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Promising Pathways to Wealth-Building Financial Services

Unbanked Profile of the Eighth Federal Reserve District

A considerable number of families in the United States lack access to either a checking or savings account. These households are known as the unbanked. The Eighth District, in particular, has higher rates of unbanked households than the national average. Lacking transactions accounts often constricts savings and makes engaging in financial transactions costly. A local snapshot of the unbanked and underbanked may help policymakers and practitioners address this issue.

National and Eighth District Trends

In September 2012, the FDIC released the results of its 2011 unbanked survey (a previous survey was administered in 2009). The findings show that in 2011, roughly 8.2 percent of all households lacked any members with either a checking or savings account. The states encompassing the Eighth District had a percentage of unbanked residents at roughly 9.5 percent—1.3 percentage points higher than the national level. In fact, only two states and one metropolitan statistical area (MSA)—Illinois, Indiana and Little Rock—had averages better than national levels. (See Figure 1.)

Nationally, 20.1 percent of households were considered underbanked. The states encompassing the Eighth District were similar on this metric, with 20 percent of the population considered underbanked. (See Figure 2.) This yielded rates of underbanked and unbanked at 28.3 percent and 29.5 percent for the country and the District states, respectively.

Populations of unbanked and underbanked varied significantly by geography in the United States. For example, Southern states were much more likely to have large percentages of unbanked residents. Given that the Eighth District includes parts of the Midwest and South, the District is prone to large populations of unbanked residents. (See Map 1 on page 3.)

Who Are the Unbanked?

Several demographic characteristics were prevalent among the unbanked in the Eighth District. (See Figure 3.) Among common

FIGURE 1

Unbanked in the Eighth District

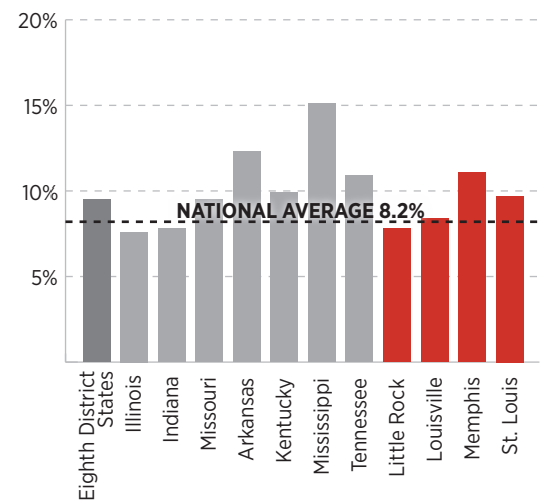
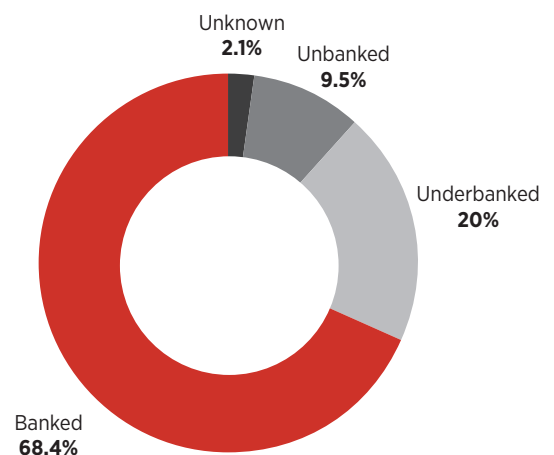


FIGURE 2

Eighth District States' Banking Status



demographics (income, education, age, race and family structure), several vulnerable groups emerged:

- **Households with incomes less than \$15,000** were unbanked at a rate of 31.4 percent.
- **African-Americans** were unbanked at a rate of 26.5 percent.
- **Households headed by single mothers** had unbanked rates of approximately 23.5 percent.
- **Individuals with no high school degree** lacked transactions accounts at a rate of 24.5 percent.

A comparison of the at-risk groups with the District average (9.5 percent) is stark: They were two to three times more likely to be unbanked.

