



CRS Report for Congress

Expanded Access to Financial Services Act

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Summary

The Financial Services Regulatory Relief Act of 2006 (P.L. 109-351) includes provisions that permit federally chartered credit unions to offer nonmember individuals access to a defined set of financial services and products. These provisions were originally passed by the House in a separate bill, H.R. 749 (the Expanded Access to Financial Services Act), on April 27, 2005. The intent of this legislation is to attract unbanked individuals (consumers that do not have an account with a depository financial institution) into the financial mainstream and to better serve low-income communities. To be eligible, the consumer must meet the criteria for membership in the credit union. The credit union could offer money orders, check cashing, and money transfer services. There was little public opposition to the legislation. This report provides background on the arguments offered in support of improved access, credit unions, and the legislation. This report will not be updated.

Background

Expanding and facilitating access to banking services and products for unserved or underserved communities has been an ongoing policy initiative for depository financial institutions, federal regulators, and Congress for the last two decades. Financial deregulation and technology have combined to create a wide range of financial services, products, and delivery systems for banks and thrifts. Nevertheless, a significant number of U.S. families do not hold a checking or savings account at a federally insured financial institution. Studies vary, but it is generally estimated that about 10 million U.S. households do not own a bank account.¹ The costs associated with maintaining accounts, dislike of banking institutions, and the convenience offered by alternative service providers are among the more frequently given reasons for this. Reliance on alternative nonbank service providers (for example check-cashing outlets) can be expensive. In addition, individuals without an account relationship often forgo an opportunity to learn about and take advantage of other financial services and products offered by insured

¹ Michael S. Barr, "Banking the Poor," a working paper prepared for the Brookings Institution Center on Urban and Metropolitan Policy, July 2003, p.8.

institutions. Proponents of encouraging account ownership and bringing the unbanked into the financial mainstream maintain that increased access would benefit both individual consumers and their communities. Outreach to these communities on this issue has most often centered on financial education and developing low-cost, basic banking accounts.

The financial assimilation of immigrants, especially low-income immigrants, has been a recent focus of concern as this segment of the U.S. population continues to grow. The 2000 Census found that immigrants represent about 12% of the total U.S. civilian labor force. The volume of foreign worker remittances, money sent back to the workers' home countries, has grown with this population. For example, the volume of remittances to Latin America and the Caribbean from the United States totaled approximately \$38 billion in 2003.² The U.S. foreign remittance market is dominated by money services businesses; Western Union and MoneyGram are two of the largest money transmitter companies. Banks and thrifts recognize the potential customer base represented by this unbanked population. Recently, individual bank and thrift institutions have developed remittance products, customized to low-income senders, in an effort to attract unbanked immigrants into the financial mainstream.

Credit union charters, in contrast to those for other types of depository financial institutions, restrict an individual institution's service to persons in their field of membership, who join the credit union. P.L. 109-351 amends the Federal Credit Union Act³ to enable federal credit unions to offer a limited group of financial services to nonmembers in an institution's field of membership. This access can provide an opportunity for credit unions to establish a relationship with unbanked consumers and expose them to the possible benefits of joining a credit union.

Credit Union Organization

Many of the financial services provided by credit unions are similar to those offered by banks and thrifts but they are distinguishable because of their cooperative framework and unique charter requirements. The original concept of a credit union was a cooperative organization formed for the purpose of promoting thrift among its members and providing them with a source of low-cost credit. Credit union charters are granted by federal or state governments on the basis of a "common bond." This requirement determines the field of membership, and is unique among depository financial institutions. There are three types of charters: a single common bond (occupation or association based), multiple common bond (more than one group each having a common bond of occupation or association) and a community-based common bond.

Individual credit unions are owned by their membership. Members' savings are referred to as "shares," and earn dividends instead of interest. Credit union loan and investment powers are more restrictive than commercial banks. Credit unions can only make loans to their members, to other credit unions, and to credit union organizations. Credit unions can invest in government or government-guaranteed financial instruments.

² Manuel Orozco, "The Remittance Marketplace: Prices, Policy and Financial Institutions," a report by the Pew Hispanic Center, June 2004, P.39.

³ 12 U.S.C. 1757 (12).

Because credit unions are considered financial cooperatives, the institutions are exempt from federal income tax. Individual members are taxed on their dividends.

Expanded Access Legislation

The Expanded Access to Financial Services Act of 2005 (H.R. 749) was introduced on February 10, 2005. Hearings were not held by the House on this legislation. On March 16, 2005, the House Committee on Financial Services ordered H.R. 749 reported, as amended, by voice vote (H.Rept. 109-38). On April 26, 2005, the House passed H.R. 749, as amended, by voice vote and the legislation was then referred to the Senate.

The Financial Services Regulatory Relief Act of 2006 (P.L. 109-351) was enacted on October 13, 2006. Section 503 of the law includes the provisions of House-passed H.R. 749. The Regulatory Relief Act is omnibus legislation that reduces existing regulatory requirements on all depository financial institutions.⁴

The legislation would permit federally chartered credit unions to offer a limited number of services to nonmembers in an institution's field of membership. The credit union could sell money orders, money transfer instruments (including remittance products), and negotiable checks (including travelers checks). The institution could cash checks and money orders. The credit union could also receive international and domestic electronic fund transfers for these individuals. A fee may be charged for these services.

⁴ For more information on P.L. 109-351, please see CRS Report RL33513, *Financial Services Regulatory Relief in the 109th Congress: H.R. 3505 and S. 2856*, by Walter W. Eubanks.