Transitional Services

Financial Impact for the UnderBanked and UnBanked
Economic Disadvantage

- To be unbanked is to be under an economic disadvantage. It means that many people have to rely on fringe banking services, such as check-cashing outlets with high fees. But what is worse is the savings deficit that it creates for many working-class, and minority, and young citizens, who have a much harder time acquiring and building assets.

Senator Joseph Lieberman (Stegman 1999)
• During 2008, the FDIC conducted a nationwide survey of FDIC-insured depository institutions (“banks”) to assess their efforts to serve unbanked and underbanked individuals and families.

• The bank survey, the first of its kind at the national level, was mandated by Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (“Reform Act”).

• The Reform Act requires that the FDIC conduct biennial surveys of banks' efforts to bring individuals and families who have rarely, if ever, held a checking account, a savings account or other type of transaction or check-cashing account at an insured depository institution into the conventional finance system
Definitions

• Households are identified as **unbanked** if they answered “no” to the question, “Do you or does anyone in your household currently have a checking or savings account?”

• **Underbanked** households are defined as those that have a checking or savings account but rely on alternative financial services.

• Specifically, underbanked households have used non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or refund anticipation loans at least once in the past five years.
Banking & Asset Accumulation

- The unbanked are believed to make use of fringe services (pawnshops and check cashers) that charge as much as 10 percent of face value to cash a paycheck (Stegman 1999).

- Correlations between ownership of a bank-account and asset holdings speculate that transaction accounts play a role in asset accumulation.

  - For example, Carney and Gale (2001) show that:
    - 70% of banked households own their home.
    - 33% of unbanked households do.

- Those who hold transaction accounts may also have an advantage in securing bank loans. This, however, seems to be a second-order consideration for low-income Americans.
The United States Public Interest Research Group (PIRG) estimates that the total annual monetary cost for a typical account holder is $32 dollars for savings and $147 for low-cost checking accounts.

Of course fees run much higher for those who bounce more checks or visit the ATM more often than average (Mierzwinski 2001).

In comparison, the average fee charged by a check casher to convert a check is 2.34 percent of face value for a payroll check and 2.21 percent for a government issued check (Consumer Federation of America 1997).

Therefore, to cash two paychecks and purchase three money orders per month at a fringe-banking institution, a family with a combined income of $18,8506 would be charged $395 per year using the conservative fees of 2 percent for checks and $.50 for money orders.

In pure monetary terms, the bank account seems the better option.
Costs & Benefits of Bank Accounts

- A bank account provides a person with entree to two services:
  (1) a secure place for savings, and
  (2) a means of transferring income into payments.

- The costs also are of two types:
  (1) monetary, which can be easily quantified, and
  (2) psychic costs
Secure Place for Savings

• A low-income person who would likely hold only a small account balance would benefit little from interest payments. Nonetheless, an account would offer a safe place to store savings for such a consumer. Money held in a bank may be less likely to be stolen, spent on impulse, or given to friends and family.

• Alternate Financial Services do not compete with traditional banks in providing a haven for savings. However, low-income Americans have uncovered alternative systems.

• Dunham (2001) shows that 30 percent of unbanked individuals do, in fact, save. The money is stored in the bank account of another person, or in cash, jewelry, or gold.
• While only a fraction of low-income individuals save, the need for income conversion and bill payment is near universal.

• Income from an employer or a government must be converted into payments for rent, food, and utilities. The benefit of the bank in this domain is clear: Account holders are able to deposit their income checks and then write personal checks against the account to pay the bills.

• Surveys have repeatedly found that the number one institution used for income conversion among the unbanked is a bank or credit union.
Income Conversion

• Studies have shown that the following alternative providers of income conversion services are widely used:
  ○ Grocery stores rank second
  ○ Check cashers third

• The alternatives to a checking account are money orders and cash, used by 42 and 41 percent of unbanked individuals respectively (Dunham 2001).

• Money orders are available at banks, check cashers, post offices, and grocery stores.
State of UnBanked in the State of WV

• An estimated 7.7 percent of U.S. households, approximately 9 million, are unbanked. At least 17 million adults reside in these unbanked households. In addition, unbanked adults may also reside in other households.

• 6.3% of all households in West Virginia (an estimated 47,000 households) are unbanked.
  ○ 16.6% of households with an annual income of $30,000 or less are unbanked.
• In addition to the unbanked households, an estimated 17.9 percent of U.S. households, roughly 21 million, are underbanked. The number of adults that reside in these underbanked households is about 43 million.

