Banking the Unbanked
Helping Low-Income Families Build Financial Assets

By Pamela Friedman

Introduction

The passage of welfare reform in 1996 has swelled the ranks of the low-income workforce. While many have successfully made the transition to employment, the road to self-sufficiency is still very challenging.

Assets are critical to enabling poor and low-income families to build the personal and financial resources they need to achieve and maintain self-sufficiency. Although many low-income families strive to save, the lack of asset accumulation among the working poor is an issue of growing national concern among policymakers, researchers, educators, and advocates for the low-income. Assets can help insure low-income families against the risk of major life events, such as divorce, unemployment, retirement, illness, and death or accidents that can cause significant financial hardship. They also enable individuals and families to obtain education and training, purchase a home, and plan for their children’s future. In this way, assets help families to not only get ahead, but to plan for themselves and pass on opportunities to future generations.

Research indicates that significantly more families live in asset poverty than income poverty. Fisher and Weber found the 1998 asset poverty rate in some communities was four times that of the income poverty rate. Hogarth and Anguelov found that 86 percent of poor and low-income households had some financial assets; however among households at the poverty level, the median value of those assets was only $300.

1 Monica G. Fisher and Bruce A. Weber, Does Economic Vulnerability Depend on Place of Residence? Asset Poverty Across the Rural-Urban Continuum, Working Paper No. 04-01, (Columbia, MO: Rural Poverty Research Center, March 2004). The authors define asset poverty as insufficient resources to sustain household members at a basic level during times of economic disruption or to invest in their future.

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One of the major causes of asset poverty is a lack of knowledge about and access to traditional banking institutions. Compared to higher income peers, low-income workers often lack relevant information about accessing mainstream banking and related opportunities, which impedes their ability to build financial assets. When low-income families turn to alternative financial institutions, they face higher costs for service. The high cost of accessing financial services takes a large bite out of their already limited cash resources, making it even more difficult to build assets.

Individuals lacking access to traditional banks, and who conduct their daily financial transactions by using alternatives to banks, are known as the unbanked or underbanked. These individuals may have been bank customers in the past, hold bank accounts but do not take full advantage of the banking system, or rely solely on alternative financial service providers. Nearly 10 million households, including 22 percent of low-income families earning less than $25,000 a year, lack bank accounts. Research indicates that among low-to-moderate income households, the unbanked tend to be minority, less educated, more likely to be unemployed, renters, and those with young children.

Some of the many reasons given for the lack of connection to mainstream financial institutions among the low-income include:

- A lack of appreciation of the costs, benefits, and risks of using alternative versus mainstream banking services.
- Traditional banking services are often not tailored to the needs of low-income families and do not offer the services most needed by residents such as money orders, phone cards, the ability to wire funds, and bill payment. The costs and fees associated with maintaining accounts may discourage low-income users. Although many banks do offer accounts geared to low-income customers, they are likely to include hidden costs such as high minimum balance requirements and fees when customers cannot fulfill minimum balance requirements.
- Incentives and opportunities for low-income families to connect to mainstream financial services are limited. Some employers do not offer payroll deduction and direct deposit. Also, low-income workers may lack steady pay from one employer, eliminating opportunities for direct deposit of their paychecks.

In addition, cultural issues related to banking influence the use of traditional institutions. Many low-income earners do not trust banks to provide accurate and relevant information, and do not appreciate the formality of traditional banking relationships. Barr and others attribute the distrust of traditional banks among low-income workers to reasons such as the desire to hide assets from creditors or avoid child support enforcement authorities, the fact that many of the unbanked may be undocumented immigrants, and the belief that evidence of asset accumulation may negatively impact eligibility for Temporary Assistance for Needy Families (TANF) and other public assistance.

Consequences

When low-income families turn to alternative financial institutions, they face higher costs for service. The unbanked rely on an array of alternative financial institutions to meet their banking needs, including check cashing stores, payday lenders,
title lenders, rent-to-own stores, and tax preparers. In many cases, these providers offer a number of benefits not associated with mainstream banking. They:

- Serve as a one-stop source for cash, credit, and short-term loans;
- Assume the risk of bounced checks and defaults; and
- Provide more personalized service.

