

A Portrait of Older Underbanked and Unbanked Consumers

FINDINGS FROM A NATIONAL SURVEY

AARP Foundation

AARP Public Policy Institute

**A Portrait of Older Underbanked and Unbanked Consumers:
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FOREWORD

Most of us take bank accounts for granted. They allow us to save safely, put aside money for emergencies, or make an investment. They relieve us from carrying around cash and can help to build positive credit. Yet, millions of older Americans have neither a checking nor a savings account (they are “unbanked”), or they have an account but also rely on alternative financial services such as check cashers, payday lenders, and auto-title loans (they are “underbanked”). For people age 45–64, the peak retirement savings years, being unbanked or underbanked can often mean the difference between a secure retirement and poverty.

In July 2008, the AARP Foundation and the AARP Public Policy Institute released *Poverty and Aging in America: Profiles of the Low-Income Population*. This report documented how precarious life can become for older Americans with insufficient retirement assets or income and inadequate financial management.

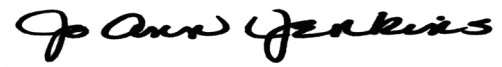
The report cited findings that older people living at or below the poverty level were much less likely to own or to use traditional financial services such as checking, savings, money market, or retirement accounts. Subsequently, both the Center for Financial Services Innovation (CFSI) and the Federal Deposit Insurance Corporation (FDIC) issued reports about the unbanked and underbanked. Neither study, however, specifically focused on the older population.

To fill this gap in information and highlight the unique needs of older Americans, the AARP Foundation’s Financial Innovation and AARP’s Public Policy Institute collaborated with CFSI to analyze national survey data for those 45 and older. This report presents those findings. We believe this analysis can further the dialogue and contribute to the development of innovative strategies and products that better meet the needs of older unbanked and underbanked Americans.

Enabling those who are unbanked or underbanked to benefit from safe and cost-effective access to financial services is a significant challenge for our nation’s financial system, but necessary to ensure quality of life for our aging population. We believe the financial services industry, policymakers, advocates, nonprofit organizations, and philanthropic institutions must work together to create innovative approaches and products that meet older consumers’ needs without needlessly risking their future earnings, retirement checks, or personal property.

The AARP Foundation, AARP’s charitable arm, is dedicated to helping struggling, low-income older Americans meet their economic security needs so they, too, may age with dignity. Our work in the financial innovation area focuses on increasing access to and participation in appropriate, responsible, and asset-building financial services for economically vulnerable older populations. This research report is an important step in helping to understand the needs of this growing market to create potential models for serving them.

We look forward to working closely with industry leaders, colleagues, and partners to continue to transform the financial security of our most vulnerable seniors and the quality of life for all as we age.

A handwritten signature in black ink that reads "Jo Ann Jenkins". The signature is written in a cursive, flowing style.

Jo Ann Jenkins, President

AARP Foundation

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A Portrait of Older Underbanked and Unbanked Consumers: Findings from a National Survey

Financial security is difficult without access to safe and cost-effective financial transactions and services that allow for establishing a credit record, borrowing at affordable rates, and saving for the future. Banks and credit unions can help consumers meet their financial goals. However, at least a quarter of American households are unbanked or underbanked.

The underpinnings of the American dream include a safe place to keep and manage our money, fair means of borrowing and repaying loans, and effective mechanisms for saving and investing for the future. Banks have helped Americans realize their dreams and meet their objectives since 1791, when Alexander Hamilton decided the United States government needed a standard form of currency and a place to handle the massive debt left behind by the Revolutionary War.

Traditional banks have developed many effective tools for protecting and growing wealth and have helped innumerable consumers to meet their financial goals. However, banks have not historically reached out to recruit or effectively serve low-income customers. In fact, studies of people without bank accounts have shown that they are overwhelmingly low income.¹

Low-income customers maintain smaller bank balances and often have different financial needs than mainstream customers. Those who find that traditional banking meets so few of their financial needs that they either forgo or supplement it have come to be known as “unbanked” and “underbanked.”

