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 apps are easy for students to set up and are very convenient ways to transfer money to friends and make purchases. For most of these apps, you do not need an account at a financial institution to set them up. You may hear that students prefer to use these apps rather than a checking or savings account and/or that they don't understand why they should have a checking or savings account if they can use these apps instead. Some families who do not have access to or who have had negative experiences at traditional financial institutions may prefer to use these apps. Some small businesses only accept payment through P2P apps.

Cash App and other P2P apps are not accepted as options for direct deposit in the Money Coach program. Exceptions are considered on a case-by-case basis, if absolutely necessary. Full-service online banks may be accepted, but most online accounts can not be opened by a minor.

What are P2P apps?

- Mobile apps that allow a user to directly transfer money to another individual who also uses the app. Users may also be able to make online and in-person purchases with the apps.
- These apps are not bad. It is okay if students use them. They are a very convenient way to exchange money between individuals, but they are not a comprehensive banking option. They can be useful supplementary tools when linked to a checking account.
- The funds are stored in the app and are not FDIC-insured unless they are deposited into an insured account.
    - These apps can be connected to a pre-existing checking account to allow for deposits and transfers from that account. This is optional.
        - If money is sitting in the user's app account and they do not take the step to transfer it to their own checking account, then it is not FDIC-insured.
    - Some of these apps also offer an optional debit card (through one of the app's banking partners), which allows users to withdraw money at ATMs and make in-person purchases. The funds associated with these accounts are automatically FDIC-insured via FDIC "pass-through" insurance.
- There is some risk involved in using 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.
    - FDIC insurance does not cover fraud. It only covers deposits in the event of a bank failure.
- 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

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
- Formal monthly statements
- Direct cash access without a fee
- Access to other banking products like Certificates of Deposit, IRAs, loans, credit cards, etc.
- International access to your money (some P2P apps only operate in the US & UK)
- "Banking relationship" to help facilitate a loan, safe deposit box, small business services, etc.
- Access to other services like financial consultation and investment planning.
- Personalized customer service

The Bottom Line

- P2P apps are not bad and do not need to be avoided entirely. They can be convenient and useful, but they do not operate like or offer the benefits of a full-service financial institution. Banks and credit unions offer everything that these apps provide, plus more.
- It is okay if students use the apps, but they need to be linked to a checking account to reduce risk. Their checking account should be their primary method of managing their money and the apps are supplementary.
- Banks and credit unions also have 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.
- All people deserve access to the security and benefits of using a financial institution.
- Opening and responsibly managing a bank or credit union account begins a relationship that will open doors to other products and services that the students will need as they navigate adulthood.
- Using a bank or credit union, rather than an alternative like a check-cashing store, a prepaid card, or a P2P app, will save individuals money in fees. 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.