However, these benefits come at a price that impedes savings – higher fees and rates of interest. Furthermore, personal items used as collateral to obtain credit may be lost if the loan is not repaid in full (See “Types of Alternative Service Providers and Services Provided, below).

**Strategies for Encouraging Asset Development and Savings**

States, private industry, human service providers, and advocates have a variety of options to encourage low-income consumers to use traditional banking as a means to save. This brief highlights three strategies designed to attract currently unbanked families to mainstream savings and asset development opportunities:

1. **Educate low-income consumers about the advantages of traditional banking.** Financial literacy programs can help the unbanked acquire the skills necessary to manage ongoing banking activities.

<table>
<thead>
<tr>
<th>Provider</th>
<th>Services</th>
<th>Cost or Risk to Customer</th>
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<tbody>
<tr>
<td>Check Cashing Stores</td>
<td>Immediate access to cash and bill payment, money orders, money transmission, municipal services, and phone cards.</td>
<td>Typically charge a 2-3% fee to cash payroll or government checks; up to 15% for personal checks.</td>
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<tr>
<td>Payday Lenders</td>
<td>Short-term (usually two weeks) cash advance on paychecks.</td>
<td>15-17% fee for a two-week loan; additional fee if loan is rolled over.</td>
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<tr>
<td>Title Lenders</td>
<td>Short term loans (usually one month), with automobile or other household assets as collateral.</td>
<td>15-20% monthly fee; defaults may result in loss of asset.</td>
</tr>
<tr>
<td>Rent-to-Own Stores</td>
<td>Purchases of big ticket items are paid for in monthly installments.</td>
<td>Final purchase price can be 2-3 times retail cost. Customers forgo equity until final payment. Payments over time are not refunded if item is returned.</td>
</tr>
<tr>
<td>Tax Preparers</td>
<td>Refund Anticipation Loans (RAL) based on EITC or other tax refunds provide filers with cash earlier than with direct deposit.</td>
<td>Refunds are received only 1-2 weeks earlier than if filed electronically with the IRS; filers pay interest rates of between 70-700% if calculated annually. These fees are generally deducted directly from customers’ refund checks.</td>
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2. **Encourage banks to provide services that are affordable to and routinely used by low-income consumers.** Banks may attract more low-income consumers by expanding hours of operation and offering services such as bill payment, money orders, prepaid phone cards, and cash wiring services in one convenient location.

3. **Incorporate banking into other support programs.** Federal programs designed to support low-income working families such as Electronic Benefits Transfer (EBT) and Individual Development Accounts (IDAs) provide financial institutions with opportunities to target services to the unbanked. Incorporating banking into support programs provides opportunities to connect low-income consumers to traditional banking institutions.

### Strategy # 1: Educate low-income consumers about the advantages of traditional banking

Financial literacy — understanding money, banking, credit, and how best to use financial assets to build wealth — is receiving increasing attention as an important skill for all families, including the low-income and disadvantaged. Financial literacy can provide the knowledge necessary to manage household budgets, initiate savings plans, manage debt, and make strategic investment decisions. With these basic financial planning skills it is easier to meet ongoing obligations as well as to maximize longer-term financial security. Financial literacy training can also inform consumers about bank services designed to build personal credit and help them decide which options best meet their specific needs.

Financial literacy training is provided by a variety of national and local entities including community-based organizations, community credit unions, and the Cooperative Extension Service. National organizations such as Fannie Mae and the Jump$tart Coalition work with local community partners to provide training. Many schools also offer introductory courses on savings, checking, and credit to teens. In addition, IDA programs often require that participants attend classes relevant to their savings goals and objectives. Many public

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**Minnesota Trains Front-Line Workers on Financial Literacy**

