

Investigating the Real Impacts of Debanking in America
Testimony of Aaron Klein, Miriam K. Carliner Chair and Senior Fellow, Brookings Institution

Chairman Scott, Ranking Member Warren, and members of the Banking, Housing, and Urban Affairs Committee, thank you for the opportunity to testify on the consequences of debanking in America.¹ I commend the Committee for focusing on this real and pressing problem. Access to a bank account is a prerequisite to full participation in America's economy. Barriers to having a bank account for consumers and businesses have to be identified and lowered. This is an issue I have spent years researching, analyzing, and working on during my tenure in public service, including the honor and privilege of working for this Committee for over eight years.

My testimony explains several factors that have driven debanking, with a focus on individuals. I then look at the progress that has been made in bringing people into the banking system, then conclude with policy recommendations for the new administration, financial regulators, the financial services industry, and Congress to tackle debanking and increase financial inclusion.

If I can leave you with just one takeaway from today, it is this: The best way to combat debanking is to bring people and businesses into the banking system by lowering costs for basic accounts, reforming outdated regulations that hinder access, and creating better services that meet the needs of those living paycheck to paycheck.

What drives the debanking of American consumers

The best way to understand what drives people out of the banking system is to ask those who do not have bank accounts or those who have actually been debanked.

The FDIC's survey on the unbanked and under-banked elucidates the problem.² First, the magnitude: [5.6 million](#), or 4.2% of households, did not have a bank account in 2023. Just under 6% of households³ have a bank account now, but at some point over the past year did not. That means that 10% of the American population is either currently unbanked or was unbanked at some point within the last year. Not having a bank account adds significant cost, makes people financially and physically less healthy, and makes it harder to access future opportunities and fully participate in America's increasingly digital economy.⁴

¹ The views I express in this testimony are my own and do not necessarily reflect the views of other Brookings Institution staff members, officers, or Trustees.

² Federal Deposit Insurance Corporation (FDIC), *2023 FDIC National Survey of Unbanked and Underbanked Households* (Federal Deposit Insurance Corporation, 2024), <https://www.fdic.gov/household-survey/2023-fdic-national-survey-unbanked-and-underbanked-households-report>.

³ This discussion of population is based on households as defined in the FDIC survey. See Federal Deposit Insurance Corporation (FDIC), *2021 FDIC National Survey of Unbanked and Underbanked Households*, 27.

⁴ Aaron Klein, "Can Fintech Improve Health?," Brookings, September 24, 2021, <https://www.brookings.edu/articles/can-fintech-improve-health/>.

Approximately one in ten Black, Hispanic, and Native American households lack a bank account, about five times higher than for whites. Being unbanked is even more likely among those with a disability, with an unbanked rate above 11%.⁵

Consumers tell us that among the main reasons they don't have bank accounts are:⁶

1. Banking is too expensive: consumers don't have enough money to meet minimum account balances without incurring fees
2. Account fees are too high overall and unpredictable
3. Banks don't offer the services they need such as instant funds availability
4. A lack of trust in banks, concerns about privacy, and problems opening an account due to identification challenges that can come from past banking or credit history

Part of the reason consumers see banking as too expensive is that basic bank accounts are designed for wealthier people or for workers from a bygone era when most families had one worker who had one steady job. That is not the reality today for many Americans who work multiple jobs with sporadic hours and live paycheck-to-paycheck.

Checking accounts are “free” for those who have, for [some banks](#),⁷ up to \$1500 or more in their bank accounts on an average day or have a steady job with direct deposit. Failure to meet either of these criteria results in [extra charges](#) that are often over \$100 a year.⁸ No wonder the number one reason unbanked people cite for not having an account is a failure to consistently meet minimum balance requirements.⁹ This also explains why being unbanked is strongly correlated with income. More than one in five households who earn \$15,000 or less per year are unbanked, compared with less than one in fifty who earn \$50,000 to \$75,000 and less than one in one hundred among those who earn over \$75,000 a year.¹⁰

The next biggest price concern is that fees are “too unpredictable.” The most painful unpredictable fee is an overdraft fee, which is charged when a consumer has run out of money and the bank processes a payment. [After regulators exempted overdraft fees](#) from lending laws,

⁵ Federal Deposit Insurance Corporation (FDIC), *2021 FDIC National Survey of Unbanked and Underbanked Households*, 24.

⁶ Federal Deposit Insurance Corporation (FDIC), *2021 FDIC National Survey of Unbanked and Underbanked Households*, 28.

⁷ “Compare Checking Accounts,” RegionsBank, accessed February 4, 2025, <https://www.regions.com/personal-banking/checking/compare-checking-accounts>.

⁸ Liz Smith, “Checking Account Fees: How Much Are They and How Can You Avoid Them?,” SmartAsset, accessed February 4, 2025, <https://smartasset.com/checking-account/cost-of-checking-account-fees-and-how-to-avoid>.

⁹ Federal Deposit Insurance Corporation (FDIC), *2021 FDIC National Survey of Unbanked and Underbanked Households*, 3.

¹⁰ Federal Deposit Insurance Corporation (FDIC), *2021 FDIC National Survey of Unbanked and Underbanked Households*, 23.

the amount of such fees ballooned to an estimated \$30 billion per year.¹¹ Just under 9% of Americans are considered “heavy overdrafters” who average more than 10 overdrafts per year and pay nearly 80% of all overdraft fees.¹² With many banks and credit unions charging a penalty fee of \$35 per overdraft, and some also adding a non-sufficient funds fee (NSF), these fees can add up to a significant share of some consumers’ incomes.¹³

Consumers who frequently overdraft their accounts are unlikely to meet high minimum balance requirements and can thus find themselves paying both monthly minimum and overdraft fees. Such costs could approach \$500 per year, proving the adage that it is expensive to be poor in America. The cost of basic banking is the main reason why people leave the banking system and why many cannot afford to return. About one in nine currently-unbanked households reported having a bank account in the past twelve months.¹⁴ For many of these people, leaving the banking system is the cheaper alternative to the high costs imposed by many financial institutions for trying to bank while living on the financial edge.

