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The Business of Bank Fees

How Public Alternatives Can Ensure Equitable Economic Participation

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About the Author

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About the Roosevelt Institute

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Introduction

The financial costs of banking lock out millions of Americans from full economic participation. Nearly 5 percent of households in the United States—disproportionately Black, brown, and/or low-income—have no bank account at all, and another 14 percent must still rely on costly, nonbank alternatives at least some of the time. While these households—nearly 15 million combined—have limited formal access to the banking system, financial institutions have grown to rely on the revenue that attaching onerous fines and fees to basic products provides them (Kutzbach et al. 2023). Today, bank fees—including overdraft and insufficient fund (NSF) fees, both of which target low-income customers—are a multibillion dollar business for banks and other financial institutions (Offices of Markets and Consumer Populations 2024).

This was not always the case. For much of US history, banks catered only to the needs of businesses and the wealthy, but other financial institutions organized to serve the needs of the working class. Largely predicated on the notions of mutual aid and cooperation, certain financial institutions, including thrifts and mutuals, offered low- and middle-income working Americans affordable basic banking products. Though usually small and localized, these institutions grew in number such that they collectively counterbalanced some of the power of larger banks and offered a competitive force for customer business—until the late 20th century (Gilbert 1986; Moysich 1997; Berre et al. 2021).

Beginning in the 1970s, a wave of deregulation compounded a high-interest rate environment to change the business of banking—with significant repercussions for low-income customers. Banks, enabled by new forms of computing power and fewer restrictions on permissible behaviors, began attaching fees to otherwise unprofitable basic bank products, including checking accounts, for low-income customers. This trend has proven profitable, and has intensified over the last several decades.

Due in part to the laudable recent enforcement actions by the Biden administration and new proposed rules from the Consumer Financial Protection Bureau (CFPB), bank reliance on overdraft and NSF fees has declined over the last several years. But the banking industry is already gearing up for a fight against these rules that would limit the profit potential of basic bank products. Moreover, the historical record suggests financial institutions might try to offset limitations on one type of fee revenue by trying to increase revenue from other sources. Given these political dynamics and the lack of sufficient competition from public-interest financial firms like mutuals or public banks, we need a policy mechanism—at the national and/or state-level—that *affirmatively* guarantees access to the no-cost, basic banking products that every American deserves.

The Extractive Banking Status Quo:
Fees Lock Out Millions from Full Economic Participation

Banks and and other financial institutions like credit unions engage in activities critical to achieving a strong macroeconomy and thriving communities. By safekeeping deposits from customers and making long-term loans to families and businesses, financial institutions provide a vital public service. Indeed, it is because of the unique and critical role that financial institutions play in individual, commercial, and communal economic development—a role that the federal government has historically outsourced to private financial firms—that the government has a vested interest in regulating these firms (Menand forthcoming).

Despite the public function that financial institutions serve, many are privately run—and for-profit.[1] Banks and other financial institutions make money off of our money. In addition to charging interest on the loans they issue, one of the ways banks turn a profit is by levying various fines and fees on basic banking services.

The financial costs of banking prevents millions of Americans from fully participating in the economy. Recent data shows that nearly 5 percent of US households have no bank account at all, and another 14 percent must still sometimes rely on costly, nonbank alternatives. Combined, that's nearly 15 million households with insufficient access to the basic financial products that would allow them full economic participation (Kutzbach et al. 2023). These households are disproportionately low-income, Black, brown, single mother-led, and have less formal educational attainment (Kutzbach et al. 2023). One of the primary reasons un- and underbanked households cite for being unable to patronize traditional financial institutions is the financial burden of accessing bank products—due to things like the prevalence and unpredictability of overdraft fees, minimum balance requirements, and ATM fees (Kutzbach et al. 2023).

