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Banking at the Fed with FedAccounts: The Demise of Commercial Banks?

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BANKING AT THE FED WITH FEDACCOUNTS: THE DEMISE OF COMMERCIAL BANKS?

I. INTRODUCTION

Approximately 32% of the population, or 90.6 million people, do not have access to traditional banking services in America.[1] Within this population the demographics vary considerably among different racial and ethnic groups.[2] However, certain groups are more likely to be affected than others.[3] For example, unbanked and underbanked consumers are more likely than fully banked consumers to have lower incomes and be younger, minority, female, unmarried, and unemployed.[4]

The terms unbanked and underbanked are distinct.[5] Unbanked refers to consumers who have no formal relationship at a bank.[6] The underbanked are consumers who have a formal relationship with a mainstream bank but primarily rely on alternative financial institutions for their banking or credit needs.[7]

Because mainstream banking excludes this segment of the population from services offered to fully banked consumers, the unbanked and underbanked are more likely to use alternative financial service providers, a sector of the financial industry often referred to as "fringe

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1. FED. DEPOSIT INS. CORP., 2017 NAT'L SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS, 1 (2018), *available at* https://www.fdic.gov/householdsurvey/2017/2017report.pdf [hereinafter FDIC NATIONAL SURVEY].

2. *See id.* at 14–16 (summarizing the issues with this part of the population and conducting statistical studies on the way the group is accessing banking services).

3. *See* Thecla Fabian, One-Fourth of U.S. Households Are Unbanked, Underbanked, FDIC Finds, [2010] Banking Daily (BNA), May 6, 2010, https://www.bloomberglaw.com/product/bankfinance/document/XAVC87G5GVG0 (discussing the different sectors of the population that is either unbanked or underbanked).

4. *Id.*

5. FDIC NATIONAL SURVEY, *supra* note 1, at 1.

6. Morgan Ricks, John Crawford & Lev Menand, *Central Banking for All: A Public Option for Bank Accounts*, GREAT DEMOCRACY INITIATIVE 3 (2018).

7. *Id.*

banking."[8] These alternative financial service providers offer services such as check cashing, payday lending, and small-dollar loans.[9] However, these services are offered at much higher rates than what mainstream banks are offering for the same or similar services.[10]

To include this underserved population, there is a current proposal outlined in a paper by Morgan Ricks, John Crawford, and Lev Menand[11] to let all individuals have access to bank accounts at the Federal Reserve.[12] These accounts are referred to as "FedAccounts."[13]

The FedAccounts proposal seeks to make holding a deposit account with the central bank—currently limited only to banking institutions—available to individuals and nonbank businesses.[14] This plan would give every consumer and business access to instantaneous payment transfers, sovereign money, and access to the interest on reserves rate ("IOR").[15] If implemented, the FedAccounts system would bring about large monetary-financial change to the United States banking system.[16]

However, FedAccounts will likely not accomplish an important goal established in the proposal—fully connecting the unbanked and underbanked population to the banking system.[17] Implementing

8. Mehrsa Baradaran, *It's Time for Postal Banking*, 127 HARV. L. REV. F. 165 (2014), https://harvardlawreview.org/2014/02/its-time-for-postal-banking (stating that the unbanked and underbanked population are typically more comfortable with using fringe services).

9. BD. OF GOVERNORS OF THE FED. RESERVE, CONSUMERS AND MOBILE FINANCIAL SERVICES 10 (2016), https://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201603.pdf.

10. *See* John P. Caskey, *Bringing Unbanked Households Into the Banking System*, BROOKINGS (Jan. 1, 2002), https://www.brookings.edu/articles/bringing-unbanked-households-into-the-banking-system/ (reviewing the differences between the fringe services and mainstream banking and how the unbanked group of consumers could be brought into the banking system).

11. Morgan Ricks is a professor of law at Vanderbilt Law School, and was previously a senior policy advisor at the U.S. Treasury Department. John Crawford is a professor of law at the University of California Hastings College of the Law. Lev Menand served as Senior Advisor to the Deputy Secretary of the Treasury from 2015 to 2016 and previously worked for the Assistant Secretary for Financial Institutions.

12. Ricks, Crawford & Menand, *supra* note 6.

13. Ricks, Crawford & Menand, *supra* note 6, at 1.

14. Ricks, Crawford & Menand, *supra* note 6, at 3.

15. Ricks, Crawford & Menand, *supra* note 6, at 2.

16. Ricks, Crawford & Menand, *supra* note 6, at 3–4.

17. *See* Ricks, Crawford & Menand, *supra* note 6, at 3–4 (stating that an obvious benefit of the FedAccounts program would be financial inclusion for those who are left out of mainstream financial banking services).

FedAccounts would also preclude the private sector from opportunities to include this group of consumers in a more complete way.[18] Lastly, the use of FedAccounts would put unnecessary strain on the banking industry.[19]

Further, alternatives such as solutions through state banks, postal banking, and mobile financial services better address the issues that the unbanked and underbanked population face today.[20] Rather than taking away opportunities for growth from the private banking sector, these alternatives work alongside private institutions to provide certain banking services to those who are harder to reach.[21] What is certain is that the unbanked and underbanked cannot be left out of mainstream financial services any longer.[22]

This Note analyzes the FedAccounts proposal and discusses the issues and alternatives that would better serve the target population excluded from mainstream banking.[23] This Note proceeds in five parts. Part II details the proposal, defines the unbanked and underbanked population, and analyzes the issues with the limited financial services currently available to them.[24] Part III discusses the issues with the proposal itself.[25] Part IV reviews alternative options better suited to meeting the needs of the unbanked and underbanked.[26] Part V summarizes the arguments.[27]

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18. *See e.g.,* Mary Wisniewski, *U.S. Bank Launches Payday Loan Alternative for Cash-Strapped Customers,* BANK RATE (Sept. 12, 2018), https://www.bankrate.com/banking/us-bank-new-short-term-loan (stating U.S. Bank's new alternative to payday lending).

19. *See* Greg Robb, *Federal Reserve Should Give Everyone Checking Accounts, New Study Says,* MARKET WATCH (May 5, 2018), https://www.marketwatch.com/story/fed-should-forget-about-its-own-cryptocurrency-and-instead-create-electronic-bank-accounts-for-everyone-2018-04-30 (explaining some of the risks associated with FedAccounts).

20. *See e.g.,* Baradaran, *supra* note 8 (justifying the proposal of postal banking, an alternative to FedAccounts).

21. *See e.g.,* Baradaran, *supra* note 8 (emphasizing the benefits of postal banking).

22. Caskey, *supra* note 10.

23. *See* Ricks, Crawford & Menand, *supra* note 6, at 1 (discussing the proposal and how it could possibly fit with the current system).

24. *See infra* Part II.

25. *See infra* Part III.

26. *See infra* Part IV.

27. *See infra* Part V.

II. THE PROPOSAL AND THE POPULATION AT RISK

A. *What is a FedAccount?*

The FedAccount program would give the general public—individuals, businesses, and institutions—the option to open bank accounts at the Federal Reserve.[28] The program claims it will transform the United States account-money system into a public infrastructure "akin to roads, sidewalks, public libraries, the judicial system, and law enforcement."[29] FedAccounts would have the functionality of a bank account with "special features."[30] These special features include unlimited secure balances, instant network payments,[31] and higher interest rates.[32] The proposal states that FedAccounts are able to offer these unlimited secure balances due to the deposit balances being "fully sovereign money" with no possibility of default.[33]

By stating higher interest rates, the proposal is referring to the fact that the IOR is currently higher than average deposit accounts at banking institutions.[34] Consumers would be attracted by no-fees and higher interest on their deposits.[35] Business consumers with over $250,000, exceeding the Federal Deposit Insurance Corporation ("FDIC") insurance, would be attracted by the guarantee for their entire deposit.[36]

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28. Ricks, Crawford & Menand, *supra* note 6, at 1.

29. Ricks, Crawford & Menand, *supra* note 6, at 4.

30. Ricks, Crawford & Menand, *supra* note 6, at 1.

31. Payments from the FedAccounts would clear immediately just as interbank payments clear at the Federal reserve. *See* Ricks, Crawford & Menand, *supra* note 6, at 1–4.

32. *See* Ricks, Crawford & Menand, *supra* note 6, at 1–4 (stating "higher interest rates," however these rates are just higher currently when compared to the average deposit account at banks pay today and have the ability to drop and even go into the negatives).

33. *See* Ricks, Crawford & Menand, *supra* note 6, at 3 (stating that deposits at the Federal Reserve would be fully sovereign because they are not lending more than they have such as banks, therefore insurance would be unnecessary).

34. BD. OF GOVERNORS OF THE FED. RESERVE SYSTEM, INTEREST ON REQUIRED RESERVE BALANCES AND EXCESS BALANCES (2018), https://www.federalreserve.gov/monetarypolicy/reqresbalances.htm.

35. *See* Rebecca Wessell, *Checking Account Fees: How Much Are They and How Can They Be Waived?,* https://www.valuepenguin.com/banking/checking-account-fees (last visited Feb. 6, 2019) (explaining the price of checking account fees and how they can be a burden on consumers).

36. FED. DEPOSIT INS. CORP., UNDERSTANDING DEPOSIT INSURANCE (Jan. 2018), https://www.fdic.gov/deposit/deposits/faq.html.

