2011 FDIC National Survey of Unbanked and Underbanked Households

Executive Summary

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Members of the FDIC Unbanked/Underbanked Survey Study Group

Division of Depositor and Consumer Protection: Susan Burhouse, Sarah Campbell, Timothy Critchfield, Keith Ernst, Ryan Goodstein, Yazmin Osaki, Luke Reynolds, and Sherrie Rhine.

Division of Insurance and Research: David Chapman, Eric Robbins, and Katherine Samolyk.

Legal Division: Leneta Gregorie

Lead Authors

Susan Burhouse and Yazmin Osaki.

Lead Statistical Analysts and Advisors

Sarah Campbell, David Chapman, and Ryan Goodstein.

Contributors:

Michael Bachman, Karyen Chu, Peggi Gill, Anirudh Sarna, Francis Solomon, David Spanburg, Masseh Tahiry, and Kathy Zeidler.

I. Executive Summary

The FDIC is committed to ensuring that all Americans have access to safe, secure, and affordable banking services. Public confidence in the banking system derives in part from how effectively banks serve the needs of the nation's diverse population. To assess the inclusiveness of the banking system, and in response to a statutory mandate, the FDIC conducts biennial surveys of households to estimate the proportion of households that do not fully participate in the banking system.[1] This report presents the results of the 2011 FDIC National Survey of Unbanked and Underbanked Households.

The FDIC partnered with the US Census Bureau to conduct this survey in June 2011, collecting responses from nearly 45,000 households. The FDIC used survey responses to categorize households' banking status as unbanked, underbanked, or fully banked. Unbanked households are those that lack any kind of deposit account at an insured depository institution. Underbanked households hold a bank account, but also rely on alternative financial services (AFS) providers.[2] Fully banked households are those that have a bank account of any kind and have not recently relied on any of the AFS included in the survey.[3]

Key Findings

More than one in four households (28.3 percent) are either unbanked or underbanked, conducting some or all of their financial transactions outside of the mainstream banking system. Many of these households rely on AFS providers, while others use cash or other financial arrangements.

- **8.2 percent of US households are unbanked. This represents 1 in 12 households in the nation, or nearly 10 million in total. Approximately 17 million adults live in unbanked households.[4]**
- **The proportion of unbanked households increased slightly since the first survey. The estimated 0.6 percentage point increase represents an additional 821,000 unbanked households.[5]**
- **20.1 percent of US households are underbanked. This represents one in five households, or 24 million households with 51 million adults.[6] The 2011 underbanked rate in 2011 is higher than the 2009 rate of 18.2 percent, although the proportions are not directly comparable because of differences in the two surveys.[7]**
- **29.3 percent of households do not have a savings account, while about 10 percent do not have a checking account. About two-thirds of households have both checking and savings accounts.**
- **One-quarter of households have used at least one AFS product in the last year, and almost one in ten households have used two or more types of AFS products. In all, 12 percent of households used AFS products in the last 30 days, including four in ten unbanked and underbanked households.**

[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] For the purposes of this report, households are 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?" Underbanked households are defined as those households that have a checking and/or a savings account and had used non-bank money orders, non-bank check cashing services, non-bank remittances, payday loans, rent-to-own services, pawn shops, or refund anticipation loans (RALs) in the past 12 months.

[3] Fully banked households may have used AFS more than a year ago or may currently use types of AFS not included in this survey. Based on the banking status classification used in this report, fully banked households are the most engaged in the financial mainstream. However, there are still opportunities to improve the quality and sustainability of banking relationships for some of the fully banked households (e.g., expanding the use of savings accounts or bank credit products).

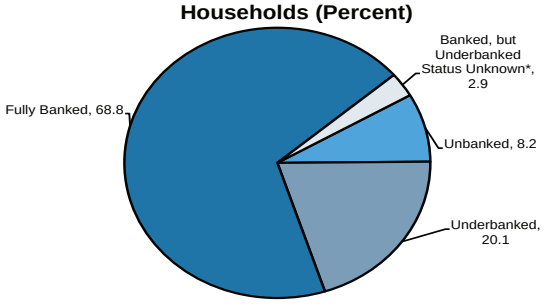
[4] In addition, unbanked adults may also reside in other households. Adults are defined as persons aged 16 and older. This is a lower-bound estimate of the number of unbanked adults in the United States because it is based on the assumption that all adults residing in a "banked" household are banked. A banked household may contain one or more unbanked adults; these unbanked adults residing in banked households are not included in the 17.6 million adults number cited in this report.

