2011 FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked

Executive Summary

Federal Deposit Insurance Corporation
FDIC

December 2012

Members of the FDIC Unbanked/Underbanked Survey Study Group
Division of Depositor and Consumer Protection: Susan Burhouse, Sarah Campbell, Timothy Critchfield, Ross Dierdorff, 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
Sherrie L.W. Rhine and Eric Robbins.
Lead Statistical Analysts and Advisors
David Chapman, Ryan Goodstein, and Chris MacColl.
Contributors:
Karyen Chu, Anirudh Sarna, Masseh Tahiry, Shannon Williams, Kathy Zeidler.

I. Executive Summary

This report presents the results of the 2011 FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked (Bank Survey). As mandated by Federal law, the FDIC surveys insured depository institutions every two years to assess their efforts to bring individuals and families who have rarely, if ever, held a checking or a savings account at an insured depository institution, into the financial mainstream.[1]

Accordingly, the primary purpose of the Bank Survey is to understand the efforts being undertaken by the retail banking industry to provide financial products and services to unbanked and underbanked consumers. The findings help inform financial institutions, policymakers, community organizations, and other stakeholders interested in expanding financial products and services to unbanked and underbanked consumers.

The Bank Survey was voluntary and consisted of an Internet-based questionnaire administered to a nationally representative random stratified sample of 707 retail bank headquarters, with 567 banks (80 percent) responding. Through the survey design, banks are grouped into one of three asset size categories: the largest 25 banks (with assets greater than $38 billion), the smallest institutions (with assets less than $1 billion), and midsize banks (with assets between $1 billion and $38 billion). Data was collected from November 2011 through February 2012.

The survey questions identify the extent to which insured depository institutions offered basic and auxiliary financial products and services, developed and marketed products, used retail strategies, and provided financial education and outreach activities to expand financial services to unbanked and underbanked consumers. The survey also asks about challenges and obstacles that might affect the ability of banks to offer financial services to the underserved.

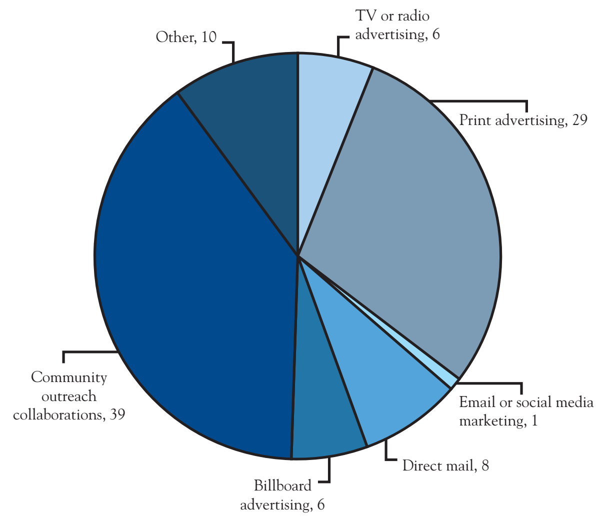
Key Findings

Product Development, Marketing, and Advertising

Four out of ten banks develop products and services for underserved consumers. Developing and actively marketing specialized products, services, or programs that are customized to meet the needs of unbanked and underbanked consumers are important steps banks can take to encourage full participation in the financial mainstream. Almost 43 percent of banks were actively involved in developing products and services for underserved consumers.

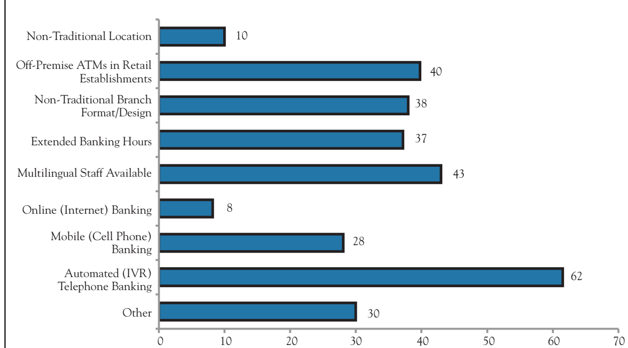
Banks see community partnerships as an important strategy to reach underserved consumers. When asked to identify both the most effective marketing channels for reaching these consumers and retail strategies used, banks tended to identify community outreach collaborations and automated telephone banking, respectively. In addition, about half of banks reported using community partnerships specifically to promote accounts to underserved consumers.