One out of every five unbanked persons report that banks don’t offer the services they need as a major reason why they are unbanked.¹⁵ A prime example of this is access to their own money. When a person deposits their paycheck or any other check, banks and credit unions are allowed to sit on those funds for several business days. With weekends and holidays, the practical effect for someone living paycheck-to-paycheck can be devastating.

Consider a person who last week came up short on their bills, worked a second or third job, and got paid on Friday, January 31. They pull up their phone and deposit the check, which enters the processing system at the speed of light. However, because the Federal Reserve has not increased the speed at which banks are required to make that check available in over 37 years (in violation of the Expedited Funds Availability Act’s requirements that the Fed do so) the person does not have access to their paycheck until Tuesday, February 4.¹⁶ This means that while the person had the money in time to pay rent and other bills due and automatically deducted on Saturday, February 1, the person could still be charged overdrafts, late fees, or face other consequences of being late.

¹¹ Aaron Klein, “Getting Over Overdraft,” Brookings, November 7, 2022, <https://www.brookings.edu/articles/getting-over-overdraft/>; Maria LaMagna, “Overdraft Fees Haven’t Been This Bad since the Great Recession,” MarketWatch, April 2, 2018, <https://www.marketwatch.com/story/overdraft-fees-havent-been-this-bad-since-the-great-recession-2018-03-27>.

¹² “CFPB Research Shows Banks’ Deep Dependence on Overdraft Fees,” Consumer Financial Protection Bureau, December 1, 2021, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-research-shows-banks-deep-dependence-on-overdraft-fees/>.

¹³ Channele Bessette and Spencer Tierney, “Overdraft Fees: Compare What Banks Charge in 2025,” NerdWallet, January 24, 2025, <https://www.nerdwallet.com/article/banking/overdraft-fees-what-banks-charge>.

¹⁴ Federal Deposit Insurance Corporation (FDIC), *2021 FDIC National Survey of Unbanked and Underbanked Households*, 27.

¹⁵ Federal Deposit Insurance Corporation (FDIC), *2021 FDIC National Survey of Unbanked and Underbanked Households*, 28.

¹⁶ Seth Frotman, “Response to Petition for Rulemaking,” January 8, 2025, https://files.consumerfinance.gov/f/documents/cfpb_aaron-klein_response_508_2025-01.pdf.

This explains [my research](#) that found that 70% of people who use check cashers—a notoriously expensive way to get cash quickly—have bank accounts.¹⁷ Why would someone use a check casher when they have a bank account? Because the check casher gives you instant access to your money, while the bank does not. The failure of the banking system to give people faster access to their money makes banking much more expensive and drives people out of the banking system.

It does not need to be like this. Universal banking is the norm in countries like the United Kingdom, Canada, and Germany where [almost everyone \(more than 99.5% of people\) has a bank account](#).¹⁸ Had America instituted real-time payments when the [United Kingdom did](#) in 2008, people working paycheck to paycheck would have saved over \$100 billion that instead has gone to overdraft fees, check cashers, and payday lenders.¹⁹ Access to faster payments is one way we could help make this happen and reduce debanking.

Reforming Anti-Money Laundering Laws and Regulations

Another major set of reasons cited by consumers deals with issues of trust, privacy, and identity verification. These three issues relate, in various ways, to the application of anti-money laundering (AML) laws including the Bank Secrecy Act (BSA) and regulations implementing Know Your Customer (KYC) requirements among others, and their [enforcement](#).²⁰ America's AML system is built on the simple and powerful premise that many crimes generate money and that money often finds its way into the banking system. Using the information and data from the banking system can allow law enforcement to catch and convict criminals. An analogy: if criminals are like scuba divers swimming in darkness at the bottom of the ocean, they can be hard to find. Money, like air bubbles, floats to the surface. If you can trace the bubbles to the bottom, you can catch the crook.

Unfortunately, our [AML system](#) in practice operates with a great deal of inefficiency, which makes banking more expensive for everyone and drives the debanking of some consumers and small businesses.²¹

¹⁷ Aaron Klein, "Can Fintech Improve Health?" https://www.brookings.edu/wp-content/uploads/2021/09/20210922_Klein_Can_fintech_improve_health.pdf

¹⁸ "The Global Findex 2021: Interactive Executive Summary Visualization," Text/HTML, World Bank, accessed February 3, 2025, <https://www.worldbank.org/en/publication/globalfindex/interactive-executive-summary-visualization>.

¹⁹ Aaron Klein, Comment Letter to the Federal Reserve, December 14, 2018 https://www.federalreserve.gov/SECRS/2018/December/20181221/OP-1625/OP-1625_121418_133277_428769914666_1.pdf; Pay.UK. "Faster Payment System." Accessed February 12, 2025. <https://www.wearepay.uk/what-we-do/payment-systems/faster-payment-system/>.

²⁰ Aaron Klein, "State Incorporation Laws: Good for Crooks, Bad for Banks," Brookings, April 10, 2017, <https://www.brookings.edu/articles/state-incorporation-laws-good-for-crooks-bad-for-banks/>.

