

# Banks' Efforts to Serve the Unbanked and Underbanked

for

**The Federal Deposit  
Insurance Corporation**

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This Study was conducted by Dove Consulting on behalf of the Federal Deposit Insurance Corporation. The FDIC does not endorse any bank or product. The views expressed in this Study are those of the authors and not necessarily those of the FDIC.

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## Study Summary

### A. Background

This report summarizes and interprets findings from a nationwide survey of FDIC-insured depository institutions about their efforts to serve unbanked and underbanked individuals and families.<sup>1</sup> The survey was conducted by Dove Consulting, a division of Hitachi Consulting, on behalf of the Federal Deposit Insurance Corporation (FDIC).

The FDIC is required by law 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 (hereafter in this section referred to as the ‘unbanked’) into the conventional finance system.”<sup>2</sup> This first survey—*Banks’ Efforts to Serve the Unbanked and Underbanked*—had the following three objectives:

1. Identify and quantify the extent to which FDIC-insured institutions outreach, serve, and meet the banking needs of the unbanked and underbanked.
2. Identify challenges affecting the ability of insured institutions to serve the unbanked and underbanked, including but not limited to cultural, language, identification issues, and spatial/location issues.
3. Identify innovative efforts depositories use to serve the unbanked and underbanked, including community storefronts, small dollar loans, basic banking accounts, remittances, and other low-cost products and services used by the unbanked and underbanked.

These objectives were designed to address a number of potential research topics, including the following

- A) “To what extent do insured depository financial institutions promote financial education and financial literacy outreach?
- B) Which financial education efforts appear to be the most effective in bringing ‘unbanked’ individuals and families into the conventional financial system?
- C) What efforts are insured institutions making at converting ‘unbanked’ money order, wire transfer, and international remittance customers into conventional account holders?
- D) What cultural, language, and identification issues as well as transaction costs appear to most prevent ‘unbanked’ individuals from establishing conventional accounts?
- E) What is a fair estimate of the size and worth of the ‘unbanked’ market in the United States?”<sup>3</sup>

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<sup>1</sup> For the purposes of this survey, unbanked individuals and families are those who rarely, if ever, held a checking account, savings account, or other type of transaction or check cashing account at an insured depository institution in the conventional finance system. Underbanked individuals and families are those who have an account with an insured depository institution but also rely on nonbank alternative financial service providers for transaction services or high-cost credit products.

<sup>2</sup> The Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Pub. L. 109-173).

<sup>3</sup> The FDIC plans to address this question through a separate survey effort to be conducted jointly with the U.S. Bureau of the Census as a Supplement to the Census Bureau’s Current Population Survey in January 2009. The goals of that survey effort are to gather accurate estimates of the number of

## B. Methodology

A nationwide survey of FDIC-insured depository institutions was conducted to collect information about banks' efforts to serve the unbanked and underbanked (a copy of the survey is provided in Appendix A). The survey questionnaire was approved by the Office of Management and Budget (OMB Form # 3064-0158) under the Paperwork Reduction Act (PRA). Survey packages with forms and instructions were mailed in April 2008 to a nationally representative sample of 1,283 banks with retail branch operations. The survey used a stratified design based on bank asset size, or tiers. Tier 1 included the top 25 largest banks; Tier 2 included banks with assets of \$1 billion or more excluding Tier 1 participants; and Tier 3 included banks with assets under \$1 billion. To improve sampling efficiency, the larger banks were sampled at a higher rate than the smaller banks. The sampling rates for the three tiers were 100 percent, 47.5 percent, and 14.4 percent, respectively.

Dove Consulting received 685 completed surveys, which was a response rate of 53.7 percent. Response rates were 96.0 percent for Tier 1 banks, 60.7 percent for Tier 2, and 50.8 percent for Tier 3. Together, the banks that responded to the survey had more than \$8.3 trillion in assets—approximately 70 percent of the total assets for FDIC-insured institutions in the United States—at the time the sample was drawn. Due to the stratified design and high response rate among larger banks, responding banks represented a substantial percentage of retail branch operations and consumer banking services.

In addition to the survey, Dove Consulting conducted in-depth interviews and developed 16 case studies on surveyed banks that offer innovative approaches to serving unbanked and underbanked individuals.

## C. Report Format

This report is organized into 12 chapters that highlight and interpret the survey data.<sup>4</sup> Chapter 2 describes the objectives and methodology. Chapters 3 through 11 provide the results for each of the nine sections of the survey. Specifically, Chapter 3 presents information about participating banks' characteristics and retail bank information; Chapter 4 presents information on banks' education and outreach efforts; Chapters 5 through 7 present information on banks' account opening and onboarding (i.e., account initiation) processes and products offered by banks to non-customers; and Chapters 8 through 11 present results related to the types of low-cost deposit, savings, payment, and credit products offered by banks that are used by the unbanked and underbanked. Chapter 12 contains the case studies.

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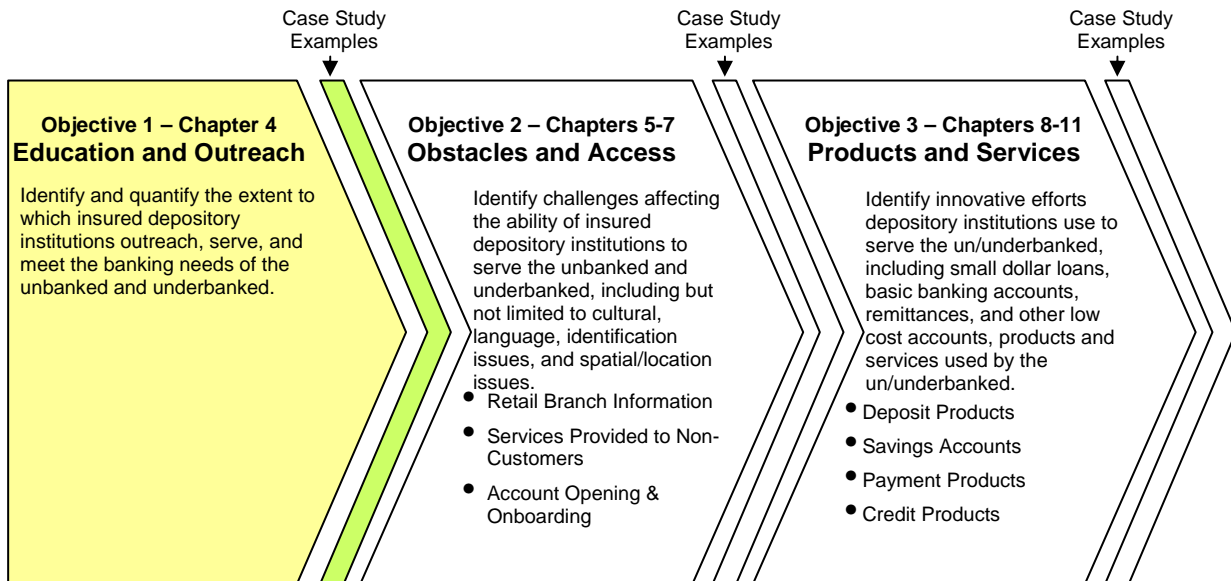
unbanked and underbanked households in the United States, their demographic characteristics, and reasons why they are unbanked and/or underbanked.

