



1275 First Street NE, Washington, DC 20002

February 3, 2016

[Address of financial institution]

Dear [CEO of financial institution]:

I am writing to you and your peers, as leading executives in the banking industry, to bring an important matter to your attention. This letter is not being sent in reference to any sort of regulatory requirement, but instead is simply a suggestion that I urge you to consider in serving your customers. As you know, each year millions of Americans open new checking accounts, making them one of our most widespread financial products. Right now, much of the industry presents consumers with a binary result – either an applicant passes a standard screening process to obtain an account after identifying any credit risks posed by the applicant’s history of misuse or mishandling of some prior account, or the applicant is blocked from accessing the banking system altogether. There is, however, a third possibility, which is to offer all applicants a lower-risk account (whether a checking account or a prepaid account) whereby the applicant cannot pose the same level of risk to the institution. Accordingly, the same applicant need not be screened out of the banking system by applying the same risk thresholds that are used to determine eligibility for a standard checking account. Millennials, in particular, seem to be expressing great interest in the availability of such lower-risk products.

This is important because an estimated ten million American households are currently “unbanked.” You know very well that having a checking account or a reloadable prepaid account enables consumers to receive wages and benefits, make payments, store funds, and manage their day-to-day lives. These functions are essential to both financial viability and economic mobility, and they represent the enormous value that your institution provides to a large number of Americans on a regular basis. Unfortunately, however, many consumers, including those with limited or irregular incomes, struggle to manage their spending, avoid unwanted fees, repay overdrawn balances, and maintain these critical accounts. Consumers who lose their deposit privileges as a result of uncured negative balances at one institution can face further challenges with opening new accounts and regaining access to the banking system. Without access to such products, the financially vulnerable can be subject to inferior and more costly financial services that make it even more difficult for them to succeed in managing the ways and means of their lives. But we have come to think that banks and credit unions can do more to provide consumers with opportunities to access appropriate products that will give them a better chance to handle their inflows and outflows more effectively.

In October of 2014, the Consumer Financial Protection Bureau held a public forum on Access to Checking Accounts to discuss how financial institutions screen applicants for consumer checking accounts and to generate recommendations for improving consumer access to lower-risk accounts, consumer financial safety, and institutional risk mitigation. An increased industry focus on underserved populations and product innovations before and since the forum has helped to broaden availability in the

marketplace of transaction accounts – including certain checking account and prepaid card products – that have been specifically designed to prevent overdrafts and overdraft fees. These products can help consumers manage their spending and maintain their accounts in good standing. Further, by limiting risks to financial institutions, products that are designed to help consumers avoid overdrafts also enable account providers to relax their screening criteria and accept more account applicants, thus improving consumer access to the banking system on a broader scale.

Of course, we recognize that some transaction accounts bear risks besides overdraft. And not every consumer may want the types of transaction account products described above. However, we believe that consumers should have the opportunity to choose a product that best fits their individual needs and circumstances. And yet today, unfortunately, many consumers may not be able to choose an account that is right for them because of the limited availability and visibility of the kinds of products that are designed to help consumers manage their spending and avoid overdrafts.

We therefore are urging all financial institutions to make these lower-risk offerings broadly available to consumers. We urge banks and credit unions that do not currently offer transaction accounts designed to help consumers avoid overdrafts to do so. We further urge institutions that already offer such accounts to feature them among their standard account offerings both in their branches and online. The lack of marketing for these products, in particular, has lessened their visibility and undermined their rate of uptake among consumers who might otherwise benefit from their availability.

We are pleased that a growing number of institutions already are finding ways to offer this full range of product choices to their prospective customers, and we applaud these efforts. We further recognize that some banks and credit unions have considerably designed their overdraft programs in ways that significantly limit the risk of accountholders incurring negative balances and related overdraft fees.

However, we urge more banks and credit unions to make it a point to provide consumers with a viable choice of a lower-risk account that promises no authorized overdrafts. Doing so will help ensure that consumers have more options for how they wish to transact and help more consumers gain access to the banking system and take control of their financial lives.

Sincerely,

Richard Cordray  
Director  
Consumer Financial Protection Bureau