

Being Unbanked—What is it? What are the Implications?

Shirley Anderson-Porisch, Regional Extension Educator, University of Minnesota Extension Service

There are more than two million unbanked families in the United States. Most unbanked families have less than a \$25,000 annual income. The purpose of this Info Sheet is to increase awareness of the unbanked population for agency and business professionals to assist their understanding of why people choose not to use services of the United States banking system. Understanding and addressing the needs of unbanked people may impact future services of the United States banking system.

What is unbanked?

Unbanked is commonly used as an “umbrella” term to describe diverse groups of individuals who remain outside the banking mainstream for many reasons. The term unbanked means that a person does not have a checking or savings account.

Why are people unbanked?

People are unbanked for many reasons including: lack of understanding about the United States banking system and expectations for having a bank account, past negative banking experience in the United States or in their homeland, lack of appropriate identification and/or documentation needed to open a bank account, unstable living situation, and cultural conflict including bank practices that vary with personal beliefs.

Who are the unbanked people?

The most common groups of unbanked people in the United States include low income individuals & families, those who are less educated, female-headed households, young adults, families living in rural communities as well as select urban areas, and immigrants. It is estimated that African Americans are 4 times more likely to be unbanked than European Americans. The unbanked population also includes the “formerly banked” who have negative credit histories that prevent them from opening financial accounts.

What do we know about unbanked people?

In a 2004 Homeownership Alliance study of barriers to banking for Latin Americans, U.S. banks were called insecure, unsafe, unforgiving, unwelcoming, inflexible, and intimidating environments with language barriers. The same study suggested that more Hispanics would open bank accounts if the matricula card (a proof of identity document) was accepted for identification, if banks were flexible in minimum balance expectations, and if remittance rates were reasonably priced. A 2004 Joint Center for Housing Studies survey of low income households showed that unbanked people have an understanding of banks, but were unable to show appropriate identification documents needed for opening accounts, had more difficulty maintaining minimum account balances, and were more likely to write checks even when accounts had insufficient funds.



Why is it important to be banked?

Although there continues to be opportunities to pay cash only for goods and services, handling payments through a bank account provides a gateway for households to enter the financial mainstream and become owners of financial assets. Research indicates that those who own bank accounts are more likely to own other assets including accounts related to savings, credit, and insurance. Those without financial accounts are less likely to own a home and a car. Consumers without a relationship with a mainstream financial institution also pay high transaction fees for services such as check cashing.

Many immigrants may have been unbanked in their homeland. Even though it is not considered a universal need to be banked in the United States, there are advantages for people with bank accounts. In the U.S. economy, banked people have the tools to save, build assets, and become part of what has recently been called the “ownership society.” The ownership society includes those who, through a lifetime of bank account ownership, enhance their ability to manage money and make significant financial decisions regarding education, homeownership, health care, self-employment, and retirement.

What could decrease the number of unbanked people?

The Debt Collection Improvement Act of 1996 required that recurring federal benefit payments be made electronically through electronic funds transfer (EFT) as a low-cost account for those who cannot qualify for or afford a checking account. As a result, there has been an increase in people using this option for receiving federal benefits. Other forms of advanced electronic technology provide new opportunities for transitioning the unbanked population into a banking relationship including discount and grocery stores with a traditional bank location that offers services like check cashing, money orders, and remittance services; multi-functional ATM machines that allow transactions without bank visits; stored value cards for deposits such as salary or tax refunds; and lifeline savings accounts.

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