Figure 1.1: Most Effective Marketing Channels (Percent)



Note: Proportions are calculated based on respondents that actively marketed to the unbanked and underbanked and that answered the question about most effective marketing channels.

Figure 1.2: Retail Strategies Used to Make the Bank More Welcoming or Convenient (Percent)



Note: Proportions are calculated based on respondents that answered the questions about retail strategies. Figures may not reconcile to 100 due to rounding.

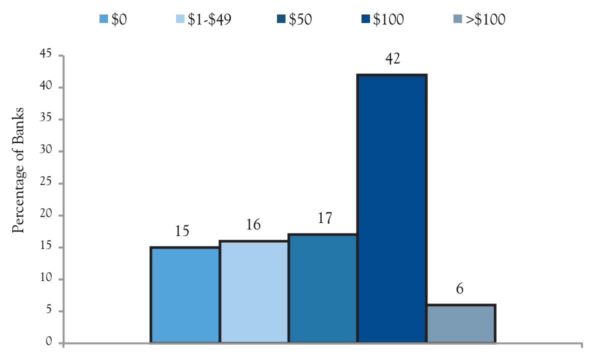
Basic Financial Products and Services

Almost half of all banks required an initial deposit of $100 or more to open a basic checking account. On the most basic or entry-level checking account, 6 percent of banks required a minimum opening balance of more than

[1] The Survey was mandated by Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005. The FDIC retained Gallup, Inc. to help administer the survey of banks. Gallup, Inc. collected the survey results and reported findings which did not have bank-identifier information to the FDIC.

$100 and 42 percent required precisely $100 on accounts without direct deposit. Forty-eight percent of banks required $50 or less to open such an account.

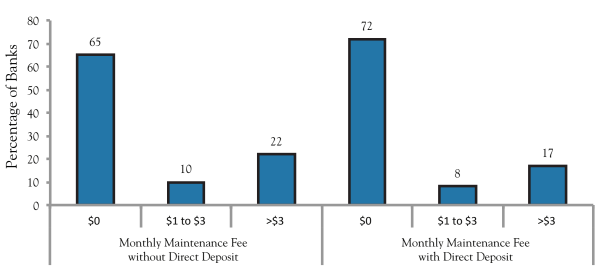
Figure 1.3: Minimum Opening Balance Requirement (Percent)



Note: Proportions are calculated based on all banks where balance requirements are for accounts where paycheck direct deposit is not in use. No respondents reported a minimum opening balance of between $50 and $100.

Nearly two-thirds of banks charged no monthly maintenance fees on basic checking accounts, though one in five charged more than $3 per month on accounts without direct deposit. Regardless of whether a bank had products and services that specifically targeted unbanked and underbanked consumers, respondents were asked to indicate the features and fees for their most basic or entry-level checking accounts. Sixty-five percent of banks charged no monthly maintenance fees, 10 percent charged fees of between $1 and $3, and 22 percent charged fees in excess of $3. On checking accounts with direct deposit, 72 percent of banks charged no maintenance fee. Among those that charged a fee, the median monthly amount was $5 for accounts with and without direct deposit.

Figure 1.4: Monthly Maintenance Fees for Basic Entry-Level Checking Accounts (Percent)



Note: : Proportions are calculated based on all banks.

The median charge for overdraft payments and on checks and other items rejected for nonsufficient funds were both $28. In the large majority of cases, banks charged the same amount for overdraft payments or when items were rejected due to nonsufficient funds.

Two out of ten banks offered a "second chance" account to individuals that do not qualify for a basic checking account. The survey found that 21 percent of banks offered a "Stepping Stone" or "Second Chance" account to individuals not qualified for conventional accounts.

Few banks offered a card-based "checkless" checking account as their most basic, entry-level account. Among all banks, 21 percent offered electronic (card-based) accounts as their most basic transaction account product. Fewer—less than 1 percent of banks—offered a strictly card-based, electronic account (i.e., an account that does not allow at least some paper checks to be written).

