FEDERAL DEPOSIT INSURANCE CORPORATION

2015

FDIC National Survey of Unbanked and Underbanked Households

Executive Summary

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FDIC National Survey of Unbanked and Underbanked Households

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1. Executive Summary

Public confidence in the banking system stems in part from how effectively banks serve the needs of the nation's diverse population. Accordingly, the FDIC is committed to expanding Americans' access to safe, secure, and affordable banking services. The FDIC National Survey of Unbanked and Underbanked Households is one contribution to this end.

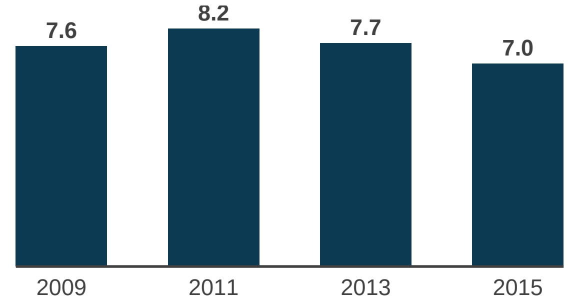
To assess the inclusiveness of the banking system, and in partial response to a statutory mandate, the FDIC has conducted the survey biennially since 2009.[1] The most recent survey was administered in June 2015 in partnership with the U.S. Census Bureau, collecting responses from more than 36,000 households. The survey provides estimates of the proportion of U.S. households that do not have an account at an insured institution, and the proportion that have an account but obtained (nonbank) alternative financial services in the past 12 months. The survey also provides insights that may inform efforts to better meet the needs of these consumers within the banking system.

This executive summary presents key results from the 2015 survey and summarizes the implications of these results for policymakers, financial institutions, and other stakeholders who are working to improve access to mainstream financial services.

Banking Status of U.S. Households

- In 2015, 7.0 percent of U.S. households were "unbanked," meaning that no one in the household had a checking or savings account. The unbanked rate fell by 0.7 percentage points from 2013 (7.7 percent) and was lower in 2015 than in any of the past years of the survey.
  - Approximately 9.0 million U.S. households, made up of 15.6 million adults and 7.6 million children, were unbanked in 2015.[2]

Figure ES.1 National Estimates, Household Unbanked Rates by Year



- An additional 19.9 percent of U.S. households were "underbanked" in 2015, meaning that the household had an account at an insured institution but also obtained financial services and products outside of the banking system. Specifically, a household is categorized as underbanked if it had a checking or savings account and used one of the following products or services from an alternative financial services (AFS) provider in the past 12 months: money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, or auto title loans.
  - Approximately 24.5 million U.S. households, composed of 51.1 million adults and 16.3 million children, were underbanked in 2015.
  - The underbanked rate was essentially unchanged from 2013 (20.0 percent).
- 68.0 percent of households in 2015 were "fully banked," meaning that the household had a bank account and did not use AFS in the past 12 months. This was a 1.0 percentage point increase from the fully banked rate in 2013 (67.0 percent).

[1] Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Pub. L. 109–173) calls for the FDIC to conduct ongoing surveys, "on efforts by insured depository institutions to bring those individuals and families who have rarely, if ever, held a checking account, a savings account or other type of transaction or check cashing account at an insured depository institution ['unbanked'] into the conventional finance system." Section 7 further instructs the FDIC to consider several factors when conducting the surveys, including estimating the size and worth of the unbanked market in the United States and identifying the primary issues that prevent unbanked individuals from establishing conventional accounts.

[2] Adults are defined as people aged 16 and older. This is a lower-bound estimate of the number of unbanked adults in the United States, because it is based on the assumption that all adults residing in a "banked" household are banked in the sense that they may benefit from the account. A banked household may have one or more unbanked adults; such adults are not included in the 15.6 million adults estimate cited in this report.

Table ES.1 National Estimates, Household Banking Status by Year
For all households, row percent

Year	Number of Households (1000s)	Unbanked (Percent)	Underbanked (Percent)	Fully banked (Percent)	Banked, underbanked status unknown (Percent)
2011	120,408	8.2	20.1+	68.8+	2.9+
2013	123,750	7.7	20.0	67.0	5.3
2015	127,538	7.0	19.9	68.0	5.0

Notes: The + symbol indicates that the 2011 estimates of the underbanked, fully banked, and underbanked status unknown rates are not directly comparable to the 2013 and 2015 estimates. Specifically, the 2011 definitions do not incorporate use of auto title loans because this information was not collected in the 2011 survey.