²¹ Aaron Klein, "3 Steps to Improve Anti-Money Laundering Regulation," Brookings, December 9, 2020, <https://www.brookings.edu/articles/3-steps-to-improve-anti-money-laundering-regulation/>.

Banks are required to report on a myriad of activities, many of which provide little, if any, benefit to law enforcement. Consider the currency transaction reporting (CTR) rule, which requires banks to report on any transaction above \$10,000 in cash. When Congress established that rule in 1972, a person could have bought a brand new, fully loaded [Cadillac in cash](#) and not triggered such a report.²² Had we adjusted the \$10,000 CTR limit for inflation, it would be over \$75,000 today.²³ We have not, however, and the result was 20.9 million CTRs filed in 2023.²⁴ If Congress set the threshold for criminal activity at a much higher level fifty years ago, what is the compelling reason for the government to be looking at transactions so much lower today? And who in law enforcement is reading these 21 million reports to use them proactively?

Suspicious activity reports (SARs) are another AML requirement the goals of which make sense but have run amuck. KYC rules specify that when a bank has reason to believe their customer is engaged in something suspicious, they are required to report it. The idea here is that will create leads for law enforcement to follow to catch criminals. Does it work? We do not know. Banks are not told how effective their SAR filings are for law enforcement, [hindering](#) their ability to file more effectively.²⁵

Banks filed 2.5 million SARs in 2023,²⁶ compared to just [288,000 SARs](#) in 2003.²⁷ Who is reading all of these? Are SARs fulfilling their purpose? SARs are expensive for banks, which [spend billions annually](#) on SAR compliance.²⁸ Treasury's FinCEN estimates each SAR requires two hours of work by the filing bank, while banks argue the true number is more than 20 hours.²⁹ Whichever it is, the costs of SAR filings are staggering and have grown sharply over the past two decades.

These costs are passed back on to consumers and businesses both generally and specifically toward those who are the subject of SAR filings. Consider the reporting required of banking a

²² Aaron Klein and Kristofer Readling, "Why Do 1970s Prices Dictate Anti-Money Laundering Rules?," Bipartisan Policy Center, March 17, 2016, <https://bipartisanpolicy.org/blog/1970s-prices-anti-money-laundering/>.

²³ Using [BLS CPI inflation calculator](#) \$10,000 in January 1972 equals \$76,790 in December 2024. "CPI Inflation Calculator," Bureau of Labor Statistics, accessed February 4, 2025, https://www.bls.gov/data/inflation_calculator.htm.

²⁴ U.S. Government Accountability Office, *Currency Transaction Reports: Improvements Could Reduce Filer Burden While Still Providing Useful Information to Law Enforcement* (Washington, D.C., 2024), 46, <https://www.gao.gov/assets/gao-25-106500.pdf>.

²⁵ Bank Policy Institute Staff, "The Truth About Account Closures," Bank Policy Institute, December 13, 2024, <https://bpi.com/the-truth-about-account-closures/>.

²⁶ Financial Crimes Enforcement Network (FinCEN), *Year in Review for FY 2023* (Washington, D.C., 2024), 3, [https://www.fincen.gov/sites/default/files/shared/FinCEN Infographic Public 508FINAL 2024 June 7.pdf](https://www.fincen.gov/sites/default/files/shared/FinCEN%20Infographic%20Public%20508FINAL%202024%20June%207.pdf).

²⁷ "The SAR Activity Review - By the Numbers" (Financial Crimes Enforcement Network, June 2009), https://www.fincen.gov/sites/default/files/sar_report/sar_by_numb_12.pdf.

²⁸ "Study Reveals Annual Cost of Financial Crime Compliance Totals \$61 Billion in the United States and Canada," LexisNexis Risk Solutions, February 21, 2024, <https://risk.lexisnexis.com/about-us/press-room/press-release/20240221-true-cost-of-compliance-us-ca>.

²⁹ Bank Policy Institute Staff, "Trades Urge FinCEN to Recognize Accurate Estimates for the Time Required to File SARs," Bank Policy Institute, July 1, 2024, <https://bpi.com/trades-urge-fincen-to-recognize-accurate-estimates-for-the-time-required-to-file-sars/>.

person who works at a state-licensed cannabis company. Because cannabis is illegal under federal law, banks [must flag](#) these workers' accounts as suspicious and begin copious reporting.³⁰ Failure to do so, or reporting less than is expected, can trigger regulatory fines and other sanctions. For many banks, these costs are [simply not worth it](#), leading them to [deny services](#) and debank people and businesses.³¹

The same is true for state-licensed cannabis companies. [One report](#) from my state of Maryland indicated that only three banks or credit unions in the state will bank cannabis companies and they charge around \$20,000 per year to open and maintain a simple bank account.³² [These costs](#) reflect both a lack of competition and the high regulatory burden banks and credit unions face due to all of the filings required for these businesses.³³ As a result, [many cannabis companies](#) are effectively debanked and forced to operate with cash (since payment processing firms are wary of finding themselves debanked for serving cannabis companies), which makes these business targets for criminals.³⁴

What is the marginal value gained by banks filing SARs and reporting on cannabis companies? If law enforcement wants to find and shut down cannabis businesses there is a much cheaper, [faster method](#): search Google Maps.³⁵ If you want to find who owns these companies go to the state capital where there are substantial records filed.

Consumers who are deemed high-risk, or more accurately high-cost and low-profit, can become debanked for similar reasons. Data on this is difficult to come by. As the [New York Times concluded](#) in a report on the costs and consequences of SARs and debanking, "If the bank has filed a SAR, it isn't legally allowed to tell you, and the federal government prosecutes only a

³⁰ "BSA Expectations Regarding Marijuana-Related Businesses," Financial Crimes Enforcement Network, February 14, 2014, <https://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses>.

