



Why the Unbanked Refuse to Cash Checks

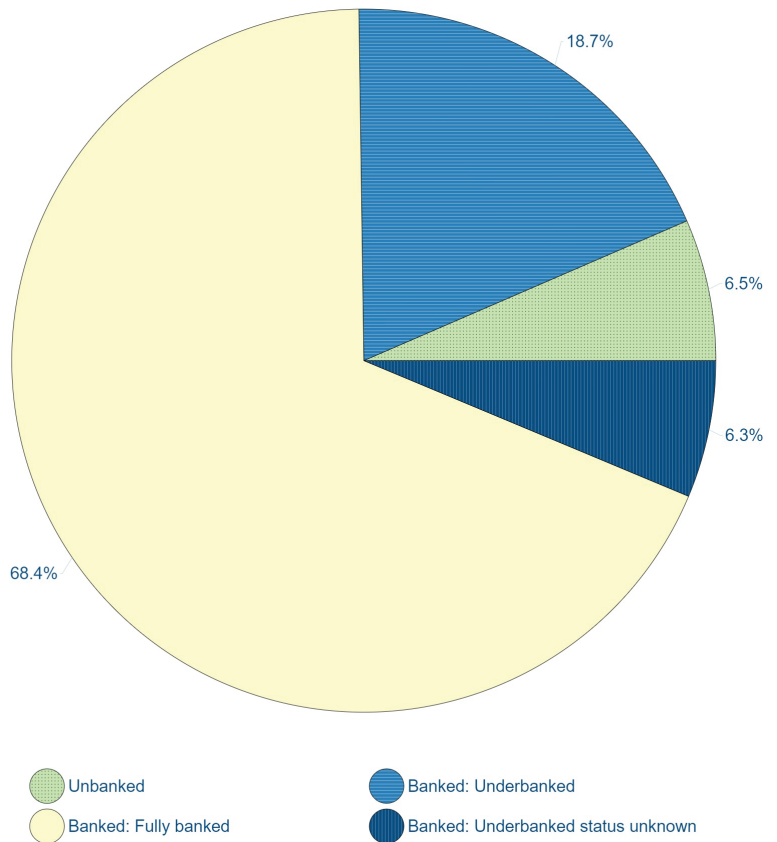
How to pay them & keep reconciled accounts

May 2020 White Paper

INTRODUCTION

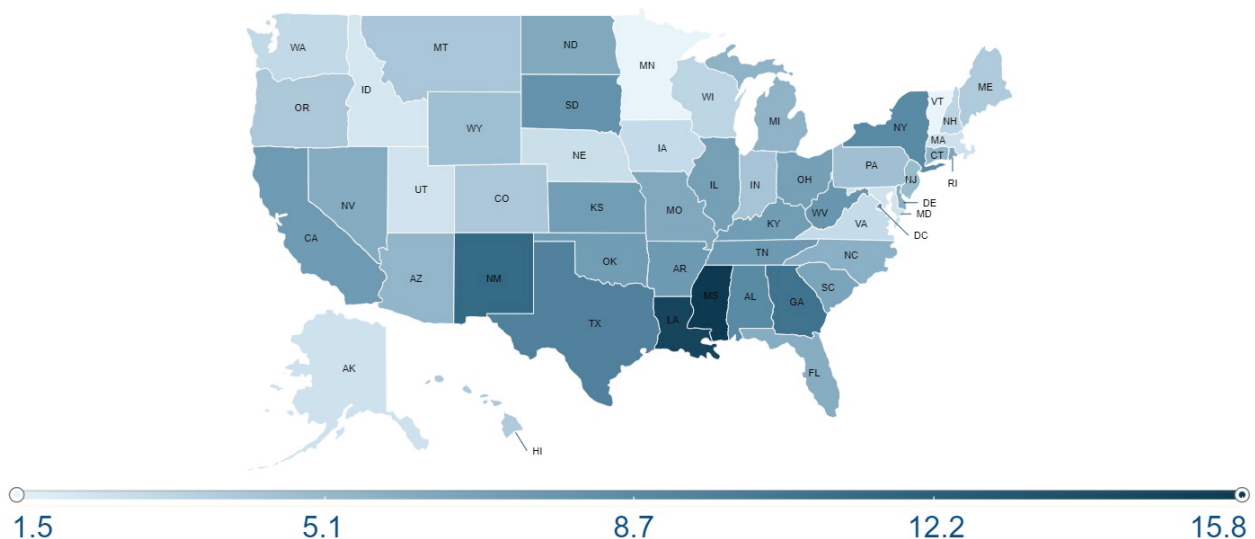
The last FDIC Survey^[1] was held in 2017 and uncovered astonishing information regarding the unbanked and underbanked households. 6.5 percent of U.S. households were unbanked – which comprises of 8.4 million households or 14.1 million adults and 6.4 million children. Being underbanked means that while the household has an account at an insured institution, they obtained financial products or services (such as paying bills) outside of the banking system. Approximately 24.2 million households, or 48.9 million adults and 15.4 million children, were considered underbanked in 2017. 9.2 percent of U.S. households used prepaid cards; unbanked households were the most likely to use prepaid cards.

