



October 25-26, 2012

# Promising Pathways to Wealth-Building Financial Services

## Unbanked Profile of the Tenth Federal Reserve District

A banking relationship, often based on a checking or savings account, is widely seen as a cornerstone of a family's financial stability. However, results of a recent national survey by the FDIC find that over one-quarter of all U.S. households (28.3 percent) are either unbanked or underbanked.<sup>1</sup> This profile provides an overview of unbanked and underbanked households in the Tenth Federal Reserve District, served by the Federal Reserve Bank of Kansas City, which encompasses western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

### National and Tenth District Trends

The 2011 FDIC National Survey of Unbanked and Underbanked Households<sup>2</sup> identified 8.1 percent of households in the Tenth District as unbanked, and one in five households (20 percent) as underbanked<sup>3</sup>. (See Figure 1.) These findings closely mirror the national unbanked and underbanked statistics. These households, however, were found to differ in important ways according to geography, demographic characteristics and other variables.

For example, the percentage of unbanked households ranges from a low of 3.7 percent in Nebraska to a high of 11.5 percent in New Mexico. Underbanked households in the District range from a low of 16.1 percent in Colorado to a high of 23.6 percent in New Mexico. Within the Tenth District, New Mexico has the highest percentage of its population either unbanked or underbanked. (See Figure 2.)

The District's unbanked households increased by 2.8 percent between 2009 and 2011 compared to a 7.9 percent increase nationally over the same period. Wyoming, however, was the only state in the District, and one of only three in the nation, that experienced a statistically significant change in its unbanked population—an

FIGURE 1

### Banking Status in the Tenth District

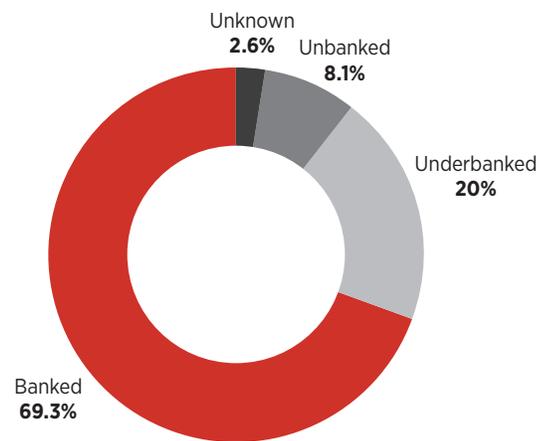
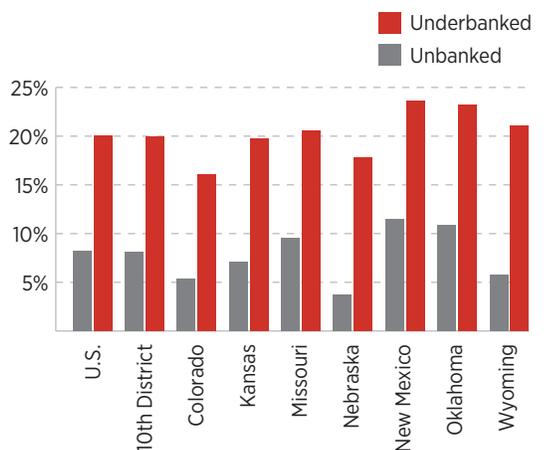


FIGURE 2

### Banking Status by State



1 A household is defined as unbanked if it does not have a checking or savings account. A household is considered underbanked if it has a checking and/or savings account but has used at least one alternative financial service product, such as a non-bank money order, payday loan or pawn loan, within the past 12 months.

2 <http://www.fdic.gov/householdsurvey>

3 The underbanked percentage increased as well from the 2009 survey, but direct comparisons are not possible due to changes in methodology.

increase of 2.3 percentage points from 3.5 percent to 5.8 percent. Colorado, Nebraska and New Mexico experienced estimated—though not statistically significant—declines in their unbanked households. The Denver-Aurora metropolitan statistical area (MSA) was the only MSA in the District to experience a significant decline in unbanked households, from 9.1 percent to 5.2 percent.