<sup>4</sup> Throughout the report, the percentages provided are weighted by the reciprocals of stratum selection probabilities and response rates to provide representative results for all banks in the sample frame. The sample frame includes banks with retail operations but excludes wholesale, special purpose industrial, and credit card banks. Dove Consulting did not independently verify all survey responses, but did follow-up with banks that provided information to clarify data that appeared to be inconsistent with tier group statistics.



The following sections highlight information from the 12 chapters and are organized by the survey's three objectives.

## I. Banks' Efforts with Education and Outreach



***Objective 1:** Identify and quantify the extent to which insured depository institutions outreach, serve, and meet the banking needs of the unbanked and underbanked. (Education and Outreach; Chapter 4)*

By educating unbanked and/or underbanked individuals about bank products and services, insured institutions can begin to establish relationships with these individuals and ease their entry into the mainstream banking system. Chapter 4 examines banks' perception of whether unbanked and underbanked individuals live in their market area; financial education materials provided to these individuals; financial education and outreach efforts; effectiveness of bank education and outreach programs; activities to bring the unbanked and/or underbanked into the financial mainstream; and challenges in serving or targeting unbanked and/or underbanked customers.

### A. Perceptions of Unbanked and/or Underbanked in Area Served and Educational Efforts

Most banks are aware that unbanked and/or underbanked populations exist and live in their market areas, and the majority of banks provide educational materials and conduct outreach activities to help bring these individuals into the banking mainstream. Specifically, the stratum and response adjusted weighting shows that:

- An estimated 73 percent of banks in the United States recognize that unbanked or underbanked individuals live in their service area. Specifically, all Tier 1 banks, 90 percent of Tier 2 banks, and 71 percent of Tier 3 banks are aware of these populations.
- Sixty-four percent of all banks provide financial education materials.

- Thirty-nine percent of banks provide basic banking educational materials (either literature available in bank branches or content on the bank Web site) aimed at unbanked and/or underbanked individuals.
- More than half (53 percent) of banks teach financial literacy and education sessions that target unbanked and/or underbanked customers. Of the banks that teach these sessions, 85 percent teach basic banking.
- Less than half of banks (37 percent), however, participate in education and outreach with other organizations. Of those that do, the most common places for outreach are high schools and community-based organizations.
- Off-premise educational outreach aimed at the unbanked or underbanked is provided by 58 percent of banks. Among these, more than 75 percent of banks hold outreach sessions at schools.

## **B. Effectiveness of Financial Education Efforts**

Based on the survey results, the most effective education and outreach activities for bringing unbanked individuals into the conventional banking system are formal classroom education, community outreach, and participation with other organizations, particularly employers, to expand employee access to direct deposit. Educational materials aimed at these populations tend to be brochures and pamphlets, which may require non-customers to learn about bank services and products on their own. Case studies suggest that banks that are the most successful in educating non-customers place a high value on their relationships with community organizations and other stakeholders who provide important strategies for reaching unbanked consumers.

The survey results, explained in detail in Chapter 4, show that an estimated 64 percent of banks that provide materials designed to increase bank account ownership among the unbanked and underbanked have not evaluated the effectiveness of their financial education programs.

- However, among banks that provide materials and that have evaluated the results, 86 percent report that the materials have helped them establish relationships with the unbanked.
- Survey results reveal that formal classroom-style financial education sessions are the most effective type of education or outreach program used to bring unbanked and underbanked individuals into the banking mainstream. Participation with other organizations and outreach visits are the second and third most effective methods.

Community outreach efforts also are effective for developing and promoting banking services and products that meet the needs of unbanked and underbanked populations.

- Slightly more than one-third (37 percent) of banks participate in education or outreach with outside organizations. Unfortunately, few banks are able to quantify the success of such programs.
- One challenge in assessing their success is that banks only know if an individual is a customer of *their* bank; they do not have a reliable system for determining whether an individual is unbanked or an underbanked customer of another bank.

Employer programs to expand employees' access to direct deposit and bank accounts might hold special promise for the unbanked because direct deposit provides immediate availability of funds and removes fees associated with check cashing.

Outreach to employers encouraging use of direct deposit for payroll is key for bringing unbanked and underbanked individuals into the conventional financial system.

- Only 38 percent of banks work with corporate and business customers to provide services to their unbanked employees, and, of those, only 14 percent offer payroll cards which can be used to provide payment directly onto a debit card.
- Direct deposit reduces the need for unbanked and underbanked individuals to use alternative service providers, such as check cashers and payday lenders.

In open-ended responses, banks cite the most effective strategies for bringing unbanked individuals and families into the conventional banking system as outreach (27 percent of banks recommended it), offering low-cost products and services (recommended by 21 percent of banks), and offering educational programs and materials (21 percent).

Depository institutions cite the lack of profitability as a significant barrier to serving unbanked and underbanked individuals. However, 77 percent of all banks reported that they have not conducted research on the potential unbanked customers in their Community Reinvestment Act (CRA) assessment areas, suggesting that untapped opportunities to serve this market may exist.