FedAccounts are comparable to bank accounts without overdraft coverage.[37] The FedAccounts proposal suggests the program will differentiate itself from most banking institutions by having no fees, minimum balances, or interchange fees from debit card payments.[38] The physical location to access these FedAccounts is proposed to be at the offices of the United States Postal Service ("USPS").[39] Further, the FedAccount program is not a lending program extending credit to consumers.[40]

The proposal explains that a FedAccount is "a system for payments and accounts: a ledger combined with processes and protocols for debiting and crediting balances."[41] Among others, the proposed benefits include financial inclusion and stability, payment speed and efficiency, and increasing trust in government.[42] The proposal claims that there would be a positive effect on the population from the federal government having a program working directly for every consumer.[43]

The proposal states that the most obvious result of FedAccounts would be financial inclusion, mentioning specifically the unbanked and underbanked population.[44] Because the system is only valuable if there is massive take up, the proposal authors predict a significant transition to the FedAccounts due to the incentives associated with them.[45] Therefore, the plan claims to have benefits for all because of a "boost" in interest payments, or the direct pass-through of the IOR,[46] paid by the Federal Reserve, and immediate payment clearance.[47]

37. Ricks, Crawford & Menand, *supra* note 6, at 1.
38. Ricks, Crawford & Menand, *supra* note 6, at 2.
39. Ricks, Crawford & Menand, *supra* note 6, at 8.
40. Ricks, Crawford & Menand, *supra* note 6, at 3.
41. Ricks, Crawford & Menand, *supra* note 6, at 8.
42. Ricks, Crawford & Menand, *supra* note 6, at 3–6.
43. Ricks, Crawford & Menand, *supra* note 6, at 12.
44. Ricks, Crawford & Menand, *supra* note 6, at 1.
45. Ricks, Crawford & Menand, *supra* note 6, at 6.
46. The Federal Reserve pays interest on both interest of required reserves (IORR) and interest on excess reserves, but I combine these in referring to the IOR because there required reserves are only a small portion of the total. Further the FedAccount authors refer to the IOR throughout. *See* Thomas L. Hogan, *Bank Lending and Interest on Excess Reserves,* Rice University Baker Institute for Public Policy, https://www.bakerinstitute.org/media/files/files/3173032e/workingpaper-banklending-020718.pdf (explaining the effect of IOR on bank lending).
47. Ricks, Crawford & Menand, *supra* note 6, at 1–2.

IOR is a fairly recent implementation by the Federal Reserve to give interest to banks of their central bank accounts.[48] Congress granted this power to the Federal Reserve in the Financial Services Regulatory Relief Act of 2006, but it was not used until the financial crisis in 2008.[49] This interest rate payment is used along with other tools to implement monetary policy.[50]

The IOR is the rate at which the Federal Reserve pays interest on reserve balances.[51] Reserve balances are held at the Federal Reserve and are retained by banks to transfer large payments to other financial institutions.[52] The Federal Reserve created IOR in order to enable it to control short-term interest rates, broadening government control over the lending market.[53]

Another tool used to control monetary policy is the federal funds rate.[54] The federal funds rate is the rate at which banks lend their reserve balances to other banks on an overnight basis.[55] The Federal Open Market Committee ("FOMC") sets this rate and uses open market operations, the selling of government securities, to influence the money supply and meet the set target rate.[56] The Federal Reserve sets a ceiling for the federal funds rate with a discount rate, the amount that the Federal Reserve charges banks that borrow from the discount window.[57] Conversely, the

48. FEDERAL RESERVE BANK OF S.F., WHY DID THE FEDERAL RESERVE START PAYING INTEREST ON RESERVE BALANCES HELD ON DEPOSIT AT THE FED? DOES THE FED PAY INTEREST ON REQUIRED RESERVES, EXCESS RESERVES, OR BOTH? WHAT INTEREST RATE DOES THE FED PAY? (2013), https://www.frbsf.org/education/publications/doctor-econ/2013/march/federal-reserve-interest-balances-reserves/.

49. Financial Services Regulatory Relief Act of 2006, 109th Cong. § 201 (2006).

50. FEDERAL RESERVE BANK OF S.F., *supra* note 48.

51. FEDERAL RESERVE BANK OF S.F., *supra* note 48.

52. Kimberly Amadeo, *How Does the Fed Raise or Lower Interest Rates,* BALANCE (Nov. 27, 2018), https://www.thebalance.com/how-does-the-fed-raise-or-lower-interest-rates-3306127.

53. *See* FEDERAL RESERVE BANK OF NEW YORK, FEDERAL FUND AND INTEREST ON RESERVES (2013), https://www.newyorkfed.org/aboutthefed/fedpoint/fed15.html (explaining the purpose of IOR).

54. Kimberly Amadeo, *Fed Funds Rate, Its Impact, and How it Works,* BALANCE (last updated Jan. 30, 2019), https://www.thebalance.com/fed-funds-rate-definition-impact-and-how-it-works-3306122.

55. *Id.*

56. *Id.*

57. *Id.*

IOR sets a floor for the federal funds rate because banks will not lend money at an interest rate lower than the rate received on reserves.[58]

Without IOR, the Federal Reserve would control monetary policy by quickly selling its asset holdings.[59] This was how the FOMC implemented monetary policy prior to 2008 and was able to do so until the financial crisis.[60] Many other central banks use this IOR rate to control short-term market rates.[61]

Because the banks obtain interest on the excess reserves, they will not lend to another bank at lower interest rates than they could obtain by leaving the funds on deposit at the regional Federal Reserve bank.[62] The rise in IOR policy is estimated by one study to account for a 61.3% decline in consumer bank lending post-2008.[63] The FedAccounts proposal raises the concern that the IOR is not passing directly through to consumers but is instead acting as a subsidy to banks.[64] By "paying" these banks to operate, the proposal asserts that banks are no longer deserving of their subsidy when a large part of the population is left out from the services offered.[65]

Lastly, the proposal asserts that if there is a large transition to FedAccounts, it will lead to large-scale stability in the financial markets.[66] This stability comes from an increase in monetary control through the Federal Reserve's ability to change interest rates that would directly affect consumers.[67] The proposal claims that all of these benefits combined would ultimately lead to a greater trust in the federal government by consumers.[68]

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58. *Id.*
59. Ben S. Bernanke & Donald Kohn, *The Fed's Interest Payments to the Bank*, BROOKINGS (Feb. 16, 2016), https://www.brookings.edu/blog/ben-bernanke/2016/02/16/the-feds-interest-payments-to-banks/.
60. *Id.*
61. *Id.*
62. Michael Ng & David Wessel, *The Hutchins Center Explains: How the Powell Fed Will Raise Interest Rates,* BROOKINGS (Mar. 15, 2018), https://www.brookings.edu/blog/up-front/2018/03/15/the-hutchins-center-explains-how-the-powell-fed-will-raise-interest-rates/.
63. Hogan, *supra* note 46.
64. Ricks, Crawford & Menand, *supra* note 6, at 6.
65. Ricks, Crawford & Menand, *supra* note 6, at 6.
66. Ricks, Crawford & Menand, *supra* note 6, at 2.
67. *See* Bernanke & Kohn, *supra* note 59 (explaining how the Federal Reserve's interest payments to banks implements monetary policy).
68. Ricks, Crawford & Menand, *supra* note 6, at 2.

B. The Population at Risk

The population faced with the challenge of being unbanked or underbanked varies across the United States population.[69] However, the probability of being unbanked or underbanked is higher among lower-income, black and Hispanic, working-age disabled, low-education, and younger households.[70] Nearly half of people between eighteen and twenty-four years of age are unbanked.[71]

Collectively, these households spend about $89 billion on interest and fees for fringe services such as payday loans and check cashing services, averaging at $2,412 per household.[72] One in six unbanked households have used a payday loan, but this drops to one in twenty among fully banked households.[73] A recent study shows that over half the population of the United States would not be able to access $2,000 in thirty days to respond to an emergency.[74]

The most frequently reported reason for not having a bank account among the unbanked and underbanked population is the belief that they do not have enough money to keep in a bank account.[75] Indeed, checking accounts with the lowest monthly fees or minimums to waive monthly fees are rare for these consumer profiles, and such consumers who gain access usually do not earn interest on their deposits.[76] In 2018, Bank of America announced it was no longer going to offer free

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69. FDIC NATIONAL SURVEY, *supra* note 1, at 70.
70. FDIC NATIONAL SURVEY, *supra* note 1, at 70.
71. FDIC NATIONAL SURVEY, *supra* note 1, at 2.
72. OFF. OF INSPECTOR GEN. FOR THE U.S. POSTAL SERV., PROVING NON-BANK FINANCIAL SERVICES FOR THE UNDERSERVED (Jan. 27, 2014), https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf [hereinafter INSPECTOR GENERAL USPS REPORT].
73. *See* Timothy Bates & Constance R. Dunham, *Introduction to Focus Issue: Use of Financial Services by Low-Income Households*, 17(2) ECON. DEV. QUARTERLY 3–7 (2003); see also Matt Fellowes & Mia Mabanta, *Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential*, BROOKINGS (Jan. 22, 2008), https://www.brookings.edu/research/banking-on-wealth-americas-new-retail-banking-infrastructure-and-its-wealth-building-potential/.
74. *See An Examination of the Availability of Credit for Consumers: Hearing Before the Subcomm. on Fin. Insts. & Consumer Credit of the H. Comm. on Fin. Servs.,* 112th Cong. 141 n.1 (2011), https://www.govinfo.gov/content/pkg/CHRG-112hhrg72606/pdf/CHRG-112hhrg72606.pdf (explaining the statement of Robert W. Mooney, Deputy Director, Consumer Protection and Community Affairs).
75. FDIC NATIONAL SURVEY, *supra* note 1, at 3.
76. *See generally* Wessell, *supra* note 35.