The term “unbanked” typically refers to an individual, family, or household without a checking or savings account. “Underbanked” refers to an individual, family, or household that has an account but chooses or needs to also use alternative financial services offered by providers operating outside of federally insured banks and credit unions—for example, check-cashing outlets, money transmitters, car-title lenders, payday loan stores, pawnshops, and rent-to-own stores.²

Persons who are unbanked and underbanked have the same financial goals as those with access to mainstream financial services: making purchases, paying bills, and accessing and saving money to meet important goals. And so they must and do find ways to meet their

¹ For example, a 2009 FDIC survey found that households earning less than \$30,000 comprise 71 percent or more of unbanked households. FDIC, National Survey of Unbanked and Underbanked Households (Washington, DC: FDIC, 2009, 10–11). <http://www.fdic.gov/householdsurvey/>. Also, a survey of low-income households found that 70 percent of the unbanked earn less than \$15,000. Christopher Berry, “To Bank or Not to Bank? A Survey of Low Income Households,” Joint Center for Housing Studies Working Paper Series, BABC 04-3, February 2004. http://www.jchs.harvard.edu/publications/finance/babc/babc_04-3.pdf.

² Christine Bradley et al., “Feature Article: Alternative Financial Services: A Primer,” FDIC Quarterly 3, no. 1 (2009): 39-47. http://www.fdic.gov/.../FDIC140_QuarterlyVol3No1_AFS_FINAL.pdf (accessed June 23, 2010).

financial needs. As Michael Barr, currently assistant secretary for financial institutions at the U.S. Department of the Treasury, put it in 2004, “[m]ost of the reasons cited in ... surveys of the unbanked cite low income and associated high costs of accessing banking services. This doesn’t mean that low income people are not getting financial services.”³

In a recent study of unbanked and underbanked households, the FDIC estimated that there are at least 17 million unbanked individuals in the United States today, residing in 9 million households.⁴ The FDIC study finds that an additional 43 million individuals in approximately 21 million households are underbanked. Earlier studies from the FDIC, Federal Reserve, and others have confirmed that unbanked persons are overwhelmingly low-income individuals, with 80 percent earning less than \$25,000 and 40 percent earning less than \$10,000 per year.⁵

The FDIC survey further revealed that households more likely than the general population to be unbanked had one or more of the following characteristics: headed by persons age 45 and younger; headed by black, Hispanic, American Indian/Alaskan, or foreign-born persons; had household incomes of \$30,000 or less per year; were family households headed by an unmarried female or male; headed by a person with less than a high school diploma; or contained members who spoke only Spanish.

What prevents some low-income consumers from having bank accounts?

Having a bank account is important to saving, building credit, borrowing safely, and otherwise increasing financial prosperity. A savings account can help to cushion families from loss during unexpected crises or difficult financial times. A checking account also provides a way to convert checks into cash, make payments to third parties, and avoid carrying a large amount of cash.

Long-held assumptions are that unbanked persons simply lack physical access to traditional banking, are prevented from opening accounts by lack of funds or cultural barriers such as language, or simply do not know how to manage an account. Although studies, including this one, largely confirm that lack of money, language barriers, and not knowing how to manage an account are reasons people frequently give for not opening an account, these issues of access are not the only pieces of the puzzle. Other factors—including length of time to receive money from a payroll check, bounced-check fees, and lack of relevant products and services—may be preventing people from reaping the full rewards of banking.

³ Tapping the Unbanked Market Symposium,” FDIC, 2004. <http://www.fdic.gov/consumers/community/unbanked/tum05.html> (accessed June 2, 2010).

⁴ FDIC, National Survey of Unbanked and Underbanked Households (Washington, DC: FDIC, 2009, 10–11). <http://www.fdic.gov/householdsurvey/> (accessed June 2, 2010).

⁵ For example, Anne Kim, Taking the Poor into Account: What Banks Can Do to Better Serve Low-Income Markets (Washington, DC: Progressive Policy Institute, 2001). http://www.ppponline.org/ppi_ci.cfm?knlgAreaID=114&subsecID=236&contentID=3680 (accessed June 2, 2010). Lehn Benjamin, Julia Sass Rubin, and Sean Zielenbach, Community Development Financial Institutions: Current Issues and Future Prospects (Washington, DC: Board of Governors of the Federal Reserve System, 2003). http://www.federalreserve.gov/communityaffairs/national/CA_Conf_SusCommDev/pdf/zeilenbachsean.pdf (accessed June 2, 2010).