Changes in Banking Status

- Approximately half of the decline in the unbanked rate from 2013 to 2015 can be attributed to improvements in the socioeconomic circumstances of U.S. households. However, even after accounting for these changes, the remaining decline in the unbanked rate across years was statistically significant.[3]
- Consistent with previous results, banking status varied considerably across the U.S. population in 2015. For example, unbanked and underbanked rates were higher among the following groups: lower-income households, less-educated households, younger households, black and Hispanic households, and working-age disabled households.[4]
- Reflecting the decline in the unbanked rate at the national level, unbanked rates fell between 2013 and 2015 for many segments of the population.
  - » In particular, unbanked rates declined substantially among groups that had high unbanked rates in 2013, including households with incomes of less than $15,000, younger households, and black and Hispanic households. Despite these improvements, unbanked rates within these groups remained substantially higher than the overall unbanked rate in 2015.
  - » Some segments of the population that experienced declines in unbanked rates also experienced declines in underbanked rates. This was true for black households, for whom the unbanked rate decreased from 20.6 percent in 2013 to 18.2 percent in 2015. The underbanked rate also decreased among black households, resulting in a large increase in the fully banked rate from 40.0 percent in 2013 to 45.5 percent in 2015.[5]
- Unbanked rates increased between 2013 and 2015 for some groups. In particular, among Asian households the unbanked rate increased from 2.2 to 4.0 percent. Underbanked rates also increased among Asian households, leading to a substantial decline in the fully banked rate (from 73.4 to 67.2 percent).

Income Volatility and Banking Status

The 2015 survey added a new question to examine the potential influence of income volatility on the ways households manage their finances.

- More than one in five U.S. households had income that "varied somewhat from month to month" or "varied a lot from month to month" (over the past 12 months). Unbanked and underbanked rates were higher among these households.
- Unbanked rates among households with income that varied somewhat or a lot from month to month were 8.7 and 12.9 percent, respectively, compared to 5.7 percent among households with income that "was about the same each month."
- An additional 26.6 and 30.9 percent of households with income that varied somewhat or a lot, respectively, were underbanked, compared to 19.1 percent among those with steady monthly income.
- Even among households with higher levels of income, unbanked and underbanked rates were higher when that income was volatile. For example, among households with annual income between $50,000 and $75,000, unbanked rates among those with income that varied somewhat or a lot were 2.9 and 4.1 percent, respectively, compared to less than 1 percent for those with steady monthly income.

[3]A linear probability model was estimated to account for changes from 2013 to 2015 in the distribution of households across the household-level characteristics shown in Appendix Table A.2. Changes in the socioeconomic characteristics of households (income, employment status, homeownership status, and educational attainment) between 2013 and 2015 accounted for about half of the difference in unbanked rates between 2013 and 2015. Adding additional controls for the remaining demographic characteristics listed in Appendix Table A.2 had little effect on the remaining difference.

[4]For characteristics that vary at the person-level, such as race, age, education, and employment, the characteristics of the owner or renter of the home (i.e., "householder") are used to represent the household. For convenience, abbreviated language is used when referring to certain household characteristics. For example, the term "white household" refers to a household in which the householder has been identified as white, non-black, non-Hispanic, and non-Asian. The phrase "working-age disabled" refers to a household in which the householder has a disability and is aged 25 to 64. See Appendix 1 for additional details.

[5]As noted in Table 3.3, the decline in the underbanked rate among black households is not statistically significant at the 10 percent level, although the increase in the fully banked rate is statistically significant.

Reasons Households Were Unbanked

As in previous years, the 2015 survey asked unbanked households about the reasons why they did not have an account. The 2015 estimates were qualitatively quite similar to those from the 2013 survey.

- The most commonly cited reason was "Do not have enough money to keep in an account." An estimated 57.4 percent of unbanked households cited this as a reason and 37.8 percent cited it as the main reason.
- Other commonly cited reasons were "Avoiding a bank gives more privacy," "Don't trust banks," "Bank account fees are too high," and "Bank account fees are unpredictable." Of these, the most cited main reasons were "Don't trust banks" (10.9 percent) and "Bank account fees are too high" (9.4 percent).
- A higher proportion of unbanked households that previously had an account cited high or unpredictable fees as reasons for not having an account (33.8 and 31.5 percent, respectively), compared to those that never had an account (23.1 and 17.7 percent, respectively).

Perceptions of Banks' Interest

The 2015 survey included a new question asked of all households: "How interested are banks in serving households like yours?" The survey results revealed pronounced differences across households.

- Overall, 76.6 percent of households perceived that banks were "very interested" or "somewhat interested" in serving households like theirs. Approximately 16 percent thought that banks were "not at all interested" in serving households like theirs, and the perceptions of the remaining 8 percent were unknown.
- Unbanked households were substantially less likely than underbanked or fully banked households to perceive that banks were interested in serving households like theirs. More than half (55.8 percent) thought that banks were not at all interested, compared to roughly 17 percent of underbanked households and 12 percent of fully banked households.
  - » The perception that banks were not at all interested in serving households like theirs was similar among unbanked households that previously had an account (54.2 percent) and those that never had an account (58.7 percent).