Over the past four years, the Minnesota Department of Employment and Economic Development (DEED) has completed a series of “train the trainer” sessions on financial literacy for state employment counselors and financial workers, and staff of community-based agencies and lending institutions that serve low-income workers. Over 500 front line staff who work one-on-one with low-income clients have completed training on *Money Smart*, a financial literacy curriculum developed by the Federal Deposit Insurance Corporation. In recognition of changing workforce demographics and an increase in the number of new immigrants, DEED developed *Financial Literacy: Learning the Language of Money*, a guide designed to help counselors assist clients as they navigate the U.S. banking system. The goal of the guidebook is to improve cross-cultural communication between frontline workers and immigrant clientele. It examines the history and cultural nuances of financial literacy among Hmong, Latino, and Somali populations. After reviewing financial literacy in the country of origin, it examines how these systems shape clients’ values and perspective of the American financial system. For additional information about *Money Smart* or the projects Minnesota is working on, contact Susan Tulashie at 651.297.2176 or e-mail her at susan.tulashie@state.mn.us.

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9 Recognition of the need to promote financial literacy prompted the creation of a federal Financial Literacy and Education Commission in 2004 to help Americans tackle such issues as identity theft, consumer disputes, accurate reporting of financial records, and access to consumer credit information. The commission is currently seeking input on the development of a national strategy to promote basic financial literacy and education for all U.S. citizens.

Perdue Program Offers Bilingual Financial Literacy and Homeownership Program to Employees

Last year, Perdue Farms partnered with the Delaware State Housing Authority, the National Council on Agricultural Life and Labor Research Fund (NCALL Research), Fannie Mae Delaware, and Citizens Bank to develop and pilot Finanzas, a bilingual financial literacy program. The program serves Perdue employees at its Georgetown, DE, facility, and operates in conjunction with the state’s Live Near Your Work initiative (LNYW), an employer-driven partnership to provide financial assistance to help employees purchase homes near their place of employment. Finanzas delivers comprehensive financial literacy training to employees at the workplace during work hours, with no loss in pay. In addition, a certified housing counselor from NCALL offers classes in English and Spanish. Participants in the six-week course are encouraged to open bank accounts and establish direct deposit for paychecks. During its first year, the program offered four series of classes, limited to 10 participants each, allowing the trainer to address the specific needs of each participant. Of the 40 pilot participants, 31 completed the program. Fifty-four percent of those opened savings or checking accounts. Two have become homeowners and three are in the process of purchasing a home. Another 10 participants are currently receiving homeownership counseling. As a result of the program’s success, Perdue now offers the program permanently, and plans to expand it to a second site within the state. NCALL is currently marketing the course to other businesses in the area. Citizens Bank and Fannie Mae provided funding for the program. For additional information, contact Adriana Mason at 302.855.5541 or adriana.mason@perdue.com.

Considerations

• Working in partnership with community organizations and public agencies, employers may be able to offer financial literacy benefits at no additional cost. Perdue Farms successfully raised funds from Fannie Mae and Citizens Bank to cover the costs of hiring a trainer for their financial literacy program, and was therefore able to offer employees access to training during working hours with no cut in pay and no additional cost to the company.

• Financial literacy programs can benefit both employers and employees. Perdue employees who participate in the company’s financial literacy program are encouraged to open Individual Development Accounts as a means to save for a home purchase. With support from Delaware’s Live Near Your Work initiative, they are able to purchase homes near Perdue facilities. Perdue uses this benefit as a tool to attract and retain workers.

• The cultural and language needs of program participants may influence the success of financial literacy training. When designing or choosing a financial literacy curriculum, it is important to take into account the needs of the community residents being served. Community partners can be a valuable resource in reaching non-English-speaking consumers and making materials culturally relevant. Community-based organizations can act as a bridge between the unbanked and traditional financial institutions by framing relevant information in a context more familiar to their audience.

