

FDIC National Survey of Unbanked and Underbanked Households

Executive Summary

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Executive Summary

In January 2009, the Federal Deposit Insurance Corporation (FDIC) sponsored a special supplement to the U.S. Census Bureau's Current Population Survey (CPS) to collect national, state, and metropolitan statistical area (MSA) data on the number of U.S. households that are unbanked and underbanked, their demographic characteristics, and their reasons for being unbanked and underbanked.¹ The Census Bureau surveyed approximately 54,000 households, and about 47,000 (86 percent) participated in the FDIC's supplement survey.

The FDIC undertook this effort to address a gap in reliable data on the number of unbanked and underbanked households in the United States. Access to an account at a federally insured institution provides households with the opportunity to conduct basic financial transactions, save for emergency and long-term security needs, and access credit on affordable terms. Many people, particularly low-to-moderate income households, do not have access to mainstream financial products such as bank accounts and low-cost loans. Other households have access to a bank account, but nevertheless rely on more costly financial service providers for a variety of reasons. In addition to paying more for basic transaction and credit financial services, these households may be more vulnerable to loss or theft and often struggle to build credit histories and achieve financial security.

The FDIC also conducted this survey to comply with a statutory mandate that requires it to conduct ongoing surveys of banks on their efforts to serve the unbanked.² The supplement survey complements the FDIC Survey on Banks' Efforts to Serve the Unbanked and Underbanked, published in February 2009, and provides insights into the size of the unbanked and underbanked markets. It also presents a wealth of previously unavailable data regarding households' banking status and related issues. Teamed with the rich demographic and geographic data available through the CPS, the supplement survey represents the

¹ The data for this report were collected through an FDIC-sponsored Unbanked/Underbanked Supplement to the Current Population Survey (CPS). Additional information on the CPS is available at <http://www.census.gov/cps/>. For additional methodological details and definitions, refer to the FDIC technical notes located in Appendix D of the full report.

² Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Reform Act) requires that the FDIC conduct biennial surveys of insured depository institutions' efforts to bring 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 into the conventional finance system. The Reform Act also asks the FDIC for a "fair estimate" of the size and worth of the "unbanked" market in the United States.

first time such data on unbanked and underbanked households are available at the national, state, and large MSA levels. It is hoped that these survey results will help better inform the industry and policymakers about economic inclusion issues, and promote the goal of ensuring that all Americans have access to basic, safe, and affordable bank services.

Key Overall Findings

- **An estimated 7.7 percent of U.S. households, approximately 9 million, are unbanked.**³ At least 17 million adults reside in these unbanked households (see Figure 1.1).⁴
- **The proportion of U.S. households that are unbanked varies considerably among different racial and ethnic groups, with certain racial and ethnic minorities more likely to be unbanked than the population as a whole. Minorities more likely to be unbanked include blacks (an estimated 21.7 percent of black households are unbanked), Hispanics (19.3 percent), and American Indian/Alaskans (15.6 percent). Racial groups less likely to be unbanked are Asians (3.5 percent) and whites (3.3 percent).**⁵
- **In addition to the unbanked households, an estimated 17.9 percent of U.S. households, roughly 21 million, are underbanked.**⁶ The number of adults that

³ For the purposes of this survey, households were identified as unbanked if they answered "no" to the question, "Do you or does anyone in your household currently have a checking or savings account?"

⁴ In addition, unbanked adults may also reside in other households. Adults are defined as persons 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. A banked household may contain one or more unbanked adults; these unbanked adults residing in banked households are not included in the 17 million adults figure cited above.

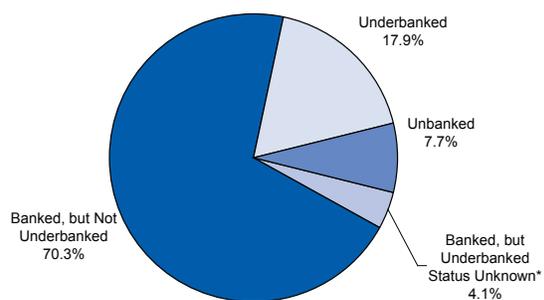
⁵ The demographic characteristics of a household are taken to be those of the owner or renter of the home (i.e., "householder"), unless the demographic characteristic is one defined at the household level, such as income or household type. For convenience, some abbreviated language will be used to refer to the demographic characteristics of households. For example, the term "black household" refers to a household for which the householder has been identified as black. Refer to the FDIC technical notes for the race/ethnicity and other definitions used in this report.

⁶ Underbanked households are defined as those that have a checking or savings account but rely on alternative financial services. Specifically, underbanked households have used non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or refund anticipation loans at least once in the past five years.

reside in these underbanked households is about 43 million.⁷

- **Certain racial and ethnic minorities are more likely to be underbanked than the population as a whole.** Minorities more likely to be underbanked include blacks (an estimated 31.6 percent), American Indian/Alaskans (28.9 percent), and Hispanics (24.0 percent). Asians and whites are less likely to be underbanked (7.2 percent and 14.9 percent, respectively).

Figure 1.1 Banking Status of U.S. Households



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.

