

Latino Banking in 2017:

A Snapshot of the FDIC National Survey of Unbanked and Underbanked Households*

Background

On October 24, 2018, the Federal Deposit Insurance Corporation (FDIC) released a new survey—the 2017 FDIC National Survey of Unbanked and Underbanked Households—to estimate the share of U.S. households that do not participate or have trouble fully participating in the banking system.[†] Access to banking services is critical to helping families maximize their income and save, yet many American families—especially Latinos[‡]—remain outside of the financial mainstream.

Unbanked: individual did not have a checking or a savings account with a federally insured financial institution.

Underbanked: individuals had a bank account, but they also obtained alternative financial services (AFS) in the past 12 months.

Transaction Alternative Financial Services (AFS): nonbank products and services to conduct financial transactions, such as money orders, check cashing, and international remittances products. There is a high cost associated with transaction AFS due to repeated usage of one-time services, such as cashing a check, for which the interest rate is often two or three times higher than that of a traditional bank.¹

Credit Alternative Financial Services (AFS): nonbank products that may be used in lieu of bank credit: payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, and auto title loans. Many of these products, such as payday loans that can reach up to 400% APR, offer quick cash or goods but are often much more expensive when compared to consumer installment loans offered by insured institutions.

Both unbanked and underbanked households have an increased financial burden to complete the most basic financial transactions which can result in deeper financial insecurity.²

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† The FDIC National Survey of Unbanked and Underbanked Households data may depict slightly better circumstances for households since it uses online survey instruments to collect the data, which more affluent communities are more likely to respond to.

‡ The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

Latinos have had long-standing challenges connecting to mainstream financial institutions. Since the initial FDIC survey was released in 2009, Latinos have had excessively high rates of unbanked and underbanked households. For example, in 2017, the data shows Latino households remained disproportionately disconnected from mainstream financial services. Latinos represented 18% of the 2017 U.S. population³, 14% of the unbanked population, and 28.9% of the underbanked population. A more inclusive financial system is essential to the economic security of this growing base of the U.S. population and their ability to contribute to the nation’s financial system.

Using data from the 2017 national survey, this fact sheet examines the banking status, account access methods, credit access, and methods for conducting financial transactions among Latino and White households.

Banking Status of Latinos

More Latinos are entering the financial mainstream and managing their finances with insured institutions.

- The rate of unbanked Latinos has continuously decreased since 2009—reaching the lowest rate in almost a decade.
- In 2017, 14% of Latinos were unbanked, compared to 16% in 2015, 18% in 2013, and 20% in 2011 and 2009.
- For Latinos who did not own a bank account, one-in-three (31.4%) stated that “not having enough money” was the reason for not owning an account. This reason was followed by nearly one-in-seven (13%) who shared a distrust of banks and one-in-10 (10.5%) who stated that account fees are too high.
- Volatility of Latino incomes may influence the usage of a bank account. In 2017, 19.3% of Latinos reported having income over the last 12 months that

“varied somewhat month to month,” compared to 15.8% of Whites. Similarly, 4.2% of Latinos compared to 3.8% of Whites reported having an “income [that] varied a lot month to month” during the previous 12 months.

Rates of underbanked Latinos has remained nearly the same over the last eight years.

- In 2017, 28.9% of Latinos were underbanked, compared to 29.3% in 2015, 28.6% in 2013, and 24% in 2009.
- In 2017, 31.9% of Latinos owned only a checking account and 3.1% owned only a savings account.
- Savings account ownership for Latinos remained almost unchanged between 2013 and 2017—increasing from 66.3% to 68.1%.
- Spanish-only speakers are more likely to have only a checking account or a savings account, than to have both types of accounts. Savings account ownership for Spanish-only speakers fluctuated slightly since 2013—decreasing from 52.6% in 2013 to 50.3% in 2015, and then back up to 53.1% in 2017.

Primary Methods Used to Access Bank Accounts

Online and mobile banking has grown to be a more prominent form of access to financial services for Latinos.

- In 2017, slightly more than one-in-four (25.8%) Latinos used online banking as their primary method to access their bank accounts.
- Latinos’ use of mobile banking has more than doubled since 2013 and remains higher than that of Whites. Latinos’ use of mobile banking grew from 8.3% in 2013 to 19.3% in 2017, compared to White households whose rates grew from 5% in 2013 to 15.3% in 2017.

- Latinos’ use of mobile banking is most likely to increase, as younger Latinos age into the financial market, and as financial technology (fintech) companies expand their services to traditionally underserved borrowers.

As the use of online and mobile banking has increased, the rate of Latinos who visited a bank teller or an ATM to access their accounts has decreased.

- The most common online and mobile activity used by Latinos was to check e-mail sent from a bank about an account, performed by 49.6% of Latinos. Other common activities included: receiving text message alerts (39.8%) and checking their account balances and transactions using their mobile device (37%).
- In 2017, 25.9% of Latinos used bank tellers as the primary method of accessing their account—a decrease of 3.4% since 2015 and an 8.1% decrease since 2013. The use of ATMs by Latinos has steadily declined since 2013 but remains the third most common way for Latinos to access their accounts, after bank tellers and online transactions.

