

Banking the Unbanked

Closing the Racial
Wealth Gap Series



A distrust of mainstream financial institutions, the limited presence of these institutions in communities of color and the misleading fee structures found on bank products have caused many low-income communities of color in Illinois to turn to alternative financial services for their banking needs.

Lack of Safe Financial Products & Services

Many families in Illinois have no, or limited, contact with a mainstream financial institution. Unbanked families are those without any relationship with a mainstream bank or a credit union; they don't have any kind of savings or checking account. Underbanked families have a checking or savings account but continue to rely primarily on alternative financial services like check cashers, currency exchanges, and payday lenders.

Unbanked in Illinois:

- An estimated 1.08 million households are unbanked or underbanked.
- An estimated 53% of African American households and 27% of Latino households are unbanked or underbanked, compared to 15% of white households.
- These households face challenges in building a credit score, which is used to access credit, sign a rental lease, and, in some cases, secure employment. 54% of individuals in predominantly African American neighborhoods had a credit score below 620 - the common boundary below which credits consider a person to be a high-risk for default.
- The average unbanked worker in Illinois spends \$574 a year to cash their payroll checks.
- 16% of the underbanked obtained at least one loan from a payday lender.

The high rate of un/underbanked households and the lack of financial institutions that provide safe products and practices in communities of color are contributing to the racial wealth gap.

Why Banking is Important

Relationships with mainstream financial institutions – banks and credit unions – can help build credit histories and move people toward positive, wealth building activities like savings accounts, credit builder loans, home mortgage loans, college savings accounts, and retirement savings.



Policy Recommendations: Moving People into Safe Banking Services

1. State and local governments should provide incentives, such as free bill payment for municipal services at banks, to encourage people to participate in mainstream banking.
2. Specific marketing and outreach should be created in conjunction with community-based organizations to address unique cultural issues regarding banking practices and beliefs.
3. Mainstream financial institutions should be encouraged to offer low-cost alternatives to payday loans and check cashing to begin developing relationships with clients unfamiliar or uncomfortable with them.

Banking Resources

Bank On Chicago

Bank on Chicago is a cooperative effort by the Chicago City Treasurer's Office, local banks, and community partners to offer easy-to-access checking accounts for unbanked and underbanked individuals. Bank On Chicago creates an opportunity for first-time account holders to open a checking account at select financial institutions. These checking accounts have low monthly fees, no minimum monthly balance, and free check cashing, which will lower the cost of banking for consumers that currently use unconventional financial service providers such as currency exchanges and check cashers. www.bankonchicago.com



Illinois Saves

The Illinois Saves program is a successful public/private partnership between state government, non-profit community organizations, and financial institutions. Participants who complete 12 hours of Wealth & Wellness financial education at Heartland Alliance are eligible to receive a certificate issued by the Illinois Department of Financial & Professional Regulations (IDFPR), which can be used to open up a "second chance" bank account at participating financial institutions. <http://illinois-saves.org>



To Connect with these Banking Programs, Contact:

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