Key Findings Since the 2009 FDIC Study

The Eighth District, like the rest of the nation, saw an increase in the total number and percentage of unbanked households. Nationally, the percentage increase was 0.6 percentage points. Increases in Eighth District states were relatively similar at 0.7 percentage points.

Changes along demographic dimensions occurred in the Eighth District:

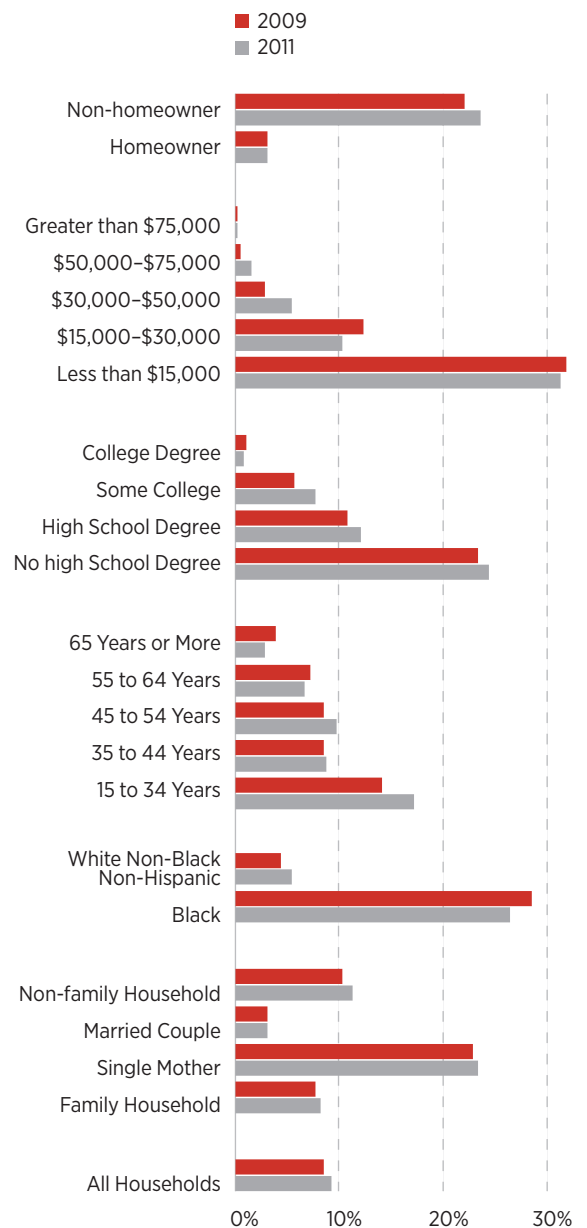
- The proportion of African-Americans without transactions accounts decreased from 28.7 percent to 26.5 percent. This is a significant decline but is still much higher than the national average (21.4 percent).
- The proportion of those making less than \$15,000 a year without a bank account decreased slightly (0.6 percentage points), but was still a few percentage points above the national average.
- Single mothers, the young, those without a high school degree and non-homeowners all saw increases in the proportion of unbanked households. The young were especially hard hit: Those between the ages of 15 and 34 experienced a 3-percentage point increase in the likelihood of being unbanked.

Additionally, changes occurred between 2009 and 2011 on a state and MSA basis:

- The percentage of unbanked residents in Memphis dropped from 17.1 percent to 11.1 percent between the 2009 and 2011 surveys. This was the largest decrease of any of the MSAs in the FDIC report.
- Louisville and Little Rock witnessed modest increases in the percentages of unbanked residents at 0.7 and 0.6 percentage points, respectively. St. Louis increased more substantially at 2.1 percentage points.
- Arkansas, Illinois, Missouri and Tennessee all had above-average increases in unbanked populations, with rates going up by 2.1 percentage points, 1.5 percentage points, 1.3 percentage points and 1.2 percentage points, respectively. These increases placed all of these states in the top 12 nationwide in terms of changes in percentages of unbanked residents.