"eBanking" checking accounts and will now charge a $12 monthly fee.[77] The only way to avoid this fee is to have a monthly direct deposit of at least $250, maintain a $1,500 daily balance, or be younger than twenty-four years old.[78] These scenarios are likely why 55.8% of unbanked consumers responded in a FDIC survey that banks are "not at all interested" in serving consumers like themselves.[79]

Other studies have found that these consumers often have a negative experience which results in a mistrust of banks or they find alternative fringe banking services to be more convenient.[80] Because of this opportunity in the market, payday lenders are seeking out the unbanked and underbanked population.[81] There are more payday lending and check-cashing outlets in the United States than McDonald's locations.[82]

Many mainstream banks do not seek out this part of the population due to their low deposit balance, leaving a hole that payday lenders can fill.[83] Some large banks have even closed branches in low-income communities with the largest percentages of unbanked Americans.[84] However, even though this population might lack access in some areas, the unbanked and underbanked are more likely to use fringe financial services even if they are in the same neighborhood as mainstream financial institutions.[85]

77. Lisa Joyce, *Bank of America and the End of Free Checking,* FINANCIAL BRAND (Jan. 29, 2018), https://thefinancialbrand.com/70145/bank-of-america-free-checking/.

78. *Id.*

79. FDIC NATIONAL SURVEY, *supra* note 1, at 3.

80. FED. RESERVE BANK OF KAN. CITY, UNBANKED AND UNDERBANKED CONSUMERS IN THE 10TH FEDERAL RESERVE DISTRICT (2010), https://www.kansascityfed.org/~/media/files/publicat/research/community/unbankedexecutivesummary.pdf.

81. *See* Caskey, *supra* note 10.

82. Stacy Cowley, *Payday Lending Faces Tough New Restrictions by Consumer Agency,* N.Y. TIMES (Oct. 5, 2017), https://www.nytimes.com/2017/10/05/business/payday-loans-cfpb.html.

83. Nelson D. Schwartz, *Banks Closings Tilt Toward Poor Areas,* N.Y. TIMES (Feb. 22, 2011), https://www.nytimes.com/2011/02/23/business/23banks.html.

84. *See, e.g., id.* ("[For the] first time in 15 years, more bank branches have closed than opened across the United States").

85. Fellows & Mabanta, *supra* note 73.

C. Fringe Banking Services

The fringe banking industry is fairly new within the United States.[86] Three decades ago it was almost nonexistent, but today it brings in tens of billions of dollars in revenue each year.[87] This growth was triggered in the 1970s, when states began to raise interest rates or loosen restrictions on interest rate ceilings.[88] As smaller, local institutions that typically met the needs of the small-dollar loan market began to merge with larger banks, it reduced the availability of the services offered to the lower income population.[89] This new market introduced fringe banking to an attractive consumer who would be willing to pay a high interest rate for a small amount of money, the unbanked and underbanked.[90]

Greater consumer access to mainstream financial institutions has long been discussed by policymakers.[91] The Consumer Financial Protection Bureau ("CFPB") has listed this problem along with the increasing use of fringe banking as a top priority issue.[92] It is problematic for the unbanked and underbanked population to operate on a cash-only basis in today's financial marketplace without the ability to receive direct deposits and pay bills online.[93] Further, short term fringe services providing

86. *See* Jerzy Eisenberg-Guyot, Caislin Firth, Marieka Klawitter & Anjum Hajat, *From Payday Loans to Pawnshops: Fringe Banking, the Unbanked, and Health*, 37 HEALTH AFFAIRS 3, (2018), https://content.healthaffairs.org/doi/full/10.1377/hlthaff.2017.1219, (connecting the unbanked population and their access to fringe banking with associated health issues).

87. *Id.*

88. *Id.*

89. Mehrsa Baradaran, *How the Poor Got Cut Out of Banking*. 62 EMORY LAW L.J. 483, 483–548 (2013).

90. *See* GARY RIVLIN, BROKE, USA: FROM PAWNSHOPS TO POVERTY, INC.—HOW THE WORKING POOR BECAME BIG BUSINESS, 41–43 (2010) (discussing how widespread the fringe banking services are and discussing how they impact communities).

91. CONSUMERS AND MOBILE FINANCIAL SERVICES, *supra* note 9.

92. *See* ADVISORY COMMITTEE ON ECONOMIC INCLUSION, FED. DEPOSIT INS. CORP. http://www.fdic.gov/about/comein (outlining the Committee's ongoing initiatives to expand access to underserved populations); *see also* Kelly Thompson Cochran, FALL 2013 RULEMAKING AGENDA, CONSUMER FIN. PROTECTION BUREAU (Dec. 3, 2013) (discussing the how the Dodd-Frank Act requirements were implemented to preserve credit in "rural or underserved areas").

93. *See* FDIC NATIONAL SURVEY, *supra* note 1 (discussing the difficulties the unbanked population faces and what needs to be done to fix these issues).

credit to these consumers may charge interest at annual percentage rates of up to 400-600%.[94]

Although there are currently some regulations on predatory lenders and proposed legislation to restrict them further, regulation has yet to bring banking solutions to the unbanked and underbanked population.[95] Mick Mulvaney, then Acting Director of the CFPB, announced in January of 2018 that the CFPB would revise payday lending regulations enacted during the Obama Administration are to come into effect on August 19, 2019.[96] The CFPB recently announced on February 6, 2019 they plan to rescind[97] the mandatory provisions of the Payday Lending Rule promulgated in November of 2017.[98] Any revision, even under the new Acting Director Kathy Kraninger, will presumably be more favorable to payday lenders than the original regulation.[99]

Even if there were a regulation heavily restricting payday lenders, if payday lenders are restricted and removed from the current market there is concern that the unbanked and underbanked will be even further left out of the lending market.[100] Therefore, rather than having access to

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94. Nathalie Martin & Ozymandias Adams, *Grand Theft Auto Loans: Repossession and Demographic Realities in Title Lending*, MO. L. REV. 41, 46 (2012).

95. *See* Ronald J. Mann & Jim Hawkins, *Just Until Payday*, 54 UCLA L. REV. 855, 876 (2007) (discussing payday lending and how highly visible providers are better for consumers than smaller one shop lenders).

96. *The Regulatory Future of Payday Lending,* PYMNTS.COM (Aug. 14, 2018), https://www.pymnts.com/news/alternative-financial-services/2018/payday-lending-short-term-loans-regulations-cfpb/.

97. The Bureau of Consumer Financial Protection proposed to rescind sections of the "Payday, Vehicles Title, and certain High-Cost Installment Loans," specifically (1) provide that it is an unfair and abusive practice for a lender to make a covered short-term or longer-term balloon-payment loan, including payday and vehicle title loans, without reasonably determining that consumers have the ability to repay those loans according to their terms; (2) prescribe mandatory underwriting requirements for making the ability-to-repay determination; (3) exempt certain loans from the underwriting requirements; and (4) establish related definitions, reporting, and recordkeeping requirements. *See* RULES UNDER DEVELOPMENT, CONSUMER FINANCIAL PROTECTION BUREAU, (last viewed Feb. 8, 2019), https://www.consumerfinance.gov/policy-compliance/rulemaking/rules-under-development/payday-vehicle-title-and-certain-high-cost-installment-loans/.

98. *Id.*

99. *See* Stacey Coley, *Mulvaney Sides with Payday Lenders Asking Court to Block Restrictions*, N.Y. TIMES (June 5, 2018), https://www.nytimes.com/2018/06/05/business/cfpb-payday-lenders-mulvaney.html (discussing Mulvaney's attempt to block the payday lending restrictions in a joint motion in federal court).

100. Mann & Hawkins, *supra* note 95.

some lenders, even though they offer services at extremely high rates, the unbanked and underbanked would be lacking any resource at all.[101]

Although the FedAccounts proposal does not plan to offer lending, this part of the population lacks access to this important economic resource.[102] Further, the proposal will likely put stress on the banking institutions' lending markets.[103] This will likely only facilitate fringe banking services and predatory lending practices.[104]

III. ISSUES WITH THE PROPOSALS

The FedAccounts proposal claims that it is "remarkable" how many problems it would mitigate or solve through its implementation.[105] Although some positive effects would likely come from the program—including no interchange fees and real-time payment—there are likely more substantial issues that the proposal would induce if implemented as planned.[106] Not only would this proposal unnecessarily strain the banking industry by removing a large amount of deposits from banks, but the population of the unbanked and underbanked would likely not benefit as much as predicted from the implementation of the FedAccounts proposal.[107]

A. Government Intervention

Government involvement and ownership of banks is widespread around the world, especially in countries with low levels of per capita income and undeveloped financial systems.[108] However, one study has found that government ownership of banks is connected to slower development of the financial system, lower economic growth, and lower

101. *Id.*
102. *Id.*
103. *See infra* Part III.C.
104. Mann & Hawkins, *supra* note 95, at 876.
105. Ricks, Crawford & Menand, *supra* note 6.
106. *See* Caskey, *supra* note 10.
107. *See* Caskey, *supra* note 10; Ricks, Crawford & Menand, *supra* note 6.
108. *See* Rafael La Porta, Florencio Lopez de Silanes & Andrei Shleifer, *Government Ownership of Banks* (Harv. Univ., Working Paper No. 01-016, 2000), http://dx.doi.org/10.2139/ssrn.236434.

productivity growth.[109] Another study suggests that once government banks undertake "political interference," their financial performance deteriorates.[110] These theories suggest that when the government is in control of banks, or when consumers have accounts at the Federal Reserve, the lending decisions become driven by politics rather than economics and will further lead to slowing economic growth.[111]

The regional Federal Reserve Banks are owned by national banks or state-chartered member banks in their region.[112] The mass migration to the Federal Reserve banks addressed in the proposal would deprive these private banks of a large part of their deposits.[113] Therefore, bringing about this large change would be difficult without a different ownership structure.[114]

The proposal addresses this issue by claiming the broad migration to the FedAccounts would require the Federal Reserve to extend "discount window loans to offset banks' lost deposit balance."[115] Accordingly, the Federal Reserve would be paying depositors between 2-2.50%—the IOR rate current to this writing—and then using those funds to loan back to banks at 2.75%—the discount rate current to this writing—for a spread of fifty to seventy-five basis points as profit.[116] This differs from the current rate of .05% to .08% that banks currently receive, a much costlier source of funding.[117]

The proposal further states that this will "insulate[] the central bank's investment function from the appearance or reality of political

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109. *Id.* at 6–7.