Unbanked and underbanked for Nation, 2017
All Households



• Source: 2017 FDIC National Survey of Unbanked and Underbanked Households.
• Underbanked definition is based on the following AFS: check cashing, money order, remittance, payday loan, rent-to-own service, pawn shop loan, refund anticipation loan, and auto title loan.

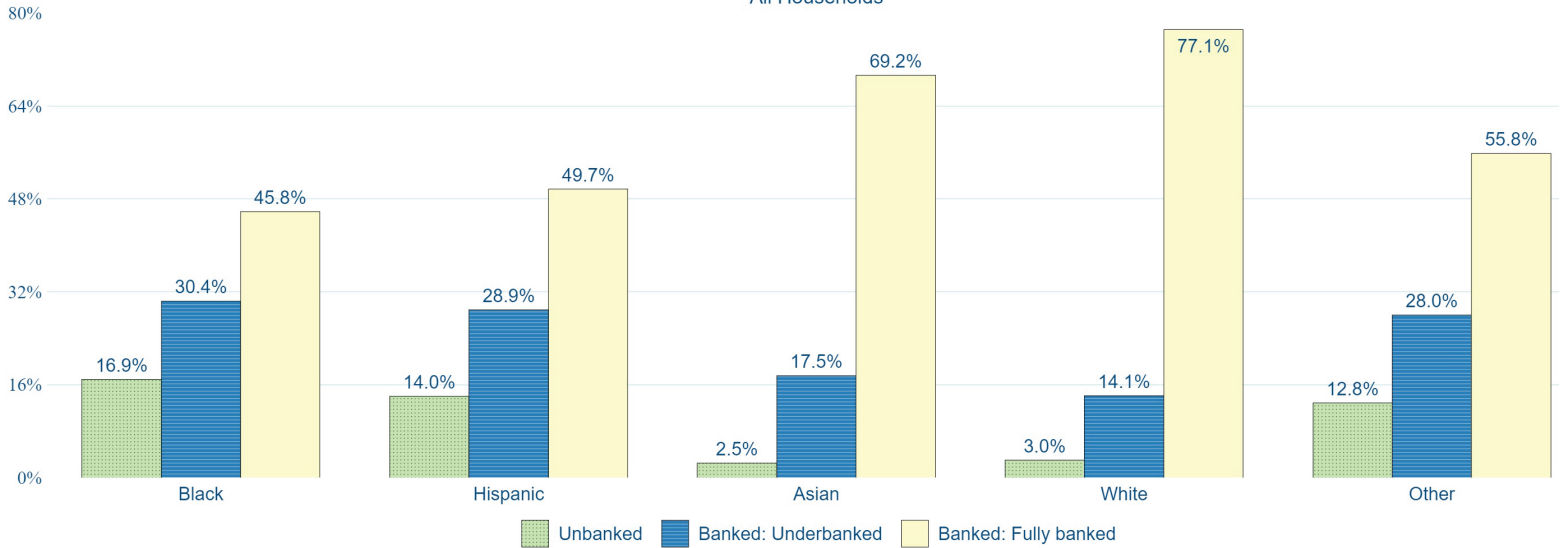
Unbanked for All States, 2017
All Households, Unbanked



• Source: 2017 FDIC National Survey of Unbanked and Underbanked Households.