³¹ Jaclyn Allen, "Littleton Family Claims Bank Closed Accounts after Husband Reveals He Works in the Pot Industry," Denver 7 Colorado News (KMGH), August 3, 2018, <https://www.denver7.com/news/contact7/littleton-family-claims-bank-closed-accounts-after-husband-reveals-he-works-in-the-pot-industry>; Michael R. Blood, "New Era for Pot Regulation Leaves Old Problem: Many Cannabis Companies Can't Find a Bank," AP News, May 1, 2024, <https://apnews.com/article/marijuana-biden-reschedule-banks-illegal-f298832392d3e7aedb066204ecef792b>.

³² Meghan Thompson, "Maryland Cannabis Companies Face Exorbitant Fees To Access Banking Services," Outlaw Report, June 18, 2021, <https://outlawreport.com/maryland-cannabis-companies-face-exorbitant-fees-to-access-banking-services/>.

³³ Aaron Klein, "Banking Regulations Create Mess for Marijuana Industry, Banks, and Law Enforcement," Brookings, April 23, 2018, <https://www.brookings.edu/articles/banking-regulations-create-mess-for-marijuana-industry-banks-and-law-enforcement/>.

³⁴ Aaron Klein, "Cannabis: The New Green That's Filling State Cooffers," Brookings, May 1, 2019, <https://www.brookings.edu/articles/cannabis-the-new-green-thats-filling-state-cooffers/>.

³⁵ Aaron Klein, "Op-Ed: An Easy Fix Could Give the Marijuana Industry Access to Banking," Los Angeles Times, January 30, 2019, <https://www.latimes.com/opinion/op-ed/la-oe-klein-marijuana-banking-20190130-story.html>.

small fraction of the people whom the banks document in their SARs. As a result, you don't what you're under suspicion for.”³⁶

Combining the over 20 million annual CTRs, the 4.5 million SARs from banks and others who file, plus other related BSA filings, the total financial services tracking regime is generating around 27 million filings a year under the broad BSA banner.³⁷ The IRS, for which this data should help catch tax evaders, [notes](#) that 85% of their criminal prosecutions involve someone who has had a report filed on them. However, only around 15% of those prosecutions begin because of a BSA filing.³⁸ Because the IRS does not prosecute many people (an issue for another day), [research from Nicholas Anthony at the CATO Institute](#) finds that in the most recent year of data, only 372 total IRS prosecutions began with information from any of these 27 million filings.³⁹ That's a large and costly haystack of data to produce such few prosecutions for tax evasion. We would be better served by a regime that produced fewer reports that are better targeted to the activities we want to stop.

Our AML framework generates significant expenses for a subset of consumers and businesses. Banks respond economically and will tolerate and pass along AML costs for customers who are profitable enough. Those who are not profitable have a hard time getting a bank account. A [New York Times study](#) identified who many of these people are: small businesses that deal with a lot of cash—such as bars, restaurants, and cannabis firms—and people who send money to their families overseas.⁴⁰

Having shown the debanking of those who are deemed unprofitable, it is illustrative to look at how a wealthy person who should have triggered substantial AML, SARs, and other flags but seemed to have no problem keeping his bank account.

Shohei Ohtani, the most famous baseball player in the world, was implicated in a large-scale gambling operation in which the Department of Justice [alleges](#) his interpreter, Ippei Mizuhara, gained access to Ohtani's bank account and wired huge sums of money from his account (which had almost no other activity) to a bank account run by a person running an illegal sports betting operation.⁴¹ DOJ has [released](#) a phone call in which Mizuhara impersonates Ohtani to ask to wire \$200,000 to this alleged bookie and when asked by the bank he says it is for a “car loan” to

³⁶ Ron Lieber and Tara Siegel Bernard, “Why Banks Are Suddenly Closing Down Customer Accounts,” *The New York Times*, November 5, 2023, sec. Business, <https://www.nytimes.com/2023/11/05/business/banks-accounts-close-suddenly.html>.

³⁷ Nicholas Anthony, “Update on Anti-Money Laundering Data from FinCEN,” Cato Institute, September 16, 2024, <https://www.cato.org/blog/update-anti-money-laundering-data-fincen>.

³⁸ Anthony, “Update on Anti-Money Laundering Data from FinCEN.”

³⁹ Anthony, “Update on Anti-Money Laundering Data from FinCEN.”

⁴⁰ Lieber and Bernard, “Why Banks Are Suddenly Closing Down Customer Accounts.”

⁴¹ U.S. Attorney's Office, Central District of California, “Japanese-Language Translator Charged in Complaint with Illegally Transferring More Than \$16 Million from Baseball Player's Account,” United States Department of Justice, April 11, 2024, <https://www.justice.gov/usao-cdca/pr/japanese-language-translator-charged-complaint-illegally-transferring-more-16-million>.

a “friend” and could be followed by more transfer requests.⁴² This was one of a series of wire transfers totaling nearly \$17 million from a foreign national’s bank account to another individual’s personal bank account. While we do not know if Ohtani’s bank filed SARs on him at any point, we do know that the bank account was kept open, the wires sent, and the customer was given what he wanted—even when he was being impersonated. This is one example of how the wealthy avoid being debanked while those who are less profitable customers are debanked.

The Ohtani case also illustrates problems with identity verification, which can be a barrier to becoming banked, a driver of debanking, and a costly compliance problem in our existing AML regime. While the movement to a digital world with online banking has improved the world of financial services, it has also made digital identity verification more important and more difficult. Complicating these matters, the only mandatory federal identity given is a Social Security number (SSN).