110. Chung-Hua Shen & Chih-Yung Lin, *Why Government Banks Underperform: A Political Interference View*, 21 J. FIN. INTERMEDIATION 181 (2012).

111. Mark A. Calabria, *Public Banking Hurts Economics*, N.Y. TIMES (Oct. 1, 2013), https://www.nytimes.com/roomfordebate/2013/10/01/should-states-operate-public-banks/public-banking-hurts-economic.

112. FED. RES. BANK ST. LOUIS, WHO OWNS RESERVE BANKS, https://www.stlouisfed.org/in-plain-english/who-owns-the-federal-reserve-banks (last visited Jan. 23, 2019).

113. Ricks, Crawford & Menand, *supra* note 6, at 7.

114. *See* WHO OWNS RESERVE BANKS, *supra* note 112 (stating that the Federal Reserve has stock that is owned by commercial banks).

115. Ricks, Crawford & Menand, *supra* note 6.

116. BD. OF GOVERNORS OF THE FED RESERVE SYSTEM, POLICY TOOLS: OPEN MARKET OPERATIONS, (Dec. 19, 2018), https://www.federalreserve.gov/monetarypolicy/openmarket.htm.

117. BD. OF GOVERNORS OF THE FED RESERVE SYSTEM, POLICY TOOLS: THE DISCOUNT RATE (last updated Jan. 15, 2019), https://www.federalreserve.gov/monetarypolicy/discountrate.htm.

meddling or favoritism."[118] Consumers on a mass scale do not entirely understand what the Federal Reserve does, and public trust in the Federal Reserve is at a historic low.[119] The Federal Reserve is designed to be politically independent.[120] With this goal in mind, the institution was created to be accountable to the public, the Federal Open Market Committee, and the Board of Governors of the Federal Reserve by implementing monetary policies that are meant to achieve long-term macroeconomic objectives.[121] However, the President of the United States appoints the Federal Reserve chair.[122] Although the appointment process is not inherently motivated by politics, history shows that it can be.[123] During his 1972 campaign, President Nixon encouraged his elected Federal Reserve chair to employ monetary stimulus to cause a booming economy.[124] In the short-term, there was no issue.[125] However, in the long term this led to global inflation and brought an end to fixed exchange rates.[126]

Further, the Federal Reserve has received criticism by the current United States President, Donald J. Trump.[127] These comments[128] broke

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118. Ricks, Crawford & Menand, *supra* note 6.

119. Marth C. White, *Nobody Really Knows What the Fed Does, but They Think It's Bad Anyway,* NBC NEWS (July 25, 2017, 7:30 AM), https://www.nbcnews.com/business/economy/nobody-really-knows-what-fed-does-they-think-it-s-n786091.

120. BD. OF GOVERNORS OF THE FED RESERVE SYSTEM, FAQS ABOUT THE FED, (last updated Dec. 6, 2018), https://www.federalreserve.gov/faqs.htm.

121. *Id.*

122. *Id.*

123. *See* Kenneth Rogoff, *Is the Federal Reserve Playing Politics,* GUARDIAN (Oct. 3, 2016), https://www.theguardian.com/business/2016/oct/03/federal-reserve-playing-politics-janet-yellen-central-banks-us-government (explaining the historical long term effects of the Federal Reserve Chair's, Arthur Burns, decisions on monetary policy that were politically influenced).

124. *Id.*

125. *Id.*

126. *Id.*

127. *See* David J. Lynch, *Trump Criticizes Federal Reserve, Breaking Long-standing Practice*, WASH. POST (July 19, 2018), https://www.washingtonpost.com/business/2018/07/19/trump-criticizes-federal-reserve-breaking-long-standing-practice/?utm_term=.723de0022379 (covering Trump's comments about the Federal Reserve and explaining the reasoning behind the silence of past presidents on the subject).

128. *See e.g.,* @realdonaldtrump, TWITTER (Dec. 18, 2018, 4:13 AM), https://twitter.com/realDonaldTrump/status/1075001077576151041?ref_src=twsrc%5Etfw%7Ctwcamp%5Etweetembed%7Ctwterm%5E1075001077576151041&ref_url=https%3A%2F%2Fwww.vox.com%2Fpolicy-and-politics%2F2018%2F12%2F17%2F18144497%2Ftrump-tweet-fed-reserve-jay-powell ("I hope the people over at the Fed will read today's Wall Street Journal Editorial before they make yet another mistake. Also, don't let the market become any more illiquid than it already is. Stop with the 50 B's. Feel the market, don't just go by meaningless numbers. Good luck!").

a long time presidential norm followed since the Clinton administration, that the President declines to comment on the monetary policy decisions of the Federal Reserve to avoid political influence.[129] The risk of political influence on a federal agency so integral to the economy is concerning, especially with attempts to expand this influence by giving FedAccounts to the public.[130]

Studies show that when central banks can conduct monetary policy operations free of political pressure, the economy observes better inflation rates.[131] A risk of this influence on the market is an acceleration of inflation.[132] Economists have expressed concern about the Federal Reserve needing to reduce the size of its balance sheet as banks decrease its reserves and increase lending.[133] This proposal will prevent the Federal Reserve from reducing its balance sheet and will have the immediate impact of increasing security purchases.[134]

Policymakers must take a long-term perspective, rather than a short-term perspective that may be politically motivated, to successfully implement proper policy efforts that work to stabilize prices and increase employment.[135] Political influence on the powerful Federal Reserve, only increased through FedAccount control, could lead to a less productive economy and even lead to economic failure overall.[136]

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129. *See* Lynch, *supra* note 127 (covering Trump's comments about the Federal Reserve and explaining the reasoning behind past president's silence on the subject).

130. Richard X. Bove, *Dick Bove: Trump Will Eventually Clash with the Federal Reserve, Turning Monetary Policy into a Political Activity*, CNBC (July 3, 2018, 12:03 PM), https://www.cnbc.com/2018/07/02/dick-bove-trump-will-eventually-clash-with-the-federal-reserve.html.

131. BOARD GOVERNORS FED. RES. SYS., THE FED - WHY IS IT IMPORTANT TO SEPARATE FEDERAL RESERVE MONETARY POLICY DECISIONS FROM POLITICAL INFLUENCE? (Mar. 1, 2017), https://www.federalreserve.gov/faqs/why-is-it-important-to-separate-federal-reserve-monetary-policy-decisions-from-political-influence.htm.

132. Charles W. Calomiris, *Learning from the Fed's QE Experiment,* FORBES (Jan 5. 2016, 9:48 AM), https://www.forbes.com/sites/charlescalomiris/2016/01/05/federalreserveqelessons/#dd6466e74e24.

133. *Id.*

134. *Id.*

135. WHY IS IT IMPORTANT TO SEPARATE FEDERAL RESERVE MONETARY POLICY DECISIONS FROM POLITICAL INFLUENCE, *supra* note 131.

136. WHY IS IT IMPORTANT TO SEPARATE FEDERAL RESERVE MONETARY POLICY DECISIONS FROM POLITICAL INFLUENCE, *supra* note 131.

Mainstream banks provide inclusive financial services to consumers in other countries without consumers banking at central banks.[137] For example, Canada has accomplished a consumer inclusion rate of 99%.[138] The FedAccount proposal states that Canadian banks are required to open accounts to all with proper identification and a credit history void of fraud.[139] Further, there is regulation of the large banks by the government to offer low-fee accounts. Although, interestingly, the inclusion rate was just as high in 2001 prior to these regulations.[140]

A Canadian economist suggests two major differences that could be the reason for the large gap in percent of the unbanked and underbanked in the two countries: culture and poverty rates.[141] However, the United States differs only by a few percentage points with a 17% poverty rate compared to Canada's 12%.[142] The author also suggests that it could be a supply issue as well with the ability of Canadian banks to historically set up extensive banking networks.[143] Without a large change to the United States banking system and regulations, there is little chance that the unbanked and underbanked issues could be solved in the way that Canada has done.[144]

Further, unbanked consumers in the United States cite their lack of trust in banks and low income as reasons for not holding an account.[145] Therefore, rather than access to accounts or interest rates, there are likely more reasons than FedAccounts addresses for the United States' unbanked and underbanked population being left out of the mainstream financial system.[146]

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137. WHY IS IT IMPORTANT TO SEPARATE FEDERAL RESERVE MONETARY POLICY DECISIONS FROM POLITICAL INFLUENCE, *supra* note 131.

138. J.P. Koning, *Central Banking for the Unbanked?*, AM. INST. ECON. RES. (Aug. 28, 2018), https://www.aier.org/article/sound-money-project/central-banking-unbanked.

139. Ricks, Crawford & Menand, *supra* note 6, at 4.

140. Koning, *supra* note 138.

141. Koning, *supra* note 138.

142. CITIZENS FOR PUBLIC JUSTICE, POVERTY TRENDS 2017, https://www.cpj.ca/sites/default/files/docs/files/PovertyTrendsReport2017.pdf.

143. Koning, *supra* note 138.

144. Koning, *supra* note 138.

145. FDIC NATIONAL SURVEY, *supra* note 1, at 4.

146. *See* Koning, *supra* note 138 (stating that high rates of poverty and a mistrust in the system is a main reason for unbanked Americans not possessing bank accounts).