Figure ES.2 Reasons for Not Having a Bank Account, Unbanked Households, 2015 (Percent)

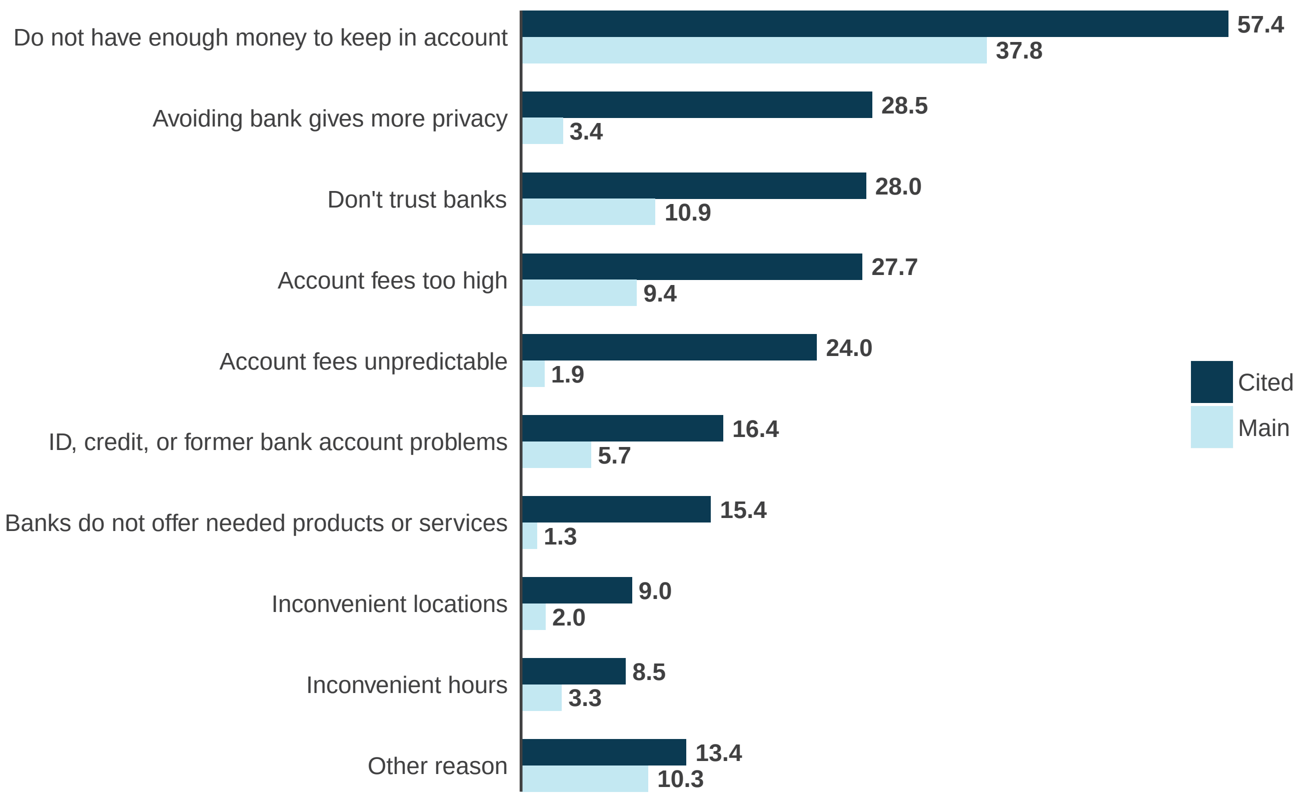
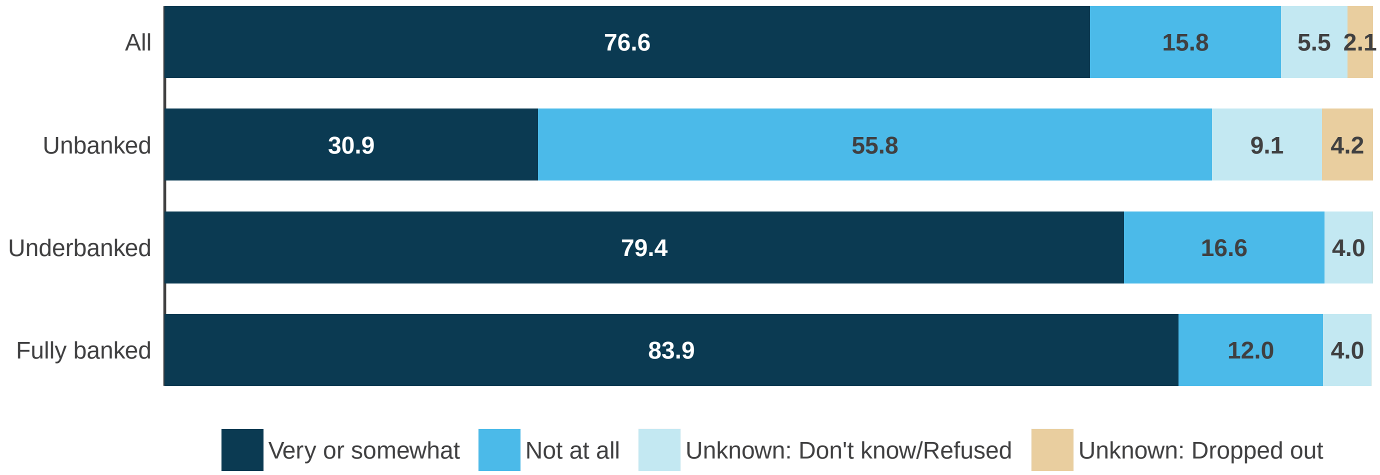


Figure ES.3 "How Interested Are Banks in Serving Households Like Yours?" by Banking Status, 2015 (Percent)



Notes: The category "Unknown: Don't know/Refused" includes households that were asked the survey question but did not select a response ("very interested," "somewhat interested," or "not at all interested"). The category "Unknown: Dropped out" includes households that dropped out of the survey before this question.