A study by the National Center for Children in Poverty (NCCP)⁶ explains that while most poor, minority neighborhoods contain high numbers of alternative financial service providers, they are now also served by traditional banks. Therefore, lack of physical access turns out to be less of a barrier than previously thought. In addition, some people with sufficient income to maintain an account still choose to remain unbanked. Some individuals who have previously held bank accounts choose to forgo them. Moreover, underbanked people who have and maintain accounts still find reasons to meet some of their financial needs through alternative financial services.

Although study after study has highlighted the importance of bank accounts for paying bills,⁷ transacting day-to-day financial business, borrowing on favorable terms, and saving, evidence suggests that savings and checking options as traditionally offered by most banking institutions may not be a good fit for some low-income families, who often have little or no money left over to save and find it hard to keep up with checking account fees and penalties.

Christopher Berry of Harvard's Joint Center for Housing Studies has shown that the cost of maintaining a checking account decreases with income, while the cost of using a check-cashing outlet increases with income.⁸ Therefore, if the cost of cashing a check at a check-cashing outlet is 1 to 2 percent of the face value of a check, a low-income household earning \$12,000 per year would probably pay \$15 per month. In 2008, the average monthly fee for a checking account was \$11.97, leading to an annual cost of just under \$144.⁹ However, this total does not include required minimum balances, returned-check fees, or overdraft fees. Bank overdraft fees have proved particularly challenging to low-income households. In the past, most banks automatically enrolled customers in overdraft protection when they opened a checking account. With new requirements of the Federal Reserve regulations¹⁰ effective July 2010 for new accounts and August 2010 for existing accounts, these overdraft fees should be substantially reduced. It is entirely possible, however, that other checking fees such as nonsufficient funds (bounced check) fees are likely to be raised or others instituted. In fact, the Bankrate 2009 checking study reveals that bounced-check fees rose in 2009 to an average \$29.58, up from \$28.95 in 2008 and \$21.57 in 1998.¹¹

⁶ Yumiko Aretino and Michelle Chau, *Assets Poverty and Debt among Families with Children* (New York: National Center for Children in Poverty, February 2010). http://www.nccp.org/publications/pub_918.html (accessed June 2, 2010).

⁷ For example, Lehn Benjamin, Julia Sass Rubin, and Sean Zielenbach, *Community Development Financial Institutions: Current Issues and Future Prospects* (no date) Washington, DC: Board of Governors of the Federal Reserve System, 2003). http://www.federalreserve.gov/communityaffairs/national/CA_Conf_SusCommDev/pdf/zeilenbachsean.pdf (accessed June 2, 2010).

⁸ Christopher Berry, "To Bank or Not to Bank: A Survey of Low Income Households," Joint Center for Housing Studies Working Paper Series, BABC 04-3, 2004. http://www.jchs.harvard.edu/publications/finance/babc/babc_04-3.pdf (accessed June 2, 2010).

⁹ Laura Bruce, "Interest accounts require high minimums," Bankrate.com, 2008. <http://www.bankrate.com/brm/news/chk/chkstudy/20081027-free-checking-a1.asp?caret=4> (accessed June 2, 2010).

¹⁰ "Electronic Fund Transfers," Code of Federal Regulations, title 12, Part 205 (2009).

¹¹ Laura Bruce, "Bounced-check fees rise again," Bankrate.com, 2009. <http://www.bankrate.com/brm/news/chk/chkstudy/20081027-free-checking-a1.asp?caret=4> (accessed June 2, 2010).

Low-income persons simply may not be able to bring enough money to a traditional checking account to reach the break-even point where this type of account serves their needs more efficiently than a check-cashing outlet or, better yet, a supermarket where cashing a check can be free if they purchase goods.

In 2004 Berry posited that the low costs associated with cashing a small check combined with the opportunity to cash a paycheck for free at a supermarket means that “the vast majority of unbanked households ... pay less than \$100 per year in fees for financial services.”¹² In 2004 Michael Barr, now assistant secretary of the treasury, went even further, suggesting that “[c]hecking accounts...are not well suited to low income people, and so we ought to be moving away from a focus on checking accounts...towards debit based access electronic accounts.”¹³

In addition to high service fees and penalties, banks may not have offered some of the services that many low-income customers find relevant. For example, some landlords and service providers do not accept checks for payment, so the customer must purchase money orders to pay bills. Also, for some customers the cost and convenience of sending money to relatives abroad may be an important consideration, and many banks do not facilitate affordable or convenient transfers of money. Banks sometimes offer products to low-income people and those with impaired credit that are far more expensive than those offered to higher-income people and those with better credit. In some cases, these products are very similar to those offered by the alternative financial services sector.¹⁴

What alternative financial services do underbanked and unbanked people use?

