

Home > Outreach for Refundable Credits > Asset Development and Outreach > Who Are...

Who Are the Unbanked & Underbanked?



The Federal Deposit Insurance Corporation (FDIC) 2019 Survey of Household Use of Banking and Financial Services found that 5.4 percent of households were unbanked in 2019. This figure is the lowest recorded since the survey started in 2009.

People who do not use mainstream financial services, such as checking or savings accounts, and primarily conduct transaction in cash when using alternative financial services like payday lending or check cashing, are considered unbanked.

REASONS FOR REMAINING UNBANKED

There are three primary barriers that prevent lower- and moderate-income workers from becoming banked:



<https://www.taxoutreach.org/outreach-strategies/asset-development-and-outreach/unbanked/>

1/8

PAYPAL-FINTIV000004691

1. Financial Barriers

- Believe they do not have enough money to maintain a bank account
- Distrust of banks (sometimes due to a negative previous experience with a bank) or desire to maintain privacy

2. Social Barriers

- Lack desire or need to establish an account
- Absent role models; don't know anyone who participates in the mainstream financial system

3. Institutional Barriers

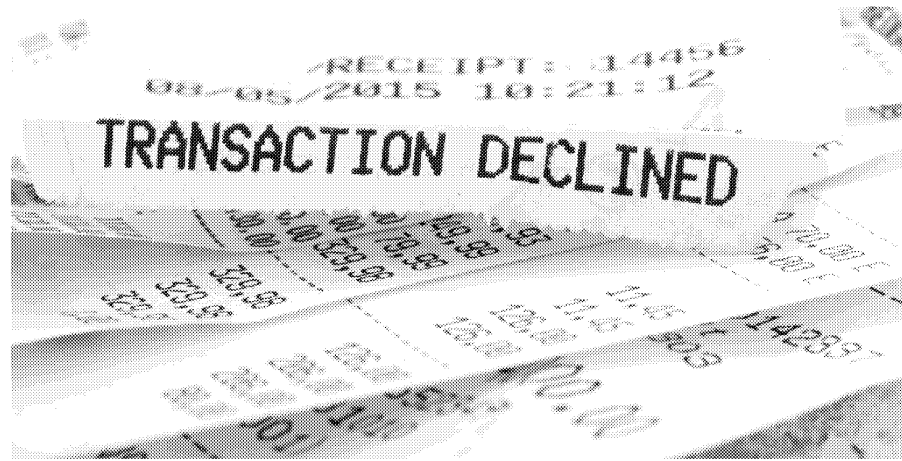
- Inconvenient bank locations and hours
- High bank account fees
- Needed products and services are not offered by banks
- Poor credit history or negative ChexSystems status (a check verification database that financial institutions use to assess the risk level of potential customers)



THE UNDERBANKED

Some workers that have bank accounts are considered underbanked. Characteristics of underbanked workers who can benefit from asset development strategies include workers who:

- Accrue overdraft and other unwanted fees by having accounts that they do not understand or do not match their needs
- Do not participate in direct deposit
- Lack 3-6 months savings for emergencies
- Do not have retirement savings, college savings, and/or other necessary long-term savings
- Do not own a car or home

**THE COST OF USING ALTERNATIVE FINANCIAL SERVICES**

Workers without bank accounts conduct the majority of their financial transactions in cash through alternative financial services (AFS). AFS are any financial services offered outside of traditional banking institutions. Many of these services are used by lower- and moderate-income workers because they offer advantages that traditional banking institutions do not. Examples include payday loans, money transfers, refund anticipation loans/refund anticipation checks, and non-bank check cashing. Money orders are the most frequently used AFS.

Payday loans are small, short-term loans offered to lower- and moderate-income individuals who can prove an employment history. Unlike loans from traditional financial institutions, these loans are quick and easy to get. They are often used to pay outstanding utility



Who Are the Unbanked & Underbanked? – Get It Back

bills and other ordinary living expenses such as rent and groceries. Payday loans are usually offered with a very high interest rate, which can lead to long-term debt for borrowers.