- » Among unbanked households that thought banks were not at all interested in serving households like theirs, only 17.3 percent were very or somewhat likely to open an account in the next 12 months compared to 50.4 percent among unbanked households that perceived banks to be very or somewhat interested in serving households like theirs.

Banked Households: Types of Accounts

- Among banked households in 2015, patterns of savings and checking account ownership were generally similar to previous years.
  - » Almost all banked households had a checking account (98.0 percent), while roughly three in four (77.8 percent) had a savings account.
  - » Savings account ownership was substantially lower among certain segments of the population, including households with lower income and lower education, black and Hispanic households, and working-age disabled households.

Banked Households: Methods Used to Access Accounts

- Use of online and mobile banking to access accounts increased substantially from 2013 to 2015, while use of bank tellers decreased. However, use of bank tellers remained quite prevalent, particularly among segments of the population that had higher unbanked and underbanked rates.
  - » The proportion of banked households that used online banking to access their accounts in the past 12 months increased from 55.1 percent in 2013 to 60.4 percent in 2015. Further, 31.9 percent of banked households in 2015 used mobile banking, compared to 23.2 percent in 2013.
  - » The proportion of households that used a bank teller to access their accounts in the past 12 months fell from 78.8 percent in 2013 to 75.5 percent in 2015.
  - » Use of bank tellers was especially prevalent among lower-income households, less-educated households, older households, and households located in rural areas.
  - » Slightly less than half (49.2 percent) of banked households used a physical channel (bank branch or ATM/kiosk) as the primary method for accessing a bank account.

Figure ES.4 All Methods Used to Access Bank Accounts by Year (Percent)