Underbanked and unbanked consumers often turn to alternative financial services and products to meet their needs. These consumers visit check-cashing outlets, payday lenders, car title lenders, pawnshops, liquor stores, supermarkets, convenience stores, and rent-to-own stores to take care of financial needs, including cashing checks, paying bills, and securing loans, as well as making purchases.

When low-income consumers turn to the alternative financial services industry for short-term loans, they very often find themselves trapped in cycles of debt and fees that prove financially devastating. Fees charged by alternative financial services lenders such as payday lenders, pawn shops, rent-to-own establishments, and others often amount to triple-digit interest rates and trap people who use them in a cycle of debt and fees.¹⁵ The National Consumer Law Center (NCLC) has found that a consumer’s use of payday lending has

¹² Christopher Berry, “To Bank or Not to Bank: A Survey of Low Income Households,” Joint Center for Housing Studies Working Paper Series, BABC 04-3, 2004. http://www.jchs.harvard.edu/publications/finance/babc/babc_04-3.pdf (accessed June 2, 2010).

¹³ Tapping the Unbanked Market Symposium, FDIC, 2004. <http://www.fdic.gov/consumers/community/unbanked/tum05.html> (accessed June 2, 2010).

¹⁴ House Committee on Financial Services, testimony of Travis Plunkett, Consumer Federation of America, and Edmund Mierzwinski, U.S. PIRG, 111th Cong., June 24, 2009, H. Rep. 41–45.

¹⁵ Rick Jurgen and Chi Chi Wu, Fee-Harvesters: Low-Credit, High-Cost Cards Bleed Consumers (Washington): National Consumer Law Center, November 2007).

been associated with a higher probability of the consumer losing a bank account, filing for bankruptcy, and experiencing continuing financial hardship.¹⁶

Auto title borrowing can also prove harmful to low-income borrowers. Much like payday loans, auto title loans have triple-digit annual percentage rates and very short repayment periods. Consumers similarly find themselves rolling these loans over repeatedly, racking up enormous fees and putting continued ownership of their vehicle at considerable risk. Auto title loans are also oversecured, with lenders typically loaning an average of 50 percent of the value of the car.¹⁷ Although high-interest auto title lending is illegal in more than half of all states, it has grown rapidly in states where it is still allowed. For example, Americans for Fairness in Lending (AFFIL) estimates that there are more than 1,500 car title lenders in just four states.¹⁸

With such significant numbers of unbanked and underbanked households in the United States, it becomes vital to learn more about these groups. Understanding who is unbanked or underbanked and why is an important step toward ensuring that they will be able to conduct financial transactions efficiently and cost-effectively, borrow safely, and save for the future.

THE PUBLIC POLICY INSTITUTE STUDY

In response to this need for information, the Center for Financial Services Innovation (CFSI) released a study of underbanked and unbanked consumers in the United States in June 2008. The survey consisted of a segmentation analysis that looked at this group's attitudes, behaviors, and experiences with banks, credit unions, and other formal and informal financial institutions, and with their products and services. Experian Simmons conducted the survey on behalf of CFSI, surveying 2,799 underbanked and unbanked adults age 18 or older, with 1,539 respondents over the age of 45.

Because of AARP's interest in the economic security of older Americans, AARP's Public Policy Institute (PPI) focused on the CFSI data for two age groups: respondents aged 45 to 64 and respondents aged 65 and older. The PPI study aimed to shed new light on the way the older unbanked and underbanked population uses both traditional and alternative financial services. PPI analysis of the CFSI data focused on answering several questions about this older subset of unbanked and underbanked consumers. For example,

- What are the demographics of this group?
- Why do they forgo bank accounts (unbanked) or choose not to fully utilize them (underbanked)?