In our digital era, a nine-digit figure assigned at birth is no longer the gold standard of identity verification. The use of digital IDs can reduce fraud and the incidence of human error in the verification process, increase the security of private customer information, and decrease the potential for discrimination. By reducing the cost of the verification using a risk-based process, digital IDs can promote financial inclusion.

My state of Maryland, like many others, has moved to a digital driver's license. But while digital identity works seamlessly for some applications, banks generally use outdated technology, sometimes at the instance of regulators. It is ironic that Treasury’s Financial Crimes Enforcement Network (FinCEN) had been [focused](#) on the question of whether and how to move from using all nine digits of an SSN instead of just four for verification purposes⁴³ just when digital identity technology is making rapid advances in both the private and public sectors. FinCEN should instead be leading a consortium of financial regulators, financial industry representatives, and technology firms in developing a superior identity system.⁴⁴ This Committee should conduct vigorous oversight over FinCEN’s identity plans to ensure they balance civil liberties, privacy, and AML goals. New technology should in this case allow win-win outcomes.

We must also ensure that as part of KYC, BSA, and AML compliance we avoid creating a “Do Not Bank List.” There are concerns that services like CheX Systems are used by 80% of banks and

⁴² Evan Drellich and Sam Blum, “Exclusive: Audio Reveals Ohtani’s Former Interpreter Impersonating Dodgers Star in Call with Bank,” *The New York Times*, accessed February 3, 2025,

<https://www.nytimes.com/athletic/6084445/2025/01/23/shohei-ohtani-interpreter-audio-money-transfer-ippei/>.

⁴³ Financial Crimes Enforcement Network (FinCEN), “Request for Information and Comment on Customer Identification Program Rule Taxpayer Identification Number Collection Requirement,” Federal Register, March 29, 2024, <https://www.federalregister.gov/documents/2024/03/29/2024-06763/request-for-information-and-comment-on-customer-identification-program-rule-taxpayer-identification>.

⁴⁴ Aaron Klein, “Comments on FinCEN’s Proposed Changes to Customer Identification Rules,” Brookings, May 20, 2024, <https://www.brookings.edu/articles/comments-on-fincens-proposed-changes-to-customer-identification-rules/>.

credit unions to determine whether to open an account.⁴⁵ Regulations for customer verification under BSA include a specific reference to Chex Systems for data eligibility.⁴⁶ Yet the first issue the Consumer Financial Protection Bureau (CFPB) mentions in why a consumer may be denied a bank account is a person's negative history as reported by Chex Systems.⁴⁷ Chex Systems reporting contains information about people ranging from suspicion of prior fraud to any past bank or credit union account that was closed with a negative balance, including those held jointly.⁴⁸ Because data on Chex and the other major reporting company, Early Warning Services, are not public it is not clear how much banks rely on their data in making account denial decisions. However, one older study estimates that 2.3 million account applications were denied in a single year based on these reports.⁴⁹ That would be equal to approximately 40% of the total number of unbanked households.⁵⁰

The effect of using Chex systems means that if a person is reported to have problems that for any reason, result in a low score flagging them as "not bankable" it can be difficult to open a high-quality bank account. What if the report on you is placed in error? While Chex is regulated as a credit reporting agency, there is no requirement that its list be accurate. Instead, the law only requires that they conduct a reasonable investigation if a person claims they should be removed from the list. As one report concluded: "Based on consumer complaints, it seems that financial institutions and account screening CRAs often fail to conduct meaningful or substantive investigations when a consumer lodges a dispute."⁵¹ The Treasurer of San Francisco found "systemic issues in both ChexSystems' design and implementation, resulting in significant confusion and unfairness and ultimately undue exclusion for low-income consumers, and in particular Black consumers."⁵²

Build on Positive Momentum

A discussion of solutions to reduce debanking should acknowledge the progress that has already been made and what has worked that can be built upon. The unbanked rate has fallen

⁴⁵ Chi Chi Wu, "Account Screening Consumer Reporting Agencies: A Banking Access Perspective" (National Consumer Law Center, October 1, 2015), 3, <https://www.nclc.org/resources/account-screening-consumer-reporting-agencies-a-banking-access-perspective/>.

⁴⁶ Federal Deposit Insurance Corporation (FDIC), "Bank Secrecy Act, Anti-Money Laundering, and Office of Foreign Assets Control: Section 8.1," n.d., <https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/section8-1.pdf>.

⁴⁷ "Why Was I Denied a Checking Account?," Consumer Financial Protection Bureau, December 18, 2024, <https://www.consumerfinance.gov/ask-cfpb/why-was-i-denied-a-checking-account-en-1113/>.

⁴⁸ "Why Was I Denied a Checking Account?"

⁴⁹ Wu, "Account Screening Consumer Reporting Agencies: A Banking Access Perspective," 6.

⁵⁰ Federal Deposit Insurance Corporation (FDIC), *2023 FDIC National Survey of Unbanked and Underbanked Households*, 1.

⁵¹ Wu, "Account Screening Consumer Reporting Agencies: A Banking Access Perspective," 4.

⁵² Maya Oubre et al., "Blacklisted: How ChexSystems Contributes to Systemic Financial Exclusion" (San Francisco, CA: San Francisco Office of Financial Empowerment, June 2021), 7.

by almost half since peaking at over 8% in 2011.⁵³ As unbanked rates have fallen, so too have rates among racial minorities and the disabled, who remain significantly more likely to be unbanked or become debanked.⁵⁴ While many factors are at play, I believe a few have been particularly effective and deserve mention.