[5] All reported differences resulting from direct comparisons described in the text are statistically significant at the 10 percent level, unless otherwise noted.

[6] 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 who are not underbanked.

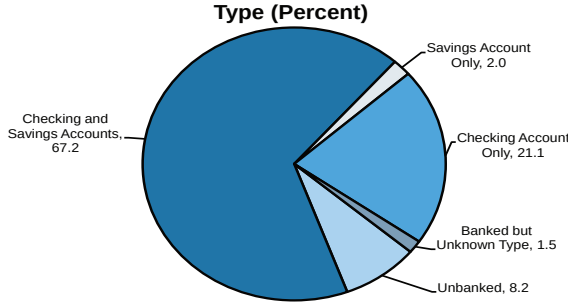
[7] Revisions made to the 2011 survey instrument led to changes in the definition of an underbanked household. Specifically, the inclusion of questions regarding households' use of non-bank remittances in 2011 and changes to the questions regarding the time frames during which households used AFS make it impossible to directly compare underbanked estimates across years.

Figure 1.1 2011 Banking Status of US Households (Percent)



Notes: Percentages are based on 120.4 million US households. Percentages may not sum to 100 because of rounding.
* These households are banked, but there is not enough information to determine if they are underbanked.

Figure 1.2 2011 US Households by Account Type (Percent)



Notes: Percentages are based on 120.4 million US households. Percentages may not sum to 100 because of rounding.

Unbanked and Underbanked Households

Unbanked and underbanked households are not homogeneous populations. On the contrary, these groups have diverse demographic characteristics, past banking experiences, reasons for not holding an account, and future banking plans.

The highest unbanked and underbanked rates are found among non-Asian minorities, lower-income households, younger households, and unemployed households.[8] Close to half of all households in these groups are unbanked or underbanked compared to slightly more than one-quarter of all households. Relative to 2009, the estimated unbanked rates in 2011 are essentially unchanged for most groups.[9]

Table 1.1 Banking Status for Select Demographic Groups

Select Demographic Groups	Percent Unbanked	Percent Underbanked	Percent Fully Banked
All households	8.2	20.1	68.8
Blacks	21.4	33.9	41.6
Foreign-born non-citizens	22.2	28.9	45.8
Households experiencing unemployment	22.5	28.0	47.5
Lower-income households (less than $15,000)	28.2	21.6	47.6
Unmarried female family households*	19.1	29.5	48.4
Hispanics	20.1	28.6	48.7
Households with householders under age 24	17.4	31.0	49.7

* The Census Bureau classifies households into different household types. For example, 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. Single mothers are an example of female family households. For more detail, refer to the Technical Note (Appendix E).

Comparing the demographic composition of unbanked, underbanked, and fully banked households shows stark differences between these groups. The same demographic groups are generally overrepresented among both unbanked and underbanked households. However, on many measures, such as employment and income, underbanked households are more similar to fully banked households than to unbanked households.

Among unbanked households, slightly more than half have never had a bank account. Relatively high proportions of Hispanic (14.7 percent) and foreign-born non-citizen households (18.9 percent) have never had an account.

The most common reasons why households report they do not have bank accounts are that they feel they do not have enough money for an account, or they do not need or want one. Households that have previously had an account are less likely to report that they do not need or want an account relative to those that have never had one.

Certain segments of the unbanked population are more inclined to open an account. While most unbanked households report that they are not likely to open an account in the future, one-third (33.9 percent) report they are "very likely" or "somewhat likely" to do so. Among unbanked households more likely to want to open a bank account in the future are those that were previously banked or that became unbanked within the last year, as well as those individuals who are younger, unemployed, have some college education, or are in family households headed by an unmarried woman. The likelihood of opening a bank account also increases with AFS use and with the use of a payroll card or a prepaid debit card.

[8] The demographic characteristics of a household, such as race, age, education, and employment, are taken to be those of the owner or renter of the home (i.e., "householder"), unless the 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. Note that other members of a household could have different characteristics from those of the householder. For instance, an unemployed household is defined as a household whose householder is unemployed, but other household members could be employed and earning income. The income measures included in this report reflect the income earned by all household members and not only the householder.

[9] Reported differences between groups described in the text do not account for other geographic or demographic factors that may also contribute to the disparities.

Use of Alternative Financial Services and Prepaid Debit Cards

About 25 percent of households, including all underbanked households and 64.9 percent of unbanked households, have used AFS in the last year. The use of both transaction and credit AFS became more widespread between 2009 and 2011, with higher proportions of households reporting having used either product.

