Overview of the FDIC’s Unbanked and Underbanked Surveys

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Federal Deposit Insurance Corporation
Agenda

- Background.
- FDIC household survey highlights.
- FDIC Model Safe Accounts Pilot
- Conclusions and next steps.
Background

- Impetus and statutory mandate.

- FDIC household survey.
  - Administered in January 2009 as a supplement to the Census CPS to 54,000 households (86% response rate).
  - Designed to yield estimates of the number of unbanked and underbanked households at the national, state, and large metropolitan statistical area (MSA) levels; their demographic characteristics, and the reasons why these households are not utilizing or fully utilizing the mainstream financial system.
  - Initial results released in December 2009.

- FDIC bank survey.
  - Administered in 2008 to a sample of about 1,300 banks.
  - Designed to identify the extent to which banks meet the needs of unbanked and underbanked populations and challenges faced.
  - Results released in early 2009.
FDIC Household Survey Highlights
National proportions of unbanked and underbanked households

- An estimated **7.7 percent** of households, about 9 mm with at least 17 mm adults, are **unbanked**.

- An estimated **17.9 percent** of households, about 21 mm with about 43 mm adults, are **underbanked**.

- Taken together, at least **25.6 percent** of U.S. households, close to 30 mm households with about 60 mm adults, are **unbanked or underbanked**.

Notes: Percentages are based on 118.6 million U.S. households. Percentages do not always sum to 100 because of the rounding of household weights to represent the population totals.

* These households are banked, but there is not enough information to determine if they are underbanked.
Unbanked Households
Characteristics of unbanked households

- Households more likely to be unbanked than the population as a whole are those:
  - With a black, Hispanic non-black, or American Indian/Alaskan householder; or
  - Where Spanish is the only language spoken at home; or
  - With a householder that is a foreign-born noncitizen; or
  - That are family households with an unmarried female or male family householder; or
  - Earning less than $30,000; or
  - With a householder holding less than a high school degree; or
  - With a householder under age 45.
Unbanked households by race/ethnicity

Percentage of Households

National: 7.7%

Black: 21.7%
Hispanic: 19.3%
American Indian/Alaskan: 15.6%
Hawaiian/Pacific Islander: 9.2%
Asian: 3.5%
White: 3.3%
Unbanked households by income

Note: Income data were missing for 15 percent of households. For these households, the percentage of unbanked households is 7.7 percent (not shown in the chart).
Unbanked households by household type

<table>
<thead>
<tr>
<th>Household Type</th>
<th>Percentage of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Couple Family</td>
<td>3.6</td>
</tr>
<tr>
<td>Unmarried Female Family</td>
<td>19.7</td>
</tr>
<tr>
<td>Unmarried Male Family</td>
<td>14.9</td>
</tr>
<tr>
<td>Nonfamily Household</td>
<td>8.5</td>
</tr>
</tbody>
</table>

National: 7.7%
Unbanked households by region and state

Regional Unbanked Shares
- Northeast: 6.8%
- Midwest: 8.2%
- South: 9.5%
- West: 8.0%

Legend:
- First Quintile (1.86% - 2.77%)
- Second Quintile (4.29% - 5.54%)
- Third Quintile (5.65% - 6.86%)
- Fourth Quintile (6.87% - 8.02%)
- Fifth Quintile (8.03% - 16.41%)
Unbanked households – previously banked versus never-banked

Unbanked

Banked: 92.3%

Previously Banked: 49.0%

Never-Banked: 46.9%

Unknown: 0.3%

Notes: Percentages are based on 118.6 million U.S. households. Percentages do not always sum to 100 because of the rounding of household weights to represent the population totals.
When previously banked households became unbanked

- **Banked over a year ago** (3.2 mm households): 71.2%
- **Banked within the last year** (1.2 mm households): 27.9%
- **Unknown** (0.04 mm households): 0.4%

Notes: Percentages are based on 4.5 million previously banked U.S. households. Percentages do not always sum to 100 because of the rounding of household weights to represent the population totals.
Reasons households are unbanked

![Bar chart showing reasons households are unbanked.](chart)

Note: Percentages based on a total of 4.23 million never-banked households and 3.14 million previously banked households. Previously banked households that did not close their account themselves and/or were in the process of opening an account were not asked why they closed their account and are excluded from this analysis. Percentages sum to more than 100 because respondents were permitted to choose multiple responses.

* Response was not applicable to previously banked households.
Unbanked households’ likelihood of opening account

Percentage of Unbanked Households

- **All Unbanked**
- **Previously Banked**
- **Never-Banked**

Note: Percentages based on a total of 8.58 million unbanked households. Previously banked households that were in the process of opening an account were not asked questions about their future banking plans and are excluded from this tabulation.
Unbanked households’ reasons for wanting to open an account

Notes: Percentages are based on all unbanked households that were “very likely” to open an account in the future (849 thousand households). Household respondents that did not report being “very likely” to open an account were not asked this question.