The [Bank-On program](#),⁵⁵ a spin-off of the SAFE Account FDIC pilot program, certifies low-cost, high-quality bank accounts. These accounts have low, predictable fees (which are often waivable) and do not allow high-cost unpredictable fees such as overdrafts.⁵⁶ These accounts have become popular at financial institutions that offer them, with [some reporting](#) 20% or more of new accounts meeting these criteria⁵⁷ and, in the aggregate, there were [more than](#) 11 million total Bank-On accounts open as of the end of 2023.⁵⁸

Most of America's largest banks proactively reduced their reliance on overdrafts and eliminated non-sufficient funds (NSF) fees. As I outlined in testimony before this Committee in 2022,⁵⁹ these changes collectively resulted in \$5 billion per year going from bank profit back into the pockets of people most at risk of leaving the banking system. Since then, more banks and credit unions have reformed their practices, but many have not.

The CFPB has put out a strong proposed [overdraft regulation](#)⁶⁰ that is based on the fundamental economic reality that the extension of overdraft in return for a fee that is meant to be profitable for the bank, and punitive for the consumer, should be classified as credit. As an economist, it is difficult for me to argue with that logic. As a regulatory matter, it is problematic that the CFPB's rule exempts the majority of banks and credit unions with less than \$10 billion in assets. Not only will that create an unlevel playing field, but [my research](#) has uncovered that a handful of those institutions are overdraft predators that generate overdraft revenue at rates of more than

⁵³ Federal Deposit Insurance Corporation (FDIC), *2023 FDIC National Survey of Unbanked and Underbanked Households*, 1.

⁵⁴ While not a transactional banking product, ABLE accounts helping the disabled create savings vehicles while maintaining eligibility for SSDI and other benefits have shown promise. Social Security Administration believes more can be done to improve their effectiveness a topic worth future exploration see: Jody Ellis, Marlene Ulisky, and Laurie Schaller, "ABLE Act – 10 Years of Progress for People With Disabilities," SSA, December 19, 2024, <https://blog.ssa.gov/able-act-10-years-of-progress-for-people-with-disabilities/>.

⁵⁵ "BankOn," accessed February 4, 2025, <https://joinbankon.org/>.

⁵⁶ "Expand Banking Access In Your Community With Bank On," American Bankers Association, May 6, 2022, <https://www.aba.com/news-research/analysis-guides/expand-banking-access-in-your-community-with-bank-on>.

⁵⁷ Aaron Klein, "How to Fix the Covid Stimulus Payment Problem: Accounts, Information, and Infrastructure," Just Money, August 18, 2020, <https://justmoney.org/a-klein-how-to-fix-the-covid-stimulus-payment-problem-accounts-information-and-infrastructure/>.

⁵⁸ Lisa J. Locke and Nishesh Chalise, "Bank On National Data Hub: Findings from 2023," Federal Reserve Bank of St. Louis, November 12, 2024, <https://www.stlouisfed.org/community-development/bank-on-national-data-hub/bank-on-report-2023>.

⁵⁹ Aaron Klein, "Examining Overdraft Fees and Their Effects on Working Families," Brookings, May 4, 2022, <https://www.brookings.edu/articles/examining-overdraft-fees-and-their-effects-on-working-families/>.

⁶⁰ Consumer Financial Protection Bureau, "Overdraft Lending: Very Large Financial Institutions," Federal Register, December 30, 2024, <https://www.federalregister.gov/documents/2024/12/30/2024-29699/overdraft-lending-very-large-financial-institutions>.

65 times as much per consumer as some of the largest banks.⁶¹ In 2024, for example, Bank of America averaged \$1.37 in overdraft fees per customer while Armed Forces Bank averaged \$91.77 per customer.⁶²

Seeing a market opportunity to challenge legacy banking with technology, a combination of financial technology (fintech) firms have launched, many of which target those who are unbanked or underbanked with products that they hope are better, cheaper, and faster. These new products and methods of reaching people offer substantial promise. A generation ago, the conversation about debanking was largely focused on branches and physical locations. Thanks to smartphone adoption, a large majority of even the neediest people have the equivalent of multiple bank branches in their pockets. That's why branch location and hours are no longer a major reason the unbanked cite for not having an account. The growth of new fintech entrants into the banking system offers the potential to improve financial access and lower costs for consumers. It also generally requires a partnership with a bank or credit union to access parts of the financial and payment systems that are currently only available to regulated banks and credit unions.

However, some fintechs and banks who partner with them have played fast and loose with laws and regulations. Regulators need to continue to enforce rules and regulations appropriately. I fear that a wave of deregulation, particularly of a culture of laxity in enforcement, would give the impression that cops are off the beat and that bad actors can prey on the financially vulnerable. [Reports](#) that CFPB staff have been instructed to stop working on all investigations into illegal activity should be concerning to this Committee.⁶³

Defunding the financial police is a mistake with potentially grave consequences. The [failure of Synapse](#) in 2024 highlights both the complex operations of some of these fintechs and the devastating consequences to consumers who had no idea where their money really was.⁶⁴ Regulators need to be vigilant in monitoring the chain of companies that interact between a consumer and their bank accounts. Creating high standards and enforcing them may mean that some company's economics do not work. If a fintech's economics rely on a process that does not comply with law or intelligent regulation that just means it doesn't work. That is not debanking.

⁶¹ Aaron Klein, "A Few Small Banks Have Become Overdraft Giants," Brookings, March 1, 2021, <https://www.brookings.edu/articles/a-few-small-banks-have-become-overdraft-giants/>.

