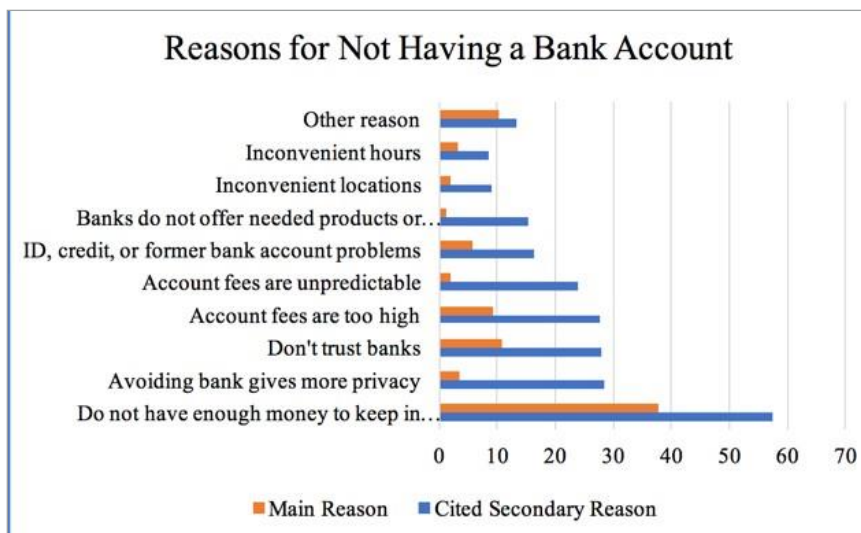


The Consequences of Being “Unbanked” in Buffalo

Jessica Gilbert

The Unbanked

In 2015, 7% of households, or 15.6 million adults and 7.6 million children, in the United States were unbanked, meaning that they were without access to a checking or savings account.¹ As a result, members of these households are forced to use expensive alternative financial services, such as check cashing services, pawn shops, and rent-to-own stores.² The majority of unbanked families are low-income, 83% of whom earn less than \$25,000 a year.³ Other groups that tend to be disproportionately unbanked include racial minorities, as well as the less educated, younger, female, unmarried or unemployed populations.⁴ In addition, 13% of households with an income that varied significantly from month to month were unbanked, compared to only 5% of households with a steady monthly income.⁵



Source: FDIC Division of Depositor and Consumer Protection. FDIC National Survey of Unbanked and Underbanked Households, 2015.

While there are many reasons for being unbanked, the most common reason is not having enough money to keep in a bank account. Other reasons include protecting personal privacy, not trusting banks, and not being able to afford the large fees charged by banks. In addition, many households are

This policy brief was drafted by Jessica Gilbert, a research associate at the Partnership for the Public Good and a Ph.D. student in geography at the University at Buffalo.

It offers national and local information about people who lack bank accounts and describes some of the impacts of being “unbanked,” including reliance on exploitative services such as check cashing, rent to own stores, and pawn shops.

This research supports the work of the Buffalo Niagara Community Reinvestment Coalition, which fights for banking reform, community reinvestment, and access to fair and affordable housing that provides all residents with the opportunity, capacity, and resources to live in stable communities and build wealth. Learn more at www.bnrcrc.org.



deterred from banking because they feel that banks are uninterested in their business. More than 50% households reported feeling this way, compared to only 12% of fully banked households. This feeling of being unwanted serves to exacerbate the disparity between the banked and the unbanked.⁶

Being Unbanked in Buffalo

Buffalo is ranked in the top ten most unbanked large cities in the United States.⁷ Despite a drop in the number of unbanked households from 2013 to 2015, the city’s unbanked rate (8.4%) is still above the national rate (7.7%).⁸ However, Buffalo’s unbanked populations are not evenly distributed throughout the city, but instead reflect the city’s entrenched patterns of racial segregation. One of the initial and most significant causes of this segregation was the explicitly racist mortgage underwriting policy of the Federal Housing Administration which, beginning in the 1930s, discouraged banks from backing mortgages for non-whites and in non-white areas. This was the origin of redlining—a practice that denies services to residents located in specific geographic areas with a certain demographic composition. Redlining was reinforced by widespread institutional disinvestment, which further discouraged banks and other

“Have you ever had a bank account before? Yeah, and if you got any outstanding bills, they’ll freeze your account. Okay?... That’s why I keep my money.”