FedAccounts would take the opportunity to reach this part of the population from the private sector.[147] There are areas of the private sector, even outside mainstream banking, that are currently making efforts to offer free deposit accounts and alternatives to payday loans.[148] Although many mainstream banks have been reluctant to enter this market, some private financial services are taking action to reach out to these consumers.[149] More than 70% of online banks—an emerging banking service in the financial markets—offer free checking accounts.[150]

For example, U.S. Bank is set to offer a small-dollar alternative to payday loans.[151] On September 10, 2018, the U.S. Bank announced that it would allow existing checking account customers to borrow between $100 and $1,000 for three months.[152] The program is called the "Simple Loan" and U.S. Bank maintains its loans are more affordable than payday loans.[153] For some consumers, especially the unbanked and underbanked, this is the best option for small-dollar loans.[154]

The U.S. Bank announcement came after a push from the Office of the Comptroller of the Currency in late 2017 for banks to find ways to compete against the payday lending industry.[155] At first, there were no banks interested in entering the market.[156] However, it seems that mainstream banks have since recognized the opportunity in the market.[157] Only 29% of Americans have an emergency fund.[158] This new loan program from U.S. Bank, along with the availability of free deposit accounts, would not only solve the depositing issue but the credit issue as well, which FedAccounts does not address.[159]

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147. *See* Ricks, Crawford & Menand, *supra* note 6 (stating that the plan is to dramatically decrease the private banking industry).

148. *See* Wisniewski, *supra* note 18 (explaining a bank's new option to give customers a "Simple Loan", a small dollar credit option that will compete with payday lenders).

149. Wisniewski, *supra* note 18.

150. Joyce, *supra* note 77.

151. Wisniewski, *supra* note 18.

152. Wisniewski, *supra* note 18.

153. Wisniewski, *supra* note 18.

154. Wisniewski, *supra* note 18.

155. Wisniewski, *supra* note 18.

156. Wisniewski, *supra* note 18.

157. Wisniewski, *supra* note 18.

158. Wisniewski, *supra* note 18.

159. Ricks, Crawford & Menand, *supra* note 6, at 4.

Lastly, the Federal Reserve would have to implement programs, such as ATM cards, and customer service efforts in the attempt to offer bank accounts to everyone.[160] The administration of mass consumer accounts would take time to implement when there are already other private and even public financial institutions that are better equipped to do so.[161] The FedAccounts program would decrease the profits and therefore the overall size of banking institutions leading to less bank branches.[162]

There is an essential place in the United States market for commercial banks.[163] Governments do not have the same incentives to spur economic development as do private entities.[164] Government assistance is useful to assist in providing services for this part of the populations.[165] A better system is one that works with private banks rather than against them.[166] If the Federal Reserve creates bank accounts for all consumers, they will be replacing a function that could be conducted by commercial entities.[167]

B. Consumer Access to IOR

The proposal further suggests that all accounts at the Federal Reserve receive the same IOR that banks have on their Federal Reserve accounts.[168] The proposal states that the Federal Reserve will exhibit greater monetary control and policy through a direct pass of policy rates to a large amount of deposit account holders.[169] Therefore, the Federal

160. Ng & Wessel, *supra* note 62.

161. *See* Baradaran, *supra* note 8 (explaining that post offices already offer services such as ATM cards that would reduce the abrupt administrative changes required to offer these services).

162. WHO OWNS RESERVE BANKS, *supra* note 112.

163. Anthony Gambardella, *Bank on it: Industry Volatility will Decrease as the Industry's Business Model Changes,* IBISWORLD (Dec. 2018), https://www.ibisworld.com/industry-trends/market-research-reports/finance-insurance/credit-intermediation-related-activities/commercial-banking.html.

164. *See* Laura Alix, *The Risks and Rewards of Banking the Government,* AM. BANKER, Aug. 15, 2017, 4:02 PM, https://www.americanbanker.com/news/the-risks-and-rewards-of-banking-the-government.

165. Baradaran, *supra* note 8.

166. Baradaran, *supra* note 8.

167. *See* Alix, *supra* note 164 (describing the risks and rewards of government banking).

168. Ricks, Crawford & Menand, *supra* note 6.

169. Ricks, Crawford & Menand, *supra* note 6.

Reserve would have their primary tool for controlling monetary policy directly on every account at the Federal Reserve.[170]

While the report references "high-interest rates," these interest rates are just currently higher than what banks are giving for their deposit accounts.[171] While the IOR rate is currently at 2.20 %, the FOMC might just lower the IOR rate if there is a mass transition to the Federal Reserve deposit accounts.[172] There is no guarantee that IOR will stay higher than bank deposit rates or even be permanently paid through the Federal Reserve.[173] The FOMC committed to remove IOR in the future after it accomplishes economic stabilization.[174] The Federal Reserve would also be able to exhibit monetary policy tactics on these accounts, opening the door for possible negative interest rates to increase the money supply in the marketplace.[175]

Adding excess reserves to the Federal Reserve's balance sheet would either cause a massive increase in the amount of IOR paid out or decrease the IOR to lower the cost of paying interest.[176] Interfering with such a new, and even controversial, monetary policy tool such as IOR is a risky proposition.[177] If IOR were to dissipate or substantially decrease too quickly, banks would try to lend their excess reserves excessively, possibly collapsing short-term interest rates.[178]

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170. Ricks, Crawford & Menand, *supra* note 6, at 4–5.

171. *See* FED. RES. BANK ST. LOUIS, HOW MONETARY POLICY WORKS, https://www.stlouisfed.org/in-plain-english/how-monetary-policy-works (last visited Jan. 23, 2019).

172. INTEREST ON REQUIRED RESERVE BALANCES AND EXCESS BALANCES, *supra* note 34.

173. Norbert Michael, *Risks from Fed's Interest on Reserves Threaten More than Monetary Policy*, FORBES (Apr. 6, 2015, 7:12 AM), https://www.forbes.com/sites/norbertmichel/2015/04/06/risks-from-feds-interest-on-reserves-threaten-more-than-monetary-policy/#32ee08a51b94.

174. FOMC COMMUNICATION RELATED TO POLICY NORMALIZATION, BD. GOVERNORS OF THE FED. RESERVE SYSTEM (last updated Jan. 30, 2019), https://www.federalreserve.gov/monetarypolicy/policy-normalization.htm.

175. *See* Oliver Garret & Stephen McBride, *Why We Could Get Negative Interest Rates Even Though The Fed is Hiking,* FORBES (Apr. 3, 2017), https://www.forbes.com/sites/oliviergarret/2017/04/03/why-we-could-get-negative-interest-rates-even-though-the-fed-is-hiking/#107079aa499c (stating that because of high inflation, even though the Federal Reserve is actually raising rates, there could be negative interest rates).

176. *Is the Federal Reserve Giving Banks a $12bn Subsidy?,* ECONOMIST (Mar. 18, 2017), https://www.economist.com/finance-and-economics/2017/03/18/is-the-federal-reserve-giving-banks-a-12bn-subsidy.

177. *Id.*

178. *Id.*

While the FedAccounts proposal may attempt financial inclusion through passing IOR rates to all consumers, overall it seems as if it is a disapproval of the current IOR policy.[179] Therefore, it would still be a concern that if policymakers implemented this plan, it will not likely reach consumers any more than the current market can do.[180]

C. Lending

Allowing private individuals to bank at the Federal Reserve would blur the line between commercial banks and the central bank.[181] Because of the instantaneous payment clearing and no minimum deposit that FedAccounts offer, the authors assume that take-up in the program would be robust.[182] One significant consequence of this proposal is the effect of the availability of lending and overall increase in lending costs to businesses and consumers.

The business practice of mainstream financial banking services is taking in consumer deposits and offering loans.[183] Banks offer these deposits to the public as "risk-free" holding accounts backed by the FDIC insurance.[184] To pay interest and provide services, such as check clearing, banks need to use deposits to make money.[185] Lending money to consumers for residential mortgages or personal financing comes with risk, sometimes high risks.[186] Banks often offset these risks by diversifying their loans, qualifying borrowers, and taking collateral.[187] This is an imperfect business model but is essential to the market to provide loans, encouraging economic development.[188]

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179. Ricks, Crawford & Menand, *supra* note 6.

180. Josh Galper, *CCP Deposits at the Fed: Good Theory but Bad Practice,* FINADIUM (Nov. 30, 2016), https://finadium.com/ccp-deposits-at-the-fed-good-theory-but-bad-practice/.

181. *Id.*

182. Ricks, Crawford & Menand, *supra* note 6, at 11.

183. Ng & Wessel, *supra* note 62.

184. Matt Levine, *Fed Rejects Bank for Being Too Safe,* BLOOMBERG (Sep. 6, 2018), https://www.bloombergquint.com/view/fed-rejects-bank-for-being-too-safe#gs.hj0g=kM.

185. Justin Pritchard, *How Banks and Credit Unions Make Money,* THE BALANCE (Nov. 2, 2018), https://www.thebalance.com/how-banks-make-money-315473.