### **C. Case Study Highlights: Education and Outreach**

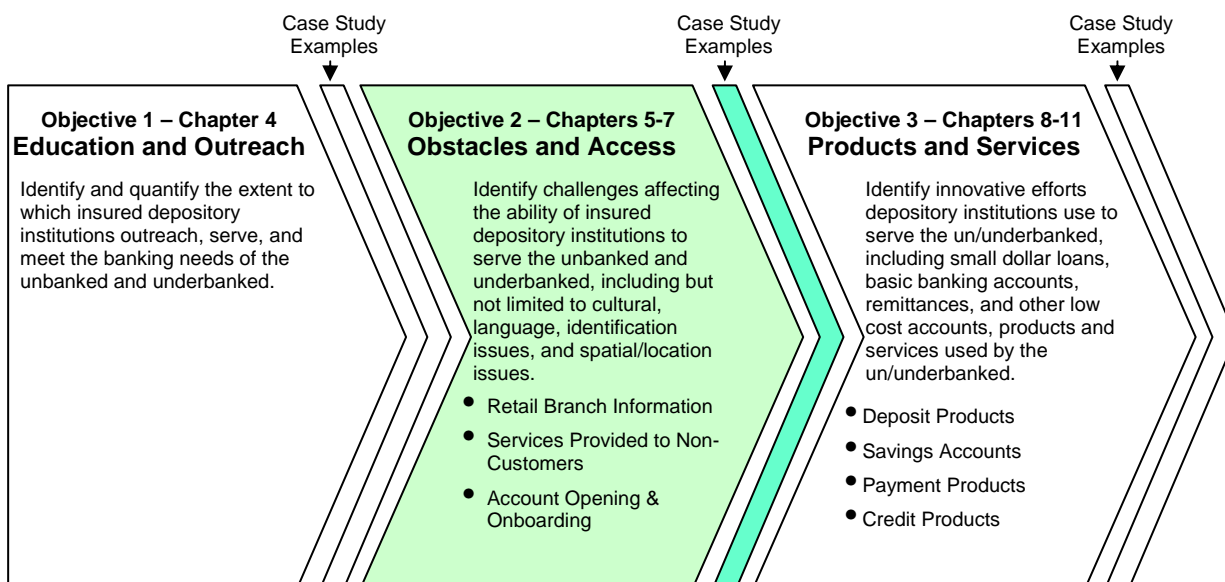
Case studies suggest that banks that are successful in educating non-customers have developed relationships with community organizations and strategies involving important stakeholders within and outside the bank. While the types of initiatives undertaken by the case study banks vary, they exemplify effective approaches that leverage partnerships with third-party organizations, such as employers, schools, nonprofit organizations, and assistance agencies. These programs bring education to the places that unbanked populations frequent and feel most comfortable, increasing the number of individuals reached.

<b>Institution</b>	<b>Target Population</b>	<b>Initiative</b>
Amalgamated Bank (New York, NY)	Union workers, primarily immigrant and low income	Created educational curriculum specific to needs of target market; partners with union and local government agencies to deliver outreach and products
Citibank, NA (New York, NY)	Low-income, urban individuals in their area	Leverages United Way case management and outreach expertise in area to market, educate, and open entry-level accounts for clients
The Commerce Bank of Washington (Seattle, WA)	Homeless population, mentally ill individuals	Automated check cashing processes and improved access to banking services for unbankable individuals by providing back-office systems and support to The Compass Center, a nonprofit assistance agency
Fort Morgan State Bank (Fort Morgan, CO)	Employees of food processing company in Colorado	Established branch at plant facility, introduced services during new employee orientation and opened accounts to encourage direct deposit of paychecks
International Bank of Commerce (Laredo, TX)	Elementary school students in predominantly Mexican immigrant communities in their areas	Partners with elementary schools to create student-run “micro-communities,” simulated societies in which students earn wages in mock currency, conduct banking transactions, and learn to manage finances
Mitchell Bank (Milwaukee, WI)	High school students in large Mexican and Central American immigrant communities in their areas	Partners with a local high school to establish full-service branch on campus to open accounts for students, provide financial literacy education, and build trust and awareness in wider community
Monroe Bank and Trust (Monroe, MI)	Low- to moderate-income individuals in the bank’s county, many of whom are affected by rising unemployment	Established education program, an off-shoot of its existing volunteer organization, to provide educational outreach in its markets by bringing seminars and programs to faith-based organizations, service agencies, and high schools

**Common Lessons Learned**

- Financial education is the primary vehicle for serving the unbanked and underbanked populations and is essential to help them make informed decisions.
- Employers and community organizations can provide important insights to banks seeking to assess and understand the needs of the unbanked market.
- Partnerships with third-party organizations that leverage core competencies can supplement and complement bank initiatives to provide outreach and serve the community.
- Building strong relationships with trusted community organizations presents valuable opportunities for banks to establish their presence and increase awareness in their service areas, which are particularly important when working with unbanked populations.
- Developing and executing a successful strategy requires innovative approaches that involve stakeholders both within and outside of the bank.

## II. Banks' Efforts to Address Obstacles and Access



**Objective 2:** Identify challenges affecting the ability of insured depository institutions to serve the unbanked and underbanked, including but not limited to cultural, language, identification issues, and spatial/location issues. (Obstacles and Access; Chapters 5-7)

For unbanked and underbanked individuals to enter the banking mainstream, insured institutions must make retail branches more accessible, offer appropriate products and services to meet customer needs, and ensure that the procedures for opening an account are straightforward. Chapters 5, 6, and 7 of this report examine banks' efforts to address these challenges. Survey results show that banks have modified their retail branch operations in a variety of ways that may increase access for unbanked and/or underbanked individuals.

### A. Retail Branch Information (Chapter 5)

#### i. Modifications

Banks' efforts to make retail branches more accessible to unbanked and underbanked individuals include extending branch hours, employing staff that can speak foreign languages, and changing operations to make them more welcoming. These efforts provide unbanked and underbanked consumers more opportunities to take advantage of bank services.