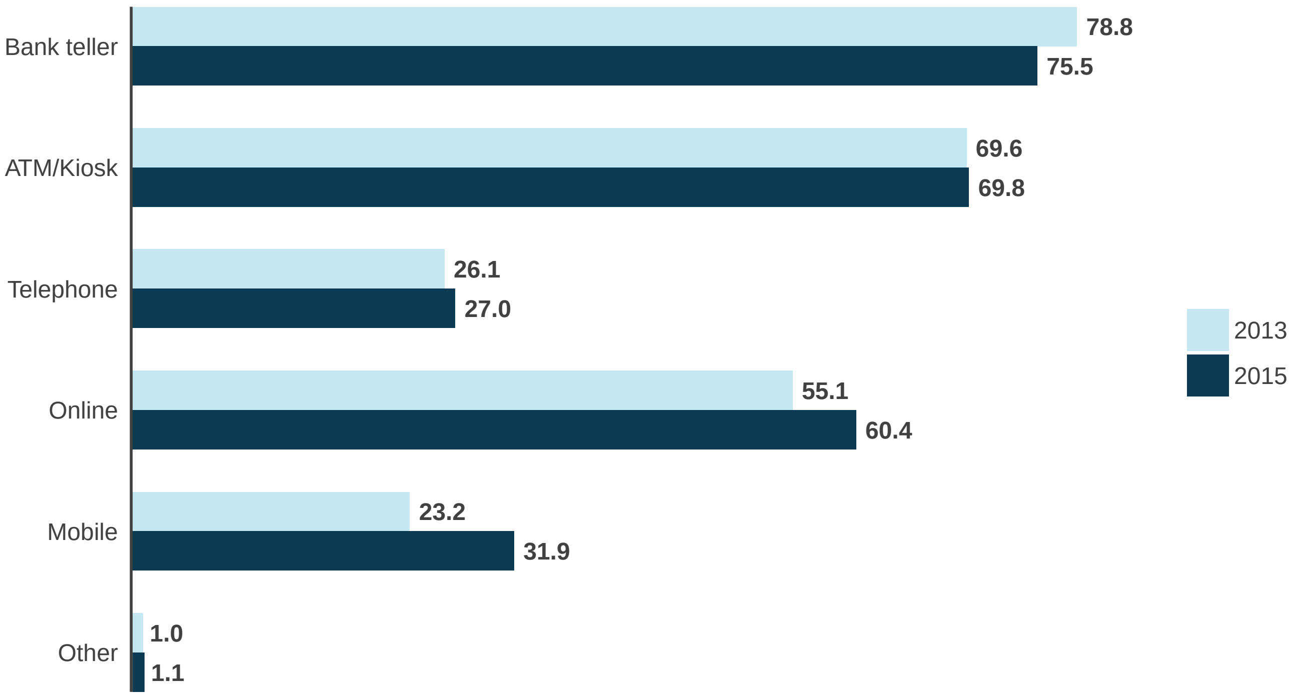
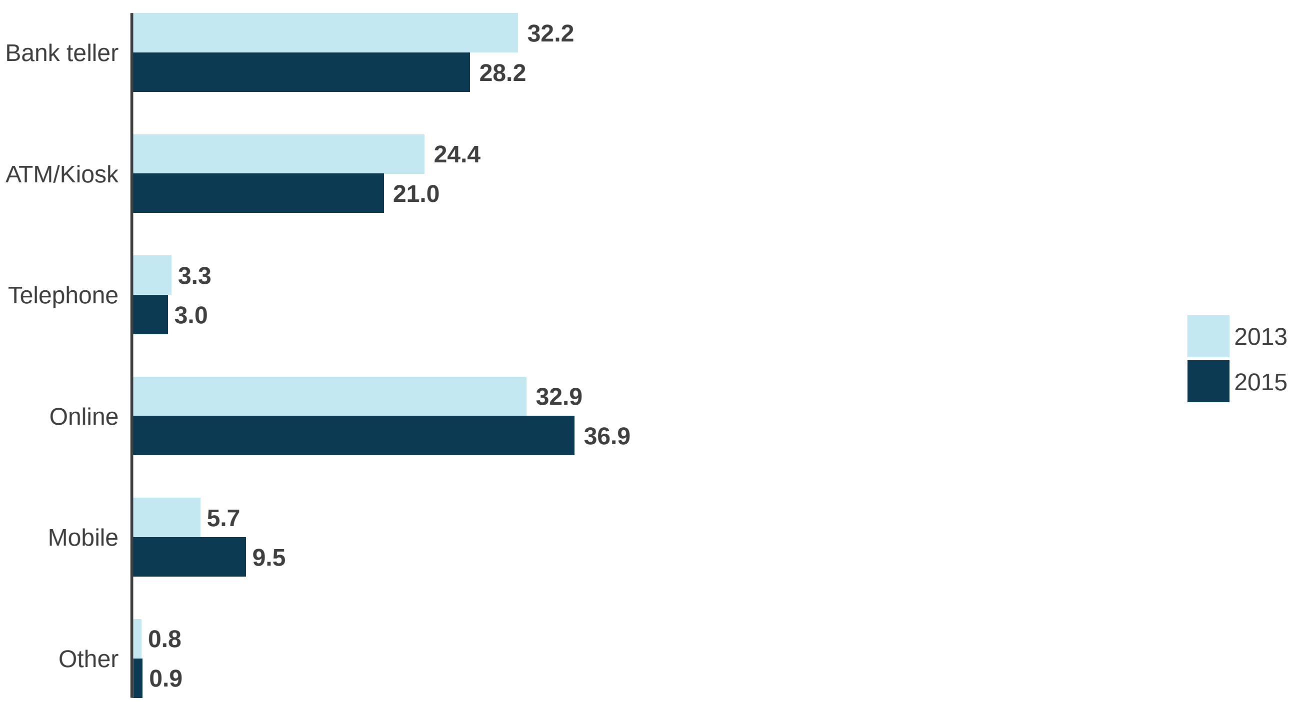


Figure ES.5 Primary Method Used to Access Bank Accounts by Year (Percent)



Prepaid Cards

Some consumers use general purpose reloadable prepaid cards to address their financial transaction needs. Similar to a checking account, these cards can be used to pay bills, withdraw cash at ATMs, make purchases, deposit checks, and receive direct deposits. These cards may have been obtained from sources such as a bank location or bank website, a nonbank store or website, a government agency, or an employer. Many, although not all, such cards store funds in accounts eligible for deposit insurance.[6]

- Between 2013 and 2015, the proportion of households that used a prepaid card in the past 12 months increased from 7.9 percent to 9.8 percent. This growth occurred broadly across socioeconomic and demographic groups.
- Consistent with results from the 2013 survey, prepaid card use in 2015 was higher among lower-income households, less-educated households, younger households, black households, and working-age disabled households.
- Households with income that varied somewhat or a lot from month to month were more likely to use prepaid cards in 2015 (13.5 percent and 15.5 percent, respectively) than households with income that was about the same each month (9.2 percent). This pattern held for households of all income levels.
- Use of prepaid cards was most prevalent among unbanked households. An estimated 27.1 percent of unbanked households used a prepaid card in 2015, compared to 15.4 percent of underbanked households and 6.9 percent of fully banked households.
    - » Unbanked households that used prepaid cards were more likely to have had a bank account at some point in the past: 64.1 percent of unbanked households that used prepaid cards had a bank account in the past versus 42.3 percent of unbanked households that did not use prepaid cards.
- Households that used prepaid cards obtained the cards from a variety of sources. The most common source was a store or website that is not a bank (42.6 percent of households that used prepaid cards obtained cards from this source), followed by a bank location or a bank's website (17.3 percent).

