

Asset Building for Unbanked and Underbanked Consumers

December 8, 2010

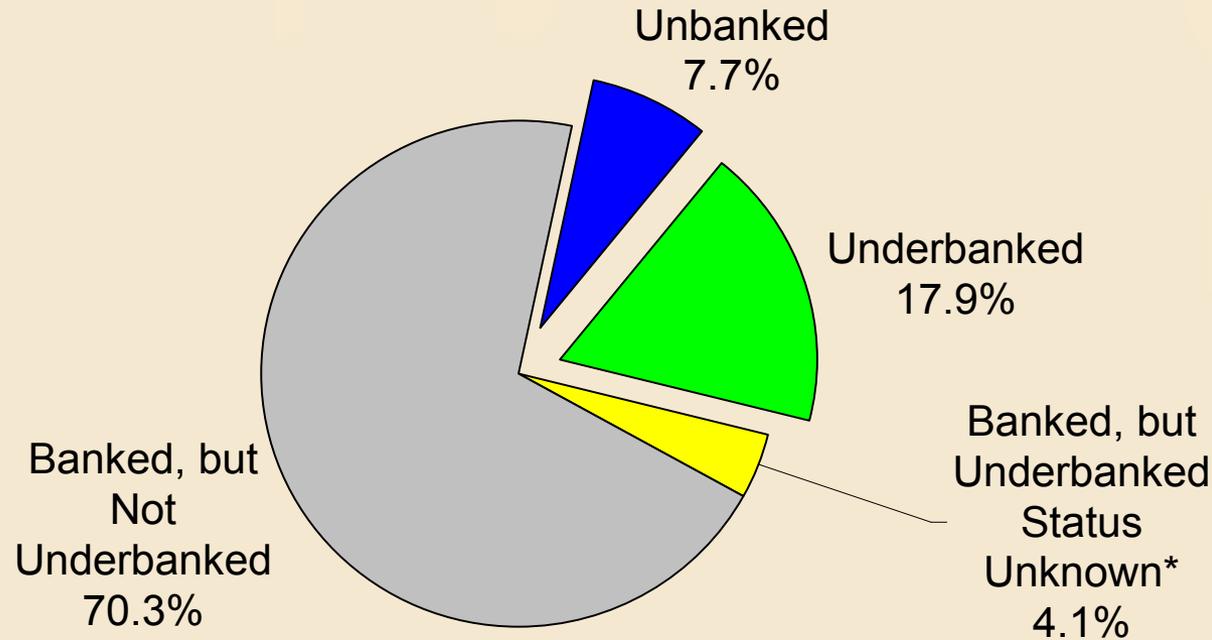
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Definitions

- ❑ Unbanked: have no banking accounts
- ❑ Underbanked: have a banking account but use other providers for check cashing, money orders, remittances or credit
- ❑ Low-income Households: earn under 50% of an area's median income
- ❑ Moderate-income Households: earn between 50% - 80% of the area's median income



National Statistics



Notes: Percentages are based on 118.6 million U.S. households. Percentages do not always sum to 100 because of the rounding of household weights to represent the population totals.