⁶² Authors calculation of overdraft fees per 12/31/2024 call reports using overdraft revenue divided by number of insured accounts <\$250,000. Note that Armed Forces Bank earns an additional \$17.23 per year per customer on "periodic maintenance fees" and \$14.49 per customer on average per year for "All other service charges on deposit accounts" (15d on call report) bringing their total fee income on low income customers to an average of \$123.49 per year. For more on Armed Forces overdraft fees see: "Overdrafts & Alternatives FAQs," Armed Forces Bank, accessed February 4, 2025, <https://www.afbank.com/learn/help-center/overdrafts-and-alternatives>.

⁶³ Kate Berry, "Treasury's Bessent Tells CFPB Staff to Stop Everything," American Banker, February 3, 2025, <https://www.americanbanker.com/news/treasurys-bessent-tells-cfpb-staff-to-stop-everything>.

⁶⁴ Hugh Son, "How Thousands of Americans Got Caught in Fintech's False Promise and Lost Access to Bank Accounts," CNBC, July 2, 2024, <https://www.cnbc.com/2024/07/02/synapse-fintech-fdic-false-promise.html>.

Progress has come through a combination of industry reforms, regulation, and competition. Each of these can be furthered to combat debanking and increase financial inclusion. Well-designed legislation is necessary since, despite the substantial progress made over the last decade, obstacles remain. Here are specific actions that Congress, regulators, and industry can take.

Debanking Solutions

The Committee's prioritization of debanking as an issue is itself a step forward. Holding hearings on this topic can help focus attention among financial regulators, the Treasury Department, industry, consumer advocates, and impacted individuals and businesses. I hope it also builds a record for bipartisan legislation to reduce the cost of basic banking and reform anti-money laundering laws. Here are eight recommendations that can reduce debanking and ensure that all Americans and businesses can access mainstream, low-cost, high-quality banking services.

Bring More Working People Into the Banking System

1) *Require all banks and credit unions to offer Bank-On style accounts.*

Bank-On accounts are affordable, low-fee, non-overdraft accounts that have proven popular among consumers. The American Bankers Association considers offering these accounts a best practice.⁶⁵ There is no reason why any federally insured bank or credit union should not be required to offer the best practice bank account.

2) *Reduce penalty and surprise fees that debank the financially vulnerable.*

More banks and credit unions need to reform their overdraft practices. Regulators should crack down on predatory overdraft practices and banks and credit unions that rely on them. The CFPB's proposed overdraft regulation is a great starting point. Congress should resist any attempt to overturn it. The observed practice of some banks and credit unions reordering a consumer's transactions during a day in order to maximize overdraft revenue is wrong. The state of New York just [banned](#) this practice and federal regulators should follow.⁶⁶ Federal regulators have for at least a decade turned a blind eye to institutions they regulate like Woodforest, Armed Forces, and Academy Banks that [rely on overdraft fees](#) for the majority of their profits—and ever more egregiously DBA First Texas National Bank and [Frontwave Credit Union](#) for whom overdraft fees were more than 100% of their profits (losing

⁶⁵ Aaron Klein, "Universal Bank Accounts Necessary for Families to Bank on Child Tax Credit," Brookings, April 29, 2021, <https://www.brookings.edu/articles/universal-bank-accounts-necessary-for-families-to-bank-on-child-tax-credit/>.

⁶⁶ Department of Financial Services. "Protecting Consumers: Governor Hochul Cracks Down on Exploitative Overdraft Fees Targeting Low-Income New Yorkers," January 22, 2025. https://www.dfs.ny.gov/reports_and_publications/press_releases/pr20250122.

money on every other aspect of their business).⁶⁷ Any bank or credit union that relies on overdraft fees for the majority of its profit for consecutive years is operating in an unsound and unsafe business practice and should be regulated accordingly.

3) *Improve the design of the financial system to better serve working people.*

How can it be that Amazon can deliver almost anything to almost anyone's door faster than two banks can electronically transfer funds? This delay costs little to people with a lot in their bank accounts and costs a lot to people with little in their bank accounts.

When Congress passed the Expedited Funds Availability Act in 1987, it required the Federal Reserve (later amended in the Dodd-Frank Act to include jointly with the Director of the CFPB) to reduce time lags for holding funds consistent with technological advances. The law includes the term "shall" and not "may."⁶⁸ Having spent years on the staff of this Committee, I know the political fights those two words can cause. The Federal Reserve has ignored this law and continues to do so. The Payments Modernization Act, [proposed](#) in the last several Congresses by Senators Van Hollen and Warren,⁶⁹ would hardwire today's instant payment world into law and make a massive difference in combatting debanking as well as a host of other problems. I can think of no other banking policy that would do as much to help people as simply giving them faster access to their own money.

Reform Anti-Money Launder Laws and Rules

1) *Raise the currency transaction reporting threshold.*

A reasonable place to start would be to the level it was originally set at in 1972, indexed for inflation, which would be just over \$75,000. Other thresholds may make more sense depending on what level of transactions and resources are made available to monitor them. Whatever new level is chosen, it should be indexed to inflation going forward to avoid this type of creep.

2) *Reform Suspicious Activity Reporting.*

FinCEN and federal financial regulators need to overhaul the SARs reporting system. The system would benefit from a rethink with an explicit prioritization of what types of suspicious activity are most important and a process by which financial

⁶⁷ Klein, Aaron. "Credit Unions Are Making Money Off People Living Paycheck to Paycheck." POLITICO, October 5, 2023. <https://www.politico.com/news/magazine/2023/10/05/credit-unions-overdraft-fees-00119904>; Klein, Aaron. "Overdraft Fees Are Big Money for Small Banks." POLITICO, June 24, 2021.