¹⁶ Lauren Saunders, Leah Plunkett, and Carolyn Carter, "Stopping the Payday Loan Trap: Alternatives that Work and Ones That Don't" (National Consumer Law Center, June 2010). http://www.consumerlaw.org/issues/payday_loans/content/report-stopping-payday-trap.pdf (accessed June 16, 2010).

¹⁷ Jean Ann Fox and Elizabeth Guy, "Driven into Debt: CFA Car Title Loan Store and Online Survey," Consumer Federation of America, 2005. http://www.consumerfed.org/pdfs/car_title_loan_report_111705.pdf (accessed June 17, 2010).

¹⁸ The four states are Alabama, Mississippi, Missouri, and Virginia. "Car Title Loan Facts and Stats," Americans For Fairness in Lending, no date. http://www.affil.org/consumer_rsc/car_loan.php (accessed June 14, 2010).

- Where do they conduct most financial transactions such as cashing checks, paying bills, and borrowing money?
- What are their financial goals, and how successful are they in attaining them?

FINDINGS FROM THE SURVEY OF THE UNBANKED AND UNDERBANKED

Findings from the PPI analysis of the CFSI data set confirmed findings from many studies of the whole population while uncovering other areas of interest and possible concern. All comparisons include only unbanked and underbanked respondents. These are summarized following.

The majority of age 45+ respondents preferred to use a bank or credit union for financial transactions.

The preference for a bank or credit union among unbanked and underbanked consumers increased with age. More than half of both age 45+ groups (45–64 and 65+) preferred to conduct transactions at a bank or credit union, versus fewer than two-fifths of those age 18–44. More persons age 65+ preferred to use a bank or credit union than did persons age 45–64. After banks or credit unions, most persons age 45–64 and 65+ chose supermarkets as the place they most preferred to conduct transactions. In addition, just under one-fifth of age 65+ Hispanic persons preferred to use supercenters (e.g., Costco, Sam’s Club, and Super Wal-Mart). Within the age groups of 45–64 and 65+, a higher percentage of white persons than black and Hispanic persons preferred to use banks/credit unions for financial transactions. Also, among persons age 65+, more of those with higher incomes preferred to use banks and credit unions than persons with lower incomes.

Among age 45+ respondents, the likelihood of having an account varied with income and race/ethnicity.

The likelihood of having a checking or savings account among the unbanked and underbanked increased with each age group. Persons age 45–64 and 65+ were much more likely to have a checking or savings account than those age 18–44 and persons of all ages combined (18+). Persons age 65+ were most likely of all age groups to have an account. Within this group, the likelihood of persons age 65+ having a checking or savings account increased with income. Persons age 45–64 and 65+ with incomes below \$25,000 were less likely than persons of all incomes (age 18+) to have a checking or savings account. Persons age 45 and older with incomes over \$25,000 were more likely than persons of all incomes (age 18+) to have a checking account.

Among respondents age 45–64 and 65+, black and Hispanic persons were less likely to have an account than similarly aged persons of all races and ethnicities combined. Black and Hispanic persons were also less likely to have an account than white persons. Black persons between the ages of 45 and 64 were almost three times less likely than similarly aged white persons to have a checking account. Hispanic persons in this age group were about 15 percent more likely than black persons, but almost two times less likely than white persons to have a checking account. Black and Hispanic persons age 65+ were both approximately two times less likely than white persons to have a checking account.

Within age 45–64 and 65+ groups, the likelihood of having a checking or savings account increased with full-time employment. Persons with full-time employment were more likely to have a checking or savings account than part-time and not-employed persons. Not-employed persons age 65+, however, had higher rates of account ownership than younger not-employed persons. This is probably due to the large number of retired persons receiving Social Security,¹⁹ a pension, or other fixed benefits through a checking or savings account.

Respondents most frequently selected financial reasons for not having an account.

The top reasons given by age 45+ respondents in this survey for not having an account can be classified into two groups: financial and privacy/technical reasons. Respondents tended to select financial reasons more frequently than they did privacy/technical ones. The financial reasons most frequently selected were as follows:

- Don't have enough money to be useful
- Hidden fees and charges
- Too expensive
- Minimum required balance too high

Privacy/technical reasons most frequently selected were as follows:

- Concern about misuse of personal information
- Too much documentation required

Financial reasons.