Research has shown that financial literacy can help connect low-income families to mainstream financial institutions and boost their savings. For instance, a recent evaluation of a financial education and savings program for low-income individuals in Illinois found that program graduates reported increased usage of mainstream financial institutions as well as better budget and expense management. Over 25 percent of graduates who did not previously have bank accounts opened a checking or savings account for the first time. Seventy-four percent increased their savings and 76 percent better managed credit card debt. Others reported a positive change in the way they paid bills and managed household budgets.10

and private organizations also include financial literacy programs or counseling as part of their employee benefits package as a way to teach consumers about the value of having a relationship with a financial institution.
The Union Bank of California (UBOC) Cash and Save Program is a hybrid check-cashing service and network of bank branches in Southern California. It is a low-cost alternative to traditional banking outlets, offering customers check cashing at below-market prices. Cash and Save offers a complete range of check cashing services, including payroll and government check cashing, as well as traditional banking and full service banking products. Cash and Save does not require customers to have an account with UBOC to cash checks, but it is designed to transition repeat check-cashing customers to mainstream banking. Savings accounts can be opened with as little as $10. Services include six money orders a month, electronic transfer accounts, and basic checking. Branches are open daily and customers also have access to financial literacy training and homeownership counseling. Since its inception, 45 percent of Cash and Save customers have made the transition from check cashing to traditional banking. For additional information, contact Robyn Buckner at 213.236.7808 or robyn.buckner@uboc.com.
Bank of America’s CashPay Visa Card

The Bank of America’s CashPay Visa card is a prepaid payment card that enables employers and employees to use prepayment technology in place of paper checks. The program provides those who may not have traditional banking relationships with immediate access to their pay through the use of a Visa card, eliminating the need to use check-cashing centers or to carry large amounts of cash. With the CashPay program, employees’ paychecks are deposited to their individual accounts established by the Bank of America. The cardholder can make purchases anywhere Visa is accepted and withdraw cash from Bank of America ATMs, with up to four withdrawals a month free of charge. They receive monthly statements and can obtain account information by calling a toll-free bank number, at ATMs, or via the Internet. Bank consumer security protection policies apply for lost or stolen cards. The program also offers additional options such as the transfer of funds from checking to savings, bill payment, and bilingual program support.

Employers benefit from the reduced payroll costs associated with distributing paper paychecks, bank processing fees, and costs for lost or stolen checks. Employees benefit from access to Visa merchant locations and easy cash withdrawal. Because funds are immediately available, employees no longer need to wait for their paychecks to clear. For additional information contact John Gruce at 704-388-5532 or John.Gruce@bankofamerica.com.

CommunityLink Introduces Customers to Banking Through Internet Technology

FleetBoston Financial Corporation launched CommunityLink in 1999. The program operated through early 2004, but was discontinued when Fleet merged with Bank of America. The program provided several services to participants: Internet access, computer training, online bank accounts, and electronic bill payment services for one year. The online bank accounts did not include check writing, but did offer unlimited cash access, with no minimum balance or monthly fees. Fleet partnered with 10 community-based organizations to deliver specialized computer training to familiarize participants with Internet use and provide information about online banking services. The bank also sponsored the development of a local portal in Boston, which provided local information and news in addition to Fleet banking services. For more information on CommunityLink contact Sean Stanton at 617.346.0787, or sean_p_stanton@fleet.com.

Considerations

• Current Internet technology provides low-cost opportunities to introduce the unbanked to basic banking services. Use of the Internet has become valued and widespread even among those who do not own personal computers. Providing those who are new to banking with financial information and account access via the Internet presents opportunities to engage hesitant families in a new way that can be attractive to them.

• Partnerships among financial service institutions, such as the one created by Bethex workers. Although some banks offer several of the same services, their availability may not be well publicized, and hours are often more limited. To reach a wider audience, banks can collaborate with trusted community partners to market the availability of bank services to potential customers and orient new customers.

The unbanked represent a large and potentially profitable market for mainstream banks. Banks that develop and market specific programs to targeted groups, including low-income workers, are beginning to see profits. Although national data are not currently available, many individual banks have indicated positive outcomes. For example, some banks have aggressively marketed products to small business owners in the Hispanic community because they see a potential for profit.11

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and RiteCheck, to reach the unbanked should be evaluated carefully according to their costs and benefits. For example, RiteCheck covered the cost of installing POB terminals in each of their outlets. In turn, they were able to market and increase usage of their ancillary services to credit union members. However, each partner must insure that appropriate state regulatory, operational, and legal issues are resolved prior to program implementation.

- Attracting employers to direct deposit programs is a key to helping unbanked low-wage workers become more familiar with traditional banking services. Employers may be more inclined to participate in direct deposit programs if they understand how doing so can be cost-effective for them as well as beneficial for their employees.