<https://www.politico.com/news/agenda/2021/06/24/bank-overdrafts-big-business-small-banks-495688>.

⁶⁸ Aaron Klein, "Petition to Bank Regulators for Faster Payment Processing," Brookings, October 2, 2024, <https://www.brookings.edu/articles/petition-to-bank-regulators-for-faster-payment-processing/>.

⁶⁹ "Van Hollen, Warren, Pressley, Garcia Introduce Bill to Provide Americans Immediate Access to Money in Their Bank Accounts," U.S. Senator Chris Van Hollen of Maryland, September 22, 2022, <https://www.vanhollen.senate.gov/news/press-releases/van-hollen-warren-pressley-garcia-introduce-bill-to-provide-americans-immediate-access-to-money-in-their-bank-accounts>

institutions are given clearer directives on what to and what not to file. The costs of SAR compliance need to be considered particularly as it relates to filings on lower-income and lower profit generating accounts. SAR reform should be considered in the trilemma framework proposed by Judge and Kashyap where the trade-offs between financial inclusion, civil liberties, and effective AML are weighed against each other.⁷⁰

3) *Improve and pass the SAFE Banking Act.*

Specifically with respect to debanking cannabis, the [SAFER Banking Act](#),⁷¹ which passed the Banking Committee in 2023, would be a helpful piece of legislation. However, because it does not directly address any element of the costly and unproductive SAR filing associated with banking state-licensed cannabis companies, I fear the bill's impact would likely underwhelm what its proponents have argued. I encourage the Committee to either combine SAFER Banking with broader SARs reform or enhance SAFER Banking to address the problems with SARs filing on state-licensed cannabis businesses.

4) *Reform, reduce reliance, or eliminate the usage of ChexSystems and similar "do not bank lists".*

Those who commit or seek to commit fraud deserve punishment, for which financial exclusion may be appropriate. Being poor should not be criminalized, and having a bank account end in a negative balance should not result in permanent exclusion from the financial system. Banks and credit unions, with permission or prodding from regulators, should change how they rely on ChexSystems and other identity or fraud verification scoring systems to only focus on actual cases of fraud. Bank-On accounts have made some progress using a reformed version of ChexSystems data reporting focusing just on fraud as opposed to past closed accounts (real or in error) as a way to allow more people to qualify for bank accounts while not increasing fraud risks to the bank.⁷² This should be the norm for all accounts everywhere.

Congress should require these systems along with other credit reporting agencies to produce accurate reports. Current incentives for these companies are to produce reports at as low a cost as possible and to tolerate significant errors (particularly if those errors are symmetric). Inaccurate information such as being incorrectly placed on a "do not bank list" poses significant and potentially irreparable harm. A person must have proper recourse to have a fair adjudication of any erroneous information.

⁷⁰ Kathryn Judge and Anil K Kashyap, "Anti-Money Laundering: Opportunities for Improvement" (Philadelphia, PA: University of Pennsylvania: Wharton Initiative on Financial Policy & Regulation, 2024), <https://wifpr.wharton.upenn.edu/wp-content/uploads/2024/03/WIFPR-Anti-Money-Laundering-Judge-and-Kashyap.pdf>.

⁷¹ Sen. Jeff Merkley [D-OR], "S.2860 - 118th Congress (2023-2024): SAFER Banking Act," legislation, Congress.gov, December 6, 2023, 2023-09-20, <https://www.congress.gov/bill/118th-congress/senate-bill/2860>.

⁷² Fidelity Information Services (FIS), "ChexSystems Bank on Bundle," n.d., <https://www.fisglobal.com/-/media/fisglobal/files/PDF/product-sheet/ChexSystems-Bank-On-Bundle-Product-Sheet.pdf>.

5) *Incorporate new technology to improve efficiency and lower costs.*

Financial institutions and regulators use outdated technology for a variety of BSA/AML/KYC compliance costs. What I wrote in a [paper](#) with then-University of Michigan Professor Michael Barr and former Federal Reserve Bank of New York official Kay Gifford about international remittances holds for both that purpose and more broadly: “Financial institutions wary of changing to new technology spend more on each transaction, reducing their incentive to compete and bring in new customers. To the extent costs are averaged across customers, non-users of international money transmission pay more in higher bank fees. Innovators seeking to serve cross-border markets are unable to compete as the de-risking cycle reduces access to financial institutions for money transmission businesses. AML/CTF objectives are not met as illicit funds are able to move more easily, masked by either larger flows outside of financial institutions by migrants, or by slower, lower technological processes by which financial institutions move funds. Looking for the real needle in the haystack gets harder when either fake needles or more hay is added.”⁷³

In conclusion, debanking is a serious problem in America. Reforming the structure of basic bank accounts, with a strong eye focused on lowering their costs to consumers and to banks and credit unions to provide them is the best path to bringing people into the banking system. Much of this can be done through regulation, changes in industry practices, and in some instances legislation. The concrete changes listed in the testimony offer a path to reduce debanking and enhance opportunity for millions of Americans, reduce regulatory costs, and strengthen our ability to combat crime.

Thank you again for holding this important hearing and I look forward to answering your questions.

⁷³ Michael Barr, Karen Gifford, and Aaron Klein, “How New Technologies Can Enhance Anti-Money Laundering Efforts and Provide Financial Access,” Brookings, April 17, 2018, <https://www.brookings.edu/articles/how-new-technologies-can-enhance-anti-money-laundering-efforts-and-provide-financial-access/>.