- Based on survey results, an estimated 59% of banks have extended their retail branch hours, with the most common hours being later than 5:00 p.m. on weekdays for all types of branches. Some of the banks that extended their hours now operate until 1:00 p.m. on Saturday and/or offer Sunday hours.
- More than half (52 percent) of banks now have staff that can speak a language other than English. Almost half (47 percent) of banks have branch staff that can speak Spanish, while 4 percent have staff that speak Chinese, 3 percent have staff that speak Vietnamese, 2 percent have staff that speak Korean, and 2 percent have staff that speak Tagalog.

- Sixty-four percent of banks have modified their retail operations over the past five years to make it easier, more welcoming, or more convenient for unbanked and/or underbanked consumers to take advantage of banking services.
- The most common way that banks have modified their operations is by offering Internet or mobile banking, which is now available at 73 percent of banks. Mobile banking includes both mobile branches that go to customers' work or residential locations, and technology such as mobile telephones and personal digital assistant (PDA) devices.

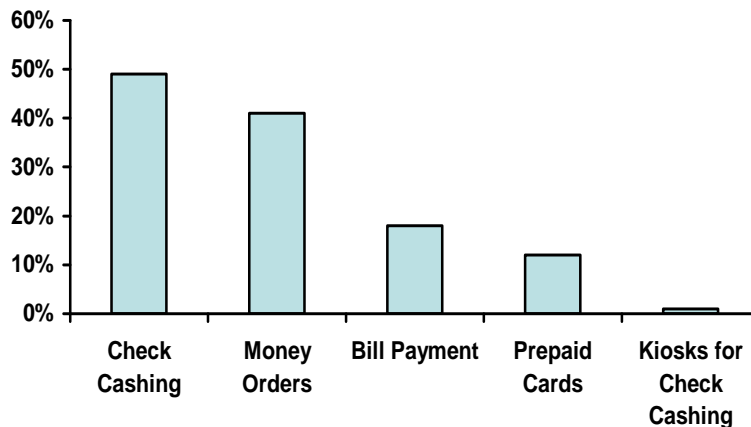
**ii. Strategies**

Banks can and do provide important financial services to unbanked and/or underbanked individuals; however, many banks may hesitate to offer products and transaction services to individuals who do not hold conventional deposit-based transaction accounts because of the perceived challenges and risks. For example, while check cashing presents opportunities for banks to better serve unbanked and/or underbanked individuals, many responding banks reported that cashing checks for non-customers presents risks and that regulatory requirements impede serving some potential customers due to identification issues. Consequently, less than one-third of banks will cash payroll checks drawn on another bank for non-customers. Banks also appear to limit money orders and other important bill payment products for non-customers.

- Identification issues can present challenges for unbanked and underbanked consumers who want to open an account.
  - Banks generally require government-issued forms of identification to open a new account. State-issued drivers' licenses (99 percent) and passports (92 percent) are the most commonly accepted forms of identification.
  - Matricula Consular cards are accepted by less than one-third of banks (27 percent).
- In addition, unbanked and/or underbanked individuals with blemished credit histories likely face additional challenges to account opening because of widespread use of risk management screening tools, such as the ChexSystems and third-party credit score databases.

For all banks, the most common branch strategies to serve unbanked and/or underbanked individuals are check cashing, with 49 percent of all banks offering this service, followed by offering money orders (41 percent), and bill payment services (18 percent).

**ES Figure 1. Indicate efforts your bank makes as part of its branch strategy to serve un/under banked in your market areas.**



## B. Services Provided to Non-Customers (Chapter 6)

### i. Check Cashing

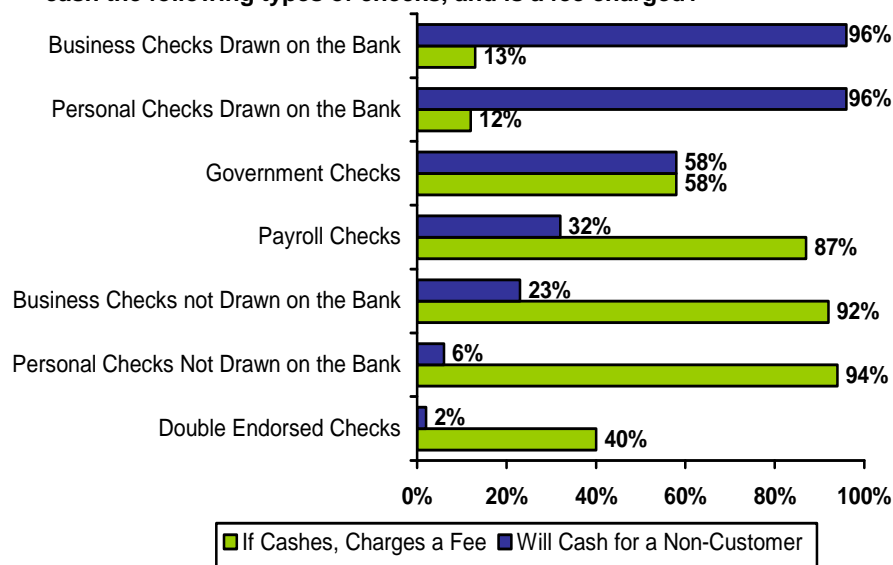
Insured institutions appear to believe that they have a limited ability to serve unbanked consumers who would like money orders, wire transfers, and international remittances because of compliance concerns under the Patriot Act, Anti-Money Laundering (AML) guidelines, and Bank Secrecy Act (BSA) regulations. Although the survey did not specifically ask about these policies, banks commented that they had concerns about AML, BSA, and other federal regulations. Banks also are reluctant to cash checks for non-customers for reasons related to regulatory compliance, identification, and loss prevention (fraud) concerns.

- In an open-ended question, 75 percent of responding banks reported concerns about offering check cashing transactions to non-customers because of the amount of money they would stand to lose if fraud were to occur. For example, the lack of valid identification makes it difficult to serve non-customers.
- Forty percent of banks perceive regulatory impediments that limit their ability to provide products and services to unbanked and/or underbanked individuals.

Banks do not know if an individual is unbanked or not, so they tend to view individuals as either customers or non-customers.