Fee-based check cashing services allow workers without bank accounts to cash checks for a 1 to 4 percent fee. Check cashing firms are often convenient for residents to access in lower-income neighborhoods. While the fees may seem low, workers with limited earnings cannot afford to giveaway any part of their income.

According to a U.S. Postal Service report, the average amount an unbanked or underbanked household spends on AFS fees and interest in a year is \$2,412. Using these financial services also accumulates the indirect cost of being unable to build a credit history, which can negatively affect the ability to get a car loan, rent an apartment, qualify for a down payment on a home, and can even influence potential employers. The FDIC 2019 Survey of Household Use of Banking and Financial Services finds that the use of AFS is declining with 17.2% of households using AFS in 2019.

BENEFITS OF BEING BANKED

Unbanked and underbanked workers may not be familiar with the advantages of not relying on AFS. There are three primary benefits to being banked:

1. Protection

- Safeguard against theft and fraud through financial institutions
- Reduce vulnerability to discriminatory or predatory lending services – the practice of making high-interest loans to borrowers so they are unlikely to be able to repay the loans
- Increase access to lower cost loan options

2. Accessibility

- Conduct basic financial transactions, like using checks to pay bills or debit cards for transactions and ATM withdrawals
- Establish a credit history to increase the ability to have applications approved for competitive interest rates for credit cards and loans, rental housing, and car and home purchase

3. Accumulation

- Plan for an emergency or long-term financial security in a safe, federally-insured savings vehicle that has the ability to gain interest



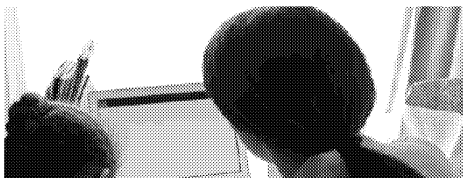
- Expand opportunities to grow assets and build economic security by saving hundreds of dollars spent on alternative financial services



ADDITIONAL RESOURCES

- Prosperity Now Assets Scorecard
- FDIC's Alternative Financial Services: A Primer
- Empowering Low Income and Economically Vulnerable Consumers

The latest



What is the Affordable Connectivity Program (ACP)?

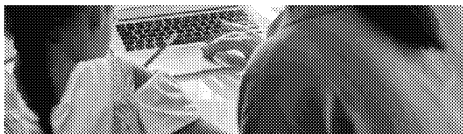
Internet access is essential for work, school, healthcare, and more. The Affordable Connectivity...



<https://www.taxoutreach.org/outreach-strategies/asset-development-and-outreach/unbanked/>