Alternative Financial Services

- In 2015, almost one in four households (24.0 percent) used AFS in the past 12 months.[7]
    - » Use of transaction AFS continued to be substantially more common than use of credit AFS: 20.2 percent of households used transaction AFS, and 7.7 percent of households used credit AFS.[8]
- Consistent with previous reports, use of AFS was much higher among unbanked households than banked households.
    - » The proportion of unbanked households that used AFS, however, fell by about 10 percent between 2013 and 2015. This decline was attributable to decreased use of transaction AFS among the unbanked.
- Households with volatile income were more likely to use AFS.
    - » Use of transaction AFS among households with income that varied somewhat or a lot from month to month was 27.7 and 34.3 percent, respectively, compared to 18.9 percent among households with income that was about the same each month. Similarly, use of credit AFS was substantially higher among households with more volatile income.
    - » These patterns held even among households with higher levels of income.

Saving for Unexpected Expenses or Emergencies

Savings can help households better manage unexpected expenses or emergencies, such as health issues or major automobile repairs. The absence of savings can sometimes be a barrier to financial stability and resilience, particularly for consumers with uneven or low incomes. To gain insight into these issues, the 2015 survey included new questions on whether households saved for unexpected expenses or emergencies and the methods they used.

- Overall, 56.3 percent of households saved; that is, they set aside money in the past 12 months that could be used for unexpected expenses or emergencies, even if the funds were later spent.
    - » Rates of saving for unexpected expenses or emergencies were lower among certain segments of the popu-

[6]Unless noted otherwise, estimates of prepaid card use are based on the 12 months before the survey. Households were instructed that the survey questions about prepaid cards were "not asking about gift cards or debit cards linked to a checking account."

[7]Unless noted otherwise, all estimates of AFS use are based on the 12 months before the survey.

[8]For the purposes of this report, transaction AFS include the following nonbank products and services: money orders, check cashing, and international remittances. Credit AFS include the following nonbank products and services that may be used in lieu of bank credit: payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, and auto title loans.

lation, including lower-income households, less-educated households, black and Hispanic households, and working-age disabled households.

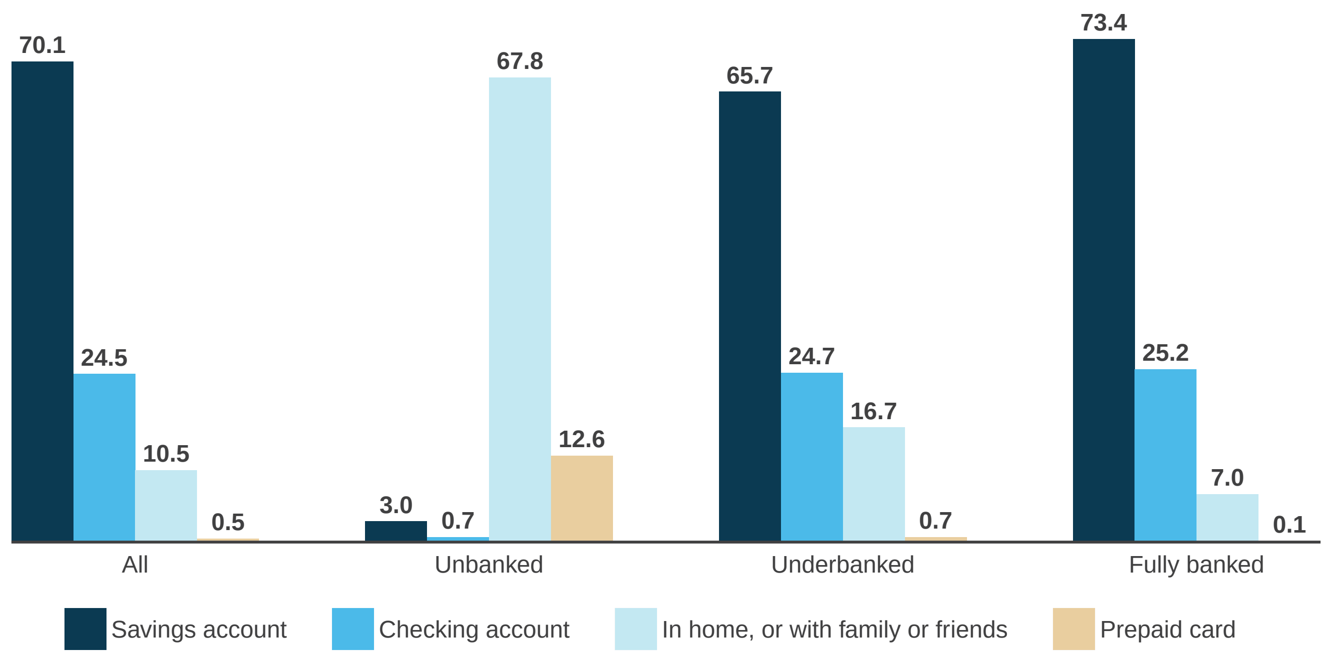
  » Unbanked households saved for unexpected expenses or emergencies at a much lower rate than underbanked and fully banked households: 20.2 percent of unbanked households saved for this purpose, compared to 55.2 percent of underbanked households and 60.0 percent of fully banked households.