- Credit unions can play an important role in giving the unbanked an introduction to banking. Their services are often less costly and more flexible than conventional banks, and they are located in communities where their members live. As cooperative financial institutions owned and operated by their members, credit unions are sometimes viewed as a middle ground between traditional banks and alternative service providers.

Strategy #3: Incorporate banking into other support programs.
The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), otherwise known as the welfare reform bill, influenced the expansion of two programs, Electronic Benefits Transfer (EBT) and Individual Development Accounts (IDAs). Both programs provide an excellent opportunity to introduce low-income families to mainstream banking, because each requires participants to maintain bank accounts.

EBT is a special application of electronic funds transfer (EFT) technology, which allows money to be taken from one account and transferred to

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Innovative Partnership Offers Credit Union Members Access to a Variety of Banking Programs

In 2000, Bethex Federal Credit Union of New York City joined forces with RiteCheck Financial Service Centers to provide a complete range of products and services that compete with alternative service providers like payday lenders. Because the partnership merged the business functions of two distinct entities, each needed to obtain regulatory approval before implementation.

The partnership helps both businesses offer a wide range of transaction, deposit, and credit services that would otherwise be unavailable to their customers. The credit union is an independent savings and loan cooperative, offering its 11,000 individual and business members, 60 percent of whom are low-income, a wide variety of services. Members can open savings accounts for themselves or their children, as well as personal and business checking accounts, IDAs, and individual retirement accounts. Additional services include ATM cards, direct deposit, money orders, travelers' checks, savings bonds, wire transfers, share certificates, credit and budget counseling, insurance, and a variety of loan opportunities. Another benefit, check cashier deposits, encourages savings by allowing credit union members to use RiteCheck Point of Banking (POB) machines to make deposits free of charge or to cash checks at lower fees if at least 20 percent of the check is deposited. In addition, members can apply for a Visa card and home mortgages, as well as overdraft protection to cover checks for up to $300. RiteCheck’s services include check cashing, utility bill payment, telephone calling cards, money wiring, postage stamps and stamped envelopes, and coin and currency sales. RiteCheck also offers extended banking hours.

The partnership benefits both businesses. Credit union members are able to make deposits at RiteCheck stores and receive free, immediate checking services on Bethex checks, resulting in increased business for RiteCheck. Bethex offers members access to POB terminals, facilitating business interactions, and has the opportunity to market its products to a wider audience. For additional information, contact Joy Cousmeiner at 718.299.3062 or joy@bethexfcu.org.
another. PRWORA required states to deliver food stamps through EBT by October 2002. Concurrently, many states also chose to develop systems to deliver cash benefits via EBT.\textsuperscript{12} Under these programs, funds are directly deposited into recipients’ bank accounts and can be accessed at ATM machines and POS terminals as well as other locations, such as grocery stores, through the use of a card similar to a bank debit card. EBT is an effective means to encourage traditional banking among the unbanked because it automatically creates a bank account and requires recipients to conduct transactions through mainstream banking institutions and processes.

Although a handful of agencies operated IDA programs prior to the enactment of PRWORA, the legislation also brought the concept of IDAs to the forefront by authorizing states to create community-based IDA programs with TANF block grant funds. IDAs are dedicated savings accounts targeted specifically to low-income working families. In addition to providing an incentive to save, they facilitate ongoing interaction with the financial institution that holds the account. IDA accounts are held in the name of the participant, who makes regular deposits, which are then matched from public, non-profit and/or private sources. IDAs generally provide matches of between one and three dollars for every dollar a participant contributes to his or her account. The match is usually managed by community-based organizations. The use of IDA savings is generally restricted to post-secondary education, business capitalization, and home ownership. IDA programs often set annual caps on the amount of matching funds account holders can receive, as well as establish minimum savings periods and goals for participants to be able to access their IDA funds.