Today, even the most basic bank products—including checking accounts—often have fee schemes attached. Checking accounts are low- to no-interest and are typically used to cover frequent or short-term expenses, like groceries or rent. In 2023, nearly 40 percent of Americans had less than $1,000 in their checking accounts on average, while the majority of families with annual incomes under $50,000 had less than $500 in theirs (Gravier 2023). In our modern digital economy, checking accounts—and the debit cards that financial institutions offer as an extension of the account—are a way for millions of Americans to participate in an increasingly card-based economy. Especially for the Americans, disproportionately low-income and/or Black and brown, who may have

[1] Credit unions, which are distinct from banks in law though they offer many of the same financial products and services, are member-owned and not-for-profit. However, both banks and credit unions can rely on extractive fee schemes. At the end of 2023, there were 4,587 banks and 4,604 credit unions in the US (FDIC 2024; NCUA 2024).

difficulty obtaining credit, debit cards are a vital lifeline to the digital economy (Credit Sesame 2021; Kramer-Mills et al. 2024).

While financial institutions tend to offer very little interest on basic checking accounts (in part because of the low average balances and expected frequent withdrawals), they may still attach different kinds of fees on them in order to make them more profitable (or at least less costly) to service. The most common of these fees include monthly maintenance fees, ATM withdrawal fees, NSF fees, and overdraft fees.[2] The latter two are particularly pernicious and paradoxical: By targeting accounts that have low balances, NSF and overdraft fees hurt the very bank customers who can least afford it.[3] In recent years, overdraft fees alone have cost customers up to $35 per overdraft charge, and are capped at as many as six or seven overdraft charges *per day* (Valenti 2022).

Research from the CFPB finds that a very small group of "frequent overdrafters"—individuals charged more than 10 overdraft fees in a year—are responsible for nearly 80 percent of all overdraft and NSF fees (CFPB 2023a; Low et al. 2017). Further, "very frequent overdrafters"—those charged more than 20 overdraft fees in a year—paid over 63 percent of all overdraft and NSF fees (Low et al. 2017). These households, which are already much more likely to struggle to make ends meet, pay hundreds of dollars in overdraft each year beyond what other financially stable families pay (CFPB 2023a; Greene et al. 2023). And, because NSF and overdraft fees are a result of the same thing—low balances—many of the households that are subject to one kind of fee are subject to the other as well. Eighty-five percent of the households charged an NSF fee in 2022 were also charged at least one overdraft fee (CFPB 2023a).

Overdraft fees can be big money for financial institutions. Banks have only had to report their NSF and overdraft fee revenue since 2015; combined with historical reporting exceptions, this makes it difficult for researchers to determine the full extent of these fee schemes.[4] But estimates suggest that financial institutions collected at least $15 billion from their customers through NSF and overdraft fees in 2019 (Nagypál 2021). Moreover, though data on small bank and credit unions' fee revenue is extremely

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[2] Many banks require customers to maintain a certain minimum balance, which, though not a fee per se, can still negatively impact a customer's pocketbook by rendering a certain amount of their money illiquid in practice. In 2023, over a quarter of bank customers with a checking account paid monthly fees on it (Foster 2023).

[3] NSF and overdraft fees are distinct, but predicated on the same thing: low-account balances. An NSF fee is levied when an account lacks the funds needed to cover a transaction, and the bank *doesn't* allow the transaction to go through. An overdraft fee is levied when an account lacks the funds needed to cover a transaction, but the bank *does* allow the charge to go through.

[4] Banks with assets totaling less than $1 billion, and all credit unions, have historically been exempt from reporting their fee revenue (CFPB 2023b).Thus, the true totals are likely much higher than the data suggests. In February 2024, Todd Harper, chair of the National Credit Union Administration, announced he'd be requiring all credit unions with assets over $1 billion to report their overdraft and NSF fee schemes (Medintz 2024).

limited, at least several of these institutions are “overdraft giants.” Aaron Klein (2021) finds that a handful of small banks have overdraft revenues greater than their total net income—meaning that they would not have made a profit if not for their overdraft revenue. As Klein asserts, “This is not a one-year blip; it is their business model.” In expanding his research to a limited sample of California credit unions, Klein (2023) finds that the state’s 114 state-chartered credit unions collected $252 million in overdraft and NSF revenue in 2022 (RISE Economy n.d.). Thirty of these institutions earned at least half of their net profit from overdraft and NSF fees alone (Klein 2023).

