905	(0.060)
	South	0.884[d]	(0.052)
	West	1.035	(0.063)
Location type: Compared to similar households located in a metropolitan statistical area (MSA) principal city			
	MSA balance	1.203[b]	(0.056)
	Non-MSA	1.095	(0.065)
	Not identified	1.355[b]	(0.092)
Smartphone: Compared to similar households that do not have a mobile phone			
	Smartphone	1.922[b]	(0.129)
	Non-smartphone	1.322[b]	(0.085)
	Unknown	1.272	(0.412)
Home internet access: Compared to similar households that do not have internet access			
	Has access	2.983[b]	(0.147)
	Unknown	2.643[c]	(0.921)

Source: GAO analysis of Federal Deposit Insurance Corporation data. | GAO-22-104468

Note: This analysis used data from the Federal Deposit Insurance Corporation's biennial survey of households' use of banking and financial services. For the most recent survey, see Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey* (Washington, D.C.: October 2020). We used the 2015–2019 5-year combined data set (data from the 2015, 2017, and 2019 surveys). We used a multivariate regression analysis to compare similar households by controlling for household type, age, race and ethnicity, education, income, indicators of household financial stability (such as income volatility, labor force participation, and homeownership), region, location, and access to technology. For person-level characteristics, such as race and education, the characteristics of the owner or renter of the home are used to represent the household. Standard errors are calculated using successive difference replication based on the household weight and replicate weights.

[a]We expressed differences in likelihood using odds ratios, which convey the odds of an event occurring in one group compared to the odds of the event occurring in another group—the reference or comparison group. Odds ratios greater than one indicate that a household is more likely to have a bank account than households in the reference group, ratios less than one indicate that a household is less likely to have a bank account, and ratios equal to one indicate that a household is just as likely to have a bank account.

[b]Statistically significant at the 0.1-percent level.

[c]Statistically significant at the 1-percent level.

[d]Statistically significant at the 5-percent level.

Appendix III: Comments from the Federal Deposit Insurance Corporation

FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990
Division of Depositor and Consumer Protection

January 26, 2022

Michael Clements
Director, Financial Markets and Community Investment
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Clements:

The FDIC appreciates the opportunity to review and provide comments on the U.S. Government Accountability Office's (GAO) draft report entitled *Banking Services: Regulators Have Taken Actions to Increase Access, but Measurement of Actions' Effectiveness Could be Improved* (Draft Report).

Deposit insurance is fundamental to public confidence in the banking system, and the FDIC has long-recognized that this confidence is enhanced when more Americans have access to and benefit from relationships with the nation's banks. As a result, the FDIC has placed a high priority on the objective of expanding economic inclusion in the banking system for more than 15 years.

Since the FDIC first chartered its ongoing Advisory Committee on Economic Inclusion (ComE-IN) in 2006, the agency has pursued a vigorous program in support of this objective. This program has included the development of substantial research activities resulting in authoritative data and key insights regarding the nation's unbanked and underbanked populations as well as banks' efforts to address their financial service needs. It has conducted pilot programs to test the feasibility of various approaches for safely serving consumers. It established a separate Division of Depositor and Consumer Protection with express responsibility under FDIC bylaws for "the Corporation's efforts to promote economic inclusion and participation in the banking system." It has engaged in extensive outreach and educational efforts, helping banks identify opportunities to serve additional consumers while bolstering consumers' capabilities, including through the FDIC's widely recognized Money Smart financial education curriculum and supporting activities. The FDIC has also promulgated guidance on opportunities for banks to expand economic inclusion in a manner consistent with safety and soundness and consumer protection requirements and in service of institutions' responsibility to help meet the convenience and needs of their communities.