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**Widespread Use of EBT in California Provides Opportunities for Banking the Unbanked**

As of April 2005, all of California’s 58 counties distribute food stamp benefits using EBT. Fifty-four of the counties distribute TANF benefits by EBT, including 12 counties that issue General Assistance Benefits.\textsuperscript{1} Since December 2001, California has mandated that those counties offering payroll direct deposit to their county employees must also offer a direct deposit option to cash benefit recipients.

J.P. Morgan Electronic Financial Services maintains the EBT accounts and recipients can access them via participating ATMs and POS delivery retailers. J.P. Morgan pays the interchange fees for each ATM withdrawal as well as the standard interchange for denied transactions. Of the 80 participating ATM owners, about 23 percent make their ATM surcharge-free. The state has worked to educate cardholders about how to access their benefits efficiently and an increasing percentage of withdrawals are made at free ATMs. As of October 2004, 59 percent of cash benefits are withdrawn through ATMs and 48 percent are redeemed free of charge. This compares to a national average of 65 percent of all ATM users who do not pay monthly fees.\textsuperscript{2} County welfare offices routinely receive information about cardholders who spend in excess of $10 a month on ATM fees so that they can make additional training or troubleshooting available.

Since an EBT account is not a bank account, many banks are exploring opportunities to market low-cost accounts to EBT recipients. Currently, Union Bank of California and Washington Mutual offer such accounts with no minimum deposit and low or no fees. For additional information, contact the California Department of Social Services Program and Integrity Branch at 916.654.1874.

\textsuperscript{1} General Assistance is a cash assistance program designed to meet the short or ongoing needs of low-income persons ineligible for or awaiting approval for TANF or SSI.


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\textsuperscript{12} 33 of the 41 states with statewide EBT systems deliver TANF benefits electronically. General Assistance and Supplemental Security Income are also delivered via EBT, in 13 and 9 states respectively.
Most programs also provide financial education and asset-specific training to participants.

Considerations

• As with financial literacy training, the Community Reinvestment Act (CRA) also provides an incentive for banks to increase their connection to the unbanked through IDAs. Under CRA, banks may receive credit for such activities as administering IDA accounts, providing or funding related financial literacy training, offering no-fee savings accounts, and extending loans to IDA participants to help them purchase an asset upon program completion.

• Program developers can use information and experience from the EBT and IDA programs to develop and market financial products tailored to the needs of low-income customers, many of whom were previously unbanked. Tracking ATM usage by EBT participants can help banks better determine local community need for access to automated banking. Assessment of financial education needs expressed by participants in IDA programs can help program developers design financial literacy programs that address the specific immediate and long-range needs of low-income earners. In addition to addressing savings objectives such as small business capitalization and homeownership, needed products and services may include credit and debit counseling, children’s savings accounts, and retirement savings vehicles.

Conclusion

The ability to save and accumulate assets has many positive outcomes for families, and is important to family economic security and success. While the majority of middle- and higher-income families are familiar with and routinely use mainstream banking to build credit and assets, many low-income earners do not. This results in low-income families paying higher costs for services and foregoing opportunities to build assets.

Connections to mainstream banking institutions can help low-income workers and their families build the financial assets necessary for long-term self-sufficiency. Key strategies that public and private entities can use to connect the unbanked to mainstream banking institutions are to provide...
education about the advantages of mainstream banking, encourage traditional banks to provide services that are affordable to and meet the needs of low-income consumers, and incorporate access to mainstream banking into federal programs that support low-income working families.

Resources on Accessing Banks and Other Financial Institutions

Resources from The Finance Project


Other Resources


Contact Information for Additional Resources:

Annie E. Casey Foundation
410-547-6600
http://www.aecf.org/

Center for Social Development at Washington University
314-935-7433
http://gwbweb.wustl.edu/csd/index.htm

Center on Budget and Policy Priorities
202-408-1080
http://www.cbpp.org

Corporation for Enterprise Development
202-408-9788
http://www.cfed.org

The Finance Project
202-587-1000
http://www.financeproject.org/

Housing Assistance Council
202-842-8600
http://www.ruralhome.org/index.htm

New America Foundation
202-986-2700
http://www.newamerica.net

Woodstock Institute
312-427-8070
http://www.woodstockinst.org/

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About The Finance Project

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