FIGURE 3

Eighth District States' Unbanked Rates by Demographic



- Mississippi and Kentucky had decreases in their unbanked populations. Notably, Kentucky had the largest decrease in the nation, with its unbanked rate falling from 12 percent to 9.9 percent.

MAP 1

State Unbanked Rates by Quintile

Darker shades signify higher unbanked quintiles. The highest is highlighted in red.

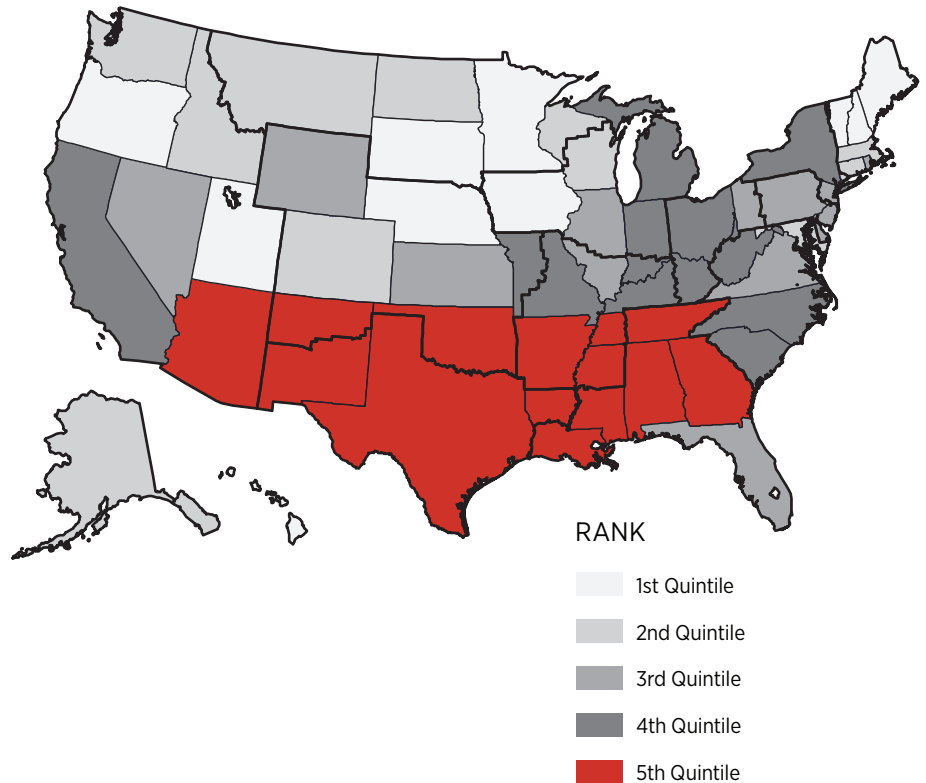
Local “Bank On” Efforts

Several efforts to decrease unbanked rates are currently under way in the Eighth District. Of note, “Bank On” programs have sprung up in localities around the District. These programs partner with nonprofits and local municipalities in an attempt to open checking and savings accounts for residents, among other things. These coalitions also raise community awareness of the unbanked and offer financial education.

In Indiana, the Evansville Bank On initiative was one of the first in the country, partnering with 15 financial institutions, 10 nonprofits and the local government to reach the unbanked. The Louisville Bank On program has led to the opening of more than 10,000 bank accounts in two years, and has reached 1,693 community members through its financial education programs. In Memphis, a successful Bank On program was launched with the goal of opening 5,000 bank accounts in 18 months and helping younger citizens build relationships with financial institutions. The St. Louis Regional Unbanked Task Force is launching a Bank On Save Up program in the spring of 2013, with the stated goal of opening 20,000 accounts for the unbanked. Other localities with unbanked programs include Carbondale and Marion in Illinois; Henderson, Madison, Owensboro and Louisville in Kentucky; and the state of Indiana.

In addition to the Bank On programs around the Eighth District, many nonprofits and local governments have made financial access and education a priority. These initiatives will help increase financial access in the District.

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



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