- Nearly all banks cash business checks (96 percent) and personal checks (96 percent) drawn on their bank for non-customers.
- Slightly more than half (58 percent) of banks will cash government checks for non-customers. Of the banks that cash government checks, 58 percent charge a fee.
- Most banks will not cash checks drawn on another bank for non-customers. Thirty-two percent of banks cash payroll checks not drawn on their bank for non-customers, and 23 percent cash business checks not drawn on their bank. Of the banks that cash payroll or business checks that are drawn on another bank for non-customers, more than 90 percent charge a fee.

**ES Figure 2. If an individual does not have an account relationship with the bank, will the bank typically cash the following types of checks, and is a fee charged?**



### ii. Identification for Check Cashing

For check cashing, banks rely primarily on government-issued forms of identification, such as drivers’ licenses and passports. Non-government identification is accepted less often, and non-customers are commonly required to present a secondary form of identification.

- The most commonly accepted form of primary identification for check cashing is a driver’s license, with 99 percent of banks accepting licenses, followed by passports, state identification, and military identification. An Individual Tax Identification Number (ITIN) is the least commonly accepted form of identification; 83 percent of banks will not accept an ITIN as identification to cash a check.
- Housing leases and Matrícula Consular cards are accepted by less than 43 percent of banks as a secondary form of identification.

**ES Figure 3. What forms of consumer identification or validation does the bank rely on for individuals who do not have an account relationship to cash a check?**

Identification Forms	Primary: Sufficient alone by itself	Secondary: Insufficient alone but acceptable with another secondary ID	Not Accepted as ID for check cashing
Driver’s license	91.1%	8.3%	0.6%
State-issued photo ID	85.3%	13.1%	1.5%
Social Security number	82.3%	14.2%	3.4%
Passport (US. or foreign)	76.3%	20.2%	3.5%
Employer letters/pay stub	23.0%	50.6%	26.4%
Military ID	31.5%	40.5%	27.9%
Student/school ID card	23.3%	19.4%	57.4%
Matrícula Consular	3.0%	42.4%	54.5%
Housing lease	1.7%	30.2%	68.0%
Other:	0.5%	28.4%	71.0%
Utility bills/payments	2.1%	23.3%	74.6%
Individual Taxpayer Identification Number (ITIN)	0.9%	16.0%	83.2%

**iii. Products**

Besides check cashing services, banks offer a limited number of products to non-customers, often charging them higher fees than customers. Products that are least often offered to non-customers are those that allow funds to be transferred internationally, specifically foreign currency exchange, international remittances, and automated clearinghouse (ACH) transfers. Not offering these kinds of products could make it more difficult for unbanked and/or underbanked individuals, many of whom are immigrants, to send money to family and friends in different countries.

- Only 37 percent of banks offer bank checks and money orders for non-customers.
- Banks generally do not offer international remittances to non-customers. Only 6 percent of banks report that they offer international remittance services to non-customers.
- Thirty-two percent of banks are concerned about offering remittances to non-customers due to regulatory considerations.



Teller training seems to be a simple and effective strategy for reaching out to unbanked and/or underbanked consumers. Sixty-nine percent of banks provide teller and customer service training that includes strategies for reaching out to unbanked and/or underbanked consumers.

### **C. Account Opening & Onboarding Process (Chapter 7)**

Survey information indicates that unbanked populations face significant barriers when they try to open mainstream bank accounts. As with check cashing, banks generally require government-issued identification, and they also screen potential customers using ChexSystems or other risk management screening tools. Few banks offer products or are willing to open accounts for individuals who have a past of mismanaging accounts.

- Ninety-six percent of banks use Office of Foreign Asset Control (OFAC) lists for new account screening and risk management.
- Eighty-seven percent of banks require a third-party screen before they will open checking accounts, and 81 percent of banks require third-party screens to open savings accounts.
  - The ChexSystems/Qualifile service is used by 77 percent of banks.
    - At nearly half (49 percent) of banks, branch managers are required to decide whether to override an account application when an applicant screening returns a negative hit.
    - Twenty-five percent of banks will reject the account application automatically if there is negative information in the ChexSystems records.
    - Based on the survey results, the top reasons that banks decline new account applications are negative screening information for a prior account (62 percent), insufficient identification information (39 percent) and a low credit score/rating (37 percent).
  - A considerable obstacle for unbanked individuals who want to open an account appears to be negative information in ChexSystems or another screening database. (Most individuals appear in the ChexSystems database because of prior account mismanagement rather than attempted check fraud).
- Credit bureau reports are used by 33 percent of banks for new customer deposit account opening.
- Only one-quarter (25 percent) of all banks have at least one entry-level deposit account designed for individuals ineligible for conventional accounts.

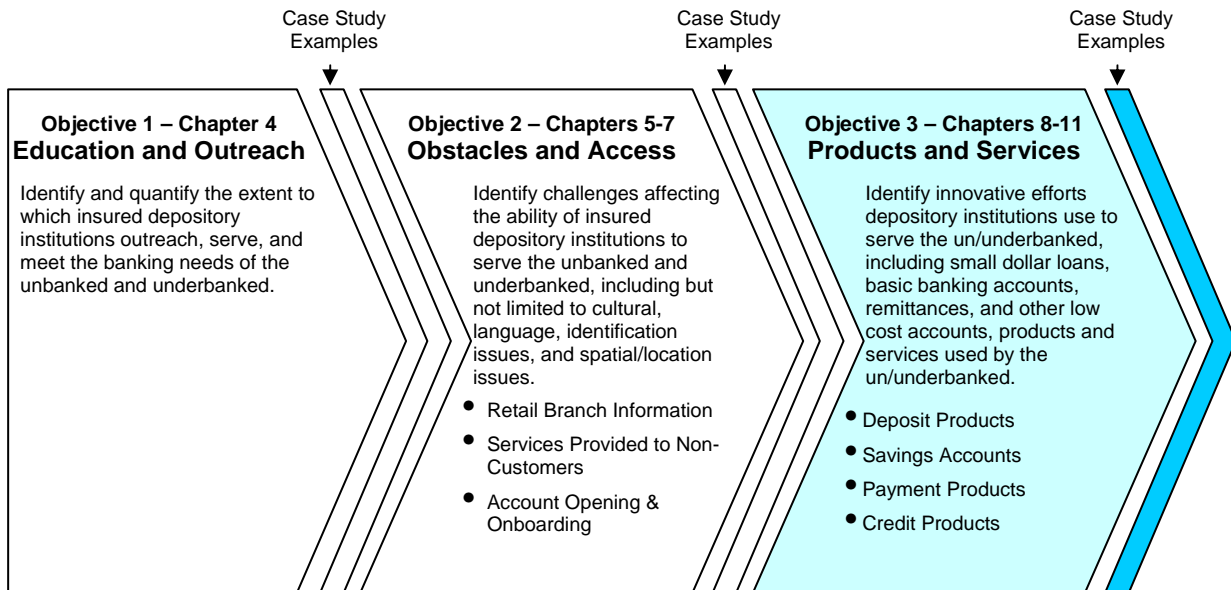
The greatest challenges banks face in serving unbanked and/or underbanked individuals are profitability issues and perceived regulatory barriers, closely followed by fraud.