### Who Are the Unbanked?

The FDIC study identified several demographic groups who have the highest unbanked and underbanked rates. These groups include households with less than \$15,000 in income and those headed by non-Asian minorities, unmarried females, individuals under 34 years of age, or individuals with no high school diploma or equivalent. The FDIC study found close to half of these households to be unbanked or underbanked compared to approximately one-quarter of all households.

The percentage of African-Americans who are unbanked is slightly higher in the Tenth District than in the nation, though it is about the same for Hispanics and whites. This, too, varies greatly by state. (See Figure 3.) The unbanked rates for Hispanics in Oklahoma and Missouri are nearly twice the national average. The disparity between the unbanked rates of whites and non-Asian minorities is greatest in these two states as well.

Very low-income households as well as those headed by females, individuals under 34 years of age or those without a high school diploma are as likely to be unbanked in the Tenth District as they are nationally. (See Figure 4.) They are nearly two to three times more likely to be unbanked than the average household in the District.

This disparity is even greater when looking at distributions across individual states within the District. (See Figure 5.) For example, only 19 percent of very low-income households are unbanked in Nebraska. In Oklahoma, New Mexico and Missouri, the unbanked rates for this same group are more than 30 percent.

The same difference is true for households headed by individuals under 34 years of age. Again, in Nebraska, the unbanked rate is the lowest at 8.3 percent. Missouri, Oklahoma and New Mexico have the greatest unbanked rates among households headed by individuals who are less than 34 years old, respectively at 16.4 percent, 19.5 percent and 22.9 percent.

In New Mexico, nearly 40 percent of households headed by an individual who has not completed high school are unbanked. Missouri, Kansas and Colorado have greater percentages of unbanked households within this demographic range than both the District and national averages.

FIGURE 3

### Unbanked Status by Race/Ethnicity

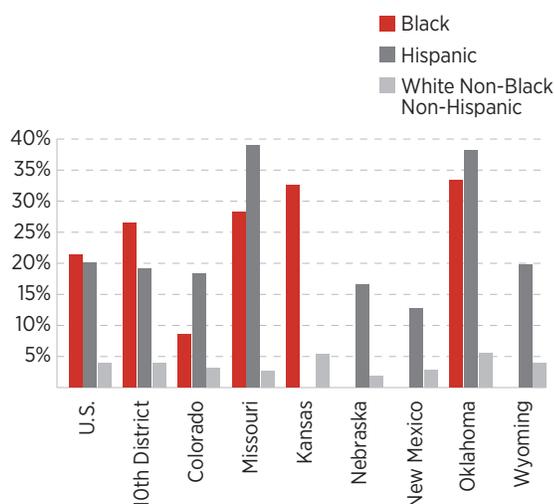
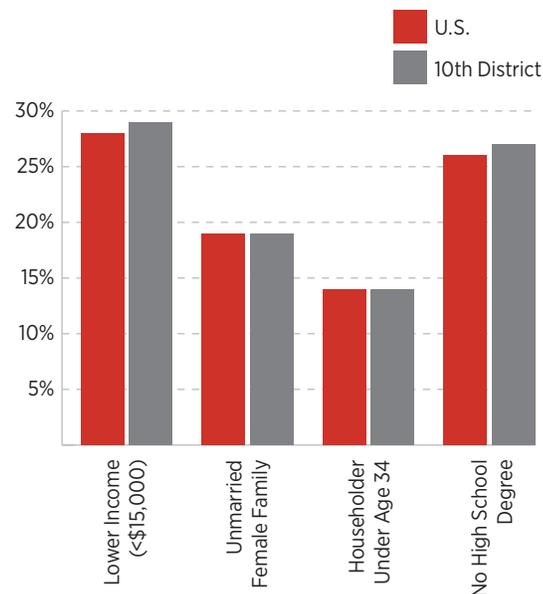


FIGURE 4

### Unbanked Status by Demographics



## Local Initiatives in the Tenth District

Following the release of the FDIC’s initial survey in 2009, the Tenth District conducted qualitative research to develop a deeper understanding of how individuals who are unbanked and underbanked develop and implement strategies to manage their financial service needs.<sup>4</sup> The Federal Reserve Bank of Kansas City then used the findings of this research and the FDIC’s survey to inform financial institutions, state and local officials, educators and other stakeholders about the unbanked and underbanked markets.