Banks required a median minimum initial deposit of $100 to open a basic savings account, though most banks did not charge a monthly maintenance fee if minimum average balance requirements were met. The median minimum average balance to avoid a monthly fee was $100. If the minimum average balance requirement was not met, the median monthly maintenance fee was $2.50.

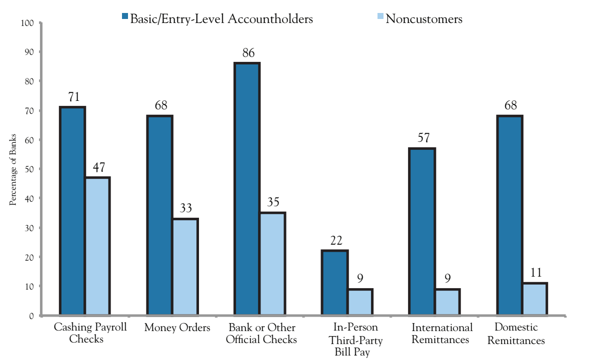
More than eight out of ten banks offered specialty savings products, such as youth savings accounts. A majority of banks (87 percent) offered at least one of the following specialty savings products: Individual Development Accounts (IDAs), specialized savings clubs, workplace-based savings, or youth (minor) savings accounts. Youth accounts dominated, with 82 percent of financial institutions offering this savings product. Forty-one percent of banks offered specialized savings clubs, while 9 percent of banks offered workplace-based savings accounts and close to 4 percent offered IDAs.

Most banks accepted non-traditional forms of identification to open accounts. A majority of banks accepted a non-US passport or some other nontraditional form of identification (ID) from prospective customers. Among respondents, 58 percent of banks accepted a non-US passport, 40 percent accepted ID from a foreign consulate, and 73 percent accepted an Individual Taxpayer ID Number (ITIN) as an alternative to a Social Security Number at account opening.

Auxiliary Products

Most banks offered check-cashing, bank checks, money orders, and remittances for existing accountholders, but not for others. The most commonly offered auxiliary products to both basic accountholders and noncustomers were payroll check cashing (71 percent for accountholders and 47 percent for noncustomers), bank or other official checks (86 percent for accountholders and 35 percent for noncustomers), and money orders (68 percent for accountholders and 33 percent for noncustomers). Compared to these commonly offered auxiliary products, domestic and international remittances were offered less frequently. Sixty-eight percent of banks offered domestic remittances to basic accountholders and 57 percent offered international remittances to basic accountholders, but only slightly more than 11 percent offered domestic and 9 percent offered international remittances to noncustomers.

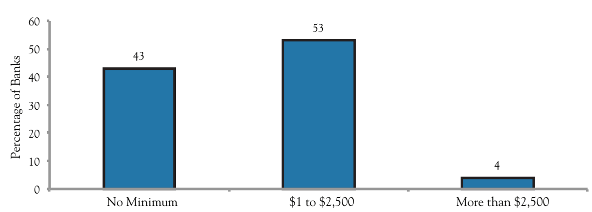
Figure 1.5: Offering Auxiliary Products to Basic Accountholders and Noncustomers (Percent)



Note: Proportions are calculated based on respondents that answered the question.

Eight out of ten banks offered small (under $2,500) unsecured personal loans. The survey finds that 88 percent of all banks offered unsecured personal loans. Among these banks, 43 percent offered unsecured personal loans with no minimum loan amount and an additional 53 percent offered unsecured personal loans with a minimum loan amount of $2,500 or less, which are referred to collectively as small dollar loans in this report.

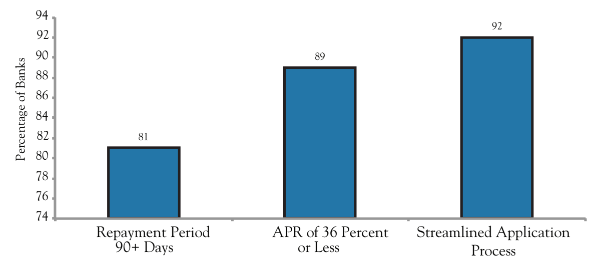
Figure 1.6: Minimum Loan Amount of Unsecured Personal Loans (Percent)



Note: Proportions are calculated based on respondents that answered the question and also made unsecured personal loans.

