

## Volunteer Guidance re: Cash App and P2P apps

As you discuss the benefits of opening an account at a bank or credit union with students you may be asked questions about Cash App or other person-to-person (P2P) payment apps. These are mobile apps that allow you to transfer money to other individuals who use the app and make online and in-person purchases.

P2P apps are not bad and do not need to be avoided entirely. Not only are they easy for students to set up and convenient ways to make purchases and transfer money to friends, you usually do not need a bank account. For students who do not have access to a traditional financial institution or have had negative experiences, P2P apps may seem like the best option. However, P2P apps do not offer the benefits of a full-service financial institution and the advantages of using a bank or credit union in addition to P2P apps should be explained.

### Reasons P2P apps are better used as a supplementary tool linked to a checking account:

- The funds are stored in the app and are not FDIC-insured unless deposited into an insured account.
  - Some apps offer an optional debit card through one of the app's banking partners. The funds associated with these accounts are automatically FDIC-insured via FDIC "pass-through" insurance.
- There is risk involved in storing money in these apps since accounts could be hacked, the company could go out of business, and users could be scammed or accidentally send money to the wrong person. The customer service for many of the apps is not well-rated.
- Users are able to purchase Bitcoin and invest through some of these apps. Direct access to those features could be risky for teens.
- There are fees and limits associated with the apps. Some examples include:
  - \$1-\$5 fee to deposit cash into their account at an affiliated retailer
  - \$2.50 fee to withdraw money from an ATM, plus a likely fee from the ATM owner
  - 1.75% fee to instantly transfer money to a checking account or debit card (free transfers take up to 3 business days)
  - \$1,000 transaction limit within 30 days, \$1000 withdrawal limit per day/ATM/week
- People who are unbanked spend, on average, 5% of their net income on fees to alternative financial services, which can amount to \$40,000 over a person's lifetime ([Brookings Institution](#)).
- A number of checking accounts have been [certified as safe and affordable](#) and have no or very low fees. A few are available to minors without an adult co-signer. Students can learn more about these accounts through [Bank On Greater Milwaukee](#). Most "student" accounts found at local banks and credit unions are good options and typically don't have fees or minimums.

## What do traditional accounts offer that P2P apps don't?

- Ability to deposit a check at a branch or via a mobile app
- Ability to cash a check
- Ability to save money in a separate savings account (most apps do not offer a savings account, but PayPal does through their banking partner)
- Bill pay services
- Tools (ex: Zelle) to transfer money directly to an individual that are integrated into their online banking and mobile apps. These transfers are typically free and instant.
- Formal monthly statements
- Direct cash access without a fee
- Access to other banking products, e.g. Certificates of Deposit, IRAs, loans, credit cards
- International access to your money (some P2P apps only operate in the US & UK)
- Banking relationship to help facilitate loans, safe deposit box, small business services
- Access to other services like financial consultation and investment planning
- Personalized customer service

## The Bottom Line

All people deserve access to the security and benefits of using a financial institution but the reality is that access is not equal and some may have had negative experiences that make them reluctant to trust banks or credit unions. It is okay for students to use P2P apps, but the risks involved and the reasons for linking them to a checking account should be explained. Opening and responsibly managing a bank or credit union account helps build students' financial reputation and begins a relationship that will open doors to other products and services that the students will need as they navigate adulthood.