- Among all households that saved for unexpected expenses or emergencies, savings accounts were the most used savings method followed by checking accounts: more than four in five (84.9 percent) kept savings in one of these accounts. About one in ten (10.5 percent) households that saved maintained savings in the home, or with family or friends.

  » The use of formal (e.g., savings or checking accounts) and informal (e.g., in the home, or with family or friends) savings methods varied by household characteristics. For example, among households that saved for unexpected expenses or emergencies, lower-income households, less-educated households, and working-age disabled households were less likely to keep savings in a savings account and more likely to maintain savings in the home, or with family or friends.

  » Unbanked households generally saved using informal methods, while underbanked and fully banked households generally saved using formal methods. Unbanked households that saved primarily kept savings in the home, or with family or friends, and on prepaid cards. In contrast, underbanked and fully banked households that saved primarily used savings and checking accounts.

Figure ES.6 Selected Savings Methods for Households That Saved by Banking Status, 2015 (Percent)

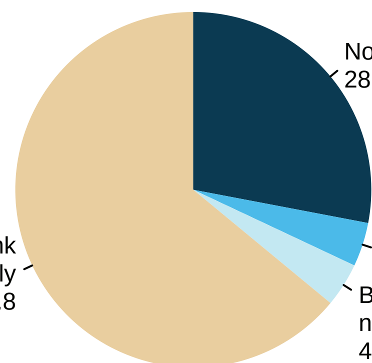


Bank and Nonbank Credit

To gain a more complete picture of household credit behavior, the 2015 survey included a new series of questions on bank credit, in addition to questions about nonbank credit asked in previous surveys. Specifically, households were asked whether, in the past 12 months, they had a credit card or a personal loan or line of credit from a bank (i.e., "bank credit"), applied for bank credit, were denied bank credit or not given as much credit as they applied for (i.e., "denied"), or thought about applying for bank credit but did not because they thought they might be turned down (i.e., "felt discouraged about applying"). Households were also asked whether they fell behind on bills in the past 12 months.

- Most households had bank credit, though a significant share of households used nonbank credit.
  - » 67.9 percent of households had bank credit, and 63.8 percent of households had bank credit only.
  - » 8.2 percent of households used nonbank credit. About half of these households had a mix of bank and nonbank credit (4.0 percent), and the other half (4.1 percent) had nonbank credit only.
  - » The remaining 28.0 percent of households did not use any of the credit products asked about in the survey.

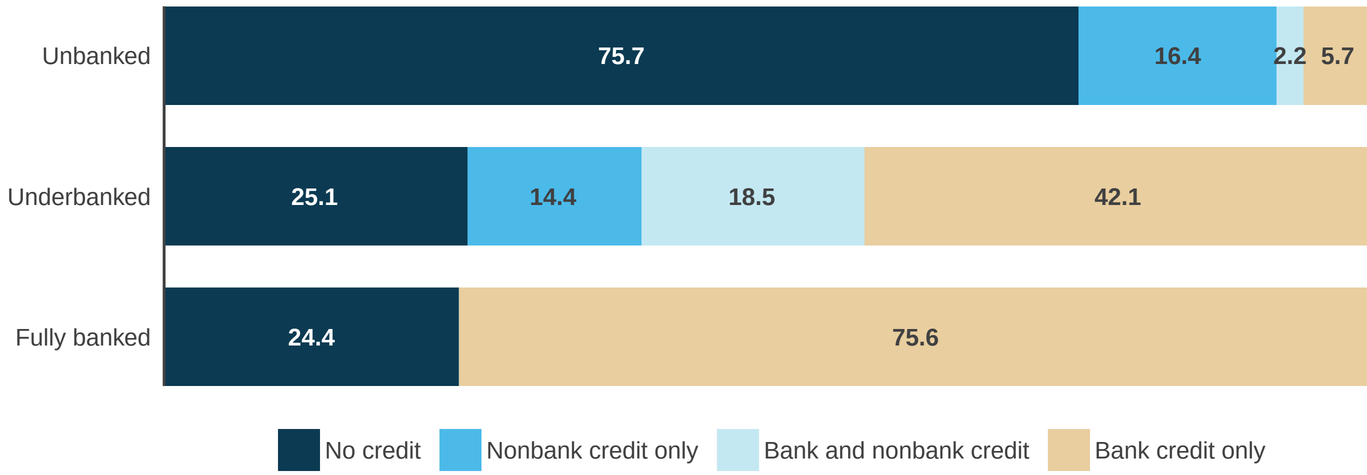
Figure ES.7 Bank and Nonbank Credit, 2015 (Percent)



Note: Households may have used credit products that were not asked about in the survey (e.g., mortgages, auto loans, certain nonbank installment loans, and informal loans from family or friends).