Three-fifths of persons age 65+ with incomes under \$10,000 selected “Don't have enough money to be useful” as a reason not to have an account. Two-fifths of black persons age 45–64 and 48 percent of unbanked persons age 65+ also selected this as a top reason not to have an account.

Almost half (45 percent) of black persons age 65+ (versus 33 percent of Hispanic and 7 percent of white persons of similar age) selected “Hidden fees and charges” as a reason not to have an account, as did almost one-fifth of full-time employed persons age 45–64.

More than one-third of Hispanic persons age 65+ and one-quarter of black persons age 65+ (versus 13 percent of white people age 45–64 and 11 percent of white persons age 65+) selected “Too expensive” as a reason not to have an account. About one-fifth of unbanked

¹⁹ The Social Security Administration encourages direct deposit of benefits checks to a bank account or a debit card. As of January 2010, 83 percent of all Social Security and Supplemental Security Income beneficiaries received their benefits by direct deposit. See <http://www.ssa.gov/deposit/DDFAQ898.htm>. Direct deposit to either a bank account or a Treasury-issued debit card will become mandatory for all beneficiaries of Social Security and other federal benefit programs by 2013. See <http://www.treas.gov/press/releases/tg644.htm>.

persons age 45–64 or 65+, more than four times the proportion of similarly aged underbanked persons, also selected this as a reason not to have an account.

Between 20 and 25 percent of persons age 45–64 with incomes below \$50,000 selected “Minimum required balance too high” as a reason not to have an account. About one-fifth of black persons of both older age groups selected this reason, versus 1 percent of Hispanic and 4 percent of white persons age 65+.

Privacy/other reasons.

More than half of black persons age 45–64, twice the percentage of either similarly aged Hispanic or white persons, selected “Concern about misuse of personal information” as a reason not to have an account. Almost two-fifths of people age 45–64 who were not employed also selected this reason, versus 29 percent of part-time employed persons and 22 percent of full-time employed persons of similar age. Thirty-five percent of unbanked persons age 45–64 also selected this reason for not having an account, versus 18 percent of similarly aged underbanked persons.

Three times as many unbanked people age 45–64 as similarly aged underbanked people (21 percent versus 7 percent) selected “Too much documentation required” as a reason not to have an account. Two-fifths (43 percent) of black persons and one-third (34 percent) of Hispanic persons age 65+ selected this reason, versus 6 percent of similarly aged white respondents.

Most age 45+ underbanked and unbanked respondents were satisfied with their financial transactions.

The majority of age 45+ respondents were satisfied with their financial transactions. This was true across all age groups, all income groups, all races and ethnicities, and all employment and banked statuses. However, age 65+ Hispanic and black persons were the most likely of all groups to express dissatisfaction (27 percent and 23 percent, respectively, were “somewhat or very dissatisfied”). Reasons most cited for satisfaction included financial reasons such as “Fees are affordable,” “Can get cash instantly,” and “No hidden costs”; customer service reasons such as “Staff always helpful” and “Always treated with respect”; and convenience reasons such as “Offers products and services that I need” and “Doesn’t take much time.”

A bank or credit union was the most frequent choice for borrowing money among age 45+ respondents.

More persons age 45+ said they preferred to borrow \$1,000 or less first from a bank or credit union rather than from any other source. Within this group, a higher percentage of persons age 65+ preferred to borrow from a bank/credit union than did persons age 45–64. However, it was the most frequent response for both age groups, and each was almost twice as likely to say that they preferred to borrow from a bank as from the second choice, which in all cases was from a family member or relative.

Persons in both older age groups (45–64 and 65+) were more likely to try to borrow from a bank or credit union first than were persons age 18–44 and those of all ages combined (18+). Among those ages 65+, persons with higher incomes were more likely than those with lower incomes to turn first to a bank or credit union. White persons were more likely than Hispanic and black persons to turn first to a

bank or credit union for a loan of \$1,000 or less. Hispanic and black persons age 45–64 would first turn to friends or family. Finally, age 45+ underbanked persons were almost twice as likely as unbanked persons to choose to borrow first from a bank. Unbanked persons were more likely to first borrow from friends or family.

About 20 percent of persons in this survey had used auto title loans.