Thanks to increased public pressure on banks, to the pandemic-era stimulus that temporarily boosted people’s savings, and to enforcement actions from the CFPB, overdraft fees have been on the decline in recent years. Bank NSF and overdraft fee revenue decreased in 2020 and 2021 (CFPB 2023b; Greig and Deadman 2022). The declines are not always steady. Fee revenue began increasing again in the latter half of 2021, and again in the last quarter of 2023, but has declined overall over the last two years (Borné and Zirkle 2022; Seay and Portes 2024). In 2023, overdraft revenue totaled an estimated $6 billion (Offices of Markets and Consumer Populations 2024).

Even with these promising trends in overdraft decline, the history of how the modern business of banking came into being offers troubling warnings for how financial institutions may respond to limitations of their profit potential.

The Rise of Overdraft:
1980s Deregulation and Deposit Repricing Open the Door to Extractive Fee Schemes

While there have always been structural barriers to financial inclusion for many Americans, the prevalence of overdraft fees in particular only dates back to the late 20th century.

For much of US history, the banking sector primarily catered to businesses and the wealthy. Until the 19th century, most Americans didn’t have—or earn—enough money to require safekeeping in a bank or to allow them the opportunity to purchase homes and property. Without our modern payment infrastructure, transactions were conducted with cash and without the need for credit or debit cards issued by financial firms. Therefore, most Americans didn’t have much need for traditional banks, and banks didn’t consider them prospective customers. This began to change in the 19th century as industrialization enabled more Americans to enter the workforce and earn consistent wages that they wanted safely kept and from which they began to grow household savings (Breitenstein and Boyce 2016).

To meet the needs of this emergent category of working-class customer, new types of financial institutions—including savings institutions, like savings and loan associations (S&Ls); credit cooperatives and unions; and other mutual institutions[5]—formed to accommodate the specific financial needs of working people. And they did so with organizing and operating structures distinct from those of traditional banks. For instance, mutuals, which were typically owned by their depositors (rather than shareholders) emerged primarily in the Northeast and Mid-Atlantic, as more Americans began to enter the urban working class and needed to secure their money in small denominations (Breitenstein and Boyce 2016).[6]

Moreover, at a time when women, in particular, had virtually no independent economic rights in law, thrifts welcomed women as members, depositors, and in some instances, institutional leaders. Women were on the membership rolls of thrifts more than 130 years before they were granted full independent economic rights with the Equal Credit Opportunity Act of 1974 (Rose 2023; OCC n.d.-b).[7] Many of these institutions began to specialize in mortgage lending and became critical to expanding US homeownership rates during the mid-20th century.[8] In particular, building and loan associations, which were typically small, local, and predicated on the notions of organized mutual aid, emerged in the mid-18th century to make home loans more accessible to more and to lower-income Americans (Price and Walter 2019).[9]

It's important to note that despite the relative gains that the white working class and women may have enjoyed through these institutions, Black Americans still experienced overt financial system discrimination during this era (Library of Congress n.d.). Several Black communities established Black banks, including the Freedman's Savings and Trust Company, to ensure they had access to financial services when white financial institutions wouldn't service them. However, these institutions also suffered from structural racial problems, including unduly speculative risk-taking and outright fraud from white managers, or otherwise struggled to stay afloat long term when financial panic struck the nation (Doris 2020). Of the 134 Black-owned banks that formed between 1888 and 1934, only nine survived the Great Depression (Toussaint-Comeau and Newberger 2017).

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[5] S&Ls were closely associated with household finance (versus commercial enterprise) at their inception, and so came to be described as "thrifts."
[6] Though today, thrifts can be structured as corporations (and so owned by shareholders), the origin of the concept, which dates back to the 1830s, is deeply rooted in cooperative finance (OCC n.d.-a). As such, both "thrifts" and "mutuals" are used throughout this paper to refer to financial institutions that, distinct from banks, adopt cooperative organizing and operating structures.
[7] An 1893 survey of more than 4,000 thrifts found that a quarter of all members were female (OCC n.d.-b).
[8] At their peak in the 1960s, mutuals financed almost half of all single-family mortgages (Breitenstein and Boyce 2016).
[9] At their peak in the 1920s, building and loan associations totaled 12,804 and boasted more than 11 million members. Perhaps the best-known example is the Bailey Brothers Building and Loan from the 1946 film *It's a Wonderful Life* (Price and Walter 2019).

