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What the child tax credit — a windfall for families — means for banks

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The expanded child tax credit, signed into law by President Biden in March, is an unexpected windfall to many families. For banks, it represents both a short-run test and a longer-term opportunity.

The test is that many unbanked households are having trouble accessing their funds in a timely manner, and the Biden administration is asking banks to be part of the solution. On the flip side, parents who do have bank accounts are likely to want advice on what to do with the sudden influx of cash, offering banks a unique customer engagement opportunity.

“I think that there’s a substantial opportunity for banks and for others to communicate with consumers about this basically free money in their accounts,” said Peter Tufano, a finance professor at the University of Oxford’s Said Business School who has been surveying U.S. families about the child tax credit.

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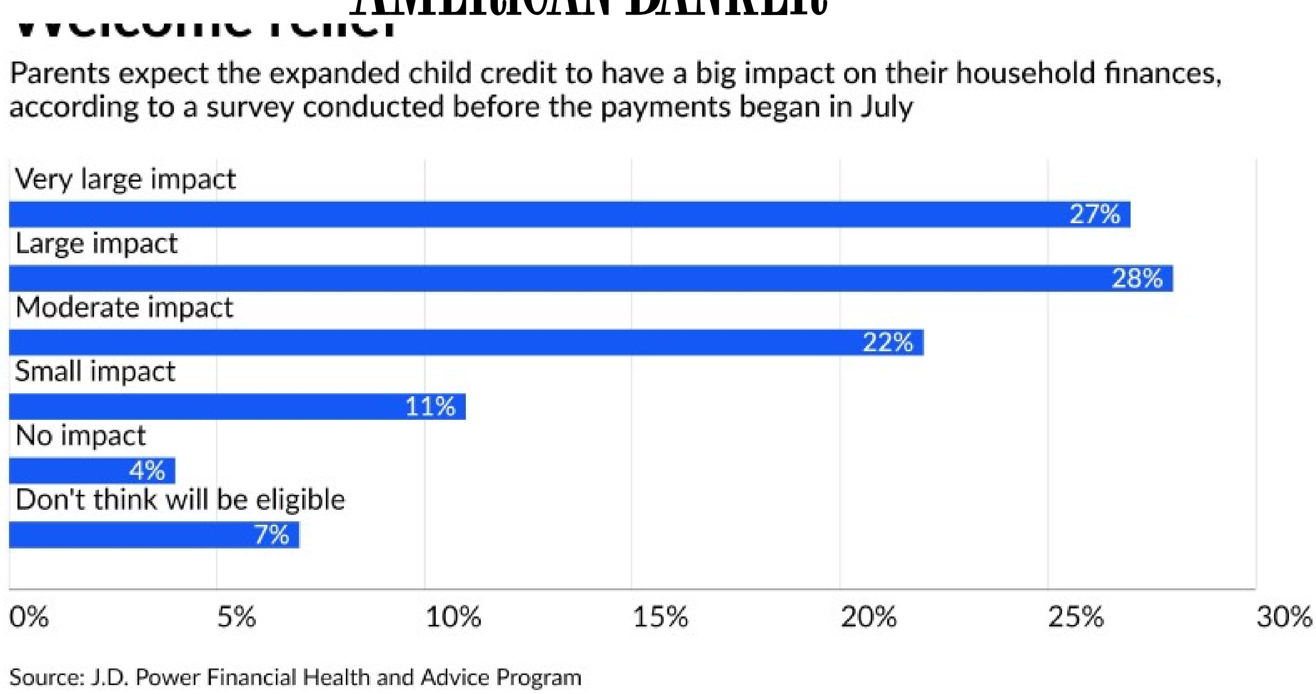

Under the new law, married couples with income under $150,000 receive a tax credit of $3,600 for each child under age six and $3,000 per child ages six to 17. The benefit, which gradually phases out for higher-income families, is larger than in previous years. But arguably as important, much of the money is arriving in monthly cash payments over the second half of 2021, rather than only as a lump-sum credit at tax time.

Families that have direct deposit information on file with the IRS received their first monthly payment in mid-July. But the Biden administration has been struggling with how to get the funds with an online portal where families that did not file tax returns last year can go to sign up for the payments. Many of those families have low incomes.

On July 30, three bank CEOs discussed the child tax credit during a meeting with Deputy Treasury Secretary Wally Ademeyo. A Treasury Department press release did not name the chief executives but did identify them as members of the board of directors of the Bank Policy Institute, an industry group that represents big banks.

During the meeting, the CEOs spoke about synergy between the child tax credit and a private-sector-led initiative, known as Bank On, in which banks offer low-fee accounts in an effort to increase access to the mainstream financial system, according to a source familiar with the discussion.

Safe and affordable bank accounts are critical to receiving and using the child tax credit funds faster and without fees, Jonathan Mintz, president and CEO of the Cities for Financial Empowerment Fund, which establishes standards for Bank On accounts, said in a July statement.

It's unclear what exactly was said at the Treasury meeting last month, but banks have previously faced pressure to market Bank On accounts more aggressively, which would make more consumers aware of their availability. In addition, not all banks currently offer the low-fee accounts.

In a written statement to American Banker, a Treasury spokesperson said that financial institutions have an important operational role with respect to the child tax credit, stating that more than 85% of the first round of payments were made by direct deposits.

"In addition to increasing awareness and facilitating direct deposits, financial institutions can promote financial inclusion through participation in programs like Bank On," the statement read. "The Treasury Department will continue to engage stakeholders in the financial community to ensure that all eligible Americans can receive these payments."

Meanwhile, some banks have started reaching out to existing customers who are eligible for the

The government payments figure to make a particularly big impact on the household balance sheets of families with relatively low incomes.

A single parent who earns $65,000 per year and has two young kids could receive an additional $15,000 between July 2021 and March 2022 as a result of various child-related provisions in the law that Biden signed last spring, according to calculations by Commonwealth, a nonprofit organization that focuses on financial security.

“We talk about it internally as a once-in-a-generation opportunity,” said Arijit Roy, an executive vice president at Truist Financial.

After the tax credits were enacted, Truist quickly assembled what executives called a SWAT team to sort through the consequences. “It was a pure sprint,” said Bahari Harris, a retail strategy manager at the Charlotte, North Carolina, bank. “This was an opportunity for us to say, ‘Hey, let’s think about savings.’”

Truist has published tips about what to do with the government payments — and about how saving, paying down debt and buying kids’ essentials could all play a part. The first tip is to develop an intentional plan for the funds.

In the coming weeks, Truist plans to release a podcast about the child tax credit. It is also informing employees at call centers and in branches about how to answer questions they are likely to receive.

Roy believes that Truist’s ability to provide face-to-face advice gives it an advantage over fintechs that rely on digital channels. “This is one example where actually being a universal full-service bank with several thousand branches actually helps,” he said.

Rockland Trust Company in Massachusetts has recently sent emails to customers in an effort to educate them about the child tax credit. “Some of the audience may have seen a deposit in their

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Tufano, the business school professor, has been surveying U.S. parents about the child tax credit in partnership with the data analytics company J.D. Power. In a June survey, 55% of parents said that they expect the payments to have either a large or very large impact on their household finances.

Some 63% of the tax credit's recipients said they expect to save some of the money by the end of the year, according to Tufano. Another 75% said they would like help from their banks on what to do with the funds, the survey found.

The monthly payments to eligible families — a maximum of $600 per month for a household with two kids under age five — will continue through December. The regular payment schedule in the middle of each month should make it easier for families to plan, said Timothy Flacke, Commonwealth's executive director.

"Who better than their bank to help them draw attention to what's coming their way?" he said.

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