5/8

PAYPAL-FINTIV000004695

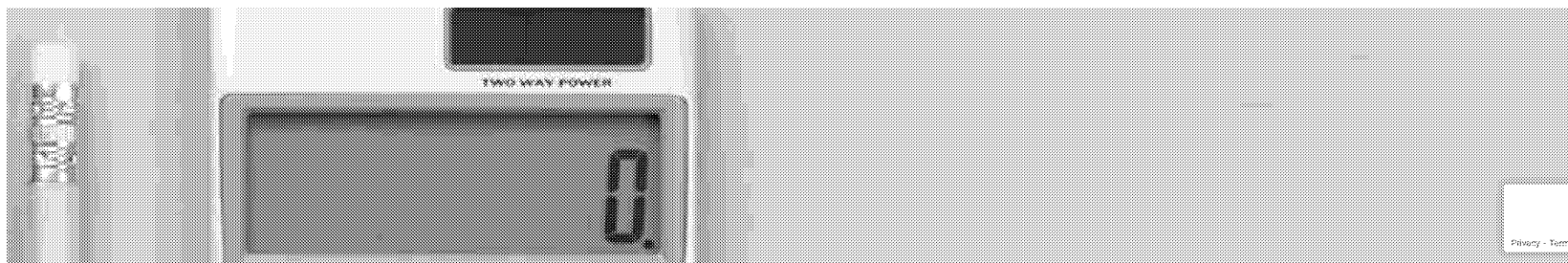


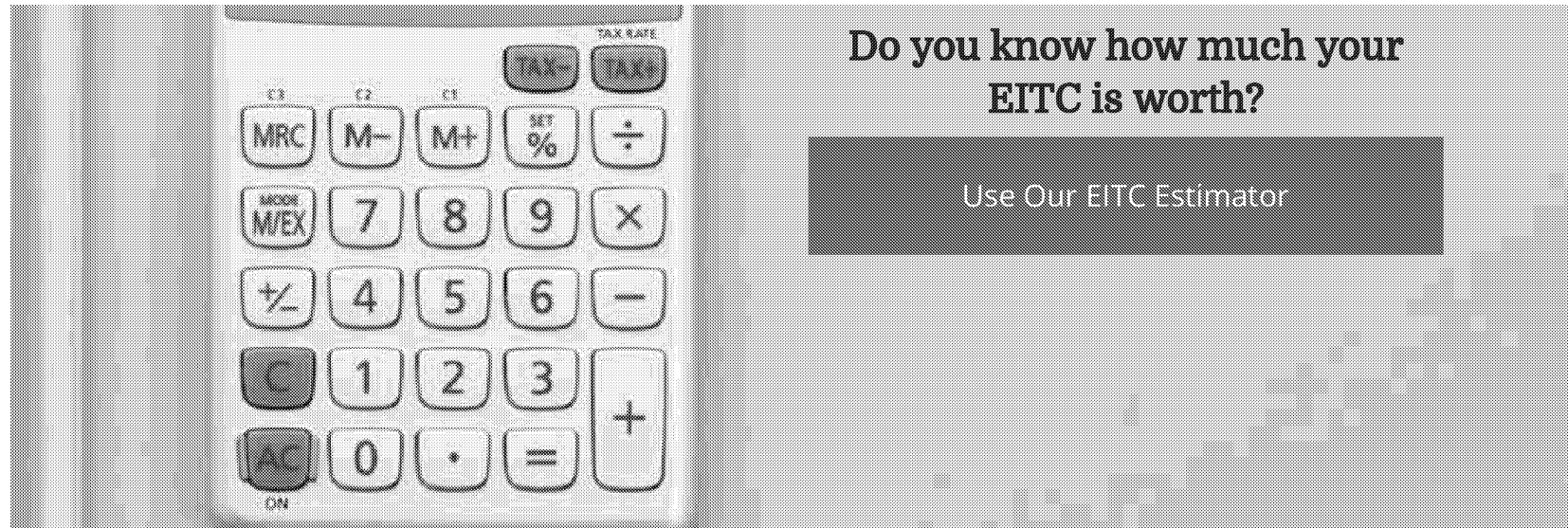
How to Report your Unemployment Benefits on your Federal Tax Return

If you receive unemployment compensation, your benefits are taxable. You will need to...

Celebrating VITA Awareness Day 2022

Volunteer Income Tax Assistance (VITA) is an IRS-sponsored, free tax-filing program across the...





Let's keep in touch

Tax credits help families and their communities thrive. Sign up to help spread the word about these important tax credits and free tax filing. We send occasional emails with resources to help your work.

Subscribe

[Privacy](#) - [Terms](#)

Get It Back Campaign

The Get It Back Campaign helps eligible individuals claim tax credits and use free tax filing assistance to maximize tax time. A project of the Center on Budget and Policy Priorities, the Campaign partners with community organizations, businesses, government agencies, and financial institutions to conduct outreach nationally. For 30 years, these partnerships have connected lower and moderate-income people to tax benefits like the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and Volunteer Income Tax Assistance (VITA).

Get It Back Campaign

Center on Budget and Policy Priorities
620 First Street, NE, Suite 510
Washington, DC 20002
(202) 408-1080

Copyright © 2017. All Rights Reserved.
[Privacy Policy](#)