[1] <https://www.economicinclusion.gov/surveys/2017/household/>

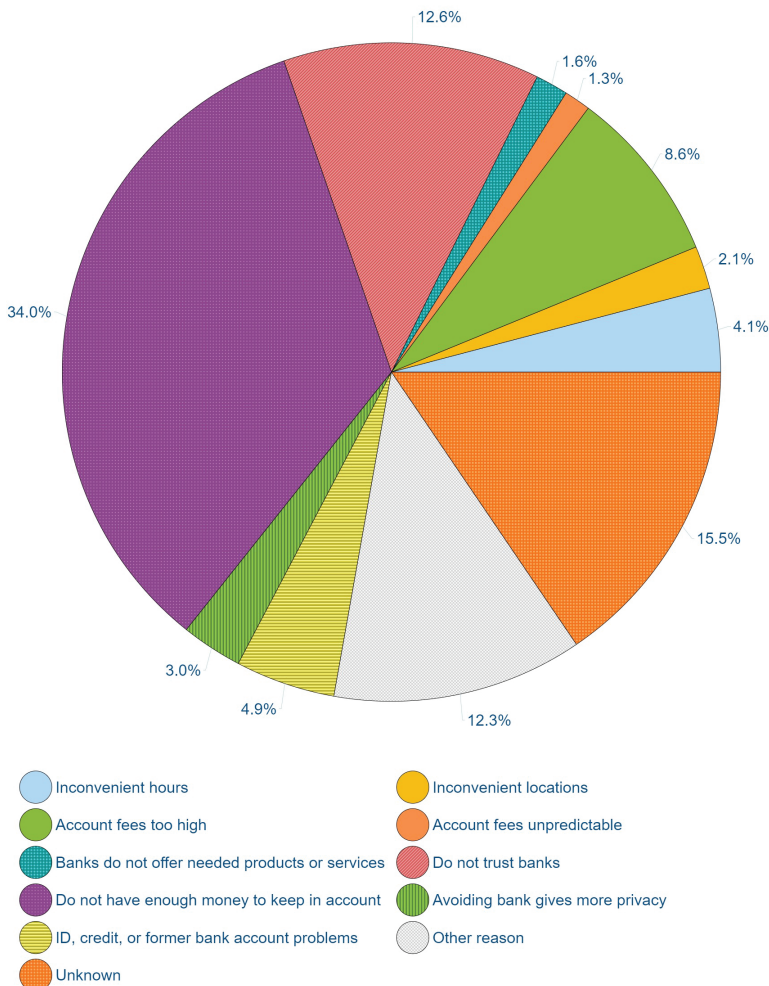
Unbanked and underbanked for Nation, 2017 by Race/Ethnicity
All Households



• Source: 2017 FDIC National Survey of Unbanked and Underbanked Households.

• Underbanked definition is based on the following AFS: check cashing, money order, remittance, payday loan, rent-to-own service, pawn shop loan, refund anticipation loan, and auto title loan.

Main reason unbanked for Nation, 2017
Unbanked households



• Source: 2017 FDIC National Survey of Unbanked and Underbanked Households.

Unbanked Rates for All 2017 Households

Family Income

Less than \$15,000	25.7%
\$15,000 to \$30,000	12.3%
\$30,000 to \$50,000	5.1%
\$50,000 to \$75,000	1.5%
At least \$75,000	0.6%

Source: https://www.economicinclusion.gov/downloads/2017_fdic_unbanked_hh_survey_report.pdf

Only 17.4 percent of unbanked households saved for emergencies or unexpected expenses. The underbanked and fully banked saved at 56.3 and 61.6 percent respectively. Out of the 17.4 percent, 66.8 held their savings in home or with family/ friends and 10.1 percent kept it on prepaid cards.

Low-income earners, Blacks, and Hispanics are disproportionately unbanked and incarcerated at higher rates as well.

