

# SPOTLIGHT

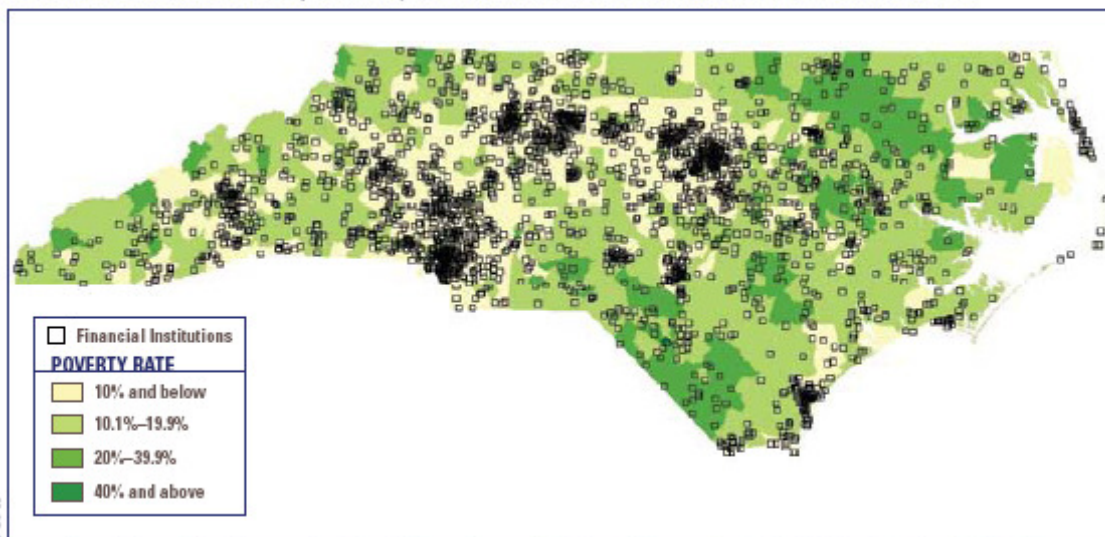
## Unbanked

Unbanked households face barriers to managing their finances and connecting fully to the mainstream economy. In addition, unbanked households miss the opportunity to build savings and accumulate assets. Ensuring that unbanked households have access to affordable and fair financial products is essential for making asset-building opportunities available to all North Carolinians.

### The Numbers

*North Carolina ranks 37<sup>th</sup> in the number of households without a checking, savings or money market account<sup>1</sup>.* Despite the state's reputation as one of the top financial services centers in the country, there is a high rate of financial exclusion experienced by residents. Indeed, the Pew Safe Banking Opportunities Project estimated in 2007 that 472,000 N.C. households were unbanked.

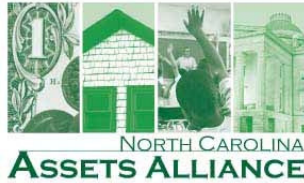
*Some communities in the state face geographic barriers to accessing banks or credit unions.*



Source: Concentrations of Poverty by census tract from U.S. Census Bureau, 2000, Decennial Census. Financial institution locations from FDIC, 2008, Summary of Deposits Database.

*Nationally, research by the Center for Financial Services Innovation has found that the unbanked are more likely to be people of color, have a high school degree or less, rent their home and be single.* CFSI estimates that 40 million households are unbanked in the United States. Their research also identifies distinct segments in that market

<sup>1</sup> CFED Assets & Opportunity Scorecard 2009-2010 ranks states with 1 being the lowest unbanked rate and 50 being the highest unbanked rate.