- Similar shares of underbanked and fully banked households had credit: 74.9 percent of underbanked and 75.6 percent of fully banked households had at least one of the credit products asked about in the survey.
- Many underbanked households had credit from nonbank sources. While 42.1 percent of underbanked households had bank credit only, nearly one in five (18.5 percent) had both bank and nonbank credit and 14.4 percent had only nonbank credit.
- Lower-income, less-educated, black, Hispanic, and working-age disabled households were more likely to use nonbank credit only or not to use any of the credit products asked about in the survey.
- Households with volatile income were more likely to use nonbank credit, either on its own or in addition to bank credit.
  - » 7.9 percent of households with income that varied a lot from month to month used only nonbank credit, and 7.6 percent used both bank and nonbank credit. In comparison, 3.4 percent of households with income that was about the same each month used nonbank credit only and 3.5 percent had credit from both banks and nonbanks.
  - » Income volatility was associated with greater nonbank credit use even for higher-income households.
- Use of nonbank credit was strongly associated with whether the household was denied bank credit, felt discouraged about applying for bank credit, or reported falling behind on bills.
  - » Among households that applied for bank credit and were denied, 24.7 percent used nonbank credit (15.2 percent had both bank and nonbank credit, while 9.5 percent used nonbank credit only). In comparison, only 7.7 percent of households that were not denied (or did not apply) used nonbank credit.
  - » Similarly, 28.7 percent of households that were discouraged about applying for bank credit used nonbank credit, compared to 6.8 percent among those that were not discouraged about applying. Also, 24.7 percent of households that fell behind on bills used nonbank credit, compared to 4.8 percent among those that did not fall behind on bills.
- For the purposes of this report, we classify a household as having credit needs that were not fully met by banks if the household was denied bank credit, felt discouraged about applying for bank credit, or used any nonbank credit product. Applying this convention, 13.7 percent of households had credit needs that were not fully met by banks. About half (52.5 percent) of these households reported that they stayed current on bills.

Figure ES.8 Bank and Nonbank Credit by Banking Status, 2015 (Percent)



Note: Households may have used credit products that were not asked about in the survey (e.g., mortgages, auto loans, certain nonbank installment loans, and informal loans from family or friends).

How Households Conduct Their Financial Transactions in a Typical Month

To learn more about the extent to which households use banks and other methods to meet their financial transactions needs, the 2015 survey contained a number of new questions about the ways households pay bills and receive income in a typical month.

- Unbanked households used a variety of methods outside of the banking system to pay bills and receive income.
  - » To pay bills, 62.3 percent used cash, 35.5 percent used nonbank money orders, and 18.2 percent used prepaid cards in a typical month. The most prevalent method of receiving income among unbanked households was by paper check or money order. Among the 42.1 percent of unbanked households that received income in this way, roughly 45 percent (or 19.1 percent of all unbanked households) went to a place other than a bank to cash the check or money order.
- Underbanked households, on the other hand, used banks extensively to pay bills and receive income in a typical month. The key difference between underbanked and fully banked households is that, in addition to bank methods, underbanked households also widely used other methods, particularly for paying bills.
  - » Electronic payment from a bank account was the most used method of paying bills among both underbanked (62.3 percent) and fully banked (70.4 percent) households. Relative to the fully banked, use of personal checks was lower among underbanked households, and use of bank debit cards was higher. Direct deposit into a bank account was by far the most used method of receiving income, both for underbanked (82.0 percent) and fully banked (87.9 percent) households.
  - » 27.7 percent of underbanked households paid bills using cash in a typical month, and 25.6 percent used nonbank money orders.
  - » Overall, nearly half (44.9 percent) of underbanked households exclusively used banks to pay bills and receive income in a typical month.

Implications

The survey results presented in this report suggest implications for policymakers, financial institutions, and other stakeholders that are working to improve access to mainstream financial services.

1. **Households with volatile income have higher unbanked and underbanked rates. Bank products and services that enable households to better manage their account relationships and meet their financial needs when income is volatile may help these consumers open and sustain bank accounts and conduct a greater share of their financial transactions within the banking system.**
2. **Use of smartphones to engage in banking activities continues to grow at a rapid pace. Consistent with implications from the 2013 survey, this growth presents promising opportunities to use the mobile platform to increase economic inclusion. At the same time, physical access to branches remains important.**

3. **One in five unbanked households save for unexpected expenses, although for the most part not in insured depositories. Bringing these savings into the banking system could allow these households to build banking relationships that help them safeguard funds, enhance access to credit, and increase financial security.**
4. **Banks may have the opportunity to help meet the credit needs of some households that have an unmet demand for bank credit. The vast majority of these households are banked, yet few applied for bank credit in the past 12 months. Many are also young. Banks could help meet the credit needs of these households by promoting the importance of building a credit history, incorporating nontraditional data into underwriting, and increasing households' awareness of personal credit products.**
5. **The great majority of underbanked households use banks to pay bills, although many also use cash and nonbank money orders. Efforts to encourage and make it easier for a range of payees to accept electronic payments, and outreach to raise awareness of bill pay and other electronic payments among lower-income households, may facilitate the movement of these transactions into the banking system.**
6. **The majority of unbanked households think that banks have no interest in serving households like theirs, and a significant share of unbanked households do not trust banks. These findings suggest that understanding and addressing the sources of these attitudes and building trust and familiarity are important to attract and develop relationships with unbanked consumers.**

Federal Deposit Insurance Corporation

FDIC-037-2016