

## What Accounts for Racial and Ethnic Differences in Use of Bank and Nonbank Financial Services?

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**Preliminary – please do not cite without authors' permission.**

Policymakers have had longstanding interest in expanding access to banking services among underserved populations. Basic retail banking services provide consumers with important protections and benefits, such as deposit insurance and fraud protection. Use of banking services may also improve consumers' financial stability through asset building tools like savings accounts and through increased access to mainstream credit. Building a positive credit history and having access to safe and affordable credit are important for weathering financial shocks and promoting financial wellbeing.

According to Federal Deposit Insurance Corporation (2016), 7 percent of U.S. households did not have a checking or savings account in 2015. This rate varied considerably across household characteristics, including race and ethnicity. Strikingly, 18 percent of black households and 16 percent of Hispanic households did not have an account in 2015, compared to only 3 percent of white, non-Hispanic households. Likewise, use of credit and check cashing services varied widely by race and ethnicity, with black and Hispanic households less likely to have a credit card and more likely to use payday loans and check cashing services.

Our study explores the role of households' attitudes and perceptions towards banks, geographic proximity to bank branches and nonbank financial providers, local financial institution characteristics, and local area population attributes in explaining these racial and ethnic differences. The analysis uses nationally representative data from the June 2015 FDIC Unbanked and Underbanked Supplement to the Current Population Survey (CPS). The supplement collects household-level information on use of bank and nonbank financial products and services, as well as households' attitudes and perceptions about banks. In addition to the extensive economic and demographic characteristics in the base CPS (e.g., income and marital status), we use restricted-access geographic identifiers (census block group) to merge in local area population attributes (e.g., racial and ethnic compositions), geographic proximity to bank branches and nonbank financial providers (e.g., distance to nearest bank branch), and local financial institution characteristics (e.g., average account related fee revenue).

Prior research provides evidence of racial and ethnic differences in bank account ownership and use of credit and check cashing services, with substantial differences that persist even after accounting for economic and demographic characteristics, such as income, educational attainment, and age. Relative to the prior literature, a key contribution of our study is the inclusion of richer demand- and supply-side factors made possible by the geographic specificity of the restricted-access CPS data. These factors help explain remaining racial and ethnic differences in use of financial products and services, that is, even after accounting for household-level economic and demographic characteristics. Through a clearer understanding of what drives these differences, policymakers can more effectively develop strategies to encourage participation in the financial mainstream.

### References

Federal Deposit Insurance Corporation. (2016). *2015 FDIC National Survey of Unbanked and Underbanked Households*. Federal Deposit Insurance Corporation, Washington, DC. Retrieved from [www.economicinclusion.gov/](http://www.economicinclusion.gov/).

### Acknowledgements

The views expressed here are solely those of the authors and do not necessarily reflect the views of the Federal Deposit Insurance Corporation. The authors would like to thank participants at an FDIC Division of Depositor and Consumer Protection research workshop for helpful comments and suggestions.

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