True to their preference for banks and by extension bank products, more persons indicated that they had used bank loans than had used alternative financial services loans such as payday loans, auto title loans, and pawnshops. When asked what types of loans they had ever used, “personal loan” was the most frequent response across age groups.²⁰ Home equity loans and lines of credit from banks and credit unions were second and third in popularity, respectively, among persons age 45–64 and 65+.

About 20 percent of survey respondents had used auto title loans. Usage varied across income and employment. Persons age 65+ with higher incomes more frequently indicated that they had used auto title loans than did persons with lower incomes. A larger percentage of full-time employed persons had used auto title loans than had part-time and not-employed persons.

This survey showed low payday lending usage, perhaps reflecting the fact that payday lending is now prohibited in at least 15 states and closely regulated in others.²¹

Age 45+ underbanked and unbanked respondents most frequently used personal loans.²²

Although persons in this survey used several types of loans, personal loans, auto title loans, home equity loans, and lines of credit were most frequently used.

Personal loans. Except in a few cases, personal loans were most frequently selected across age, race/ethnicity, and employment. Use of this type of loan was found to vary with income and unbanked/underbanked status.

Auto title loans. Borrowers using auto title loans can lose their cars if they cannot repay the loan in time. A surprisingly large percentage of borrowers in this survey over age 45 said they had used auto title loans, far greater than the percentage of persons accessing payday loans. This could be explained by the fact that many states have either prohibited or heavily regulated the use of payday loans, while auto title lending remains largely unregulated or loosely regulated. The following groups were found to have used auto title loans most frequently:

²⁰ It is unclear whether individuals selecting “Personal loan” meant an unsecured loan from a bank or a loan from another individual, for example from a friend or relative.

²¹ States prohibiting payday lending are Arkansas, Connecticut, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, and West Virginia.

²² It is unclear whether individuals selecting “Personal loan” meant an unsecured loan from a bank or a loan from a person, for example a friend or relative.

- One of five persons age 45–64 with incomes under \$50,000
- One-third (31 percent) of persons age 65+ with incomes of \$25,000 to \$50,000
- Almost one in four (23 percent) white persons age 65+
- One-third (34 percent) of age 65+ full-time employed persons
- Almost one-third (31 percent) of underbanked persons age 45–64

Home equity loans.

Use of home equity loans in general increased with income;²³ about one-third of persons age 45–64 with incomes between \$25,000 and \$50,000 had ever taken a home equity loan, compared with only 9 percent of persons with incomes below \$10,000. Almost half of persons with incomes between \$50,000 and \$75,000 had used home equity loans, and more than half of persons with incomes above \$75,000 (not shown in charts).

Lines of credit.

Line of credit use was also found to generally increase with income.²⁴ About one-quarter of persons age 45–64 with incomes above \$10,000 had ever used a line of credit, compared with more than half of persons with incomes over \$50,000 (not shown in charts).

The majority of age 45+ underbanked and unbanked borrowers in this survey had borrowed once in the previous 12 months.

Between 20 percent and 30 percent of all age groups were found to have borrowed within the previous 12 months. Most persons were found to have borrowed fewer than five times, although the frequency of borrowing varied by income, race, underbanked/unbanked status, and age.

More than two-fifths of unbanked borrowers age 65+ had borrowed nine or more times in the past year, perhaps indicating that this group was finding it hard to make ends meet. Within this unbanked and underbanked borrower age group, about half of Hispanic

²³ However, home equity loan usage decreased as income increased at the lowest levels. While 9 percent of respondents with incomes under \$10,000 had used home equity loans, only 5 percent of those with incomes from \$10,000 to \$24,999 had used home equity loans.

²⁴ An exception to this is noted when comparing individuals age 65+ with an income of \$10,000–\$24,999 to those with an income of \$25,000–\$49,999. In this case, there is a decrease in line of credit usage with an increase in income (32 percent vs. 24 percent).

persons and black persons had borrowed more than nine times in the previous 12 months. More than 10 percent of age 65+ not-employed borrowers had also borrowed more than nine times over the previous 12 months, indicating both an inability to make ends meet and perhaps inadequate retirement benefits.

Across age groups, most persons borrowed \$1,000 or more the last time they borrowed; this finding varied somewhat by income, race, employment, and banking status.