186. Levine, *supra* note 184.

187. Levine, *supra* note 184.

188. Levine, *supra* note 184.

The proposal—along with some economists—refer to IOR as a subsidy.[189] However, mainstream banks cannot profit as easily as the proposal suggests just by borrowing reserves and then depositing to obtain IOR.[190] If this were the case, banks would likely replace deposits and then use reserves to fund loans bearing higher interest rate income than IOR offers.[191] Alternative institutions do not bear costs such as premiums paid to the FDIC which burden mainstream banks.[192]

The proposal clearly does not envision FedAccounts as a means of directly providing credit to account holders.[193] The proposal brings up the possibility that with its enactment it could increase the costs of credit by removing subsidies through taking away the interest rate exclusive to banks at the Federal Reserve.[194] The proposal states that this would be a positive effect because it would make the lending market more competitive.[195] However, because of the increased costs of funding mentioned above with the discount window loans, interest rates on the loans banks will make will likely go up as well.[196] The downside for consumers and businesses will be an increased cost of credit.[197]

Mainstream banking will not be encouraged to reach out and provide loans to the unbanked and underbanked population.[198] Making the lending market more exclusive and competitive will make low-income credit seekers even less attractive to banks with the decrease in available lending.[199] Lending would become a privilege only to those institutions that are able to pay extremely high-interest rates to attract consumers.[200]

189. Ricks, Crawford & Menand, *supra* note 6, at 11.

190. Bernanke & Kohn, *supra* note 59.

191. Bernanke & Kohn, *supra* note 59.

192. Levine, *supra* note 184.

193. Ricks, Crawford & Menand, *supra* note 6, at 11.

194. Ricks, Crawford & Menand, *supra* note 6, at 11.

195. Ricks, Crawford & Menand, *supra* note 6, at 11.

196. Baradaran, *supra* note 89.

197. Baradaran, *supra* note 89.

198. *See* Casey Hynes, *How Social Media Could Help The Unbanked Land a Loan*, FORBES (Apr. 25, 2017), https://www.forbes.com/sites/chynes/2017/04/25/how-data-will-help-drive-universal-financial-access/#7c27adb057e6 (exploring the value of using non-traditional data to make credit decisions and the effort banks are or should be making to capture the business of the unbanked population).

199. Milton Ezrati, *Competition Between Banks and Alternative Lenders: The Public Wins,* FORBES (June 15, 2018), https://www.forbes.com/sites/miltonezrati/2018/06/15/competition-between-banks-and-alternative-lenders-the-public-wins/#4df9a5c2bf26.

200. *Id*.

The unbanked and underbanked benefit the least out of this aspect of the proposal and financial inclusion would stay the same or even become worse.[201]

IV. ALTERNATIVES

A. Postal Banking

In 2014, the USPS released a report that argued it was capable of offering financial services to mend the unbanked and underbanked issue.[202] The USPS could be utilized as a unique outlet to provide that access to financial services as certain consumers' alternative to large financial institutions.[203] This is promoted to the banking industry as non-competitive because most of these consumers would be mostly outside of their typical target consumer.[204]

The FedAccounts proposal mentions the use of the USPS as a physical location for FedAccounts' services.[205] However, postal banking differs from the FedAccounts proposal by offering the small dollar lending important to the unbanked and underbanked population.[206] The agency already has in place many of the administrative functions that the FedAccounts proposal would require of the Federal Reserve.[207] Further, many unbanked and underbanked consumers already use these financial services provided at USPS, such as money orders.[208]

There has been growing discussion around the concept of postal banking.[209] Senator Kirsten Gillibrand (D-NY) recently proposed

201. Stephen D. Williamson, *Interest Rate Control is More Complicated Than You Thought,* FED. RES. BANK OF ST. LOUIS (Apr. 2016), https://www.stlouisfed.org/publications/regional-economist/april-2016/interest-rate-control-is-more-complicated-than-you-thought.

202. Baradaran, *supra* note 8.

203. Baradaran, *supra* note 8.

204. Baradaran, *supra* note 8.

205. Ricks, Crawford & Menand, *supra* note 6, at 11.

206. Baradaran, *supra* note 8.

207. U.S. POSTAL SERV., PROVIDING NON-BANK FINANCIAL SERVICES FOR THE UNDERSERVED (2014), http://www.uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-007.pdf.

208. *Id.*

209. Baradaran, *supra* note 8.

legislation that would add consumer financial services to USPS.[210] The idea of postal banking has also gained the support of Senators Bernie Sanders (I-VT) and Elizabeth Warren (D-MA), and the USPS Inspector General.[211] Further, Mehrsa Baradaran, a national authority on postal banking and the author of *How the Other Half Banks*, advised Senator Gillibrand on crafting the proposed legislation.[212]

The postal banking proposal would require USPS to offer basic banking services to consumers such as savings accounts, debit cards, and even simple loans.[213] The legislation claims to be a straightforward solution to reach the unbanked and underbanked population and replace the need to resort to fringe banking services.[214] USPS claims to be able to provide the services offered by fringe banking and even mainstream banking at a lower price.[215] For example, USPS suggests that it can offer a $375 loan with interest and fees totaling $48, compared to a fee of $520 for the average payday lender.[216]

Postal banking is common and often successful in other countries.[217] According to the United Nations' Universal Postal Union, 183 national postal services offer some financial services.[218] Further, eighty-seven of them provide checking and savings accounts.[219] Currently, the

210. Jordan Weissman, *Kirsten Gillibrand Unveils Her Ambitious Plan to Turn the Post Office Into a Bank*, SLATE (July 30, 2018), https://slate.com/business/2018/04/kirsten-gillibrands-ambitious-postal-banking-bill.html.

211. Daniel Marans, *Kirsten Gillibrand Unveils a Public Option for Banking*, HUFFINGTON POST (Apr. 26, 2018), https://www.huffingtonpost.com/entry/kirsten-gillibrand-postal-banking-bill_us_5ae07f9fe4b07be4d4c6feae.

212. Weissman, *supra* note 210.

213. David Dayen, *The Post Office Should Just Become a Bank*, NEW REPUBLIC (Jan. 28, 2014), https://newrepublic.com/article/116374/postal-service-banking-how-usps-can-save-itself-and-help-poor.

214. *See* Weissman, *supra* note 2010 (suggesting that the main goal of the bill is to replace risky financial products with regulated alternatives).

215. U.S. POSTAL SERV., *supra* note 207.

216. U.S. POSTAL SERV., *supra* note 207.

217. *See* Weissman, *supra* note 210 (stating that Britain, New Zealand, Japan, and China have postal banking).

218. Weissman, *supra* note 210.

219. *See* Nils Clotteau & Bsrat Measho, *Global Panorama on Postal Financial Inclusion*, UNIVERSAL POSTAL UNION (2016), http://www.upu.int/uploads/tx_sbdownloader/globalPanoramaOnPostalFinancialInclusion2016En.pdf (discussing the opportunity for postal banking on a global scale and how that change would include the financially excluded parts of the population).

USPS has 30,000 locations, of which 59% are in "banking desserts," or zip codes that have just one bank branch or no bank branches at all.[220]

Postal banking is also not a revolutionary concept, as it has a strong historical background in the United States.[221] In 1910, the United States government established The Postal Savings System and allowed Americans to have a deposit at the post office.[222] At the time, these accounts offered a 2% interest rate.[223] From 1911 to 1967, the USPS offered savings and deposit services.[224] Banks were opposed to this at first, because it was perceived as possible competition[225] Although soon after the approval, banks came to understand that the Postal Savings System captured a considerable amount of money out of consumer pockets.[226] Therefore, it brought broad benefits by incurring funds that would not have been deposited at banks otherwise.[227] Mainstream financial services would likely have a similar response today.[228]

Deposits at the Postal Savings Systems were discontinued in 1967 because banks and other financial institutions raised their interest rates, which led to mass transition to private deposits.[229] However, the USPS still serves the financial interest of some consumers by issuing money orders as well as prepaid debit cards through American Express.[230]

There will be a positive effect from returning postal banking to the United States at this juncture due to the fair lending needs of the unbanked and underbanked population.[231] Further, the at-risk population would be apt to take action and join this financial service more so than other alternatives.[232] Seventy-seven percent of those who use alternative

220. Marans, *supra* note 211.
221. U.S. POSTAL SERV., *Postal Savings System* (July 2008), http://about.usps.com/who-we-are/postal-history/postal-savings-system.pdf.
222. *Id.*
223. *Id.*
224. *Id.*
225. *Id*.
226. U.S. POSTAL SERV., *Postal Savings System* (July 2008), http://about.usps.com/who-we-are/postal-history/postal-savings-system.pdf.
227. *Id.*
228. *See* Joyce, *supra* note 77 (stating that Bank of America closed their free checking accounts that were attracting low-income consumers).
229. U.S. POSTAL SERV., supra note 221.
230. Dayen, *supra* note 213.
231. Dayen, *supra* note 213.
232. Dayen, *supra* note 213.

financial services have a favorable view of the customer service offered at their local USPS.[233]

Instead of banks partnering with predatory lenders, banks could partner with the USPS.[234] There are five potential products for postal banking to offer: postal cards, interest-bearing savings accounts, small-dollar loans, debit cards, and checking accounts.[235] Debit cards and checking accounts should have little pushback from the consumer banking system since this service would likely reach consumers who are not part of the current system.[236] The interest-bearing savings account could be at a competitive rate, but not necessarily the IOR rate.[237] Therefore, this would encourage banks to offer fair rates or exit this market in general if they do not find these customers to be favorable clients.[238]

The more aspirational aspect of the postal banking proposal from Senator Gillibrand that could receive some pushback from fringe banking businesses would be the small dollar loan services.[239] This unbanked and underbanked population currently needs small dollar loan services the FedAccounts proposal does not offer.[240] Therefore it is essential for postal banking to offer this aspect of the service even if it puts pressure on the payday lending community.[241]

233. U.S. POSTAL SERV., *The Road Ahead for Postal Financial Services* (May 21, 2015), https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011_0.pdf.

234. *See* Jessica Silver-Greenburg, *Major Banks Aid in Payday Loans Banned by States,* N.Y. TIMES (Feb. 23, 2013), https://www.nytimes.com/2013/02/24/business/major-banks-aid-in-payday-loans-banned-by-states.html?mtr-ref=www.google.com&gwh=1697D95EF5C150E4FC9755671AA6335A&gwt=pay (discussing the benefit banks are receiving from supporting online payday lenders).