- **Taken together, at least 25.6 percent of U.S. households, close to 30 million, are either unbanked or underbanked.** Approximately 60 million adults reside in these households.
- **Overall, almost 54 percent of black households, 44.5 percent of American Indian/Alaskan households, and 43.3 percent of Hispanic households are either unbanked or underbanked.**
- **While 17.9 percent of U.S. households are known to be underbanked, another 4.1 percent of U.S. households, or roughly 5 million, are banked and may also be underbanked, but their use of AFS could not be determined because of missing data.** The number of adults that reside in these households is estimated to be 11 million.
- **The proportion of unbanked and underbanked households varies across different regions of the country, with the highest incidence in the Southern**

Region. In addition, the proportion of unbanked households varies considerably among certain racial and ethnic minorities across states and MSAs.

Additional Key Unbanked Findings

- **Family households for which the householder is an unmarried female or unmarried male are considerably more likely than married couple households to be unbanked.**⁸ Almost 20 percent of unmarried female family households and 14.9 percent of unmarried male family households are unbanked, compared with about 4 percent of married couple family households.
- **A substantial percentage of lower-income households are unbanked.** Nearly 20 percent of lower-income U.S. households—almost 7 million households earning below \$30,000 per year—do not currently have a bank account. Households with earnings below \$30,000 account for at least 71 percent of unbanked households.
- **The proportion of unbanked households declines with education and age.** Households more likely to be unbanked than all U.S. households have less than a college education or a householder under age 45.
- **Not having enough money to feel they need an account is the most common reason why unbanked households are not participating in the mainstream financial system.**
- **The 9 million unbanked households are approximately split between households that have never had a bank account (46.9 percent) and households that were previously banked (49.0 percent).**
- **A considerable proportion (an estimated 41.1 percent) of unbanked households believes that opening a bank account in the future is “not likely at all.”** However, among all unbanked households, the previously banked are more likely to consider opening a bank account in the future. About 16 percent of previously banked households believe that they are “very likely” to open a bank account, compared with 4.8 percent of those that have never been banked.

⁷ This is an upper-bound estimate of the total number of underbanked adults in the United States because it is based on the assumption that all adults residing in an underbanked household are underbanked. However, an underbanked household may contain one or more adults that are not underbanked.

⁸ A family household is a household that includes two or more people related by birth, marriage, or adoption and residing together, along with any unrelated people who may be residing there. For the definition of ‘householder’ see footnote 5. Detailed definitions regarding household types can be found in the CPS Glossary available at <http://www.census.gov/apsd/techdoc/cps/mar97/glossary.html>.

- **About 66 percent of unbanked households use the following alternative financial services (AFS):** non-bank money orders and non-bank check-cashing, pawn shops, payday loans, rent-to-own agreements (RTOs), and refund anticipation loans (RALs). About one-quarter of unbanked households do not use any AFS, suggesting a strong reliance on cash transactions.
- **Approximately 12 percent of unbanked households have used a general spending prepaid card, and an estimated 3.1 percent receive their income through a payroll card.**

Additional Key Underbanked Findings

- **Family households for which the householder is an unmarried female or unmarried male are considerably more likely than married couple family households to be underbanked.** About 28 percent of unmarried female family households and 27 percent of unmarried male family households are underbanked, compared with 15.4 percent of households with a married couple present.
- **The underbanked rate declines with age of the householder but is more evenly distributed across most educational and income groups.** For example, middle-income households (those with annual income between \$30,000 and \$50,000) are about as likely as lower-income households (those with annual income below \$30,000) to be underbanked. The proportion of underbanked households is considerably lower among the highest education level of the householder (at least college degree) and the highest income group (at least \$75,000).
- **The AFS products used most frequently by underbanked households are non-bank money orders (an estimated 81.1 percent of underbanked use money orders) and check-cashing (30.0 percent) transaction services.** Underbanked households also use on payday lenders (16.2 percent), pawn shops (15.8 percent), RTO services (13.0 percent), and RALs (13.2 percent) for credit services from non-banks.
- **The survey data indicate that the majority of underbanked households that go to nonbanks for money orders and check cashing do so primarily for convenience.** Speed and cost were also reasons underbanked households use these non-bank transaction services.
- **Many underbanked households that use payday loans or pawn shops rather than banks for credit**

services do so primarily because it is easier to qualify for a loan from the AFS provider or because it is more convenient.

- **Approximately 16 percent of underbanked households have used a general spending prepaid card and an estimated 4.2 percent receive their income through a payroll card.**

The full report that follows focuses primarily on the key issues the FDIC intended to address in conducting the survey. It is organized as follows: Section 2 provides background and objectives; Section 3 provides a brief overview of the survey findings related to the national percentage of unbanked and underbanked households; Section 4 summarizes findings related to unbanked households; Section 5 summarizes findings related to underbanked households; Section 6 compares select demographic characteristics of unbanked and underbanked households; and Section 7 provides concluding remarks. Detailed national, state, and MSA-level tables appear in Appendices A, B, and C. Technical notes for the FDIC's supplement survey appear as Appendix D, and the supplement survey instrument is included as Appendix E.