These institutions—which catered to the specific needs of the communities in which they operated—tended to keep costs low and, on the whole, offered convenient services that attracted millions of middle-income Americans (Breitenstein and Boyce 2016). Beyond the customer services they provided, by directly providing services to a growing class of working Americans, they acted as a competitive force in the overall market for financial services. They provided a supply of low-cost financial products and services that bigger banks weren't interested in or capable of offering in the same way.

The banking crisis of the 1930s and subsequent Great Depression required significant reforms in banking that changed the way the industry operated. These reforms kept the US financial system stable for decades, established a much stronger role for the federal government in the financial sector, and induced a high level of consumer confidence that brought millions of new customers into the realm of formal banking (Maues 2013). However, persistently high inflation and dominant deregulatory political attitudes in the 1970s and 1980s opened the door to high fines and fees on basic bank accounts.

Up through the 1970s, strict federal regulations prevented uptake of other more lucrative (but speculative) activities, and a prominent mutual industry created a more competitive market for depositor business. Until the late 1960s, the Federal Reserve's (the Fed's) authority to set ceilings on the interest rates that banks charged to their depositors (known as Regulation Q), gave mutuals a competitive advantage in courting customer business.[10] As such, banks had to aggressively compete for new customers by offering affordable and convenient services, including low-cost checking accounts (New York Times 1976; Krugman 2009).[11] Offering these basic products at low or no cost to customers was somewhat costly for banks themselves.[12] But during this era, banks tended to compensate for the relative added cost of servicing lower-income depositors through the cross-subsidization of larger accounts (Berre et al. 2021).

However, certain financial actors wanted a workaround to the prohibition of paying interest. With money market mutual funds (MMMFs), they found one. MMMFs, not subject to federal restrictions on checking account interest rates (Regulation Q) or other banking regulations, could offer investors much higher returns than could traditional financial institutions. As inflation and interest rates rose through the 1970s,

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[10] Established through the Banking Act of 1933 (Glass-Steagall), the intended goal of "Regulation Q" was to prohibit banks from paying interest on checking accounts in an effort to disincentivize unduly speculative behaviors when competing for customer deposits (Maues 2013). Regulation Q initially applied only to banks, giving mutuals a competitive advantage. In 1966, Congress extended it to savings and loans associations and began phasing it out in 1980. By 1986, all interest rate ceilings had been eliminated except for the ban on demand deposit interest, a provision that was itself repealed with the passage of the Dodd-Frank Act in 2010 (Gilbert 1986).

[11] Banks deployed another, more whimsical marketing trick, too: gift giving. Banks routinely gifted prospective customers merchandise—including the coin banks, calendars, stuffed animals, and even toasters—to attract customers (Bentz n.d.; Krugman 2009).

[12] Some estimates find that it can cost between $250 and $400 for a financial institution to establish a new checking account—and even more to maintain it (Klein 2018).

small-denomination depositors fled from banks to unregulated MMMFs (Moysich 1997). Congress responded with the Depository Institutions Deregulation and Monetary Control Act (MCA) of 1980, in an attempt to allow banks to better compete (Gilbert 1986). The MCA, among other things, called for a phase out of Regulation Q's deposit interest rate cap over the next six years (Gilbert 1986). This move eliminated thrifts' competitive advantage over larger commercial banks.

These developments enabled financial institutions to begin levying aggressive fines and fees on basic banking products. With Regulation Q out of the way, banks and thrifts began adopting their own high-interest account: the Negotiable Order of Withdrawal (NOW) account (Gilbert 1986; Berre et al. 2021). Though popular with customers, NOW accounts were much less profitable for financial institutions than the average checking account (Berre et al. 2021). With a keen eye on their balance sheets, banks began instituting higher fees and raising minimum balance requirements on other basic accounts in order to offset the relative profit loss from these newer products. Within just a few years of NOW's origin in the late 1970s, fees on basic checking accounts had skyrocketed (Berre et al. 2021).

