

Opportunity for banks in offering low-cost deposit accounts

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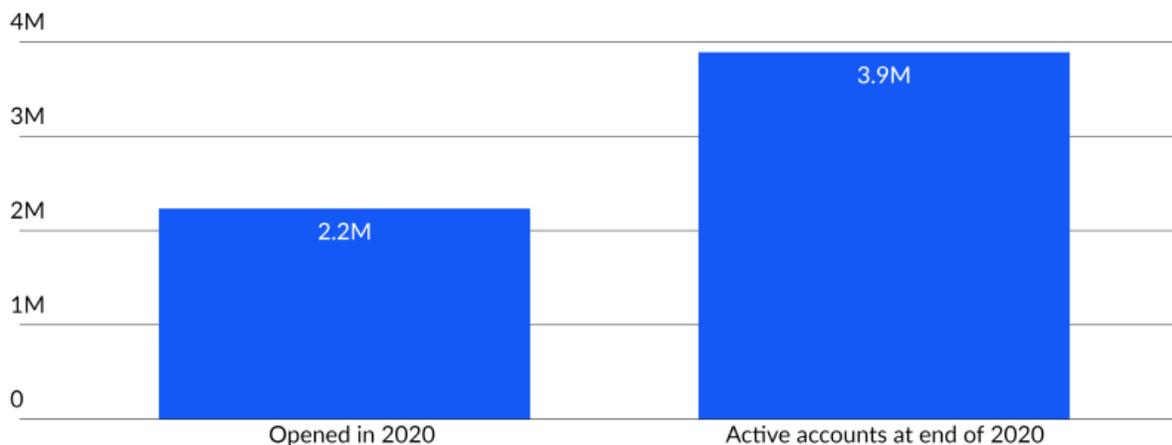
There's money to be made for banks that offer low-cost deposit accounts to previously unbanked or underbanked households.

That's one of the key takeaways from a recent Federal Reserve Bank of St. Louis report that looks at new account openings, debit transactions and online banking activity, associated with Bank On checking accounts. Bank On accounts, offered by dozens of banks, must charge no overdraft fees and no-fee debit cards, among other things, as designated by the nonprofit Cities for Financial Empowerment Fund.

Last year, customers at 17 financial institutions opened 2.2 million new Bank On checking accounts. Among those, 82% were new customers and 79% regularly used online banking options, the St. Louis Fed said in a report based on information submitted to its Bank On National Data Hub.

Influx of new customers

More than half of nearly 4 million Bank On accounts that were active at the end of 2020 were opened that same year, according to new data from 17 financial institutions



Source: Federal Reserve Bank of St. Louis

The findings offer a fuller picture of the potential opportunity for banks in offering low-cost deposit products at a time when banks are facing more pressure to cater to low- and moderate-income consumers. The study also shows that consumers are actually using these accounts for their day-to-day needs, like buying groceries and paying bills, and not simply opening them to get government benefits or avoid check-cashing fees.

“People want these accounts, they want to use these accounts, they’re literally starting a relationship with a new bank because of these accounts,” said David Rothstein, a senior principal at the Cities for Financial Empowerment Fund who leads the Bank On program.

The nonprofit launched its Bank On accreditation program in October 2015 as part of a broader effort to work with state and local governments on their own financial inclusion efforts. The basic idea behind the program was to create a uniform set of affordability standards so that local leaders could better understand what accounts they can recommend to low-income residents.

Bank On has gained new momentum over the past year, in part because of concerns about how unbanked consumers would be able to access government benefits, like stimulus payments and child care tax credits.

In July, about 100 banks nationwide offered Bank On-certified checking accounts. Today, over 170 financial institutions nationwide offer such accounts, which have a minimum opening deposit of \$25 or less. In recent months, Regions Financial in Birmingham, Alabama, and Citizens Financial Group in Providence, Rhode Island, announced they would launch their own Bank On-certified products. Such trade groups as the Bank Policy Institute and the American Bankers Association have also urged their members to work with the Cities for Financial Empowerment Fund to develop their own Bank On products.

The St. Louis Fed first began examining data about Bank On accounts in 2017, but just five banks participated in that pilot, said Daniel Paul Davis, a vice president and community affairs officer. Its most recent assessment of 2020 included 17 financial institutions, up from 10 in 2019, and included Wells Fargo, U.S. Bancorp and Bank of America. The agency measures 25 criteria at participating institutions, including the number of new accounts opened, usage and online access.

While 73% of Bank On account holders made regular, non-automated deposits, just under one-third used direct deposit, likely because direct deposit rates tended to be lower among low-income consumers.

“On one hand, you want the direct deposit number to be really high because that means that people are quickly and safely getting money into their account,” Rothstein said. But many low-income workers also still get paid by cash or paper check and don’t necessarily have direct deposit as an option, he added.

“To us, that’s a huge silver lining there because that means people are literally taking cash or a paper check and still putting money into their account,” he said. “That is a great metric of success for us because that type of customer has been the least likely to be banked.”

Just 3% of account holders used bill pay capabilities, but the St. Louis Fed also noted that many consumers use their debit cards to pay bills. Three-quarters of Bank On account holders in the study used their debit card, and those debit transactions totaled over \$767 million throughout the year.

The St. Louis Fed also looked at the proportion of Bank On accounts that were closed in a given year. That figure fell to 26% in 2020 from 30% in 2019. That metric is consistent with what participating banks say they see across all types of checking accounts, but Davis said the agency hopes to eventually gain more clarity into whether that metric means Bank On accounts are having the intended effect.

“The hypothesis is that there’s probably a share of that that's individuals graduating into another account,” he said.