• **20.7%** of all households in WV (an estimated 156,000 households) are underbanked. In addition, 3.7% of households (an estimated 28,000 households) may be underbanked, but their use of alternative financial services is unknown.
  ○ 21.1% of households with an annual income of $30,000 or less are underbanked.
BANKING STATUS OF HOUSEHOLDS: WEST VIRGINIA

PERCENT OF HOUSEHOLDS

- BANKED BUT NOT UNDERBANKED: 69.3%
- UNDERBANKED: 20.7%
- UNBANKED: 6.3%
- BANKED BUT UNDERBANKED STATUS UNKNOWN: 3.7%
• Minorities more likely to be unbanked include:
  ○ Blacks (an estimated 21.7 percent of black households are unbanked),
  ○ Hispanics (19.3 percent), and
  ○ American Indian/Alaskans (15.6 percent).

• Racial groups less likely to be unbanked are:
  ○ Asians (3.5 percent) and
  ○ Whites (3.3 percent)
• Minorities more likely to be underbanked include:
  ○ Blacks (an estimated 31.6 percent),
  ○ American Indian/Alaskans (28.9 percent), and
  ○ Hispanics (24.0 percent).

• Asians and whites are less likely to be underbanked (7.2 percent and 14.9 percent, respectively).
State of UnBanked in the State of WV

• Family households for which the householder is an unmarried female or unmarried male are considerably more likely than married couple households to be unbanked.

• Almost 20 percent of unmarried female family households and 14.9 percent of unmarried male family households are unbanked, compared with about 4 percent of married couple family households
UNBANKED/UNDERBANKED HOUSEHOLDS BY HOUSEHOLD TYPE: WEST VIRGINIA
State of UnBanked in the State of WV

• A substantial percentage of lower-income households are unbanked. Nearly **20 percent** of lower-income U.S. households—almost 7 million households earning below $30,000 per year—do not currently have a bank account.

• **Households with earnings below $30,000 account for at least 71 percent of unbanked households**

• The proportion of unbanked households declines with education and age.

• Households more likely to be unbanked than all U.S. households have less than a college education or a householder under age 45
UNBANKED/UNDERBANKED HOUSEHOLDS BY INCOME: WEST VIRGINIA

Bar chart showing the percentage of unbanked and underbanked households by income in West Virginia. The categories are:
- Under $15,000: 21.5% unbanked, 17.1% underbanked
- $15,000-$30,000: 25.0% unbanked, 12.1% underbanked
- $30,000-$50,000: 29.5% unbanked, 1.3% underbanked
- $50,000-$75,000: 19.9% unbanked, 25.0% underbanked
- Over $75,000: 25.0% unbanked, 25.0% underbanked

Legend:
- Blue: Unbanked
- Orange: Banked but underbanked status unknown
- Yellow: Underbanked
UNBANKED/UNDERBANKED HOUSEHOLDS BY AGE: WEST VIRGINIA

PERCENT OF HOUSEHOLDS

15 TO 34 YEARS 25.4
35 TO 44 YEARS 36.5
45 TO 54 YEARS 23.3
55 TO 64 YEARS 15.3
65 YEARS OR MORE 9.7

UNBANKED UNDERBANKED

BANKED BUT UNDERBANKED STATUS UNKNOWN
Financial Services Commonly Used

• Approximately 12 percent of unbanked households have used a general spending prepaid card, and an estimated 3.1 percent receive their income through a payroll card.

• The survey data indicate that the majority of underbanked households that go to nonbanks for money orders and check cashing do so primarily for convenience.

• Speed and cost were also reasons underbanked households use these non-bank transaction services.
Why are they Unbanked?

• Not having enough money to feel they need an account is the most common reason why unbanked households are not participating in the mainstream financial system.

• While money considerations are the top reasons given for not holding an account, discomfort with banks and a desire for privacy also are cited. Further, banks hours and location are inconvenient.

• The 9 million unbanked households are approximately split between households that have never had a bank account (46.9 percent) and households that were previously banked (49.0 percent).
Why are they Unbanked?

• A considerable proportion (an estimated 41.1 percent) of unbanked households believes that opening a bank account in the future is “not likely at all.”

• However, among all unbanked households, the previously banked are more likely to consider opening a bank account in the future.