“I don’t trust banks. I just don’t.”

Conversation with Resident of Buffalo’s West Side



Figure 2: 1937 Federal Housing Administration Residential Security Map

Source: University at Buffalo Regional Institute, State University of New York at Buffalo, School of Architecture and Planning, and Make Communities, “The Racial Equity Dividend: Buffalo’s Great Opportunity,” 2016.

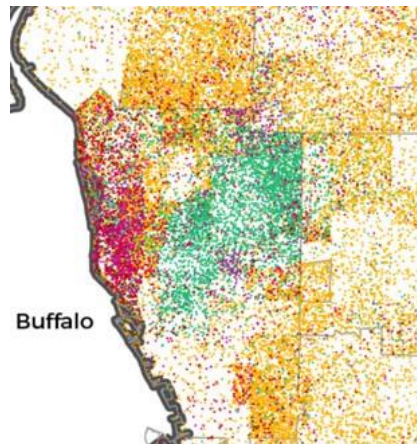


Figure 3: Population Distribution by Race and Ethnicity, 2013

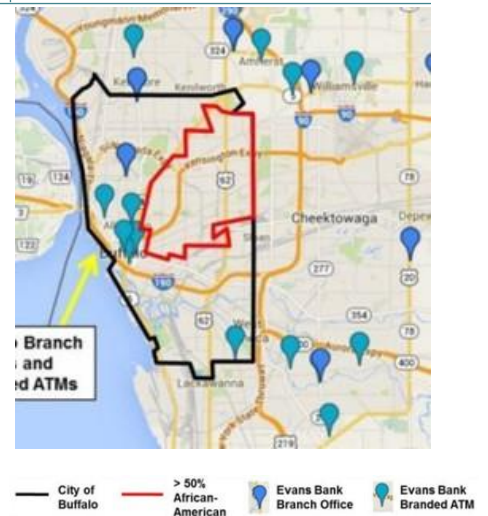


Figure 4: Evans Bank Placement and Redlining in Buffalo

Alexander C. Kaufman, “Map Illustrates Bank’s Alleged Racist Mortgage Policies,” *Huffington Post*, 2014.

necessary services from locating in these areas and thus further depressed the economic vitality of the areas within the redlined zones.⁹ Today, despite community reinvestment policies and programs, this legacy of discrimination persists in Buffalo.¹⁰

Notice the corresponding patterns between Figures 2, 3, and 4: Figure 2 shows in red the areas that banks were recommended to avoid in 1937, Figure 3 shows in green the area of Buffalo that is predominantly African American, and Figure 4 compares the same area to the locations of Evans Bank branches and the area of Buffalo where the Bank decided not to market its products (Evans was sued by the New York State Attorney General for redlining in 2014).

Effects of Being Unbanked

Since 2010, the number of bank branches in the United States has been shrinking, with 20% of branch closings occurring in census tracts that are home to minority and low-income populations and that contain no other bank branches.¹¹ Such branch closings limit local residents’ access to banking services, such as loans and mortgages, methods of financial saving, and credit building. Residents are unable to easily pay bills or have paychecks directly deposited into accounts. As a result, they are forced to use exploitive services to access their money or make purchases.¹²

In addition, the unbanked populations often opt to hide their money at home, which places them at risk of losing what they have saved to theft, fire, or natural disaster.¹³ Keeping money at home also significantly decreases the likelihood of saving money, which means that many unbanked populations do not have any sort of financial cushion to guard themselves against financial crisis.¹⁴

Another significant consequence of being unbanked is not having access to mainstream sources of credit that are necessary for financial stability.¹⁵ Not being able to establish credit prevents the unbanked from using services such as loans or mortgages and from building long-term assets. For example, as a result of having no credit, it is extremely difficult for unbanked populations to become homeowners, attain higher levels of education, or develop skills necessary for many better paying jobs.¹⁶

“My brother, his house burnt up Thursday, he had \$900 in his pocket in the closet. After they get out the fire, from panicking, now he remember where he got the money, but it was too late.”

Conversation with Resident of Buffalo’s West Side

“I go to the corner store on 14th and Connecticut or to Tops, they charge me a dollar. I go home, and whatever it is I don’t feel like spending, I put it in my shoebox. It’s protected, I know where it’s at, and nobody’s spending it for me.”

