

## Walmart: The new “Go-To” bank?

By [James R. Barth](#) and [Moutusi Sau](#)

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In October 2014, Walmart announced that it was teaming with GoBank to provide banking services to its customers. This follows earlier attempts by Walmart to enter banking more directly through a wholly-owned subsidiary. The largest retail firm in the world made its first move in 1999 when it tried to acquire a small savings and loan institution in Oklahoma. But the Gramm-Leach-Bliley Act, which prohibited the mixing of banking and commerce, took effect that year, and Walmart missed the deadline for such an acquisition. Then in 2001, it tried to partner with Toronto-Dominion Bank USA to buy a thrift institution, but the Office of Thrift Supervision denied its application. A year later, Walmart tried yet again to purchase an industrial loan company (ILC), this time in California, but the state quickly passed a law prohibiting such an acquisition.

Finally, in 2005, Walmart filed an application with the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC) to establish a federally insured industrial loan company. The state approved the application for a charter, but the FDIC did not approve the application for deposit insurance. Instead, the FDIC placed a six-month moratorium on all industrial loan company applications in July 2006. In January 2007 the moratorium was extended by the FDIC for an additional year for ILCs that would be owned or controlled by commercial companies. Prior to the moratorium, the FDIC had held two public hearings, in April 2006, on Walmart’s deposit insurance application. In response to its request for public comments, the FDIC received more than 12,600 comment letters, mostly opposing the approval of Walmart’s request.

Many banks opposed Walmart’s entry into the banking market, fearing that the behemoth would use the ILC to establish branches in all its stores throughout the country and eventually offer a full line of competitive banking services. They were not placated by Walmart’s statement that it only wanted to own such an institution to reduce the transaction costs it was incurring by paying banks to process credit card, debit card, and electronic check transactions in its stores. Walmart withdrew its application in March 2007, before the end of the moratorium and before any decision had been made by the FDIC. However, by 2007, California, Colorado, Illinois, Iowa, Kansas, Maine, Maryland, Missouri, Oklahoma, Texas, Wisconsin, Virginia, and Vermont had passed legislation restricting to various degrees the operation of ILCs.

Now Walmart has changed its tactics with respect to entering the banking industry. Rather than trying once again to acquire or obtain a charter for its own bank, it has partnered with GoBank to enhance its profits by providing banking services to its customers. Of course it already offers space within its stores to banks to provide their own banking services. How the current arrangement with existing banks operating branches in Walmart stores will be affected remains to be seen. Whether the branches are eventually closed, the bigger issue is the extent to which Walmart becomes a new go-to bank. We assess to what extent Walmart will be offering banking services that are new and different, or current services on better terms, from those offered by some of the biggest banks in the country.

Table 1 compares the banking services and their associated prices offered by GoBank with those of Bank of America, Citibank, and Toronto Dominion Bank USA. It is clear from the table that consumers seeking

the type of banking services offered by Walmart through GoBank have gained choices, sometimes on better terms. We find it interesting that no single firm dominates all others in terms of prices charged for the listed services. This requires a person to consider the type of banking services he needs and how often, not to mention the expected average monthly balance in an account, before he can get a clear idea of service costs. The bottom line: Walmart is not necessarily offering new or cheaper banking services.