CONCLUSION

Underbanked and unbanked persons age 45 and older show a strong affinity for banks or credit unions. Analysis of survey results suggests that underbanked and unbanked persons age 45 and older have a clear preference and strong affinity for banks or credit unions. Older (age 65+) underbanked and unbanked persons show an even stronger preference. The analysis also shows that persons age 45 and older were more likely to have a checking or savings account than persons age 18–44 and persons of all ages combined (18+). Persons age 45 and older were also more likely to say they preferred to conduct financial transactions in a bank or credit union, and more likely to turn to a bank first to secure a loan.

Preference for banks and credit unions among underbanked and unbanked persons is also affected by income and race/ethnicity. The preference for banks or credit unions evinced in this survey appeared to be related to income, race/ethnicity, and underbanked or unbanked status. Analysis of this data and known population demographics together suggests that income is the primary factor affecting older persons' general preference for using bank products and services.

Results show that the likelihood of having a checking account among persons age 45 and older varied with income. In addition, four of the top six reasons chosen by age 45+ respondents for not having a checking account were financial: "I don't have enough money to make an account useful," "The accounts have hidden fees and charges," "A checking account is too expensive," and "The minimum balance for these accounts is too high." Reinforcing this finding is the fact that in this survey, underbanked persons age 45+ were found to have incomes significantly higher than those of unbanked persons of similar age.

White persons age 45+ were much more likely to have an account and use bank products and services—including loans—than were Hispanic and black persons of similar age. It is unclear how much of this disparity is caused by cultural and racial barriers and how much is due to the higher incomes of white persons age 45 and older. The importance of financial considerations is reinforced by the finding that in this survey, black and Hispanic persons age 45+ selected the four financial reasons listed above as top reasons they did not have an account.

Age 45 and older underbanked and unbanked persons would prefer to borrow money from a bank or credit union.

When given the choice, most respondents in this survey stated that they would first turn to a bank or credit union to borrow money. This preference increased in the older age groups, as did the preferences for conducting financial transactions through the traditional

banking sector and having a checking account. The fact that older people would turn first to a bank or credit union to borrow of course does not mean that that is where they end up borrowing. Having a bank account is an important step in getting a loan from such an institution, but it is not the only one. If a customer has spotty credit, banks may open an account, but they may not lend the customer money. Nonetheless, access to bank and credit union lending based on an ongoing account relationship would be of benefit to unbanked and underbanked persons because of the high cost of alternative lenders.

In some cases, unbanked and underbanked persons in this survey may not have qualified for a personal bank loan, a home equity loan, or line of credit, and their family or friends may not have been in a position to help. In that case, the next logical step is likely to be the alternative financial services industry. One-fifth of persons in this survey availed themselves of an auto title loan, which exposes them to the risk of losing the car if repayment terms are not met.

In the fluid population of unbanked and underbanked persons, it is hard to draw clear and fixed distinctions between the two groups. An earlier study by CFSI points out that many of those who have bank accounts use check cashers, money orders, and independent remittance providers.²⁵ Many in this study currently without bank accounts were previously banked, and presumably some currently with bank accounts were previously unbanked. The CFSI study makes the important point that “the functionality of bank accounts, not bank accounts per se is what is important,” and adds, “[i]f a savings account has high fees and low interest, it is less likely to be used for savings. If a checking account does not provide needed liquidity, there is less reason to have one.” In other words, meeting the real needs of the unbanked and underbanked population is what is important, and the task is to shape products to meet their needs, not shape this population to meet the requirements of currently offered bank products and services.

Differentiating between the unbanked and underbanked

Results from this survey suggest that persons who lack enough income to take full advantage of a checking or savings account—or who choose not to—may rationally choose other products and services that better meet their needs. However, this choice likely affects persons who are underbanked and unbanked in quite different ways. Maintaining a banking relationship (even though underbanked) offers persons at least the opportunity to save, invest, and borrow more safely and with better terms than being unbanked.

²⁵ Ellen Seidman, Moez Hababou, and Jennifer Kramer, A Financial Services Survey of Low- and Moderate-Income Households New York, CFSI, 2005, 1–2). http://www.cfsinnovation.com/system/files/imported/managed_documents/threecitysurvey.pdf (accessed June 2, 2010).