Banking and Finance Law Daily Wrap Up, COMMUNITY DEVELOPMENT —Despite drop, little progress made in reducing unbanked, underbanked U.S. households, FDIC reports, (Oct. 24, 2018)

Banking and Finance Law Daily Wrap Up

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By Jacob Bielanski

Though the number of unbanked households in the United States dropped from 7 percent to 6.5 percent between 2015 and 2017, the decrease was primarily the result of an improving economy, according to a report on the Federal Deposit Insurance Corporation's latest survey of unbanked and underbanked households.

"The decline in the unbanked rate from 2015 to 2017 can be explained almost entirely by changes in household characteristics across survey years, particularly improvements in the socioeconomic circumstances of U.S. households," the authors of the 2017 National Survey of Unbanked and Underbanked Households wrote. "After accounting for these changes, the remaining difference in the unbanked rate from 2015 to 2017 was very close to zero and no longer statistically significant."

In addition to the roughly 8.4 million households that do not have bank accounts, the report also identified nearly 25 million households that were "underbanked," which the authors defined as households with accounts at an insured institution, but who had to use alternative financial services (AFS), such as money orders, payday loans, or rent-to-own services.

Reliance on mobile banking, meanwhile, has increased significantly. Over 40 percent of the roughly 70 percent of households that both maintained bank accounts and did not have to rely on AFS relied on mobile banking in 2017, while only 24.2 percent used such services in 2013.

A higher proportion of unbanked and underbanked households were black and Hispanic, as well as homes that had a "volatile" income, homes headed by working-age adults with disabilities, lower-income homes, younger homes, and lower-income homes.

Most unbanked homes said their income level was the reason they didn't have an account, with 34 percent of respondents citing, "Do not have enough money to keep in account," as the main reason for their account status--the highest percentage among other respondents' other reasons. Over half cited it as a factor. "Don't Trust Banks" was the second most popular reason cited for not having an account.

In a press release on the report, the FDIC said "targeted" efforts would likely be needed to reduce the unbanked rates. It pointed to increased percentage of unbanked households from 2015 to 2017 who said they were "not very likely" or "not at all likely" to open a bank account.

"The good news is that our nation's banking system is serving more American households than ever before," FDIC Chair Jelena McWilliams said in a press release on the latest report. "The bad news is that ... 8.4 million households continue to lack a banking relationship."

The survey overall finds that rates of unbanked and underbanked households continue a downward trend since it was first conducted in 2009.

The 2017 report, conducted in partnership with the U.S. Census Bureau, is the fifth published since the FDIC started the survey in response to the 2005 Federal Deposit Insurance Reform Conforming Amendments Act, which called for ongoing reports of FDIC efforts to bring un- and underbanked populations into the conventional banking system. Data from the latest and past surveys are available from the FDIC-run website economicinclusion.gov.

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