## D. Case Study Highlights: Obstacles and Access

Unbanked and/or underbanked individuals often face obstacles that deter them from developing banking relationships with financial institutions. The case studies below highlight a number of successful ways that banks address the challenges of serving unbanked and/or underbanked individuals, including recognizing changes in customer demographics and addressing these changes in their business practices, offering banking services in a more casual setting or a more convenient location, providing easier access to bank products, and enlisting bank employees to play a role in welcoming unbanked individuals.

Institution	Target Population	Initiative
Bangor Savings Bank (Bangor, ME)	Low- to moderate-income individuals in primarily rural areas	Mitigates geographic barriers and improves accessibility of banking services by offering extended service hours, account access via Web and telephone, and full refunds on surcharges incurred when using any bank's ATM
Citizens Union Bank of Shelbyville (Shelbyville, KY)	Hispanic community in Kentucky MSAs	Opened Hispanic-focused branch, <i>Nuestro Banco</i> , which accommodates customers by employing bilingual staff, operating during non-traditional hours, and adopting a more casual and culturally-sensitive environment
Ridgewood Savings Bank (Ridgewood, NY)	Diverse immigrant and retiree populations in Queens and Bronx boroughs of New York City	Hires bilingual staff, publishes bilingual marketing materials, and advertises in local ethnic newspapers according to demographics of each branch's market area; provides full range of banking services in mobile branch that regularly visits elderly communities and other locations with limited access to branches
Second Federal Savings (Chicago, IL)	Mexican immigrant and Mexican-American population in Chicago's South Side	Helps undocumented individuals obtain identification required to open accounts by sponsoring visits by the Mexican Consulate to issue Matrícula Consular cards at the bank and by becoming an Individual Taxpayer Identification Number (ITIN) acceptance agent
<p><b>Common Lessons Learned</b></p> <ul style="list-style-type: none"> <li>■ Banks must recognize changes in customer demographics. They must also assess obstacles in their market area and address them accordingly.</li> <li>■ Offering banking services in a less formal setting or more convenient location can help the unbanked and underbanked feel more comfortable with financial institutions.</li> <li>■ Providing greater and more varied means of access (e.g. extended hours, web/phone access) also encourages unbanked and underbanked individuals to become customers.</li> <li>■ Bank employees play an important role in welcoming unbanked customers and making them feel at ease by assuaging misperceptions about banks, showing sensitivity to their needs, and communicating in their native languages.</li> </ul>		

### III. Banks' Efforts to Provide Products and Services



**Objective 3:** Identify innovative efforts depository institutions use to serve unbanked and/or underbanked customers, including small dollar loans, basic banking accounts, remittances, and other low cost accounts, products, and services used by these groups (Products and Services; Chapters 8-11)

Successful efforts to bring unbanked and/or underbanked individuals into the mainstream banking system include accounts and products that are carefully developed to address the needs of these individuals. Chapters 8 through 11 of the survey examine bank policies and products offered for deposit, savings, payment, and credit products and services, and particularly innovative products and services that unbanked and/or underbanked customers can understand and manage to avoid fees and account closures.

Survey results show that while most banks offer basic deposit, savings, and transaction accounts to qualified customers, significant opportunities exist for banks to expand their products and services to unbanked and/or underbanked individuals. For example, few banks offer entry-level transaction accounts designed to help build credit, “second chance” accounts designed to retain and attract customers who may have blemished credit, workplace-based programs, individual development accounts (IDAs), Internal Revenue Service (IRS) Voluntary Income Tax Assistance (VITA) programs, rapid access to deposited funds, and affordable small dollar loans.

## A. Deposit Products (Chapter 8)

Deposit accounts are the foundation on which banks offer other products and services to unbanked and/or underbanked individuals. With a simple checking account, previously unbanked consumers are able to make payments more easily and cash checks more affordably. Deposit accounts help individuals become familiar with additional banking products and services. Low fees and low to no minimum balance requirements, along with appropriate education, can help attract and sustain unbanked and/or underbanked individuals as customers.

- Nearly two-thirds (62 percent) of banks do not require a minimum balance for their most basic checking account. An additional 8 percent of banks will waive the minimum balance if customers use direct deposit.
  - The median (and mode) minimum balance for accounts with direct deposit is \$100.00, which is the same for accounts that do not have direct deposit, for all banks.
- Ninety percent of banks offer free check writing for their most basic transaction account.
  - Online bill payment is the most common bank product with a fee (22 percent); however, the majority of banks (65 percent) include online bill payment at no cost on their most basic checking account.
    - When a fee is charged, it typically is under \$5.00 per month and about \$0.35 per transaction (median).
    - Fourteen percent of banks do not offer online bill payment.

Virtually all banks (99 percent) charge NSF fees on their most basic transaction account. Only five banks responded that they do not charge an NSF fee.

- NSF fees range from \$8.00 to \$38.00, with a median of \$25.00. The lowest fees are found at banks in Tier 3.
- 59 percent of banks that charge insufficient funds (NSF) fees will waive the fee under certain circumstances.

## B. Savings Accounts (Chapter 9)

Most banks offer basic savings accounts but do not offer savings account products, such as IDAs and IRS VITA occasion-based accounts, that specifically target unbanked and/or underbanked individuals. Banks attempt to promote savings products at schools to reach potential customers at a young age but often face difficulty in targeting unbanked and/or underbanked consumers.

