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TO: COUNCIL MEMBERS
FROM: David Whitaker, Director 
Legislative Policy Division Staff
DATE: July 5, 2024
RE: **Report on the current Percentage of Unbanked Detroiters**

Council Member Coleman Young requested that the Legislative Policy Division (LPD) draft a report on the current percentage of unbanked Detroiters.

This report is our response to this inquiry.

Percentage of the unbanked

According to the Federal Reserve Bank of Cleveland's Report, *Unbanked in America: A Review of the Literature*,¹ dated May 26, 2022, Michael S. Barr, an American legal scholar along with the University of Michigan, determined that **30% of adults in the metro Detroit area were unbanked**. The FDIC (The Federal Deposit Insurance Corporation) defines the unbanked as those households that have neither a checking or a savings account in a bank or a credit union.

Reasons for not having a bank account

In 2019, The FDIC in its "Survey of Household Use of Banking and Financial Services," asked households about their reasons for not having a bank account. The reasons are indicated in the chart below:

Reasons among the Unbanked for Not Having a Bank Account, 2019 (by percentage)

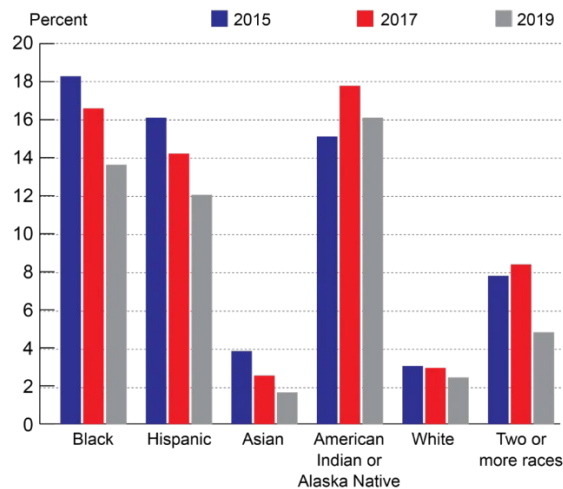
¹ [Unbanked in America: A Review of the Literature \(clevelandfed.org\)](https://www.clevelandfed.org/publications/unbanked-in-america) by Paola Boel and Peter Zimmerman

	Cited reason	Main reason
Cannot meet minimum balance requirements	48.9	29.0
Lack of trust in banks	36.3	16.1
Desire for more privacy	36.0	7.1
High bank account fees	34.2	7.3
Unpredictable bank account fees	31.3	1.6
Identification, credit, or former bank account problems	20.5	8.0
Banks do not offer needed products and services	19.6	1.9
Bank locations are inconvenient	14.1	2.2
Bank hours are inconvenient	13.0	2.4
Other reasons	17.8	13.9
No cited reason	10.4	10.4

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According to the FDIC (2020), US households belonging to racial and ethnic minority groups are less likely to be banked, as shown in Figure 3³ below. Faber and Friedline (2020) conducted an independent survey among 1,344 banks across the United States to investigate differences in the costs and fees of checking accounts at commercial banks. They found the costs of opening and maintaining accounts to be higher in areas with larger Black and Hispanic populations.⁴

Figure 3: Unbanked Rate by Race or Ethnicity, Selected Groups



Source: FDIC (2020)

Note: We follow the FDIC classifications for race and ethnicity.

Conclusion

In its report, the Federal Reserve Bank of Cleveland concluded that cash use is declining in the United States. Cash was used for 40 percent of transactions in 2012 (Greene, Schuh, and Stavins, 2018),⁵ 26 percent in 2019 (Greene and Stavins, 2020)⁶ and just 21 percent in 2020 (Foster, Greene, and Stavins, 2021).⁷ However, cash transactions remain prevalent for the unbanked. As In 2020, unbanked consumers used cash for 60 percent of their payments, compared to only 19 percent for banked consumers.

² Source: FDIC (2020) Note: The FDIC survey asked unbanked households about their reasons for not having a bank account. Households were asked to cite all reasons that apply and then choose the main reason.

³ The FDIC survey collects data at the household, not individual, level. The race or ethnicity of a household is determined by that of the owner or renter of the home. We drop the category “Native Hawaiian or Other Pacific Islander” because the sample size in 2019 is too small to produce a precise estimate.

⁴ [Unbanked in America: A Review of the Literature \(clevelandfed.org\)](https://www.clevelandfed.org/publications/unbanked-in-america-a-review-of-the-literature)

⁵ [The 2012 Diary of Consumer Payment Choice - Federal Reserve Bank of Boston \(bostonfed.org\)](https://www.bostonfed.org/publications/the-2012-diary-of-consumer-payment-choice)

⁶ [2020 Survey of Consumer Payment Choice - Federal Reserve Bank of Atlanta \(atlantafed.org\)](https://www.atlantafed.org/publications/2020-survey-of-consumer-payment-choice)

⁷ [2020 Survey of Consumer Payment Choice - Federal Reserve Bank of Atlanta \(atlantafed.org\)](https://www.atlantafed.org/publications/2020-survey-of-consumer-payment-choice)

The unbanked rate has been decreasing in the United States, but it remains high compared to unbanked rates in other developed economies. Lower-income and racial and ethnic minority households are more likely to lack access to a bank account than white households with higher incomes. Fees and minimum balance requirements are important factors in the decision to be unbanked. However, several studies show that when fees are constrained, banks find low-balance accounts unprofitable, so access to bank accounts can actually decline. The most effective way to reduce financial exclusion remains an open question. Several existing initiatives and proposals could be interesting topics of study.