Initiatives to connect the unbanked and underbanked households to mainstream banking services have been established across the Tenth District. “Bank On” coalitions are now active in Denver, Kansas City and Omaha. Each coalition has brought together local financial institutions to develop and cooperatively market entry-level accounts in partnership with non-profit service providers.<sup>5</sup> These efforts not only have provided access to accounts for individuals, but also raised the awareness of the unbanked and underbanked among policymakers and community leaders, serving as a catalyst for the development of new solutions.

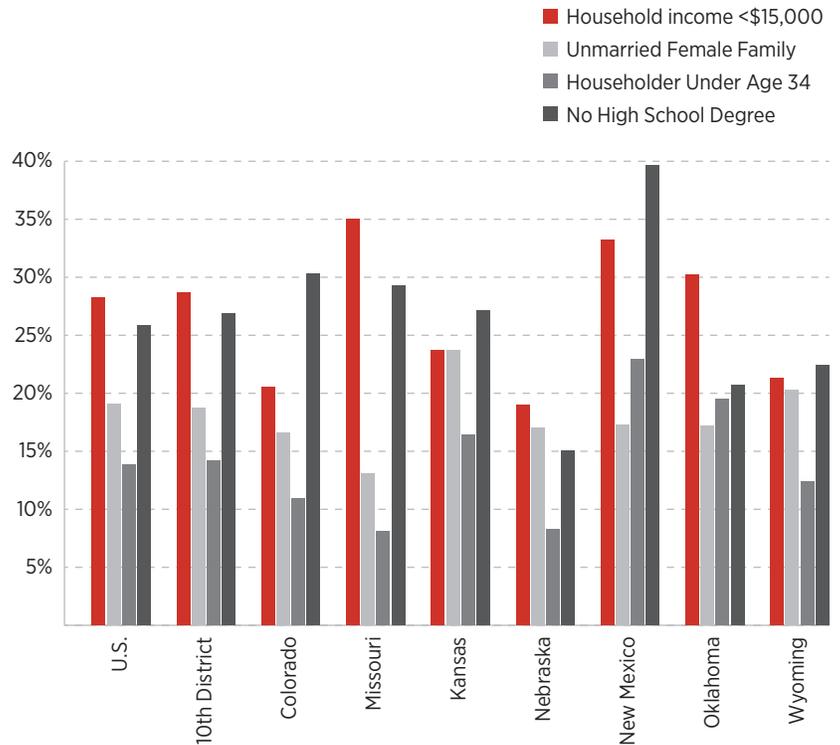
Bank On Denver, for example, has opened over 5,000 accounts since its launch in late 2010 and has provided financial education services through partner organizations. The coalition has received support from the city of Denver as well as recognition from the Colorado Center on Law and Policy as an effective poverty alleviation strategy.

4 A Study of the Unbanked and Underbanked Consumer in the Tenth Federal Reserve District, <http://unbanked.kcfed.org>

5 Information on Bank on Denver, Bank On Save Up Kansas City and Bank On the Heartland is available through <http://joinbankon.com>.

FIGURE 5

## Unbanked Status by Demographics



Bank On Save Up Kansas City is working with a regional financial education coalition, the local Money Smart Month campaign, to establish a community-wide calendar of ongoing training programs. Bank On Save Up is also exploring ways to effectively deliver a continuum of savings, credit and tax-preparation services with other financial access programs in the area.

Both of these efforts are focused on providing more accessible services to consumers with greater effectiveness and efficiency. Research on the unbanked and underbanked markets continues to play a supportive role in developing these and similar initiatives.

This report reflects the views of the author and does not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Additional information about this profile, the issues it addresses and its application in the Tenth District is available by contacting Steven Shepelwich at [steven.shepelwich@kc.frb.org](mailto:steven.shepelwich@kc.frb.org) or 405-270-8675.