One journalist summed up the rapidly expanding bank fee schemes that came to mark the 1980s:

> Banks used to be so eager for customer business that they gave services away. Checking accounts were free, and so were the checks. Safe-deposit boxes cost nothing, and neither did money orders or cashier's checks . . . Those days have vanished, however, and bank customers now face a fee for almost any type of transaction. And those fees are going up, doubling and tripling the cost of banking for consumers who cannot afford to maintain the minimum deposit levels required to avoid or reduce the fees. (Frantz 1988)

Simultaneously, the financial deregulatory efforts of the Reagan administration threatened the business model of many thrifts (OCC n.d.-a). 1982's Garn-St. Germain Depository Institutions Act allowed thrifts to take on riskier lending and investment activities, and reduced regulatory oversight on them (Garcia 2013). Still-high interest rates and a newfound ability to engage in riskier lending put stress on thrifts' portfolios. These conditions, as well as some high-profile instances of outright fraud,[13] triggered a series of thrift failures and a dramatic loss of consumer confidence in mutuals. Assets held by mutuals fell from 16 percent of all banking institutions in 1984 to just 4 percent in 1994, and the number of mutual charters fell to 1,076 from over 2,400 over the same time period (Breitenstein and Boyce 2016).

[13] Perhaps the most famous example of the era is that of the "Keating Five." When the Lincoln Savings and Loan, led by Charles Keating, went bankrupt in 1989, five US senators were implicated for intervening when the thrift's regulator launched an investigation years prior to its eventual collapse (Sterngold 1996).

The collapse of the mutual market not only reduced banking options for customers but it also eliminated a competitive force in the larger financial sector. Though thrifts still exist today, they do so in dramatically reduced numbers—numbers much too small to provide a check on the growing power of large commercial banks.[14]

With innovation in financial technologies and accounting practices, banks emerged from the deregulatory 1980s with the ability to offer a much more sophisticated range of financial products. And with fewer restrictions on interest rates on deposits, banks began moving away from cross-subsidization and instead began imposing higher fees on low-balance customers to make those accounts independently profitable (Berre et al. 2021).

Profit segmentation, the accounting practice whereby banks divide their customers into tiered categories based on how lucrative each customer's business is to the bottom line, allowed banks to distinguish between profitable and unprofitable customer business. Higher tiers were composed of high-balance customers whose financial needs easily earn the bank money, and lower tiers were composed of lower-balance bank customers whose basic banking needs result in low or no profit for the banks. The practice granted banks the information needed to target certain products that weren't otherwise profitable for fee increases.

As the digital economy expanded, so too did overdraft services. Until the 1990s, it was standard practice for banks to offer overdraft service as a convenience for customers who ran out of funds while any of their paper checks were still floating around. Banks rarely had overdraft policies, per se, but instead decided on a case-by-case basis if they would extend the service to their trusted customers. If not, the check was returned to the customer. As electronic debiting became more popular (and physical checks less popular) in the 1990s, overdrafting became more common and banks identified it as a potential source of revenue if they charged for the service (Klein 2022; Dlugosz et al. 2023). In short order, they did: Overdraft became the norm, and brought with it huge money for banks.

New Overdraft Rules Are Celebratory—But Bank Behavior Offers Warning Signs

In the fall of 2023, the Biden administration announced a coordinated initiative to rein in "junk fees," the excessive (and sometimes even undisclosed) fees that financial firms charge customers, that are attached to other goods or services (The White House 2023). Junk fees can quickly add up to make a large dent in household budgets—making it even harder for low-income families to make ends meet or save for their futures. Though junk fees encapsulate all types of unnecessary charges across industries—from

[14] As of 2022, there were only 426 mutuals operating in the US (FDIC 2023; Berre et al. 2021).

airlines to auto dealers to debt collectors—bank fees like overdraft and NSF fees have deservedly earned special scrutiny from the CFPB in recent months.[15]

In January 2024, the CFPB announced a proposed rule to cap overdraft fees. The new rule, which is scheduled to go into effect in October 2025, would close a long-standing loophole that exempts overdraft from existing regulatory and consumer protection laws (CFPB 2024). Under the CFPB's proposed rule, banks would now need to ensure that their overdraft policies comply with existing lending laws and the same consumer protections as credit cards, including by disclosing annual interest rates. Banks would still be able to charge an overdraft fee, but it would need to better correspond to a bank's *actual* incurred costs and would be capped at $14—a huge improvement over the current standard $34 or $35 charge (CFPB 2024).[16]

The new overdraft rule—as well as the broader junk fee campaign—is a huge win for consumers and will undoubtedly bring financial relief to millions of families. However, it won't on its own provide the kind of universal, guaranteed basic banking access that everyone deserves.