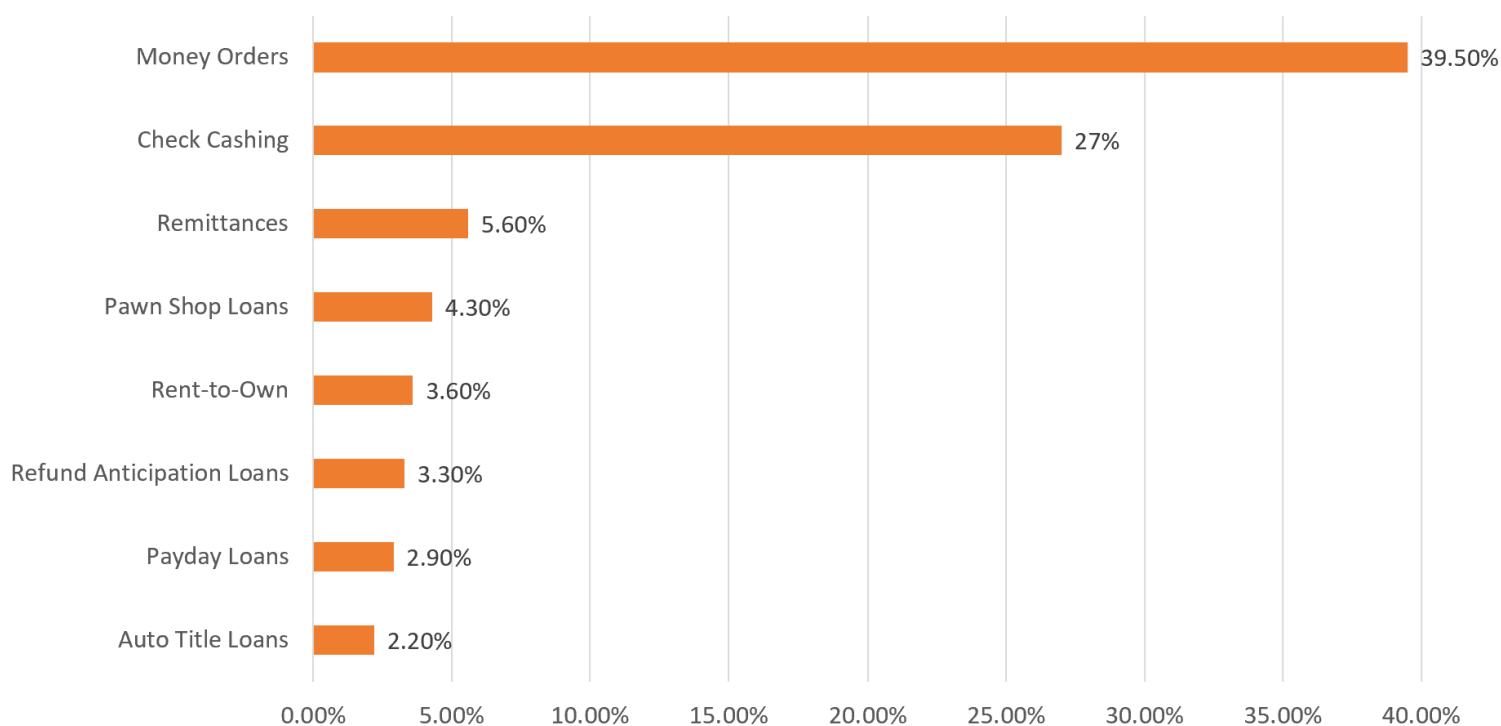
Finding a trustworthy, convenient, and secure way for the unbanked population to store and save money is of paramount importance.

THE UNBANKED & THEIR ALTERNATIVES

About two-thirds of unbanked households paid bills with cash. They typically received income through paper check or money order, with lower rates of cash and direct deposit onto a prepaid card for payment. Findings between 2011 to 2017 show that job losses/gains and significant income changes are common triggers for bank account openings and closings among households that recently changed their banking status.^[3] The more volatile one's income is, the more likely they are unbanked. This is because most banks require a minimum deposit to open and maintain an account. For someone living paycheck-to-paycheck, that may not be feasible.^[4]

Many unbanked citizens turn to payday loans, moneylenders, and check-cashers because those options offer stability and trust that is not achieved through banks. Personal service is important to the communities many unbanked live in. Banks often lack the level of personal service needed while adding undisclosed costs.^[5]

Alternative Financial Services Use of Services Percentage
for Unbanked Households in 2017^[6]



[3] <https://www.economicinclusion.gov/surveys/2017household/>

[4] <https://publicpolicy.wharton.upenn.edu/live/news/1895-financial-exclusion-why-it-is-more-expensive-to-be>

[5] <https://econreview.berkeley.edu/banking-and-poverty-why-the-poor-turn-to-alternative-financial-services/>

[6] <https://www.fdic.gov/householdsurvey/2017/2017report.pdf>

FEES FOR CASHING CHECKS

The alternatives and costs unbanked populations have to cash a check or save money.^[7]

Check-issuing bank

Most banks are only willing to cash a check—usually for a fee—for a non-customer if that check is issued by that specific bank. Few banks offer this service for free within certain limits. These cashing fees range between \$2 and \$25 with \$7-\$10 being the average price.^[8]

Retailer

Major retailers, such as Walmart, offer check cashing services for a smaller fee than banks and check-cashing stores. Walmart's fee is up to \$4 for printed checks up to \$1,000 and up to \$8 for printed checks up to \$5,000.