**Table 1. Comparative Information on Banking Services and Prices**

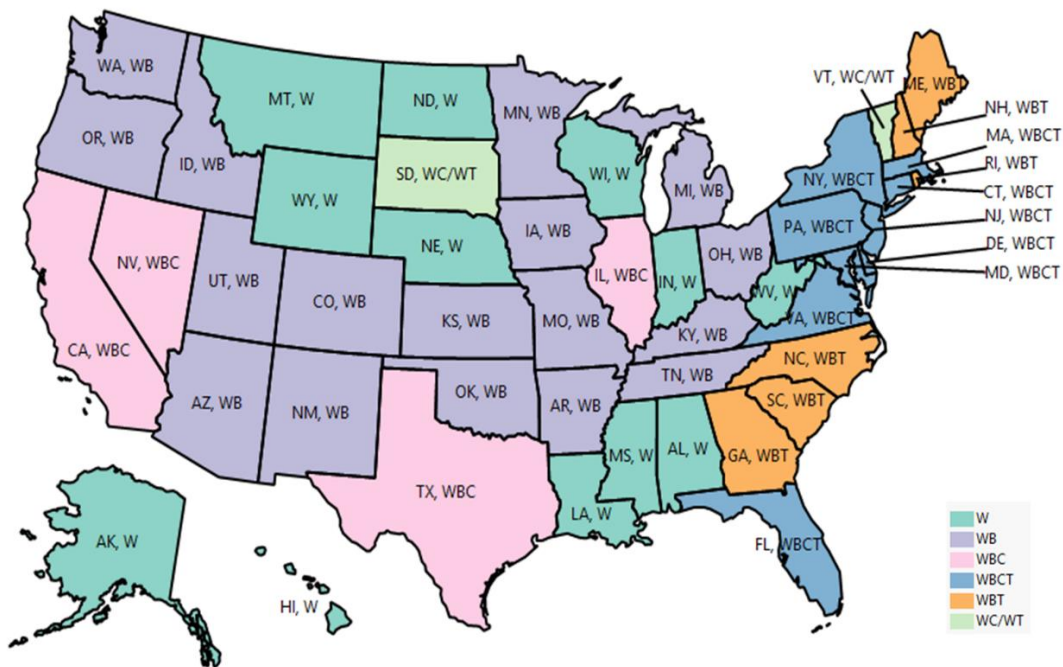
<b>Firm</b>	<b>Walmart</b>	<b>Bank of America</b>	<b>Citibank</b>	<b>Toronto Dominion Bank USA</b>
<b>Program</b>	GoBank	SafeBalance Account	Access Account	TD Simple
<b>Minimum Balance to open account</b>	\$2.95 for a kit	\$25	\$0	\$0
<b>Monthly Fee</b>	\$8.95	\$4.95	\$10	\$5.99
<b>Minimum Balance after opening account</b>	\$500 or more for no fee	None	\$1,500 or more for no fee	None
<b>Can fee be waived</b>	Can be waived if average monthly balance remains above \$500 or more	No, to open account and monthly fee	Can be waived if customers make one monthly bill payment or direct deposit, or if there is an average monthly balance of \$1,500 or more	No, to monthly fee
<b>Overdraft Penalty</b>	None	None	None	\$35
<b>ATM</b>	Free in network	Free in network \$2.50 for Non-Bank of America ATMs	Free in network	Free in network \$3 for Non-TD ATMs
<b>Partner for debit card</b>	MasterCard	Visa	MasterCard	Visa
<b>Number of branches in US</b>	4,953 stores	5,261 branches and 18,000 ATMs	1,000 branches and 30,000 ATMs	1,340 branches and 1,900 ATMs
<b>Number of states (including District of Columbia)</b>	51	37	15	17
<b>Date as of</b>	8/31/2014	10/8/2014	10/8/2014	10/8/2014

Sources: Joseph Pisani, "Wal-Mart's mobile checking account nixes fees," The Huffington Post, September 24, 2014, <http://www.huffingtonpost.com/huff-wires/20140924/us--on-the-money-wal-mart-checking-accounts/> (accessed November 11, 2014).; Shayndi Raice, "Bank of America Seeks a Lift From Flat-Fee Checking," Wall Street Journal, March 5, 2014, <http://online.wsj.com/articles/SB10001424052702304732804579421691076600648/> (accessed November 11, 2014).; Bank of America; TD Bank; Citibank; Wal-mart; Milken Institute.

For consumers seeking banking services, there are two additional factors, however, that may determine their choice of provider. The first is the location of Walmart's stores compared to the branches of the other three banks. All of these big banks have greater geographic coverage than community banks. Indeed, Bank of America has branches in the most states (37) as compared to the other two banks. It

might have had even more branches but for federal and state laws that until recently restricted where banks could acquire other banks and open branches. Throughout most of U.S. history a bank could not acquire another bank or open a branch wherever it chose. This decision was made by the federal and state governments. It was not until the enactment of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 that a bank gained the right to acquire any bank anywhere in the in the country. The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 gave banks the right to open branches anywhere in the country. Walmart has not been so constrained, at least with respect to states, and therefore has stores in every state in the country. Figure 1 shows the extent to which Walmart and the three banks in Table 1 physically operate within the same states. Walmart has far greater geographical reach than any single bank and so may have a competitive advantage in convenience and transportation costs that may influence customer banking choices. The second factor, which is related to the first, relates to the fact that approximately 8.2 percent of U.S. households have no relationship with a bank, that are unbanked and another 20.1 percent of households that are “underbanked,” according to the FDIC. These households may correspond to those that typically shop at Walmart stores and could sign up for GoBank accounts.

**Figure 1. Location of Walmart Stores and Bank Branches**



Key: W: Walmart; WB: Walmart and Bank of America; WBC: Walmart, Bank of America and Citibank; WBCT: Walmart, Bank of America, Citibank and TD Bank; WBT: Walmart, Bank of America and TD Bank; WC/WT: Walmart, Citibank or TD Bank.

Yet another big retail firm is making waves in the financial sector these days. Apple announced in October 2014 that it was establishing Apple Pay, a free service that lets people use their credit card number and thumbprint to make purchases at stores and via apps. This new development by Apple and the growing importance of peer-to-peer lending (the practice of lending money to unrelated individuals without going through a bank) pose competitive challenges to banks in the areas of processing

transactions and making loans. We're reminded of a comment Bill Gates made thirty years ago, "Banks are dinosaurs, they can be bypassed". However, these recent developments that rely on technology also create new opportunities for banks. This is already happening to the extent banks are broadening services they offer customers online. The result is a win for both banks and consumers in the form of lower transaction costs.

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