• About 16 percent of previously banked households believe that they are “very likely” to open a bank account, compared with 4.8 percent of those that have never been banked.
High Cost Alternative Financial Services

• About 66 percent of unbanked households use the following alternative financial services (AFS):
  • non-bank money orders and non-bank check-cashing
  • pawn shops
  • payday loans
  • rent-to-own agreements (RTOs)
  • refund anticipation loans (RALs)

• About one-quarter of unbanked households do not use any AFS, suggesting a strong reliance on cash transactions
High Cost Alternative Financial Services

• Many underbanked households that use payday loans or pawn shops rather than banks for credit services do so primarily because it is easier to qualify for a loan from the alternative financial services (AFS) provider or because it is more convenient.

• Another common reason cited for not using mainstream accounts is that they don’t want the money to be found – usually hiding assets/income for public benefit purposes or other personal reasons (IRS, divorce, etc).
Financial Mainstream Products for Unbanked

- Starter Accounts
- Stored Value Cards
- IDA Accounts
Starter or Low Cost Checking Accounts

- Most banks offer an entry level low cost no frills checking product.
- Free checking accounts are much harder to find these days.

BB&T Bright Checking Account
- **Minimum Opening Deposit** $50
- **Monthly Maintenance Fee** Avoid a $10 monthly maintenance fee by maintaining:
  - One ACH Direct Deposit of at least $100 OR:
  - $1,500 average checking balance OR
  - $6,000 combined deposit balance including checking, savings, Money Rate Savings, Investor’s Deposit Accounts, (excludes Certificates of Deposit and Individual Retirement Accounts) and/or outstanding loan balances* including personal loans, lines of credit, sales finance and credit card balances** (excludes preferred lines of credit) OR:
  - Any outstanding BB&T personal mortgage loan balance‡
  - **Statement Options** No-fee online and paper statements
  - **Online Services** Free BB&T Online and OnLine Bill Payment
  - Free mobile banking†
  - Free BB&T alerts
  - **Account Access** Free BB&T check card with Cash Rewards
  - **BB&T 24 ATM deposits and withdrawals at over 2,400 ATM locations**
  - Unlimited automated account inquiries through BB&T Phone24. Two no-fee, person to person calls a month
  - **Overdraft Protection††** Choose from a number of available overdraft protection options:
Payroll Cards

• Many employers now require direct deposit of payroll checks and may no longer provide a paper check.

• Not only does this lower employer costs but may encourage those employees who are unbanked to open an account.

• Some employees may not be able to or choose not to open a checking account.

• Employers can offer those employees a Payroll Card.
Payroll Cards

- BB&T MyLink Card – is our version of a payroll card

**Employee Benefits**
- No more check cashing fees and hassles
- Prevents risk of paper checks being lost or stolen
- Funds are FDIC insured
- Zero Liability for unauthorized use if the card is lost or stolen
- Funds deposited automatically to the BB&T MyLink Card
- Can be used anywhere Visa® debit cards are accepted
- Access to funds 24 hours a day, 7 days a week
- No credit check
- Free online banking with bill payment
- Free Mobile Banking

**MyLink Card Features**
- Visa signature and PIN point-of-sale capability
- Unlimited ATM cash withdrawals
- Receive cash back at point-of-sale
- Make cash advances at any BB&T branch
- Free balance inquiries at ATMs, over the phone, and [online](#)
- Access to 24-hour telephone customer service available in English and Spanish
The BB&T MoneyAccount is a prepaid transaction account that comes with a reloadable Visa debit card. To make managing your money easier, the MoneyAccount protects you from spending more money than you have deposited. And because the MoneyAccount is from BB&T, it comes with free BB&T Online banking with Bill Payment, free BB&T Mobile banking*, and a network of more than 1,800 branches and 2,400 ATMs.

Advantages: Your BB&T MoneyAccount card can be used just like any Visa debit card and is accepted at millions of places worldwide. You can use it to make payments and purchases in stores, online or by phone. Other advantages include the ability to easily get cash and add funds, 100% Visa fraud protection with FDIC insurance, and access to BB&T Online banking to manage your account anytime, anywhere.

Who should consider this account type:

- The BB&T MoneyAccount is perfect for anyone who wants to enjoy the purchasing power of a Visa debit card without traditional bank service fees and the ability to overdraft. For example:
  - Budget-minded clients can enjoy the convenience and safety of a debit card while limiting their spending to available funds.
  - Students can use the account to establish financial responsibility.
  - New customers without prior banking relationships can be approved—no credit check required.
Individual Development Accounts

• IDAs are matched savings accounts designed to help low income and low wealth families accumulate savings for investment into long term assets such as a home, higher education, or starting a small business.