Conversation with Resident of Buffalo’s West Side

Service	Fee/Rate per Transaction	Number of Transactions per Year	Annual Gross Revenues	Annual Total Fees
Check Cashing	2-3% for payroll and government checks (Can exceed 15% for personal checks)	180 million	\$60 billion	\$1.5 billion
Pawnshops	1.5-25% monthly 30-300% APR	42 million	\$3.3 billion	N/A
Rent-to-Own	2-3 times retail	3 million	\$4.7 billion	\$2.35 billion
Total	N/A	225 million	\$68 billion	\$3.85 billion

Figure 5: Certain Financial Services Used by the Unbanked
 Source: Adapted from James H. Carr, Jenny Schuetz, *Financial Services in Distressed Communities: Framing the Issue, Finding Solutions*. Progressive Policy Institute, 2001.

Check Cashing Services

One of the most popular services for the unbanked are check cashing outlets, which charge a fee to cash paychecks or government checks. In 2000, the two largest check cashing companies cashed over \$6.5 billion, while it is unknown how much was cashed through the growing industry of unlicensed and unregulated service providers.¹⁷ Check cashing outlets also offer other services, such as handling bill payments, selling money orders and prepaid cards, and transferring money electronically.¹⁸ Fees for cashing checks in these outlets vary throughout the country. In Buffalo, state-chartered check cashers charge 2.5% of the check’s value, but unauthorized outlets charge much larger percentages. In addition, check cashing services can charge up to 20% for cashing personal checks.¹⁹ As a result, unbanked families making \$12,000 a year generally pay a yearly sum of at least \$250 in check cashing fees.²⁰ While all unbanked populations tend to favor check cashing services for their financial transactions, minority populations use them more than white populations, which further contributes to the racial disparities among the unbanked.²¹

“I was just thinking about it recently, you know, I work, I get checks and stuff so I want to be able to do direct deposit, but I don’t want someone else spending my money for me. That’s the problem.”

Conversation with Resident of Buffalo’s West Side



Figure 6: Price Tag at a Rent-to-Own Store

Rent-to-Own Stores

Another service that is popular among unbanked populations are Rent-to-Own stores. These stores offer purchasing credit to customers who do not have the ability to purchase the desired item on the spot from other retailers, due to having no credit card or the full cash amount necessary.²² Rent-to-own stores lease furniture, electronics, appliances, and other items to customers for weekly, biweekly, or monthly payments.

Customers have the option of either returning the item if they no longer want it or cannot make the payments, or completing the payment schedule and thus becoming the owner of the item. However, if the person leasing the items completes all of the payments required for ownership, they end up paying two to three times more than the interest included in these payments (see Figure 6). It is estimated that 60%-70% of rent-to-own customers eventually purchase their leased items.²³ In addition, while no credit is needed in order to lease items from rent-to-own stores, they also do not report on-time payments to the credit bureaus, meaning that making scheduled payments does not improve customers' credit.²⁴

Finally, if customers do not make their payments on time, rent-to-own stores have the ability to repossess their merchandise. When this happens, the customer loses both the items that they were leasing and the previous payments that they had put towards the lease.²⁵

Pawn Shops

Unbanked populations also frequently make use of pawn shops as a way to secure funds or take out small loans. Most pawn shops operate by giving loans in exchange for holding onto an item of value owned by their customer for collateral. The shops then charge high interest rates on the loans that they have given out. In addition, some agreements with pawn shops allow for loan extension, but for additional fees or even higher interest rates.²⁶ However, not all pawn shops in Buffalo do this, because Erie County has capped loan interest rates at 3 percent, which is too small a percentage for such loans to be worth making. Instead, many pawn shops in Buffalo simply purchase items from people who need money.

The owner of one shop said that he often gets the same people in his shop, first to sell something because they need money, and then later to buy that same thing, or something similar, back because they have recently come to have money again. The shop owner noted that you have three types of merchandise that people come in to sell: tools, electronics, and silver and gold.

“That’s the main thing that you do when you’re broke, you pawn your TV, right?”

Conversation with Buffalo Pawn Shop Owner

“You ever hear of the phrase, ‘the rich get richer and the poor stay poorer’?”