235. INSPECTOR GENERAL USPS REPORT, *supra* note 72.

236. *See* Weissman, *supra* note 210 (stating that it would be able to relieve the millions of householders without banking services without much pushback from the current banking system).

237. INSPECTOR GENERAL USPS REPORT, *supra* note 72.

238. *See* Weissman, *supra* note 210 (discussing the idea that Gillibrand's lending proposal is ambitious and the suggested interest rate is likely too low for the high risks of default).

239. Weissman, *supra* note 210.

240. *See* Ricks, Crawford & Menand, *supra* note 6, at 11 (stating that FedAccounts would not offer a lending remedy).

241. *See* Abby Vesoulis, *Millions of American Can't Afford a Checking Account. The Post Office Could Fix That,* TIME (Aug. 7, 2018), http://time.com/5351706/postal-banking-kirsten-gillibrand/ (stating the large difference between the rate that the Gillibrand bill proposes and the suggested interest rate by the Inspector General).

The bill suggests interest rates on credit in line with the Department of Treasury's one-month constant maturity rate, currently under 2%.[242] However, the USPS Inspector General suggests interest rates on the loans at a much higher rate of 25%.[243] There will have to be a negotiation on this rate to either raise it or make it flexible depending on the borrower before the bill passes.[244] The suggested rate of 2% is likely too low to extend loans in the circumstances of the unbanked and underbanked population.[245]

Additionally, there is the risk that the population that the USPS intends to service with these loans are more likely to default.[246] However, the USPS can enlist the services of the Internal Revenue Service and other federal agencies that have the power to garnish wages or tax returns, an ability that payday lenders do not have and therefore charge for the perceived high-risk lending.[247]

Ultimately, a smaller loan service offering either of these interest rates would likely be overly competitive for current payday lenders and put financial strain on their business.[248] Senator Gillibrand[249] suggests that the only legislator that would oppose her proposal would be one who will want to protect payday lender profits.[250] However, there is likely a significant group that will want to protect payday lenders.[251] The payday lending industry has made $14 million in total political contributions since 2010.[252] Nevertheless, Baradaran suggests that USPS has the

242. Weissman, *supra* note 210.

243. INSPECTOR GENERAL USPS REPORT, *supra* note 72.

244. Vesoulis, *supra* note 241.

245. *See* John Caskey, *Reaching Out to the Unbanked*, in INCLUSION IN THE AMERICAN DREAM: ASSETS, POVERTY, AND PUBLIC POLICY (M.W. Sherraden ed., 2005) (explaining that loaning to the unbanked is not always ideal and may put these consumers in a worse off financial situation if it continues).

246. *See* Weissman, *supra* note 210 (discussing the idea that Gillibrand's lending proposal is ambitious, and the suggested interest rate is likely too low for the high risks of default).

247. Baradaran, *supra* note 8.

248. *See* Weissman, *supra* note 210.

249. Sen. Kirsten Gillibrand (D-N.Y.).

250. *See* Weissman, *supra* note 210.

251. *See Payday Lenders: Long-Term Contribution Trends,* OPENSECRETS.ORG CTR. FOR RESPONSIVE POL., https://www.opensecrets.org/industries/totals.php?cycle=2018&ind=F1420 (last visited Jan. 30, 2019) (highlighting the consistent political contributions payday lenders have given over the last decade).

252. *Id.*

ability and legal authority to expand its sources of revenue without additional action from Congress, making action possible without the bill passing.[253]

Lastly, this system could be of assistance to USPS.[254] The USPS is the United States' second-largest employer and is self-funded without taxpayer support,[255] but despite these figures the service is currently financially strained.[256] International post offices have obtained substantial revenue by offering financial services.[257] This market opportunity could add $8.9 billion per year to USPS.[258] Further, the plan would essentially be cost-free to the taxpayer.[259] This plan provides services for the population at risk while co-existing with private financial institutions.[260]

B. *State Public Banks*

State public banks are financial institutions that allow state or city borrowing to be controlled by the state government.[261] Instead of paying a private institution to hold the public's money, the state would own the banking institution.[262] This process claims to not only save on banking fees but also focus on investing the public banks' profits back into the community.[263]

State public banks might also offer opportunities that the Federal Reserve and FedAccounts will not.[264] When surveyed, the unbanked and underbanked population listed their number one reason for not having a

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253. Baradaran, *supra* note 8.
254. *Id.*
255. Ellen Brown, *The War on the Post Office,* CAMPAIGN FOR POSTAL BANKING (Mar. 16, 2018), http://www.campaignforpostalbanking.org/news/the-war-on-the-post-office/.
256. *Id.*
257. INSPECTOR GENERAL USPS REPORT, *supra* note 72.
258. INSPECTOR GENERAL USPS REPORT, *supra* note 72.
259. Baradaran, *supra* note 8.
260. Baradaran, *supra* note 8.
261. Irina Ivanova, *Will Los Angeles Create A City-Owned Bank? Voters to Decide*, CBS NEWS (Nov. 2018), https://www.cbsnews.com/news/will-los-angeles-create-a-city-owned-bank-voters-will-decide/.
262. *Id.*
263. *See id.* (explaining the possible benefits if Los Angeles approves a city owned bank).
264. *See* Eric Hardmeyer, *Why Public Banking Works in North Dakota*, N.Y. TIMES (Oct. 1, 2013), https://www.nytimes.com/roomfordebate/2013/10/01/should-states-operate-public-banks/why-public-banking-works-in-north-dakota.

bank account as "I don't like dealing with banks."[265] However, state public banks have the opportunity to change this response from consumers by delivering the trust and client specific services needed by their localized population.

The Federal Reserve has the reputation of being a large, distant government organization with which consumers—especially the unbanked and underbanked population—have very little familiarity.[266] A state-run bank offering these services customized to the state's consumer needs may well establish direct, customized contact with these customers that are typically uncomfortable dealing with traditional banks.[267] State-run banks would be known for providing specific services for these groups.[268]

The Bank of North Dakota, which has operated and managed public funds for nearly 100 years, serves as an example of a successful state-run bank operation.[269] The Bank of North Dakota was founded in 1919 to create reliable access to affordable credit for the state's farmers and businesses and is the nation's only state-run bank.[270] The bank currently makes low-interest loans to students, smalls businesses, and startups.[271] The Bank of North Dakota claims it "is successful because [they] are partners with North Dakota's financial institutions, not competitors."[272] This partnership works by state public banks making loans that a private institution might find less profitable.[273] In the last ten years, the bank has transferred nearly $300 million in profits to the North Dakota treasury.[274]

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265. Caskey, *supra* note 245.

266. Hardmeyer, *supra* note 264.

267. *See* Caskey, *supra* note 10 (interpreting the change that banks would have to make to convince the unbanked population to stop using fringe banking).

268. Caskey, *supra* note 10.

269. *See* PUBLIC BANKING INSTITUTE, INTRODUCTION TO PUBLIC BANKING, http://www.publicbankinginstitute.org (discussing the Bank of North Dakota and the history of Public Banking in the United States).

270. *Id.*

271. *Id.*

272. Hardmeyer, *supra* note 264.

273. Ivanova, *supra* note 261.

274. *Bank of North Dakota: America's Only 'Socialist' bank is Thriving During Downturn,* HUFFINGTON POST, (May 25, 2011), https://www.huffingtonpost.com/2010/02/16/bank-of-north-dakotasocia_n_463522.html.

The success of the Bank of North Dakota has inspired an ongoing campaign to create the Public Bank of New York City.[275] The idea is that it would serve as a fully functional bank owned and operated by the city by serving as a "public trust invested in social justice, accountable to the public."[276] The city's taxes, fees, and local revenue are currently held in corporate bank accounts.[277] Therefore, the banks that hold these deposit accounts can dictate the lending and interest rates.[278]

The Public Bank NYC Coalition calls for a transition of power with a publicly operated financial institution supported by the belief that "public money should work for the public good."[279] The coalition lists the goals of the NYC public bank as making equitable investments, co-operative community development, affordable financial services, and accountability.[280]

New York City is not the only area calling for a public bank.[281] The state of Washington passed a bill earlier in 2018 to create a public bank.[282] Several California cities are doing feasibility studies with Los Angeles having a set back on their localized bank by putting it to a recent unsuccessful popular vote.[283] Although not yet popular, state public banks are gaining attention within the United States as an alternative for public banking.[284]

State public banks could start reaching out to this part of the population by providing check cashing services even to those who do not hold an account.[285] The unbanked and underbanked population are likely to be slow to transition into the system by opening deposit accounts due to little month-to-month savings, welfare ineligibility, or the risk of

275. Michelle Chen, *How a Public Bank Could Help You*, THE NATION (July 5, 2018), https://www.thenation.com/article/public-bank-help.

276. *Id.*

277. *Id.*

278. *See* PUBLIC BANK NYC, MISSION AND VISION, https://www.publicbank-nyc.org/about, (last visited Feb. 6, 2019) (reviewing the reason New York citizens are calling for a state bank and what services and policies the proposed bank plans to have).