- The majority of banks offer basic savings accounts (97 percent) and money market deposit accounts (MMA) (70 percent). A much smaller percentage (8 percent) offer IDAs.
- The average interest rate for a savings account is 0.80 percent; for an MMA, the average interest rate is 1.07 percent.

Less than one-quarter (22 percent) of banks partner with other organizations to promote the use of saving account products. However, these banks indicate that partnering provides a number of benefits. Some banks partner with schools to build relationships with potential customers at a young age, while others try to bring in more business by partnering with local businesses and making presentations to employees. By partnering with a trusted source, such as an employer, banks work to improve their accessibility among unbanked and/or underbanked employees.

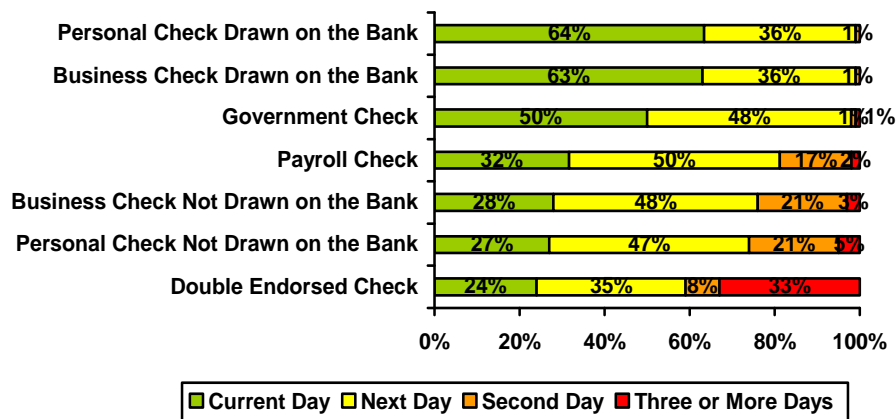
- Of the 194 banks that reported partnering with organizations to promote savings products, 176 described the organizations with which they partner. Of these, two-thirds partner with educational institutions, ranging from elementary schools to colleges. They report using a number of programs, including the American Bankers Association’s Teach Children to Save Day, Junior Achievement, Saving Makes Cents, FDIC Money Smart, and Bank at School programs.
- The second most common type of partner reported in the sample was local employers.

### C. Payment Products (Chapter 10)

An important issue for unbanked and/or underbanked individuals is the speed at which they can access their deposited funds. Although funds availability policies are more favorable for established customers, banks generally do not make funds available immediately for checks that are not drawn on their own institution. This reduces the attractiveness of bank deposit products to unbanked and/or underbanked individuals since they can obtain immediate access to their funds at alternative financial institutions, such as check cashers and payday lenders.

- Banks tend to provide funds the most quickly for “on-us” checks, or checks drawn on the bank itself. Sixty-three percent of banks have same-day availability for on-us business checks deposited by established customers, and another 36 percent have next-day availability.
- Checks drawn on other local (in-state) banks tend to have next-business-day availability for established customers. For example, only 32 percent have same-business-day availability for in-state payroll checks, while 50 percent of banks have next-day availability and about 17 percent have second-day availability.

**ES Figure 4. How soon are funds ordinarily available for an established customer who presents the following items?**



## D. Credit Products (Chapter 11)

Banks offer several types of credit products that are targeted to unbanked and/or underbanked individuals, such as tax refund anticipation loans, secured credit cards, and advances on funds that are due to arrive, though these offerings are limited.

- Nearly all (97 percent) banks can originate an unsecured personal loan in less than 48 hours.
  - Eighty percent of banks are able to originate an unsecured loan in less than 24 hours, and more than 24 percent can do so in less than 30 minutes.
- Sixty-nine percent of banks offer closed-end unsecured personal loans for amounts up to \$5,000.
- Thirty-six percent of banks offer consumer credit cards issued by the bank or a third party.
  - Among banks that offer credit cards, only 25 percent offer secured credit cards to customers who do not qualify for a traditional credit card.
  - Of the banks that offer a secured credit card, more than 96 percent allow cardholders to “graduate” to a traditional credit card.
- Less than 6 percent of banks provide an advance on funds that are due to arrive by direct deposit or check.
- Relatively few banks offer tax refund anticipation loans.

## E. Case Studies Highlights: Products

Banks offer targeted products to unbanked and underbanked customers as a way to transition them into the economic mainstream, particularly when individuals do not qualify for standard accounts. The case studies below highlight some of the ways that banks successfully attract and serve unbanked and/or underbanked customers with targeted, innovative entry-level accounts and “stepping stone” services. These products help to establish banking relationships and are often accompanied by a focus on education and encouragement of sound financial management practices.

Institution	Target Population	Products
Artisans’ Bank (Wilmington, DE)	Low- to moderate-income individuals in their area with poor credit history or past experience with financial mismanagement	<ul style="list-style-type: none"> <li>▪ Credit Builder Program provides a 12-month loan while customers place proceeds in deposit account held as collateral and replay loan from cash flow.</li> <li>▪ Delawareans Save IDA helps customers set and achieve monthly savings goals over three-year period and provide up to a 3:1 match if savings targets are met.</li> </ul>
Bancorp South (Tupelo, MS)	African-American and Hispanic-American communities of urban and rural markets in the South	<ul style="list-style-type: none"> <li>▪ Second Chance Checking restricts access (check writing and debit cards) for customers ineligible for standard checking product.</li> <li>▪ Smart Saver IDA combines a mortgage and a savings product with eight hours of financial education to provide resources toward purchase of home.</li> </ul>
Carver State Bank (Savannah, GA)	Multi-cultural community in Savannah, including African Americans, Hispanics, Iranians, and Chinese	<ul style="list-style-type: none"> <li>▪ Small Business IDA provides 4:1 match to local entrepreneurs and requires applicants to take classes and develop business plan to qualify.</li> <li>▪ Credit Rebuilder Loan pairs loan of \$1,000 to \$10,000 with CD; approval based on debt to income ratio rather than credit history.</li> </ul>
Central Bank of Kansas City (Kansas City, MO)	Diverse immigrant and minority population, including African Americans, Vietnamese, Sudanese, and Mexicans	<ul style="list-style-type: none"> <li>▪ Payroll Cards allow low- to moderate-income employees to receive income without needing to cash checks or access to direct deposit while preventing them from overdrawing on account and incurring NSF or merchant fees.</li> </ul>
KeyBank (Cleveland, OH)	Low- to moderate-income populations, including African Americans, Hispanic Americans, working poor, and urban residents	<ul style="list-style-type: none"> <li>▪ Low-cost (1.5% up to \$22.50) check cashing services for non-depository clients bring unbanked into branches and create opportunities to transition them to deposit accounts; biometric technology verifies customer identity, lowering cost and increasing efficiency.</li> </ul>
<p><b>Common Lessons Learned</b></p> <ul style="list-style-type: none"> <li>▪ Entry-level products provide valuable opportunities for unbanked individuals to re-establish credit-worthiness and re-enter the economic mainstream while increasing control and reducing risk to banks.</li> <li>▪ Rather than closing accounts due to mismanagement, second chance accounts help banks retain existing customers.</li> <li>▪ Certain banking products can be advantageous to unbanked individuals and can provide more benefits than those offered by alternative service providers.</li> <li>▪ Banks can better serve unbanked and underbanked consumers by developing debit card-based accounts and prepaid cards to meet their needs.</li> </ul>		