Conversation with Resident of Buffalo’s West Side

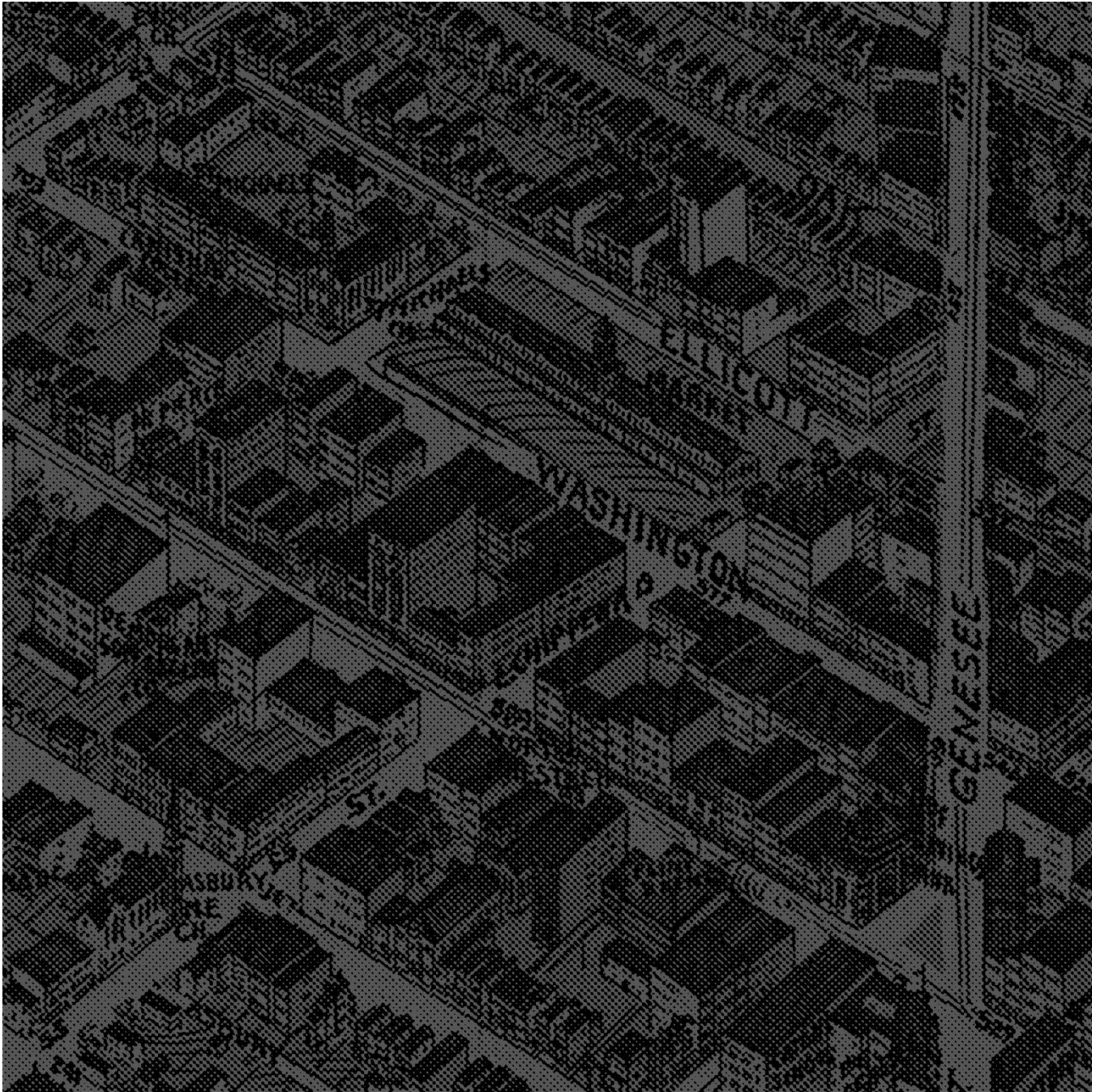
Conclusion

Unbanked populations, both in Buffalo and elsewhere, face many hardships, and are exploited from many different sources, as a result of not having bank accounts. These populations do not have access to means of creating financial stability because they are unable to build credit, take out loans or mortgages, and are much less likely to save their money. In addition, the unbanked must use alternative financial outlets that charge high fees for services such as cashing checks, as well as stores like rent-to-own stores and pawn shops, who make money primarily by doing business with, and often exploiting, the impoverished. Due to the use of such services and stores, low- and moderate-income populations find that it is extremely difficult to dig their way out of poverty.

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