KANSAS CITY FED EXAMINES UNBANKED AND UNDERBANKED POPULATION

Each day, an estimated 2.3 million households across the Tenth Federal Reserve District—more than one in four—turn to payday lenders, check cashing outlets, convenience stores and other nonbank businesses to meet their financial service needs.

A new study of this population by the Federal Reserve Bank of Kansas City provides insight into why some consumers choose to manage their finances outside the traditional banking system. Through a series of focus groups in Kansas City, Denver, Omaha and Oklahoma City, dozens of unbanked and underbanked consumers discussed their mistrust of banks, how that mistrust affects their decisions, and their personal strategies for meeting financial goals through alternative financial service providers. The complete results of the study are available at unbanked.kcfed.org.

The study found that unbanked and underbanked consumers:

- face external pressures and financial challenges that limit their ability to use banks;
- use complex financial management strategies to meet their financial service needs based on cost, comfort and convenience standards;
- develop these strategies through personal experience and the influence of others; and
- express a desire to use banks and rejoin the financial mainstream.

“Unbanked and underbanked consumers are finding checking and savings accounts less relevant to their financial lives, but research shows that access to safe and affordable bank services is a key step in achieving personal financial stability,” said Thomas Hoenig, president of the Federal Reserve Bank of Kansas City. “We hope this study will provide an understanding of these challenges and assist financial institutions, policymakers and community organizations in improving the outcomes for all involved.”

The Federal Reserve Bank of Kansas City, along with its branches in Oklahoma City, Omaha and Denver, is responsible for the Tenth Federal Reserve District: Kansas, Colorado, Oklahoma, Nebraska, Wyoming, western Missouri and northern New Mexico.