Banks offering small dollar loans tended to do so with repayment terms of 90 days or more, with annualized rates of 36 percent or less, and with loan approvals in less than 24 hours. Among banks that offered small dollar loans, a large majority offered loans with a repayment period of 90 days or more, an annual percentage rate (APR) of 36 percent or less, and streamlined underwriting to make a loan decision within 24 hours. Eighty-one percent of banks with small dollar loans indicated that the associated repayment period was 90 days or more. The APR (including upfront fees) was reported to be below 36 percent at nearly 89 percent of these banks. In addition, most banks could approve a small, unsecured loan in less than 24 hours.

Figure 1.7: Features of Small Dollar Loans (Percent)

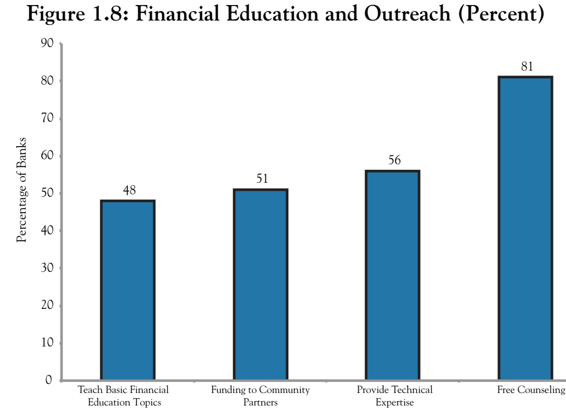


Note: Proportions are calculated based on respondents that answered the question and where banks also made unsecured personal loans of $2,500 or less.

Financial Education and Outreach

Eight out of ten banks reported providing free counseling to underserved consumers. The survey asked banks if they provided financial education and outreach activities, including teaching basic financial education, funding community partners, providing technical expertise, and offering free counseling. Free counseling was the most frequently used and most highly rated activity targeted to unbanked and underbanked consumers. Overall, 81 percent of banks said they offered free counseling to underserved consumers and 58 percent rated this activity as very effective or effective. The most common locations were K-12 schools, with 74 percent of banks providing financial education and outreach activities at these sites.

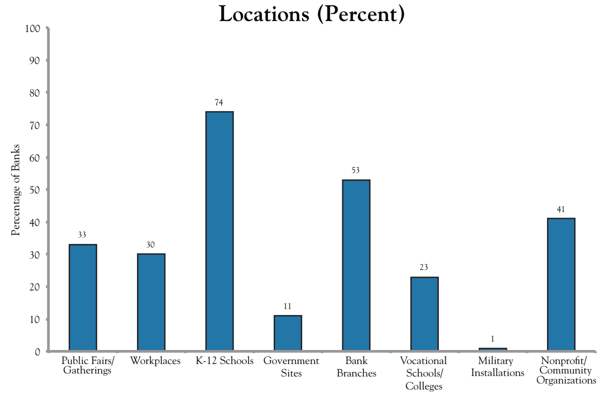
Figure 1.8: Financial Education and Outreach (Percent)



Note: Proportions are calculated based on respondents that answered the question.

Roughly half of all banks used other strategies beyond free counseling to promote financial education, including teaching basic financial education, providing technical expertise, or funding community partners. Almost one-third of all banks (30 percent) participated in all four financial education and outreach activities included in the survey.

Figure 1.9: Financial Education and Outreach Locations (Percent)



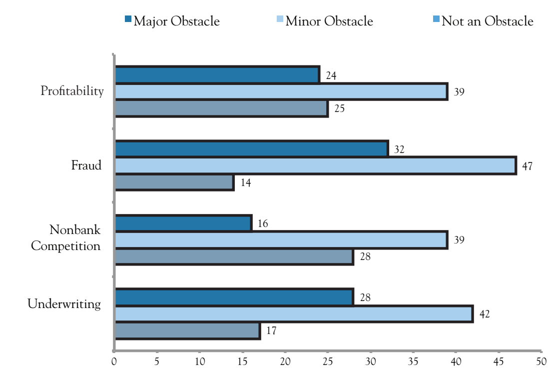
Note: Proportions are calculated based on respondents that answered the question.

Challenges as Obstacles in Offering Financial Products and Services to Underserved

Banks were asked about bank business, product-related, and regulatory challenges as obstacles to reaching unbanked and underbanked consumers.

