

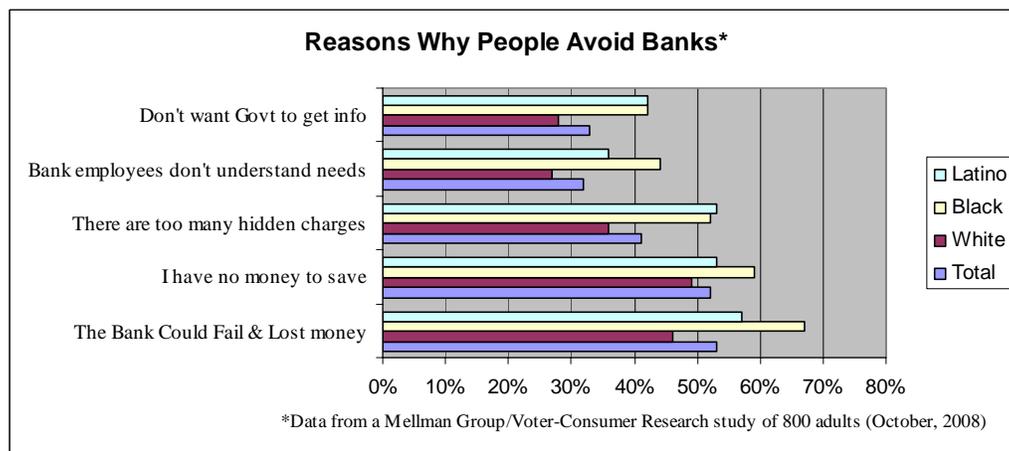


NULPI FACT SHEET: Minorities and Banking Access

December 15, 2008

- **40 million households either do not have a bank or are underbanked, including over 6 million black households**
- **Reasons people choose not to have banks include access, trust and fees.**

For most of us, the first step in financial planning is opening a bank account. A bank account is a useful tool for paying bills, cashing checks and, perhaps most importantly, saving for emergencies and to achieve financial goals. An estimated 20 million households do not have a bank account (often referred to as unbanked), and another 20 million are underbanked (they may have a bank account but also use non-banks such as check cashing agencies, payday lenders or pawn shops for financial transactions). 60% of these households are white, 19% Latinos and 16% black. Their median household income was almost half the national median income.¹ Using non-bank providers often have substantial costs to the largely poor households that use them, but for many households they are outweighed by other factors that push them to these alternatives. For some it's reluctance to share personal information or simply a lack of cash. For others there are more preventable reasons, such as the three below, that can be addressed through actions by either the government, private financial institutions or both.



Access

The National Community Reinvestment Coalition looked at the 25 largest metro areas and found that the number of people per bank branch was more than twice as high in minority census tracts than non-minority census tracts.² If your neighborhood has few traditional banking options, you are far more likely to rely on non-traditional providers that have chosen to serve your neighborhood. This lack of access points to the continued need for an expansion of the Community Reinvestment Act, which encourages financial investment in low-income communities.

¹ Stats from Center for Financial Services Innovation, *Underbanked Consumer Study*. June 8, 2008.

² National Community Reinvestment Coalition. *Are Banks on the Map*, 2007.



Trust

As can be seen in the above chart, trust is a particularly strong barrier for African-Americans who are unbanked. When asked about why they choose not to rely on mainstream financial institutions, 67% of blacks (compared to 57% of Latinos and 46% of whites) were worried about losing their money if the bank failed.³ This was the single biggest reason given for this population, despite the fact that the Federal Deposit Insurance Corporation (FDIC) insured bank deposits up to \$100,000 (now \$250,000)—which would indicate the need for financial literacy and outreach for this population to make them aware of existing protections. There are also cultural barriers that may have to be addressed, including the continuing need for bank employees of color, as indicated by the high percentage of both blacks and Latinos (44% and 36% respectively, compared to only 27% for whites).

Banking Policies

A major complaint of both the unbanked and underbanked of traditional banks is the prevalence of fees, especially for overdrafts. 57% overall (including 66% of those who are unbanked) cited it as a major barrier in having a checking account. 62% of the unbanked in this survey agreed with the statement that there “are too many hidden charges”.⁴ Besides overdrafts, fees for going below a certain balance were also cited as a barrier. Many supported the need for additional disclosures about fees and for ways to warn the consumer before they overdraw their account or reached a balance threshold (such as cell phone alerts).

³ Data from a Mellman Group/Voter-Consumer Research study of 800 adults (October, 2008)

⁴ Ibid