

Before the
SENATE COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS

Regarding

Investigating the Real Impacts of Debanking in America

Statement on behalf of
Consumer Federation of America

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Submitted by:

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Dear Chair Scott and Ranking Member Warren:

Thank you for holding this hearing to examine the growing problem of "debanking." Access to a bank account is paramount to existing in our country. Households need access to a bank account to buy everyday necessities, get paid by their employers, save money for significant expenses, and achieve longer-term financial goals. Unfortunately, many Americans suddenly and without warning lose access to their bank accounts, sometimes for inexplicable reasons that are out of their control. Being evicted from your bank account is alarming and can destabilize numerous aspects of your life. It is expensive -reports estimate that the cost of remaining unbanked could be as much as \$40,000 over a lifetime¹ and time-consuming.

The Consumer Federation of America is an association of non-profit consumer organizations established in 1968 to advance consumer interests through research, advocacy, and education. CFA works to advance pro-consumer policies on various issues before Congress, the White House, federal and state regulatory agencies, state legislatures, and the courts. We communicate and work with public officials to promote beneficial policies, oppose harmful ones, and ensure a balanced debate on issues important to consumers.

Debanking is a widespread problem. The Consumer Financial Protection Bureau's consumer complaint database is replete with examples of consumers whose accounts have been closed, and they detail the painstaking efforts by those individuals to attempt to fix problems and regain access.

¹ Fellowes, Matt, and Mia Mabanta. "Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential." Brookings Institution, January 2008.
http://www.brookings.edu/~media/research/files/reports/2008/1/banking%20fellowes/01_banking_fellowes.pdf.

The fact is that most account closures happen because of pernicious banking junk fees, including overdraft fees. A 2021 report from the San Francisco Treasurer’s Office about debanking highlights research demonstrating that 97.5 percent of the 30 million bank accounts they evaluated were closed because of overdrafts.² Excessive overdraft fees push consumers into a downward debt spiral that becomes increasingly difficult to escape. Lower-income consumers are hit the hardest, and multiple \$35 overdraft fees eat away at their ability to have enough money in their bank account to cover their living costs while staying out of overdraft territory.

An overdraft may be the most expensive form of credit in today’s marketplace. Most overdrafts charged due to debit card purchases occur for transactions of less than \$26. Yet, the prevailing cost of an overdraft exceeds \$27 and is often greater than \$35. Also, since the majority are repaid in 3 or fewer days, the prevailing interest rate on an overdraft is 16,000 percent.³

Ninety percent of frequent overdrafters typically had only a few hundred dollars in their bank account at the end of a day. For too many adults, these shortages are not an unfortunate exception but a fact of life. Federal Reserve research finds that almost forty percent of American adults have less than \$400 in liquid savings. The share is even higher for adults without post-secondary education, living in rural areas, or under age 30: 49 percent, 43 percent, and 48 percent, respectively.⁴ This leads to situations where consumers are debanked simply for being poor, defeating the purpose of maintaining a bank account where you can hold and save money. It is, therefore, unsurprising that a top reason for not holding a bank account is that consumers *do not trust banks*.

When bank accounts cost too much, people choose not to use them. For over a decade, the Federal Deposit Insurance Corporation (FDIC) has surveyed unbanked and underbanked Americans. Consistently, respondents attribute their decision to leave the banking system or substitute services offered by banks with non-bank alternatives because of high fees. In the FDIC’s most recent survey, 33.4 percent of respondents listed "bank account fees are too high," "bank account fees are too unpredictable," or "don't have enough money to meet minimum balance requirements" as a primary reason not to use a bank.⁵

Once debanked, individuals stay outside the system for extended durations at great expense.

The FDIC’s report acknowledged that more than half of all unbanked people have had a bank account in the past. Their experiences with account costs—and the "gotcha" nature of many penalty account fees—directly inform their decision-making.

² Oubre, Maya, Molly Cohen, Jessica Lindquist, Jacob Dumez, and Carly Bertolozzi. “Blacklisted: How ChexSystems Contributes to Systemic Financial Exclusion.” San Francisco Office of Financial Empowerment, June 2021.

<https://www.sfgov.org/ofe/sites/default/files/2021-06/Blacklisted-How%20ChexSystems%20Contributes%20to%20Systemic%20Financial%20Exclusions%20-%20FINAL.pdf>.

³ Consumer Financial Protection Bureau. “Fact Sheet: The CFPB’s Proposed Rule to Curb Excessive Fees on Overdraft Loans By Very Large Banks and Close a Decades-Old Loophole.” Fact Sheet, January 2024.

https://files.consumerfinance.gov/f/documents/cfpb_overdraft-credit-very-large-financial-institutions_fact-sheet_2024-01.pdf.