Bank tellers and ATMs remain an important access point for certain segments of the Latino population—specifically lower-income households, seniors, and Latinos in rural areas.

- Spanish-only speakers were more likely to visit a bank teller than non-Spanish speakers. In 2017, 41.7% of Spanish-only speakers visited a bank teller as their primary method of access, versus 23.8% of non-Spanish-only speakers.

Methods Used to Conduct Financial Transactions

Latinos have historically been more prone to using cash to conduct financial transactions but have slowly gravitated to online or mobile methods.

- From 2015 to 2017, Latinos using electronic payment methods to pay

their bills slightly increased, while the use of cash, check, or money orders to pay bills has remained nearly the same.

- Electronic payments from bank accounts remained the most prominent form of bill payment for Latinos at 57.2%, followed closely by the use of debit cards by 53.6% of Latinos.
- Personal checks remained the third most prevalent method of bill payments for 44.6% of Latinos—a 2% increase since 2015.
- Latino households were more likely to rely on cash, non-bank money orders, and prepaid cards than their White counterparts. For example, in 2017, 60% of Latino households used only bank methods to pay bills, compared to 85.1% of White households.

As Latinos’ use of direct deposit has increased, the rate of Latino households receiving income via checks and cash has remained the same.

- Direct deposit was by far the most prevalent method for receiving income for Latinos. Growing from 64.1% of Latino households in 2015 to 73.8% in 2017.
- In 2017, roughly a third of Latinos (34%) received income as a check or money order—the same since 2015. Similarly, Latino households receiving income in cash hovered around 14% from 2015 to 2017.
- Latinos remain more likely to use non-bank check cashers to receive income. Specifically, in 2017, 4.1% of Latinos used a check casher to receive income compared to 1.1% of White households.

Latinos’ use of transaction AFS has steadily declined since 2011—but remains prominent compared to White households.

- In 2017, 32.4% of Latino households used transaction AFS in the previous 12 months—a 7.1% decrease since 2011. Yet, the rate of Latino households using transaction AFS remains more than double that of White households (12%).

Access to Credit

Accessing mainstream credit continues to be a challenge for Latinos.

- In 2017, only slightly over two-out-of-three (68.8%) Latinos used mainstream credit in the past 12 months, compared to almost seven-out-of-eight (85.7%) Whites.
- Latinos at all income levels used mainstream credit at lower levels than Whites.

Latinos' use of credit AFS remains well above their White counterparts.

- In 2017, 8.2% of Latinos used an AFS provider for credit in the previous 12 months, compared to 5.6% of Whites.
- The use of credit AFS reflects the difference in ability to access mainstream credit between Latinos and Whites. Nearly one-out-of-three (31.5%) Latinos had no mainstream credit in 2017 compared to just one-in-seven (14.4%) Whites.

Latinos also have an unmet demand for mainstream personal lines of credit.

- In 2017, 3.1% of Latinos were denied a credit card, personal loan, or line of credit from a bank in the past 12 months—compared to 2.4% of Whites.
- Denial rates have adversely impacted the willingness of Latinos to seek a line of credit from a mainstream bank. For example, 7% of Latinos did not apply for a line of credit from a mainstream bank in the previous 12 months due to fear of denial, compared to 4.5% of Whites.

Conclusion

Access to financial services is a critical stepping-stone to financial security and asset-building for Latino families. Securing an affordable bank account with a financial institution and avoiding AFS would reduce transaction costs and safeguard savings for Latino households. The data shows that despite progress, much work remains to fully analyze this data to understand the nuances of the financial lives and needs of Latinos and ensure that those needs are met.

Increased Latino financial inclusion will require a matched effort from both the private and public sectors. Financial institutions must develop interventions that are culturally and linguistically appropriate and address both the supply and demand challenges of banking services, such as increased access to small-dollar credit. Policymakers must consider increased consumer protections for Latino families given the expansion of mobile and online banking services. This coordinated effort is essential to the financial security of Latinos and their ongoing contributions to the nation's financial system.

Endnote

- 1 "Financial Exclusion: Why It Is More Expensive to Be Poor." Penn Wharton Public Policy Initiative. Accessed December 13, 2018. <https://publicpolicy.wharton.upenn.edu/live/news/1895-financial-exclusion-why-it-is-more-expensive-to-be>.
- 2 "What Are the Costs and Fees for a Payday Loan?" Consumer Financial Protection Bureau. Accessed December 13, 2018. <https://www.consumerfinance.gov/ask-cfpb/what-are-the-costs-and-fees-for-a-payday-loan-en-1589/>.
- 3 U.S. Census Bureau, "Quick Facts," (Washington, DC: US Census Bureau), <https://www.census.gov/quickfacts/fact/table/US/RHI725217>.