AFS transaction products (i.e., non-bank money orders, non-bank check cashing, and non-bank remittances) are considerably more widely used than AFS credit products (i.e., payday loans, pawn shops, rent-to-own stores, and refund anticipation loans). In the last year, 23.3 percent of households used transaction AFS and 6.0 percent used AFS credit product.

The relationship between household banking status and AFS use is complex. A non-trivial share of unbanked households (29.5 percent) do not use any of the AFS providers asked about in the survey, suggesting they rely primarily on cash. However, overall, unbanked households are more active AFS users than underbanked households. Unbanked households are more likely to use multiple products and to have used AFS, particularly transaction products, more recently and more frequently than underbanked households. The use of AFS credit products does not differ markedly between unbanked and underbanked households, except for payday lending, which typically requires a bank account, making it more prevalent among the underbanked.

Unbanked and underbanked households value the convenience of transaction AFS and perceive AFS credit to be easier to obtain than bank credit. The most common reason households use transaction AFS is convenience, while the main reason households use AFS credit products is because they are easier or faster to obtain than bank credit. The main reason many unbanked households use AFS providers for transaction services is because they do not have a bank account. Among underbanked households, the ability to get money faster and the perceived lower cost of non-bank money orders were also common reasons for using AFS providers.

Although not considered AFS in this survey, prepaid debit cards continue to be more widely used among the unbanked and underbanked than among fully banked households. With one in ten households reporting use of a prepaid debit card, overall use of the product appears to be relatively stable from 2009. However, the proportion of unbanked households that have used a prepaid debit card climbed from 12.2 percent to 17.8 percent in 2011, with no significant change among the underbanked.

Implications

The survey results presented in this report suggest four lessons for policymakers, financial institutions, and other stakeholders working to improve access to financial services.

1. Understanding the characteristics of different segments of the unbanked and underbanked populations might increase the efficacy of economic inclusion strategies. Different subgroups among unbanked and underbanked households have different characteristics and varying levels of demand for banking services. Understanding these differences could lead to the development of products and strategies that more effectively engage these households. For example, economic inclusion strategies that target unbanked Hispanic households might consider that this group includes two distinct segments with starkly different financial services behavior. One substantial segment (29.6 percent) of this group does not use any financial services from bank or non-bank providers, while another uses AFS more actively than any other ethnic or racial group: 51.8 percent of unbanked Hispanics used AFS in the last 30 days, including almost a quarter (22.5 percent) who used two or more AFS in that period. In contrast, among other unbanked segments, only about 43 percent of white or black households used AFS in the last 30 days and about 14 percent used two or more in that time frame.

In many cases, underbanked households, and particularly unbanked households, face challenging economic circumstances, such as unemployment. Understanding these families' varying situations could help drive collaborative efforts between financial institutions and public and private entities that serve other needs of this population (e.g., employment or social services agencies).

2. Having a bank account does not guarantee long-term participation in the banking system. Households can and do cycle in and out the banking system over time. For example, nearly half of unbanked households had an account in the past, and nearly half (48.2 percent) of these report that they are likely to join the banking system again in the future. Also, almost a quarter of fully banked households have used AFS in the past and could have been considered underbanked at that time. Economic inclusion efforts require not only banking the unbanked, but also retaining and better engaging current bank customers to prevent them from becoming unbanked or underbanked. The offering of low-cost deposit accounts with transparent fee structures could play an important role in this effort.

3. Households with banking experience appear to have more positive perceptions of having an account and rely less on AFS. Unbanked households that previously had a

relationship with a financial institution are more likely to see value in having a bank account than unbanked households without this relationship. Previously banked households are more likely to want to open an account in the future and less likely to say that the main reason they are unbanked is because they "do not want or need an account."

In addition, survey results show that households that have an account, particularly a checking account, tend to use transaction AFS less actively than those that do not have a checking account. On average, unbanked households are more active transaction AFS users than the underbanked. Even among underbanked households, those that only have a savings account are more active transaction AFS users than underbanked households that have a checking account.

4. Financial institutions interested in pursuing the market opportunity that AFS users present might need to more clearly demonstrate the value in having a bank account to AFS users who perceive non-bank financial services to be more convenient, faster, less expensive, or to present lower barriers to qualification. For example, banks might find it useful to promote mobile technology to increase convenience, thereby addressing the most commonly reported reason households use non-bank check cashers. In addition, for the notable share of unbanked and underbanked consumers who cited speed as a reason for using non-bank check cashing, efforts toward expediting the availability of deposited funds might make deposit accounts more appealing. Making affordable small-dollar loans available with streamlined but solid underwriting could help attract consumers who currently rely on credit AFS.