As it has pursued these efforts, the FDIC has sought to measure progress in expanding Americans' economic inclusion in the banking system. In fact, the FDIC's work to survey U.S. households in partnership with the Census Bureau has produced unparalleled data that provide key national, state and local measurements of participation in the banking system. The data also afford the financial industry, community-based organizations, policymakers, the media and the general public with the opportunity to explore banking engagement across population segments over time. In many cases, these data serve as key outcome measures and have helped spur efforts at the state and local level, with participation from the private and public sector, civic leaders, non-profit organizations and philanthropic foundations.

The FDIC regularly reviews data from its research program and specific additional outcome measurements such as the number, geographic distribution and reach of banks offering accounts certified as meeting consumer standards set by the non-profit Cities for Financial Empowerment Fund. The FDIC's economic inclusion activities referred to in this letter and efforts noted in the Draft Report (e.g., Get Banked campaign), are focused on expanding access to banking services and, consequently, in reducing the unbanked rate. The regular review of data has helped illuminate new trends, challenges, and opportunities related to economic inclusion, leading the FDIC to adjust strategies, priorities, and plans from time to time.

The Draft Report notes that the FDIC has relied primarily on output-oriented performance measures in establishing Annual Performance Goals in its *Annual Performance Plans* and recommends that the FDIC adopt outcome-oriented performance goals. It acknowledges "that developing outcome-oriented measures on this topic can be challenging" and that the accomplishment of such goals is not entirely within the agency's control. The FDIC agrees with the GAO that outcome-oriented measures are worthwhile in measuring long-term progress in bringing about meaningful changes in economic inclusion and are essential in guiding and informing future programmatic decisions. Accordingly, the FDIC will include in its *2022 Annual Performance Plan* a new performance target to identify and begin tracking and reporting key outcome-based performance measures and consider those results in future programmatic decisions regarding economic inclusion.

The FDIC appreciates the GAO's work to develop the Draft Report and for its insights on strengthening economic inclusion and public confidence in the banking system.

If you have any questions, please contact Elroy Holden at 703-562-6460 or eholden@fdic.gov.

Sincerely,

MARK PEARCE

Digitally signed by MARK PEARCE
Date: 2022.01.26 16:35:06 -05'00'

Mark Pearce
Director

Appendix IV: Comments from the National Credit Union Administration

National Credit Union Administration
Office of the Executive Director

January 19, 2022

Michael E. Clements
Director, Financial Markets & Community Investment
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Clements:

Thank you for the opportunity to provide comments on the GAO's draft report (GAO 22-104468) entitled *Banking Services: Regulators Have Taken Action to Increase Access, but Measurement of Actions of Effectiveness Could Be Improved.*

We agree with the GAO that access to reliable and affordable financial services is essential for household financial well-being, especially for people of color, the disabled, and the underserved. As such, the NCUA has long worked to advance access to safe, affordable, and fair financial products and services within the credit union system. This work aligns with the statutory mission of credit unions to meet the credit and savings needs of their members, especially those of modest means.[1] And, in his work on the Board, NCUA Chairman Todd M. Harper has emphasized the need to enhance the agency's activities related to economic equity and justice. We, therefore, appreciate the GAO's research and insights on this important subject.

The GAO makes the following recommendation related to NCUA in the draft report:

The Chairman of NCUA should develop and implement outcome-oriented performance measures for its strategic objective of facilitating access to credit union services that reflect leading practices, including demonstrating results, measuring outcomes, and providing useful information for decision-making.

In its new strategic plan currently under development, the NCUA has proposed establishing a strategic goal to "improve the financial well-being of individuals and communities through access to affordable and equitable financial products and services." As part of this goal, the agency has also proposed instituting a strategic objective to "enhance consumer access to affordable, fair, and federally insured financial products and services" and related performance goal to "expand community and individual access to fair and affordable credit union products and services through modernized NCUA regulations, policies, and programs."[2] Together, these goals and objective will build on the agency's prior strategic plan adopted in 2018 and the performance metrics contained in the agency's 2021 Annual Performance Plan.