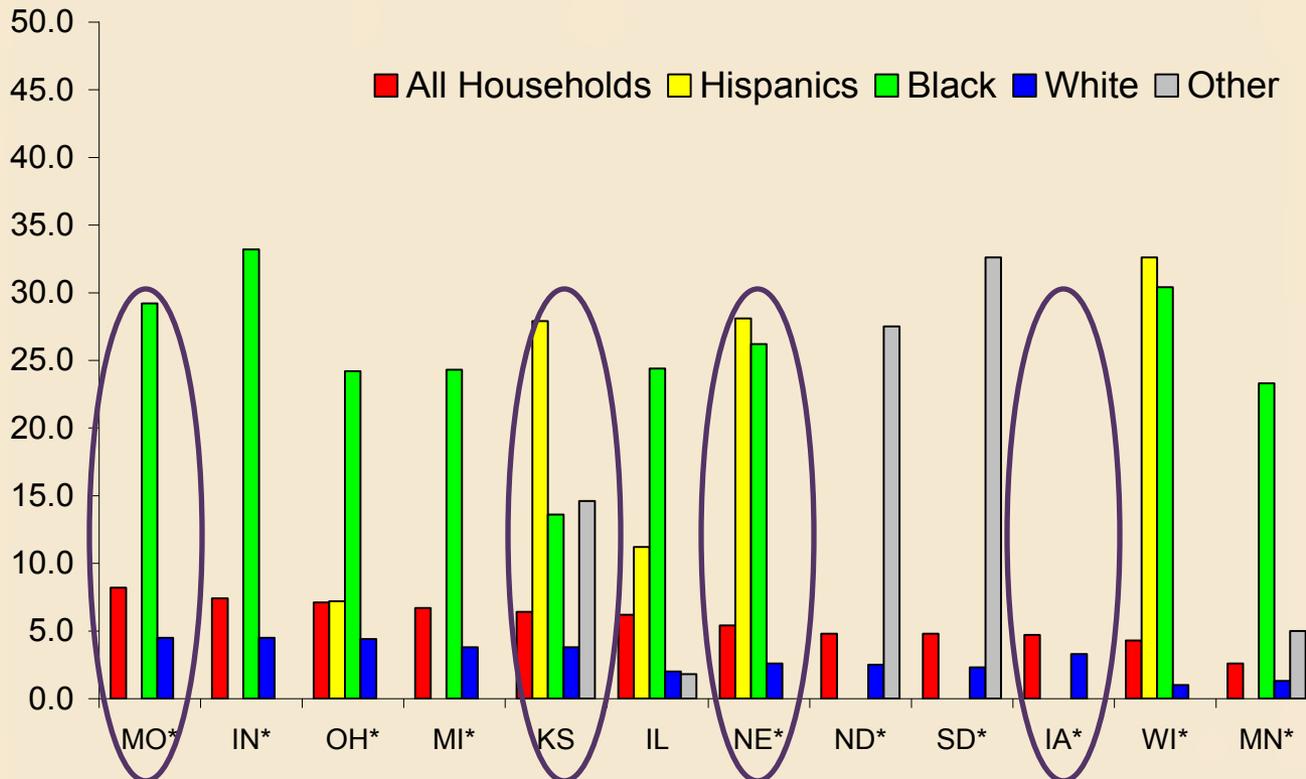
* These households are banked, but there is not enough information to determine if they are underbanked.

Source: Federal Deposit Insurance Corporation. *2009 National Household Survey*. www.economicinclusion.gov



National Statistics - Unbanked

Percentage of Households



* The estimate for one or more race categories is not shown due to small sample size (fewer than 30 observations).

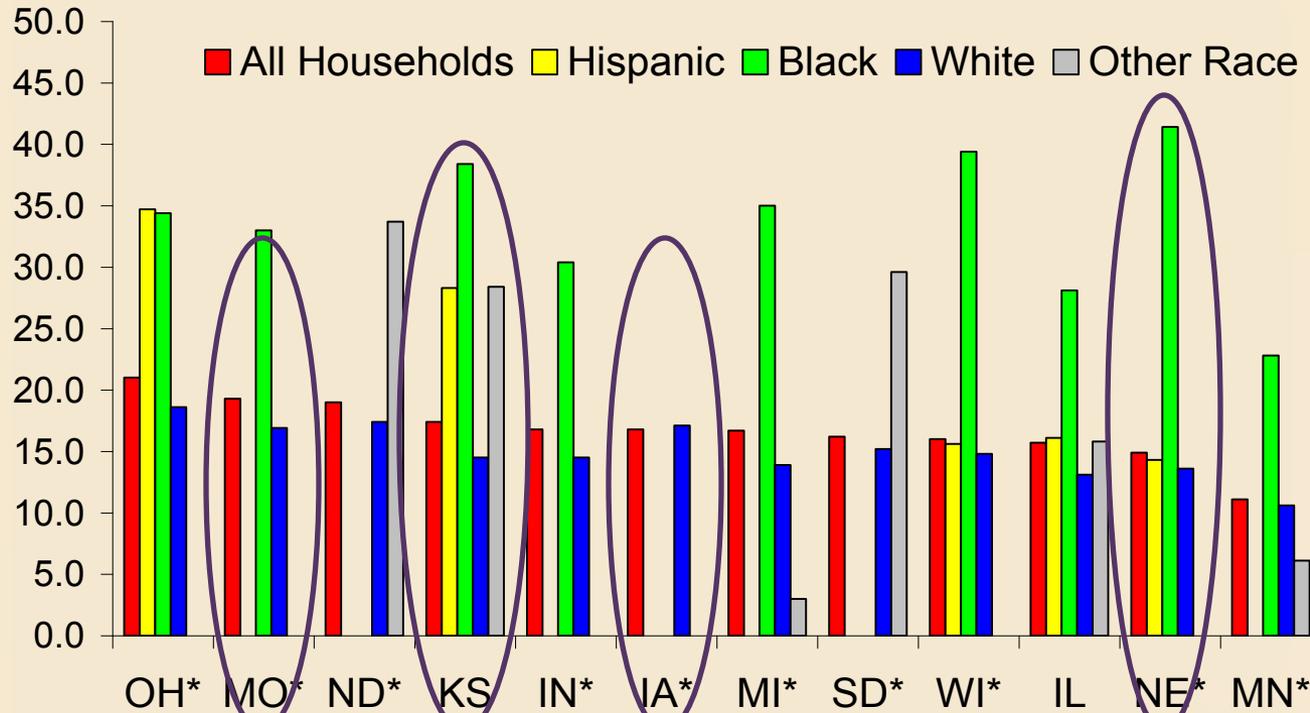
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National Statistics - Underbanked

