

Nine Million US Households Have No Bank Accounts

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By Ronald D. Orol

Roughly 9 million U.S. households have no checking or savings account, while many who do have bank accounts struggle to build credit histories, according to a Federal Deposit Insurance Corp. survey released Wednesday.

In addition to 9 million U.S. households without bank accounts, an additional 21 million households with checking accounts are considered "underbanked" because they use problematic alternative services such as payday loans or overdraft programs that provide quick cash but carry high fees or triple-digit interest rates.

According to the survey roughly 7.7% of U.S. households have no bank accounts, or are "unbanked," while 17.9% are underbanked. Together, roughly one in four U.S. households, or 25.6%, are either underbanked or unbanked.

"In addition to paying more for basic transaction and credit financial services, these [underbanked] households may be more vulnerable to loss or theft and often struggle to build credit histories and achieve financial security," according to an excerpt from a summary of the report.

The survey results are intended to help the FDIC manage a program it is administering to encourage banks to offer short-term, small-dollar loans of under \$2,500 to low-income Americans, many of whom have low or no credit scores.

The FDIC's goal is to help unbanked or underbanked Americans avoid payday loans or overdraft programs that provide quick cash but carry high fees or triple-digit interest rates. The agency will release a final report on the two- year program in February 2010.

Some banks participating in the program have offered small dollar loans for decades, but roughly half of the participating first started offering them as part of the FDIC program. So far, the banks collectively have offered \$28 million in loans under \$2,500.

The survey also reported that minorities were more likely to have no checking account or use problem alternative services.

The survey released Wednesday reports that 21.7% of black households are unbanked, while 19.3% of Hispanic households are unbanked. Roughly 3.5% of Asian and Caucasian households have no checking or savings accounts, according to the survey.

An estimated 31% of black households are underbanked while 24% of Hispanics are underbanked.

In addition, the survey found that family households with an unmarried female or unmarried male as head of the household are more likely to be underbanked or unbanked than married couple family households. Low-income people are more likely to be unbanked or underbanked.

Low-income individuals are more likely to use one of the 23,000 payday lender outlets around the country that make up the \$70 billion payday-loan market. Low- income individuals without bank accounts turn to payday lenders, who provide cash for a large fee. According to one statistic, 70% of payday loans come from repeat users.

In California, a consumer can write a check to a payday lender for \$300 to receive a two-week loan, generally until they receive their next paycheck. That breaks down into a \$45 fee for the lender and a \$255 loan, which the borrower repays when he gets his work payment. That translates into a 460% annual percentage rate fee.

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