⁴ “Survey of Household Economics and Decision-making: Adults Who Would Cover a \$400 Emergency Expense Using Cash or Its Equivalent.” Report on the Economic Well-Being of U.S. Households. Board of Governors of the Federal Reserve System, 2024. <https://www.federalreserve.gov/default.htm>.

⁵ “2023 FDIC National Survey of Unbanked and Underbanked Households.” Federal Deposit Insurance Corporation, November 2024. <https://www.fdic.gov/household-survey/2023-fdic-national-survey-unbanked-and-underbanked-households-report>.

Once debanked, people remain unbanked, often against their preference. Negative consumer data reporting agencies maintain lists of people whose accounts have been closed involuntarily. The two largest firms are ChexSystems, a subsidiary of Fidelity National Information Services, and Early Warning Services, a company owned by a consortium of large banks. Eighty percent of banks use a consumer reporting agency to assist with their decision to approve or deny applications for bank accounts.⁶

Involuntary account closures are widespread. A 2014 study from the CFBP revealed that six percent of bank accounts had been closed involuntarily in the prior year.⁷ Most closures result from negative balances, underscoring the connection between debanking and overdraft fees. As well, the frequency of closures can vary dramatically from bank to bank. The same study also found that the bank with the highest rate of closures exceeded the lowest rate by fourteen-fold, underscoring that bank policies strongly influence debanking outcomes.

A ChexSystems report distinguishes between types of fraudulent activity on an account. "Account abuse" involves unpaid debts and unintentional account mismanagement. It is distinct from "suspected fraud," which describes cases where the bank suspects intentional efforts to misuse an account for financial gain.

Unfortunately, rather than making a distinction that preferences lawful consumers above others, the credit reporting agencies debank both groups. Even though they are not associated with fraud – and typically only due to debts triggered by overdrafts – a record of "account abuse" can still prevent a consumer from being able to open a new account in the future. The negative mark will remain for five years if the account holder does not satisfy the debt. Even if the debt is repaid, the black mark associated with an appearance on a negative list can be a reason to be rejected.⁸

From ChexSystems' FAQs for consumers:

Question: "If I pay what is owed on my account, will the information be removed from my ChexSystems report?"

Answer: "The retention period for reported information is 5 years from the date of closure. The furnisher is under no obligation to remove an accurate report of account mishandling. The furnisher is obligated to update the closure status of reported account information to accurately reflect a paid in full or settled in full status and date when applicable. When ChexSystems receives a closure status update from the furnisher, the report will be updated, but the reported account information will remain on file."⁹

⁶ Wu, Chi Chi, and Katie Plat. "Account Screening Consumer Reporting Agencies: A Banking Access Perspective." National Consumer Law Center, October 1, 2015. <https://www.nclc.org/resources/account-screening-consumer-reporting-agencies-a-banking-access-perspective/>.

⁷ Consumer Financial Protection Bureau. "CFPB Study of Overdraft Programs." White paper, June 2013. https://files.consumerfinance.gov/f/201306_cfpb_whitepaper_overdraft-practices.pdf.

⁸ Oubre, Maya, Molly Cohen, Jessica Lindquist, Jacob Dumez, and Carly Bertolozzi. "Blacklisted: How ChexSystems Contributes to Systemic Financial Exclusion." San Francisco Office of Financial Empowerment, June 2021. <https://www.sfgov.org/ofe/sites/default/files/2021-06/Blacklisted-How%20ChexSystems%20Contributes%20to%20Systemic%20Financial%20Exclusions%20-%20FINAL.pdf>.

⁹ ChexSystems. "ChexSystems Frequently Asked Questions." FAQ. Accessed February 3, 2025. <https://www.chexsystems.com/answers-to-frequently-asked-questions>.

The net effect is that once a person has fallen into debt resulting from too many overdraft fees, adverse reports may lock them out of the banking system.

Consumer comments on FICO's MyFICO Forum reveal where people were blocked from opening new accounts.¹⁰ Once listed on ChexSystems, many people may have to wait years to open an account. ChexSystems has a web portal that permits consumers to challenge a listing, but most people are unaware of the option. Some individuals will return to the banking system through a "second-chance checking account" or only tangentially with a far less functional prepaid debit card. They are likely to pay high fees as a condition for doing so.¹¹

When a person is victimized by a criminal scam, they may be debanked. Financial institutions will frequently close compromised accounts to block further charges. Unfortunately, when an account is closed, the account holder may be reported to a bureau. Even if access is restored, account holders may have been unable to access their remaining balances. Victims of identity theft experience similar challenges.