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including the never banked, formerly banked, young families and Nuevo Latinos, each with their own characteristics and unique financial behaviors and product preferences.<sup>2</sup>

*Many of North Carolina's unbanked were previously banked (41 percent).* Nearly half decided not to use a mainstream financial institution because it was too costly (49 percent).<sup>3</sup>

### The Implications

Unbanked North Carolinians must turn to alternative financial service providers to conduct their banking. In North Carolina, there are approximately 1,400 check cashers which is the fourth highest number per-capita in the United States. These alternative service providers are expensive, costing the average working North Carolinian more than an estimated \$1,148 per year in fees each year. This money could instead be devoted to savings, generate interest and provide household with an emergency cushion or nest egg for future asset purchases. Unbanked households also face challenges building up a credit history and thus accessing rental housing, applying for certain jobs and accessing affordable credit. For others, the lack of access to a savings account puts households at greater risk of getting mired in consumer debt before establishing good credit and savings.<sup>4</sup>

But, as is clear from the number of households that were formerly banked, banked households face challenges to their financial stability, too. Analysis of survey data collected in California finds that 58 percent of households pay one of four basic banking fees each year and 21 percent with bank accounts overdraw their accounts at least once a year.<sup>5</sup> Nationally, the average nonsufficient funds and overdraft fees rose by 11 percent between 2000 and 2006.<sup>6</sup> The Center for Responsible Lending found that those most likely to overdraw their account were more likely to be low-income, single, non-white and renters.<sup>7</sup>

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<sup>2</sup> Seidman, Ellen, Moez Hababou and Jennifer Kramer. September 2005. Getting to Know Underbanked Consumers: A Financial Services Analysis. Center for Financial Services Innovation: Chicago, IL and Hermann, Michael. February 2009. Underbanked Consumer Survey Study Fact Sheet. Center for Financial Services Innovation: Chicago, IL

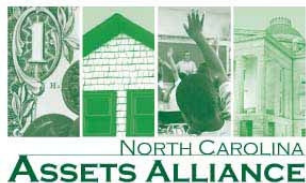
<sup>3</sup> Center for Community Capital at UNC-Chapel Hill, 2000. N.C. Financial Services Survey.

<sup>4</sup> Survey of Consumer Finance Analysis by Center for Community Capital at UNC-Chapel Hill.

<sup>5</sup> Fellowes, Matt and Mia Mabanta. Converting Basic Financial Services into Prosperity: An Untapped Opportunity for Consumers and Banks. Pew Charitable Trust: Safe Banking Project.

<sup>6</sup> GAO, 2008. Bank Fees: Federal Banking Regulators Could Better Ensure that Consumers have Required Disclosures Documents prior to opening a Checking or Savings Account.

<sup>7</sup> Lisa James & Peter Smith, *Overdraft Loans: Survey finds growing problem for consumers*, Center for Responsible Lending (April 24, 2006), available at [http://www.responsiblelending.org/overdraft-loans/research-analysis/ip013-Overdraft\\_Survey-0406.pdf](http://www.responsiblelending.org/overdraft-loans/research-analysis/ip013-Overdraft_Survey-0406.pdf).



### **Key Policy Connections**

At the state level, a BankOn or similar program could be effective at connecting the financial services industry to the unbanked market. Given product terms that would ensure the long-term bankability of consumers, such a program could bring more households into the financial mainstream and generate lifetime customers for banks and credit unions.

The establishment of a Consumer Finance Protection Agency at the federal level would provide not only oversight for potentially abusive practices in the financial services industry it could encourage the development of new products and services for consumers that are safe and affordable.

The **Overdraft Protection Act of 2009, H.R. 3409**, introduced by Congresswoman Carolyn Maloney in October 2009, would require financial institutions to obtain explicit permission from all their customers before enrolling them in a system of fee-based overdraft coverage for any checking account transactions; require that an overdraft fee charged on any transaction be reasonable and that its size bear some relationship to the cost of covering the overdraft; prohibit reordering of customer transactions to trigger otherwise avoidable overdraft fees; and limit the number of overdraft fees per person to six a year and no more than one a month. At that point, financial institutions would have to enroll the consumer in a lower-cost program or stop charging for covering overdrafts.

For private financial institutions, the identification of market segments within the often monolithic category of the unbanked represents an opportunity to target products that meet distinct consumer needs.