• IDA savers receive a savings match 2:1 or 3:1 is common.
WV IDA program

• The WV IDA program is administered through KISRA

• Participants agree to save a minimum of $25 per month for a period of up to two years.

• When the participate is ready to purchase the asset (home, higher education or small business) KISRA will match the savings 3:1 up to $4,000.

For more info contact Patricia Scott, KISRA, at 304-768-8924 ext. 203
The High Cost of Being Poor in KY white paper had some interesting findings:

- From Ashland to Paducah and every community in between, Kentucky’s lower-income working families often pay a premium for goods and services, making it difficult for them to build wealth, save for their children’s futures, and invest in their upward mobility.

- Higher prices start with the morning drive to work: Lower income workers in Kentucky (those earning less than $20,000 per year) are more likely to pay above average rates for auto loans, pay nearly $400 more for car insurance, and pay a higher sticker price for their car than their higher-income counterparts.

- Those who leave for work from a home they own are twice as likely to have a high-cost mortgage as are their higher-income neighbors, often costing thousands of dollars moreover the life of the loan.

- On the way back from work, more lower income workers use nontraditional financial services, paying higher fees for cashing a check or taking out a short-term loan.

- Taken together, these higher prices add up to hundreds, sometimes thousands, of dollars in extra costs for already tight family budgets.
The High Cost of Being Poor in KY white paper had some interesting findings:

- **Cashing Checks**: According to our survey, about 35 percent of regular customers of high-cost check-cashing establishments in Kentucky earn less than $20,000 annually, and about 62 percent earn less than $40,000.

- **Short-Term Loans**: Nearly 70 percent of regular customers of high-cost payday loan and pawnshops in Kentucky are lower-income residents. In Kentucky, maximum fees for these loans are $15 every two weeks on a $100 loan, or a rate 38 times higher than that charged by the average credit card company for the same
The High Cost of Being Poor in KY white paper had some interesting findings:

- **Short-Term Loans:** The number of high-cost payday lenders in Kentucky has more than doubled since 1999, from 353 to 779 establishments, opening at a rate of one every four days in 2006.

- **Pawn Shops:** Kentucky pawnshop fees, another source of high-cost loans in lower-income markets, are limited to 22 percent per month. Fees for pawnshops in other Southern states range from no limit (in Arkansas, Maryland, and West Virginia) to 20 percent or more (in nearly every other state in the region).
The High Cost of Being Poor in KY white paper had some interesting findings:

- **Tax Services:** According to our survey of Kentucky households, about one in three lower income households pays a for profit tax preparation service to do their taxes. These same lower-income households are two to six times more likely as all others to use refund anticipation loans, carrying fees that generally range between $10 and $80.
The High Cost of Being Poor in KY white paper had some interesting findings:

- **Car Prices:** More than 72 percent of lower-income households in Kentucky own a car. Nationally, consumers from lower-income neighborhoods pay up to $500 more, on average, to buy the same car that a consumer from a higher income neighborhood buys.

- **Car Loans:** Nationally, lower-income consumers pay at least 2 percentage points more for an auto loan than the average among all other consumers.

- **Car Insurance:** In a sample of prices from three insurance companies, drivers from lower-income Kentucky counties and neighborhoods pay, on average, $384 more per year for auto insurance than drivers in high-income neighborhoods.
The High Cost of Being Poor in KY white paper had some interesting findings:

- **Home Loans:** In 2005, 41 percent of the mortgages to lower income households in Kentucky were defined by the Federal Reserve as high-cost mortgages, compared with just 16 percent of mortgages sold to the highest-income households in the state.

- **Home Insurance:** In a sample of prices from three insurance companies, homeowners in Kentucky’s lower-income neighborhoods pay, on average, at least $363 more annually for home insurance than homeowners in high-income neighborhoods,
The High Cost of Being Poor in KY white paper had some interesting findings:

- **Furniture, Appliances, and Electronics:** Fifty-nine percent of rent-to-own customers earn less than $25,000 a year. Reported prices for buying from rent-to-own businesses can double the price of a product.
Summary

• The unbanked and underbanked are at an economic disadvantage.

• These are typically lower income (under $30,000 per year) households and are using high cost Alternative Financial Services.

• Connecting to the financial mainstream is safer, less expensive and is the starting point for building a relationship with a financial institution for future loan and credit needs.

• This is the High Cost of Being Poor in America.