* No never-banked respondent selected this reason for opening a bank account. It is believed that the universe proportion is only slightly greater than zero.
Underbanked Households
Characteristics of underbanked households

- Underbanked households account for 19.4 percent of all banked households.
- Households more likely to be underbanked than the population as a whole are those:
  - With a black, American Indian/Alaskan, or Hispanic non-black householder; or
  - That are family households with an unmarried female or male householder; or
  - Earning up to $50,000; or
  - With a householder holding less than a college degree; or
  - With a householder under age 55.
Underbanked households by region and state

Regional Underbanked Shares

- Northeast: 16.1%
- Midwest: 17.0%
- South: 20.5%
- West: 18.2%

Legend
- First Quintile (11.06% - 14.88%)
- Second Quintile (14.89% - 18.70%)
- Third Quintile (16.77% - 19.26%)
- Fourth Quintile (19.27% - 21.02%)
- Fifth Quintile (21.03% - 26.45%)
Use of Alternative Financial Services
AFS considered in the survey

- Households were asked if they had ever used the following AFS and if so, with what frequency (i.e., at least a few times a year, once or twice a year, or almost never):
  - **Transaction AFS:**
    - Non-bank money orders.
    - Non-bank check-cashing services.
  - **Credit AFS:**
    - Payday lending.
    - Pawn shops.
    - Refund anticipation loans (RALs).*
    - Rent-to-own agreements.

*For RALs, the survey asked if the product was used in the past five years.
All households’ use of AFS

Note: Percentages do not always sum to 100 because of the rounding of household weights to represent the population totals.
Households’ use of specific AFS products

Note: Percentages do not always sum to 100 because of the rounding of household weights to represent the population totals.
Reasons households use AFS - transaction products

Non-bank Money Orders

Non-bank Check Cashing

All households  Unbanked  Underbanked

The place to purchase money orders is more convenient

Banks charge more for money orders

Other

The place feels more comfortable than a bank

Banks do not sell money orders

Unknown

Percentage of Households That Used Non-Bank Money Orders

The place is more convenient

Don't have a bank account

To get money faster

Other

Feel more comfortable than at a bank

Bank charges more to cash checks

Unknown

The place to cash checks asks for fewer IDs

Percentage of Households That Use Non-Bank Check Cashing
**Reasons households use AFS – credit products**

**Payday Lenders**

<table>
<thead>
<tr>
<th>Reason</th>
<th>All Households</th>
<th>Unbanked</th>
<th>Underbanked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easier to get a payday loan than to qualify for a bank loan</td>
<td>43.2</td>
<td>43.2</td>
<td>45.0</td>
</tr>
<tr>
<td>The payday loan place is more convenient</td>
<td>25.8</td>
<td>26.0</td>
<td>25.9</td>
</tr>
<tr>
<td>Don't qualify for bank loan</td>
<td>16.3</td>
<td>16.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Other</td>
<td>10.7</td>
<td>11.4</td>
<td>14.4</td>
</tr>
<tr>
<td>Payday loan service feels more comfortable than a bank</td>
<td>2.5</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Unknown</td>
<td>1.5</td>
<td>1.1</td>
<td>1.3</td>
</tr>
</tbody>
</table>

**Pawn Shops**

<table>
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<tr>
<td>Easier to get money from pawn shop than quality for bank loan</td>
<td>34.6</td>
<td>34.6</td>
<td>37.9</td>
</tr>
<tr>
<td>The pawn shop is more convenient</td>
<td>23.8</td>
<td>23.8</td>
<td>20.7</td>
</tr>
<tr>
<td>Don't qualify for a bank loan</td>
<td>10.7</td>
<td>10.7</td>
<td>14.9</td>
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<tr>
<td>Other</td>
<td>6.4</td>
<td>6.4</td>
<td>9.3</td>
</tr>
<tr>
<td>Banks don't have small loans</td>
<td>4.5</td>
<td>4.5</td>
<td>6.9</td>
</tr>
<tr>
<td>More comfortable at a pawn shop than at a bank</td>
<td>2.6</td>
<td>2.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Unknown</td>
<td>1.2</td>
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**Percentage of Households That Sold Items at Pawn Shops**

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<td>2.0</td>
</tr>
<tr>
<td>Unknown</td>
<td>1.2</td>
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</table>
Household use of General Spending and Payroll Cards

Percentage of Households

Unbanked

General Spending Card  Payroll Card

All Households  9.7  3.0  3.0
All Underbanked  16.4  4.2  5.0  3.1
All Unbanked  11.9  1.4  5.0  1.4
Previously Banked  18.8  5.0  5.7
Never-Banked  14.1  1.4
FDIC Model Safe Account Pilot
Template provides insured institutions with guidelines for offering cost effective transactional and savings accounts that are safe and affordable for consumers.

Guiding principles of accounts are:
- transparent rates and fees that are reasonable and proportional to costs
- access to banking services that feature FDIC insurance
- protections afforded by applicable federal and state consumer protection laws, regulations, and guidelines

Accounts are:
- FDIC insured
- Regulation E (Electronic Fund Transfers) compliant
Template Core Features and Fees

**Transactional Acct**
- Card-based account
- No overdraft or NSF fees
- Free: direct deposit, automatic saving, online access
- Open bal—$10-$25
- Monthly min bal—$1
- Monthly maint fee—up to $3
- Money orders/e-checks—2 free/mo

**Savings Acct**
- Interest bearing
- Free: direct deposit, automatic saving, online access
- Opening bal $5
- Monthly min bal $5
- Monthly maint fee—$0.0 if monthly min bal met
Conclusions and Next Steps
Conclusions

- Significant proportions of U.S. households are unbanked or underbanked and are disproportionately represented among lower-income and minority populations.
- Use of AFS is widespread among these households, particularly for simple, low cost transaction products.
- About half of unbanked households were previously banked and over a quarter of those households became unbanked during the year before the survey was taken.
- Taken together, these results suggest there are significant opportunities for banks to offer financial products specifically tailored to the needs of LMI households.
Next steps

- Updated survey results in 2012.
- Safe Account Pilot data first quarter data (May 2011).
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Thank you