Banks have historically tried to offset restrictions on the profitability of certain financial products by increasing the profitability of others. Oftentimes, lower-income, less financially sophisticated customers disproportionately bear this burden (Barr et al. 2009; Mukharlyamov and Sarin 2019; Berre et al. 2021). Recent history of financial reform efforts in the US provides some useful evidence.

The Great Recession in the late aughts prompted renewed focus on consumer financial protection, including on the issue of interchange fees. Especially for Americans with difficulty obtaining formal lines of credit, debit cards gave millions of people easy access to the digital economy. However, banks charge merchants interchange fees (or "swipe fees") whenever a customer uses a card to make a purchase. Interchange fees themselves emerged as a way for banks to evade the usury laws and make card issuance profitable (Levitin 2008). By the late aughts, these fees could be as high as 3 percent of the value of the transaction (Mukharlyamov and Sarin 2019). The so-called Durbin Amendment, passed as part of Dodd-Frank in 2010, capped interchange fees at 22 cents—resulting in a loss of $6.5 billion in annual revenue for banks (Mukharlyamov and Sarin 2019).[17] Banks responded to the restriction by raising fees on other financial

[15] In addition to its rulemakings, the CFPB's recent enforcement actions on unscrupulous bank practices have won back hundreds of millions of dollars for consumers, including $205 million from Wells Fargo and $141 million from Regions Bank (Berry 2024a).

[16] The rule would allow financial institutions to charge a fee in line with their costs or else in accordance with benchmarks established by the CFPB (thus far proposed as $3, $6, $7, or $14) (CFPB 2024).

[17] Technically, the cap was $0.21 plus 0.05 percent of the transaction, but nearly all transactions are capped at $0.22 in practice.

products, including by reducing the availability of free checking accounts (Mukharlyamov and Sarin 2019).[18]

More recently, when the Federal Deposit Insurance Corporation (FDIC) issued guidance in 2022 alerting banks that charging multiple NSF fees for the same transaction is an unfair and deceptive practice, banks suggested they'd close the accounts of customers who run up frequent NSF charges (Berry 2023). Though the CFPB's overdraft rule isn't even in effect yet, bank executives and industry groups are already decrying the impact it will have on their businesses—and signally that they'll respond to it with diminished service provision to customers. For instance, the president of the American Bankers Association reacted to news of the rule with vague warnings that it would "harm" consumers by triggering higher prices (Berry 2024b). And the president and CEO of the Consumer Bankers Association claimed that the CFPB's new overdraft rule would result in reduced availability of free checking accounts (Berry 2024b). Financial industry groups have also been waging a war on the CFPB itself, including by bringing dubious legal challenges about its fundamental existence (Fellowes-Granda et al. 2023). If acted upon, any of these threats could have devastating implications for consumers and communities.

Furthermore, the CFPB's rules are, by definition, not legislation. They will attach guardrails to bank practices already in place, but they will not necessarily result in any new banking options for customers. Though certain large banks have begun voluntarily moving away from their reliance on overdraft revenue in recent years, the percentage of households reporting that they paid an overdraft fee has stayed constant—suggesting that the families who can't afford overdraft fees could still be vulnerable to them even with new limitations (Greene et al. 2023). Moreover, research suggests that larger banks have enacted more reforms to overdraft policies than smaller institutions, and the CFPB's new rule also includes exemptions for the small banks and credit unions that are the worst overdraft culprits (Greene et al. 2023; Klein 2021; Klein 2023).[19]

In the absence of rigorous bank competition from public-interest entities, and given banks' typical reactions to strong regulations, the only way to ensure every American has full access to the financial system is through a system of guaranteed, no-cost, basic banking options. History suggests—and statements from industry leaders make explicit—that, instead of adapting to regulatory efforts to curtail financial extraction of certain behaviors, banks will try to offset their own losses by instituting higher fees

[18] Overall, banks offset lost interchange revenue by raising other kinds of fees. But the effect was different across individual banks. Certain firms like Bank of America and JP Morgan Chase experienced net revenue losses, while Citigroup eliminated its free checking product, thereby dramatically increasing one source of revenue (Mukharlyamov and Sarin 2019).