## Terms & Definitions

Term	Definition
Bank	An FDIC-insured financial institution (bank or thrift)
Bank Footprint	Census tracts in the bank's current CRA evaluation area
BSA/AML	The Bank Secrecy Act of 1970 requires U.S. financial institutions to assist U.S. government agencies to detect and prevent money laundering. Specifically, the Act requires financial institutions to keep records of cash purchases of negotiable instruments of \$3,000 or more and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities. The BSA is sometimes referred to as "anti-money laundering" law (AML) or jointly as "BSA/AML." Several anti-money laundering acts, including provisions in Title III of the USA Patriot Act, have been enacted to amend the BSA..
Conventional Checking Account	Checking, NOW, DDA, MMDA
Debit Card	Card linked to a transaction account
Earned Income Tax Credit (EITC)	A refundable federal income tax credit for low-income working individuals and families. To qualify, taxpayers must meet certain requirements and file a tax return.
Established Customer	An individual who has had a deposit account for more than 30 days
Full-Service (Brick and Mortar) Offices	SOD office service type code 11 (not reported in the Branch Office Survey (OTS-supervised institutions); see <a href="http://fdic.gov/sod/pdf/SOD_2007_Instructions.pdf">fdic.gov/sod/pdf/SOD_2007_Instructions.pdf</a> )
Full-Service Retail (In store) Offices	SOD office service type code 12 (not reported in the Branch Office Survey (OTS-supervised institutions); see <a href="http://fdic.gov/sod/pdf/SOD_2007_Instructions.pdf">fdic.gov/sod/pdf/SOD_2007_Instructions.pdf</a> )
Individual Development Account (IDA)	Matched savings accounts that enable low-income individuals to save, build assets, and enter the financial mainstream. IDAs reward monthly savings of individuals who are building toward purchasing an asset (most commonly their first home), paying for post-secondary education, or starting a small business.



Individual Taxpayer Identification Number (ITIN)	A tax processing number issued by the Internal Revenue Service to individuals who are required to have a U.S. taxpayer identification number but who do not have and are not eligible to obtain a Social Security Number (SSN) from the Social Security Administration (SSA). ITINs are issued regardless of immigration status because both resident and nonresident aliens may have U.S. tax return and payment responsibilities under the Internal Revenue Code.
Limited Service Offices	SOD office service type codes 22, 23, and 29 (not reported in the Branch Office Survey (OTS-supervised institutions); see <a href="http://fdic.gov/sod/pdf/SOD_2007_Instructions.pdf">fdic.gov/sod/pdf/SOD_2007_Instructions.pdf</a> )
Low and Moderate Income (LMI)	Low income: Income equal to or less than 50 percent of the median income of the local metropolitan area (MSA) or appropriately defined rural area Moderate income: Income from 50 percent to 80 percent of the median income of the local metropolitan area (MSA) or appropriately defined rural area
Matrícula Consular	A photo identification card issued to Mexican citizens by the Mexican Government to prove that the bearer is of Mexican nationality and is living outside of Mexico. Local offices of the Consulate General of Mexico facilitate this service in the United States.
Non-Customer	An individual who does not have a deposit account or credit relationship with your bank
Number of Deposit Branches	As of June 30, 2007, as reported in the Summary of Deposits (SOD) submitted to the FDIC or in the Branch Office Survey (reported to the OTS by OTS-supervised institutions)
OFAC List	The Office of Foreign Asset Control (OFAC), part of the U.S. Department of the Treasury, administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations, and individuals. OFAC manages and maintains lists of individuals and organizations that U.S. individuals and business are prohibited from doing business with and from whom they should not accept funds.
Other offices reported on the Summary of Deposits	SOD office service type codes 13, 21, and 30 (not reported in the Branch Office Survey (OTS-supervised institutions); see <a href="http://fdic.gov/sod/pdf/SOD_2007_Instructions.pdf">fdic.gov/sod/pdf/SOD_2007_Instructions.pdf</a> )
Patriot Act	The Patriot Act was signed into law on October 25, 2001. Title III of the Act requires banks to establish a Customer Identification Program.

Prepaid Debit Card	Not linked to a transaction account. Money can be loaded onto the card and payments made through networks like Visa, MasterCard. Excludes closed-loop retailer gift cards
Savings Account	Statement savings, Passbook, Certificates of Deposit, etc.
SOD	Summary of Deposits reports
Unbanked	Individuals or families who do not have an account with a depository institution (a commercial bank, savings institution or credit union) or a transaction account with a money market mutual fund or brokerage firm
Underbanked	Individuals or families who have a deposit account but also rely on alternative non-bank financial service providers (such as check cashing firms or payday lenders) for transaction or credit services
Volunteer Income Tax Assistance Program (VITA)	Offers free tax help to low- to moderate-income individuals who cannot prepare their own tax returns. Certified volunteers sponsored by various organizations receive training to help prepare basic tax returns in communities across the country.