279. *Id.*

280. *Id.*

281. Ivanova, *supra* note 261.

282. Ivanova, *supra* note 261.

283. Ivanova, *supra* note 261.

284. Ivanova, *supra* note 261.

285. Caskey, *supra* note 10.

creditor access.[286] Getting consumers involved in a state public bank through low-dollar check cashing without needing accounts allows them to become part of the banking process by gradually integrating them into the banking system.[287] State-run banks could even go one step further and encourage these depositors to build savings and even establish investment accounts.[288]

State-run banks could also be of assistance to consumers in the short term through small-dollar lending.[289] Currently, this is not an attractive area of the market for banks to enter because the processing and monitoring costs are high when compared to the small amount of the loan.[290] However, state banks partnering with a philanthropic foundation specific to their community could arrange collateral for this high-risk, low profit lending.[291] The organization could raise money through its foundation and place these funds at the state bank.[292] By applying through the organization, consumers could gain access to short-term, small-dollar loans by using the organization's deposit as collateral.[293] This would serve as a community check on lending services while providing emergency small-dollar loans to those consumers who need them.[294]

FedAccounts do not initiate this same partnership approach as state-run banks, but instead create tension between the Federal Reserve and commercial banking institutions.[295] Further, this program cannot help this part of the population if they are not able to get them to establish a FedAccount.[296]

Rather than allow the Federal Reserve to act on such a significant scale, state banks could serve the public and work compatibly with

286. Caskey, *supra* note 10.
287. Caskey, *supra* note 10.
288. Caskey, *supra* note 10.
289. Caskey, *supra* note 10.
290. Caskey, *supra* note 10.
291. *See* Caskey, *supra* note 10 (interpreting the change that banks would have to make to convince the unbanked population to stop using fringe banking).
292. Caskey, *supra* note 10.
293. Caskey, *supra* note 10.
294. Caskey, *supra* note 10.
295. Ricks, Crawford & Menand, *supra* note 6, at 11.
296. Hardmeyer, *supra* note 264.

private financial institutions instead of creating a program to reduce their size and ability to function.[297]

C. Mobile Financial Services

Another route to engaging the unbanked and underbanked population and encouraging universal financial service access is through mobile financial services.[298] Mobile phones have become a standard for Americans in the last decade.[299] This technological advancement led to an increase in the accessibility of banking services through innovative financial service technologies.[300] Banks could add $380 billion annually in revenue by reaching out to the unbanked and underbanked population.[301] Because of the opportunity in the market, banks that do not start to make this transition into the market will be pressed to compete with the outside competition from technology companies.[302]

The FedAccounts proposal notes that—although other countries have had success—the United States should not be willing to wait on the technology.[303] Although this would likely take some time, mobile banking access does not seem far from reaching every corner of society.[304] Thanks to lower transaction costs, mobile banking would enable banks to reach this part of the population cost-effectively.[305]

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297. Caskey, *supra* note 10.

298. *See* GEMALTO, BRINGING FINANCIAL SERVICES TO THE UNBANKED, https://www.gemalto.com/review/pages/bringing-financial-services-to-the-unbanked.aspx (last visited Feb. 6, 2019), (describing the African population's use of mobile phones is bringing them access to financial services even without a traditional bank account).

299. PEW RESEARCH CENTER, INTERNET & TECHNOLOGY, MOBILE FACT SHEET (Feb. 5, 2018), http://www.pewinternet.org/fact-sheet/mobile/.

300. GEMALTO*, supra* note 300

301. *See Banks Can Grow Profitably in Emerging Economies by Being More Inclusive,* ACCENTURE CARE https://www.accenture.com/us-en/insight-banks-grow-profitably-emerging-economies (overviewing a plan to use inclusive banking services to reach out to the unbanked population) [hereinafter ACCENTURE REPORT].

302. *See* Macarena Munoz Montijano, *BBVA Plans New Management Revamp as Chairman Pushes Digital Bank*, BLOOMBERG (Jul. 28, 2015), https://www.bloomberg.com/news/articles/2016-07-28/bbva-plans-new-management-revamp-as-chairman-pushes-digital-bank (reporting on Spain's biggest lender's push into digital banking).

303. Ricks, Crawford & Menand, *supra* note 6, at 11.

304. ACCENTURE REPORT, *supra* note 303.

305. ACCENTURE REPORT, *supra* note 303.

Sixty-three percent of unbanked consumers have a mobile phone, and 91% of underbanked consumers have a mobile phone.[306] Further, underbanked households are more likely than their unbanked and fully banked counterparts to have smartphones.[307]

Kenya serves as a successful example of the benefit that mobile payment systems can have on the inclusion of underserved banking consumers.[308] Sixty percent of Kenyan adults over the age of fifteen use mobile payments to send money.[309] M-PESA, a Kenyan mobile phone-based money transfer and financing company, uses simple text messaging to allow people to transfer money.[310] In India, mobile financial services extend financial access to approximately 43% of the unbanked population.[311]

There are currently partnerships with technology companies and banking institutions to create financial products to reach the unbanked and underbanked.[312] For example, PayPal is planning to offer consumer debit cards connected to PayPal accounts that would offer direct deposit along with other services.[313] The fees are small for ATM withdrawals and check deposits, and the service does not require monthly fees or minimum balances.[314] Amazon is also exploring the option of getting involved in banking services.[315]

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306. Aaron Smith, *Smartphone Adoption and Usage*, WASHINGTON: PEW RESEARCH CENTER, http:// pewinternet.org/~/media//Files/Reports/2011/PIP_Smartphones.pdf (2011); Javelin Strategy and Research (2011), *Mobile Banking, Smartphone and Tablet Forecast: Mobile Banking Moves Mainstream to Mid-Sized, Community Banks, and Credit Unions*, Pleasanton, CA: Javelin Strategy and Research (2011-2016).

307. *See id.* (underbanked households with mobile phones, 57 percent have smart-phones compared with 26 percent of unbanked and 44 percent of fully banked households).

308. *Id.*

309. Asli Demirguc-Kuntand Leora Klapper, *Measuring Financial Inclusion: The Global Findex Data- base*, (Washington: World Bank Research Working Paper 6025, 2012).

310. Alan McIntyre, *Banks Need to Focus on a New Customer- The Unbanked,* FORBES (May 10, 2017), https://www.forbes.com/sites/alanmcintyre/2017/05/10/banks-need-to-focus-on-a-new-customer-the-unbanked/#365a6f0059c8.

311. Dhananjay Mahapatra, *Airtel, Axis Bank Join Hands for Mobile Banking*, TIMES OF INDIA (Apr. 18, 2018), www.timesofindia.indiatimes.com/business/india-business/Airtel-Axis-Bank-join-hands-for-mobile-banking/ pmarticleshow/13174195.cms?prtpage=1.

312. Sarah Perez, *PayPal to Roll Out Banking Products for the 'Unbanked' in the Weeks Ahead,* TECH CRUNCH, https://techcrunch.com/2018/04/09/paypal-to-roll-out-banking-products-for-the-unbanked-in-the-weeks-ahead/.

313. *Id.*

314. *Id.*

315. *Id.*

Further, large technology firms, such as PayPal and Amazon, have formed lobbying groups to discuss "issues on mobile payment and payment processing" relating to underserved consumers.[316] These groups are engaging in more than just payment processing and have started offering lending services.[317] For example, Apple offers loans for iPhones, and Amazon conducts small-business lending.[318] Both of these services have grown rapidly since their introduction to the market.[319]

If mainstream financial institutions are not willing to reach out to unbanked and underbanked consumers because of a lack of profitability, there is a sector in the private market that is trying to find a way to reach this part of the population.[320] However, if there is a lack in profitability for whole or parts of this sector, mobile financial services will likely have to partner with government efforts such as postal banking or state banks to serve this part of the population adequately.[321]

V. CONCLUSION

FedAcccounts would undoubtedly bring about substantial financial change to the United States economy.[322] However, it is questionable how much of this change would be for the good of the economy.[323] FedAccounts will likely not be inclusive of the unbanked and underbanked population and lacks the lending aspect of the financial services that this part of the populations needs most.[324] Regardless of the strategy used to reach this part of the population, it is vital that it small-dollar lending be provided for the unbanked and underbanked population.[325]

316. Lalita Clozel, *Why are Amazon, PayPal Meeting with Bank Regulators,* AM. BANKER, Sep. 29, 2017, https://www.americanbanker.com/news/why-are-amazon-paypal-meeting-with-bank-regulators.

317. *Id.*

318. *Id.*

319. *See id.* (stating that Amazon's small-business lending has doubled in one year).

320. *See, e.g.*, Perez, *supra* note 314 (discussing PayPal and other financial services reaching out to the unbanked population because they see it as a gap in the market place with potential).

321. McIntyre, *supra* note 312.

322. Ricks, Crawford & Menand, *supra* note 6, at 11.

323. Levine, *supra* note 184.

324. *See* McIntyre, *supra* note 312 (stating that this part of the population needs access to lending).

325. McIntyre, *supra* note 312.

FedAccounts will also introduce a large amount of government intervention into the private banking sector, which would likely slow economic growth and development.[326] Finally, unlike other alternatives to reach the unbanked and underbanked population, FedAccounts would work against mainstream financial institutions.[327] These alternatives, such as postal banking, state banks, and mobile financial services, will have less drastic effects and better serve consumers.[328]

FedAccounts, while nobly attempting financial inclusion, are not the best solution to meet this end in the United States economy.[329] Policymakers should strive to find and create a solution that works harmoniously with the current private sector while still offering assistance.[330] Although the unbanked and underbanked are challenging to reach, innovative strategies show promise to reach this part of the population.[331]

What is certain is that this part of the population cannot be left out of mainstream financial services any longer.[332]

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326. Calabria, *supra* note 111.

327. *See* Levine, *supra* note 184 (stating that FedAccounts is a "radical" proposal because it would compete against existing banks).

328. *See e.g.,* Baradaran, *supra* note 8 (stating that postal banking is a solution to the unbanked and underbanked issue).

329. *See* Levine, *supra* note 184 (proposing a simpler solution to FedAccounts).

330. Levine, *supra* note 184.

331. *See* Lalita Clozel, *supra* note 318 (discussion the innovative ways that technology giants are attempting to enter the financial service industry).

332. Caskey, *supra* note 10.

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