[19] Bank of America, JP Morgan Chase, and Wells Fargo—the three biggest banks in the US in assets and branches—have all reduced their overdraft fees in recent years. In 2022, Bank of America cut its overdraft fee to $10 and eliminated its NSF fees. JP Morgan Chase and Wells Fargo have also cut their overdraft charges and have introduced grace periods for overdrafted customers (CFPB 2023b).

and/or eliminating affordable banking products. While the CFPB's recent regulatory efforts are to be celebrated, we need to envision—and work toward—public-interest financial systems infrastructure. It is the only way to guarantee access to affordable basic banking products for the millions of low-income Americans who need it most.

The Era of Big Overdraft Is Over: Policy Options for Guaranteed, No-Cost, Basic Bank Products

The only way to ensure that all prospective customers have universal access to affordable basic banking products is through government guarantee. One way to achieve that end is for the government to offer those products directly to consumers. Ricks et al. (2018) outline how the Fed could offer and operate no-cost, no-fee, no–minimum balance bank accounts available to all American citizens, residents, and domestically domiciled businesses and institutions. Such a system of FedAccounts would extend the privileges that private banks receive by banking at the Fed—including unlimited secure balances, instant payments clearing, and the Fed's "interest on reserves" (IOR) rate—to individuals and families (Ricks et al. 2018). In particular, instant payments clearing would dramatically and disproportionately benefit low-income Americans, who under the current system are subject to extractive overdraft fees when there is a lag in processing time between deposit and withdrawal (Baradaran 2020).

A FedAccount policy, which primarily refers to backend provisioning of the actual bank account, could also be structured to include tangible provisions like debit card issuance and ATM access. By pairing such a system with one of postal banking, FedAccounts could offer a holistic public banking system in which customers could conduct basic banking services at the nation's 32,000 brick and mortar post offices (USPS 2024).[20] FedAccount provision through the USPS would pair the USPS's ubiquitous physical infrastructure with their earned public trust, and allow *everyone* to access basic banking at no-cost while interfacing with trained staff who can provide individualized assistance.

Though members of Congress have introduced bills to authorize postal banking and public banking programs in the recent past, none have been successful thus far. With a federal solution unlikely in the near future, possible state-level reforms offer another avenue for public-interest banking infrastructure. California is the state with perhaps the most momentum toward public-interest banking reforms: California's cities and counties have had a legal pathway to establishing local public banks since 2019 (Kramon 2023), and the state legislature is currently investigating how a system called

[20] For much of the 20th century, the US offered and operated a Postal Savings System, whereby individuals could open basic savings accounts at post offices nationwide. The program was hugely popular with immigrant communities in particular (Baradaran 2013).

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CalAccount could be implemented state-wide. CalAccount would offer a guaranteed, no-fee, no-penalty debit account option for all California customers.

CalAccount would create a statewide retail banking option, operated through existing depository financial institutions contracted through the state. It would ensure the statewide availability of access to basic, no-cost financial products—including by eliminating overdraft fees and minimum balance requirements and by providing no-cost debit accounts, debit cards, and ATM access, as well as direct deposit and automatic bill pay. By ensuring a no-cost option is available to anyone who wants it, CalAccount would inhibit the power that banks could exert through raising other types of fines and fees on consumers.

Other states and cities—including Hawaii, Massachusetts, New Jersey, New Hampshire, New Mexico, New York, Oregon, Washington, and the city of Philadelphia—have also recently explored public-interest bank option guarantees (Public Banking Institute 2024).

Conclusion

It can be expensive—too expensive—to bank with traditional financial institutions. Especially for millions of low-income Americans, disproportionately Black and brown, the costs to full financial inclusions are too high—leaving them un- and under-banked. In recent years, new federal rules and voluntary policy reforms from large banks have reduced some of the cost barriers to traditional banking, but millions of families remain locked out of the banking system. Our current banking sector is dominated by for-profit firms and lacks a competitive force from cooperatively organized institutions. We need a policy intervention that guarantees access to no-cost basic banking products. That's the only way to ensure every American has the full and free financial system access that they deserve and that our economy needs to thrive.

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