About one-third of banks identified fraud as the largest perceived major business-related challenge for banks in serving the underserved. Behind fraud (32 percent), underwriting (28 percent) and profitability (24 percent) were also cited relatively frequently as major obstacles. Only 16 percent of banks cited nonbank competition as a major obstacle.

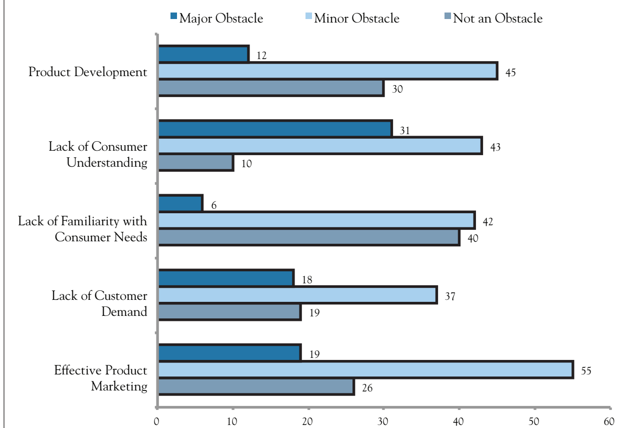
Figure 1.10: Bank Business Challenges as Obstacles (Percent)



Note: Proportions are calculated based on respondents that answered the question and exludes those that reported they did not know enough to assess the degree to which the business challenge was an obstacle.

Thirty percent of banks reported that consumers' lack of understanding of financial products and services was a major product-related challenge. Among the other product-related challenges, relatively few banks stated that lack of familiarity with financial or banking needs of underserved consumers (6 percent), developing products that meet the needs of the underserved (12 percent), effectively marketing products to the underserved (19 percent), and lack of consumer demand (18 percent) were major challenges in offering financial products and services to unbanked and underbanked consumers.

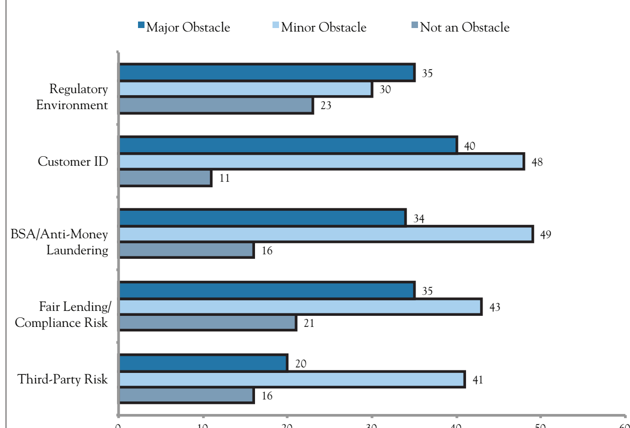
Figure 1.11: Product-Related Challenges as Obstacles (Percent)



Note: Proportions are calculated based on respondents that answered the question and excludes those that did not know enough to assess the degree to which the product-related challenge was an obstacle.

One in three banks (35 percent) cited regulatory requirements as a major obstacle in serving unbanked and underbanked consumers and an additional 30 percent cited them as a minor obstacle. Thirty-four to 40 percent of these banks reported that BSA/anti-money laundering (34 percent), fair lending/compliance risks (35 percent), and customer ID concerns (40 percent) were major obstacles in offering financial products and services to underserved consumers. In contrast, a relatively smaller proportion of banks (almost 20 percent) stated that third-party relationship risk was a major obstacle.

Figure 1.12: Regulatory Challenges as Obstacles (Percent)



Note: Proportions are calculated based on respondents that answered the question about the regulatory environment and excludes those that did not know enough to assess the degree to which regulatory challenges were obstacles.

Results by Asset Size

The full report and appended tables provide additional findings and also disaggregate results for the largest 25 banks (with assets in excess of $38 billion), midsize banks (with assets in excess of $1 billion but less than $38 billion), and the smallest banks (with assets of less than $1 billion). In some respects, the results do not vary significantly among the three groups. However, the report does show that each group has some relative strengths to draw on in their efforts to meet the needs of underserved consumers, including the following examples:

- The largest banks tended to have lower initial deposit requirements on basic checking and savings accounts and accepted a broader range of foreign identification for account opening;
- Small and midsize banks were more likely not to charge maintenance fees on basic checking and savings accounts, had lower required account balances to avoid certain fees, and charged lower fees when they applied;
- The largest banks were more likely to engage in a greater range of educational and outreach activities;
- The largest banks were more likely to report actively marketing products or services customized to the needs of the unbanked and underbanked and to offer a wider array of auxiliary products and services;
- Small and midsize banks were more likely to make unsecured personal loans in amounts under $2,500, to charge less on the auxiliary products and services they did offer, and to make funds available on the same day when cashing checks.