[1] 12 U.S.C. 1751 note
[2] *See* Draft NCUA Strategic Plan 2022–2026: https://www.ncua.gov/files/agenda-items/AG20211118Item2b.pdf.

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National Credit Union Administration
Office of the Executive Director

Specifically, the 2021 Annual Performance Plan included measures related to expanding consumer access to affordable financial services, including performance goals to implement the Advancing Communities through Credit, Education, Stability, and Support (ACCESS) initiative launched by then-NCUA Board Chairman Rodney Hood in October 2020. The priorities for this strategic objective in 2021 focused on opportunities to modernize the rules and processes for new charters, minority depository institutions, low-income designated credit unions, and field of membership expansions to support financial inclusion.

The NCUA's efforts to expand community and individual access to fair and affordable credit union products and services will continue to evolve, and we will remain mindful of the need to demonstrate results and measure outcomes. Accordingly, as we finalize a new 2022–2026 Strategic Plan and the associated 2022 Annual Performance Plan, we will work to incorporate more outcome-oriented performance measures, where feasible.

In conclusion, the agency remains strongly committed to expanding access to financial services for unserved and underserved consumers and communities, and we will continue our efforts to advance this important goal.

Sincerely,

LARRY FAZIO Digitally signed by LARRY FAZIO Date: 2022.01.19 11:18:56 -05'00'

Larry Fazio
Executive Director

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Appendix V: Comments from the Office of the Comptroller of the Currency

Office of the Comptroller of the Currency

Washington, DC 20219

January 20, 2022

Mr. Michael E. Clements
Director, Financial Markets and Community Investment
U. S. Government Accountability Office
Washington, DC 20548

Dear Mr. Clements:

Thank you for providing the Office of the Comptroller of the Currency (OCC) an opportunity to review the Government Accountability Office's (GAO) draft report titled *Banking Services: Regulators Have Taken Actions to Increase Access, but Measurement of Actions' Effectiveness Could Be Improved*. Technical edits have been provided separately.

As part of this review, the GAO has provided the following recommendation:

The Comptroller of the Currency should complete efforts to develop and implement performance measures to cover the agency's key efforts for its strategic objective to promote financial inclusion through fair access to financial services—including Project REACh—that reflect leading practices, including demonstrating results, measuring outcomes, and providing useful information for decision-making.

To address this recommendation, the OCC plans to complete efforts to develop and implement performance measures by the fourth quarter of 2022 to evaluate the impact of Project REACh, such as by assessing (i) the number of participating organizations; (ii) the number of organizations seeking to join or support Project REACh initiatives; and (iii) the number of meetings attended by OCC personnel where Project REACh participants present information on data, products, or processes related to financial inclusion or expanding access to financial services.

Focusing on measuring these types of outcomes for Project REACh is consistent with the OCC's convener role. Project REACh offers a forum to support the ongoing exchange of information between industry and community organizations about the actions implemented by the respective organizations in support of economic access and change. Project REACh participants, who operate independently of the OCC, drive the initiatives to develop actionable strategies to expand financial access and to increase economic and community development financing and investment within underserved communities. The participating organizations directly conceptualize various approaches and replicate best practices to address the barriers that impede economic access for minority and other economically disadvantaged communities. The OCC is not in a position to establish specific performance measures for the participating external organizations.

If you need additional information, please contact Andrew Moss, OCC Director of Minority Outreach and National Director for Project REACh, at (202) 649-7238.

Sincerely,

Grovetta N. Gardineer

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Date: 2022.01.19 19:45:35 -05'00'

Grovetta N. Gardineer
Senior Deputy Comptroller for Bank Supervision Policy

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Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Michael E. Clements, (202) 512-8678 or clementsm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Kevin Averyt (Assistant Director), Katherine Carter (Analyst in Charge), Mallory Bryan, Darren Grant, Courtney LaFountain, Yola Lewis, Marc Molino, Gabriel Nelson, Barbara Roesmann, Jessica Sandler, and Farrah Stone made key contributions to this report.