Debanking is also a problem for non-bank wallets and payment apps

While non-bank payment apps are not real bank accounts, consumers store funds in wallets. At the end of 2023, PayPal held \$38.9 billion in customer funds.¹² In 2025, the CFPB issued an enforcement action against Block, the corporate owner of Cash App, for harm resulting from its account closure policies. According to the CFPB, Block's weak security protocols made accounts vulnerable. When Block closed or froze accounts, the company did not provide an explanation beyond a statement that the consumer had violated the "Terms of Service." When consumers appealed, the company was slow to respond, and even if they were successful, weeks might pass before consumers were able to access their funds.¹³

We can look forward to one positive development. With its new authority to supervise larger participant payment apps and digital wallet companies, the CFPB will be able to monitor the activities of these companies as a part of its examination processes. The rule will expand protections against debanking. When policies lead to debanking, the CFPB will be able to issue directives and matters requiring attention.

Formerly incarcerated individuals face systemic hurdles to qualify for a bank account

When people leave incarceration, they may be unable to qualify for a bank account. This may lead to challenges to fulfill requirements for probation. Certainly, it adds to the difficulties after release. Many formerly incarcerated individuals live in transition housing. Often, these communities share a common

¹⁰ Brady, Sarah. "What Is ChexSystems?" Intuit Credit Karma, November 27, 2018.

<https://www.creditkarma.com/advice/i/what-is-chexsystems>.

¹¹ Tierney, Spencer. "Blocked by ChexSystems? What to Know." *NerdWallet* (blog), March 5, 2024.

<https://www.nerdwallet.com/article/banking/blocked-by-chexsystems-what-to-know>.

¹² "PayPal Annual Report for the Year Ending December 31, 2023." 10-k. PayPal, February 2024.

https://www.sec.gov/Archives/edgar/data/1633917/000163391724000024/pypl-20231231.htm#i1f56b845cf89409c91714e0acd7818b5_46.

¹³ Consumer Financial Protection Bureau. "Consent Order in the Matter of Block, Inc.," January 16, 2025.

https://files.consumerfinance.gov/f/documents/cfpb_block-inc-consent-order_2025-01.pdf.

address. As a result, banks will not mail debit cards to post office boxes or in care of the transition housing management.

Formerly incarcerated individuals need access to the payments system. They must pay for fines and fees. In a recent survey, 78 percent of formerly incarcerated individuals revealed they owed debts for fines and fees. For the majority, the fees could not be waived or reduced through community service.¹⁴ They may also more when governments assess surcharges, interest and penalty fees.¹⁵

Unfortunately, because they have been outside of the banking system during incarceration, they are often rejected for new accounts because of poorly informed anti-fraud filters. Additionally, many will have debts on obligations they held before they entered incarceration. Since “release” cards used by correctional facilities drain accounts with steep fees, they are not a solution, either.¹⁶

Conclusion

A banking charter is a privilege. When a company receives a banking charter, it gains significant advantages. With a master account at the Federal Reserve, a bank can use the Fed's payment services. These services, which are essential for commercial banking, include FedACH, FedWire, and FedNow, as well as its check and cash services. Banks can access capital from the Fed as well. Because banks can insure deposits, their liabilities are perceived to be lower risk, resulting in a lower cost of capital. These privileges underscore why banks should not overlay punitive fees on consumers. A banking charter is not a license to extract penalty fees.

All too often, the costs of overdraft fees push people out of the banking system. Thank you for the opportunity to offer this statement for the record.

Sincerely,



Adam Rust

¹⁴ Kauhal, Arjun, Tanya Ladha, and David Silberman. “Financial Health and Criminal Justice: The Impacts of Involvement.” The Financial Health Network and the University of Southern California Dornsife Center for Economic and Social Research, May 2021. https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2021/05/26150028/FSL_CriminalJustice_Quant_Report_2021.pdf.

¹⁵ National Consumer Law Center, and Collateral Consequences Resource Center. “The High Cost of a Fresh Start: A State-by-State Analysis of Court Debt as a Bar to Record Clearing,” August 2022. <https://www.nclc.org/wp-content/uploads/2022/08/Report-High-Cost-of-Fresh-Start.pdf>.

¹⁶ Consumer Financial Protection Bureau. “Justice-Involved Individuals and the Consumer Financial Marketplace,” January 2022. https://files.consumerfinance.gov/f/documents/cfpb_jic_report_2022-01.pdf.