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Key Findings: Context

- ❑ Unbanked and underbanked individuals face situational pressures and financial challenges that constrain their ability to use banks

- ❑ Common circumstances shaping their choices include:
 - Limited and unstable income – living ‘paycheck to paycheck’
 - Previous negative experiences with banks
 - Unexpected fees, overdrafts, and inconsistency in funds availability
 - Limited financial knowledge
 - Retailers are often easier to use than banks
 - Strong need for physical control of their money

Source: Federal Reserve Bank of Kansas City. *A Study of the Unbanked and Underbanked Consumer in the Tenth Federal Reserve District*. 2010. <http://unbanked.kcfed.org>



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Key Findings: Strategies

- ❑ Unbanked and underbanked individuals use a mixture of strategies and service providers to satisfy their financial services needs based on:
 - Physical control
 - Cost
 - Certainty of transaction timing and finality

- ❑ Cash and money orders were valued for ease of transactions and known costs
 - Checks were difficult to use
 - Not everyone accepts them (such as landlords)
 - Risk of overdraft fees

- ❑ Overall, participants were satisfied with their systems for tracking and transacting with cash outside of banks
 - Much less satisfaction with credit options
 - Limitations recognized



Key Findings: Influences

- ❑ These often complex financial management strategies are based on personal experience and the influence of others
 - Family, friends and co-workers were mentioned as key influencers.
 - Outreach by community and faith-based organizations were not reported as a strong influence.
 - Schools were seen as important institutions that should do more to teach financial skills to children.

- ❑ Misunderstanding about bank fees, checking account mechanics and accurate balance sources was common

- ❑ Most participants wanted to learn more about how to manage their money especially concerning savings, credit repair, and credit access
 - However, while there was awareness of financial education programs, no participant had recently participated in one

Source: Federal Reserve Bank of Kansas City. *A Study of the Unbanked and Underbanked Consumer in the Tenth Federal Reserve District*. 2010. <http://unbanked.kcfed.org>



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Who Isn't Saving?

- ❑ 68% of low income households do not have a saving or money market account
- ❑ 52% of moderate income households do not have a saving or money market account
- ❑ 42% of middle income households do not have a saving or money market account



Costs of Fringe Services

- ❑ Check cashing services – \$800/yr just to cash checks
- ❑ Payday lenders – will charge up to \$15 for a \$100 loan that has to be paid back in 2 weeks – a 390% annual interest rate
- ❑ Pawn shops – high-interest-rate loans borrowed against collateral at owners' discretion – not regulated
- ❑ Auto title lenders – high-interest-rate loans - up to 300% - no credit check
- ❑ Rent-to-own stores – very high monthly payments to rent products such as TVs, computers, appliances, etc.

Fringe Financial Services = \$5 Billion Industry



Costs of Being Unbanked

Unbanked = \$1,300 in annual fees

- \$800 for cashing checks, paying bills
- \$200 for money orders
- \$300 for wire transfers

Banked = \$200 in annual fees

- \$60 for savings account
- \$60 for checking account
- \$100 for service fees

Over a 50 – year time period the unbanked will pay \$65,000 in fees compared to \$10,000 in fees for the banked.



Bank On Initiatives

GOAL: To connect low and moderate income families who are currently not saving, unbanked or underbanked, to safe, affordable, “mainstream” financial products and services. This includes transaction (checking) accounts, savings accounts, and financial education.



Current Bank On Initiatives

- ❑ Bank On Save Up KC! (Six county KC MSA) – In development, launch Spring 2011. Contact: Erika Ramirez at erika.ramirez@kc.frb.org
- ❑ Bank on the Heartland (Omaha, NE) – In development, initial launch January 2011 at VITA sites, wide launch May 2011. Contact: Julie Kalkowski at juliek@uwmidlands.org
- ❑ Bank On Dubuque, IA – In development, launch June 2011. Contact: Paula Connors at paulaconnors@yahoo.com
- ❑ Exploratory 2011 initiatives in Wichita and Topeka, KS. Contact: Erika Ramirez at erika.ramirez@kc.frb.org



Erika Ramirez
Community Affairs Advisor
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, MO 64198
816-881-2480
erika.ramirez@kc.frb.org
www.kansascityfed.org



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