Opportunities to Expand Access to Mainstream Financial Services

Based on the Bank Survey results, we identify five opportunities banks could explore to expand access to mainstream financial services:

1. Expand Offerings of Basic, Low-Cost Checking and Savings Deposit Accounts

The Bank Survey finds that on the most basic checking deposit account without direct deposit that 48 percent of banks had minimum opening balance requirements of $100 or more and 22 percent had monthly maintenance fees of more than $3. For basic savings accounts, the median opening and average balance requirement to avoid a fee was $100.

To broaden economic inclusion efforts, banks should consider offering low-cost electronic, card-based transaction deposit accounts that do not allow overdraft and NSF fees. The survey found that around one in five banks offered electronic, card-based accounts and some evidence that those accounts which were strictly card-based and electronic (no paper check writing feature) had lower average opening balance requirements and monthly maintenance fees. The design of such accounts also reduces the overdraft risk banks face with accounts that permit check writing and may make it possible to eliminate NSF and overdraft fees, further reducing costs for consumers. These accounts may be even more attractive to consumers when paired with basic savings accounts with low minimum balance requirements.

2. Offer Additional Transaction Services to Underserved Households, Including Noncustomers

Consumers' use of nonbank financial services providers to meet their needs points to market opportunities for depository institutions. Some consumers, for example, use money orders in lieu of cash or checks to pay monthly rent or utility bills. Yet, one in three banks did not offer money orders to accountholders and two-thirds did not offer this product to noncustomers. In addition, unbanked consumers frequently need a way to cash checks. And consumers, especially those with family outside the US, often use nonbank financial services providers to make domestic or international remittances. The survey found that 71 percent of banks cashed payroll checks for basic accountholders and 47 percent offered this service to noncustomers. Moreover, one-half and two-thirds of banks offered international and domestic remittance products, respectively, to accountholders, but only nine and eleven percent of banks offered international and domestic remittance products, respectively, to noncustomers. Banks seeking to expand financial services to underserved consumers could consider offering a broader range of auxiliary transaction services to accountholders and noncustomers.

3. Enhance Small-Dollar Loan Product Marketing

Most banks (82 percent) offered unsecured personal loans with a minimum loan amount of $2,500 or less, with many setting no minimum loan amount. However, 20 percent of households that obtained credit from payday lenders and almost 18 percent from pawn shops did so primarily because they thought that banks did not offer small-dollar loans.[2] While some proportion of borrowers that obtain small dollar credit from nonbank providers may not qualify for bank loans (about one-third of banks reported that underwriting was a major obstacle in offering financial products to unbanked and underbanked consumers), the gap between the small-dollar loan availability reported by

[2] See the 2011 FDIC National Survey of Unbanked and Underbanked Households Report at http://www.economicinclusion.gov.

banks and perceived by consumers suggests that banks could improve marketing of these products.

4. Utilize Partnerships with Community Organizations to Promote Checking and Savings Account Ownership

Community outreach through collaborations with community groups was identified as the most effective strategy for developing relationships with these populations. Despite this recognition, only about half of all banks reported using partnerships with organizations to promote opening checking or savings accounts. These findings suggest that banks may benefit from expanding collaborative efforts to promote access to mainstream deposit accounts.

5. Consider Expanding Retail Strategies to Build Relationships with Unbanked and Underbanked Consumers

The most frequently chosen retail strategies to make branches more convenient or welcoming to consumers were automated telephone banking, multilingual staff, and off-premise ATM locations. Banks engaged in these strategies generally reported that they were very effective or effective tools for developing a relationship with unbanked and underbanked consumers. Banks that have not deployed certain retail strategies (e.g., 63 percent of banks do not offer extended hours or services on weekends) should consider whether adding such options could better position the institution to build relationships with underserved consumers.