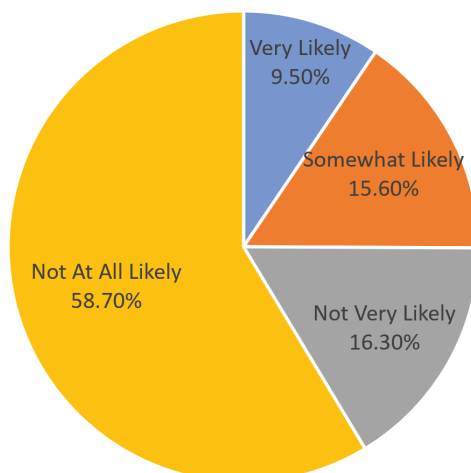
Payday lending store

These stores offer payday loans and usually check-cashing services. A check cashing fee may be imposed as either a percentage of the check value or a flat fee in addition to a percentage fee.

Check-cashing store

1-10% of a check's value is charged and extra fees may be added. Unbanked consumers pay \$182.03 per year on average to cash checks (assuming a 1% fee). "People who don't have bank accounts are about six times more likely to use check-cashing services than people who do."^[9]

Likelihood of Opening Account
for Nation, 2017
Unbanked Households



Source: 2017 FDIC Natinoal Survey of Unbanked and Underbanked Households. Excludes households with missing information on likelihood of opening an account.

[7] <https://money.usnews.com/banking/articles/how-to-cash-a-check-without-a-bank-account>

[8] <https://www.mylbanktracker.com/news/check-cashing-fees-top-banks>

[9] <https://www.nerdwallet.com/blog/banking/unbanked-consumer-study/>

Payroll debit card

Some employers offer payroll debit cards to load funds directly to the reusable card. Some may have hidden fees, impose overdraft fees, and/or charge for transferring money to another account, using an ATM, or an inactivity fee.

Prepaid card account

Prepaid card accounts are similar to bank accounts in that users can deposit checks to ATM or use mobile checking deposits. Typically, there is a service or percentage fee.

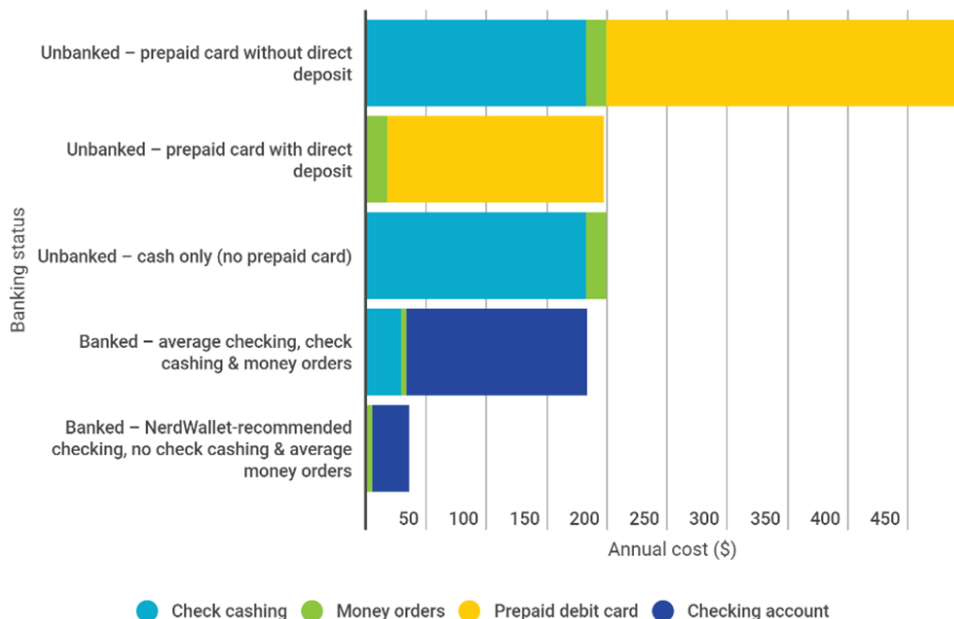
Checkless overdraft-free debit card account

These accounts are safe, affordable, and FDIC-insured. Even if an individual has been blacklisted by banks in the past, just about anyone can get this account. Certain accounts will have to pay a monthly maintenance fee, but checks can be deposited with a smartphone.

Endorse the check to an individual with a bank account

This is a free alternative albeit inconvenient for the family or friend as they will need to ensure the bank is able to honor this method prior to cashing the check.

Annual costs: unbanked vs. banked households



INCARCERATED DISPARITIES

Median annual incomes, ages 27-42 (in 2014 dollars)

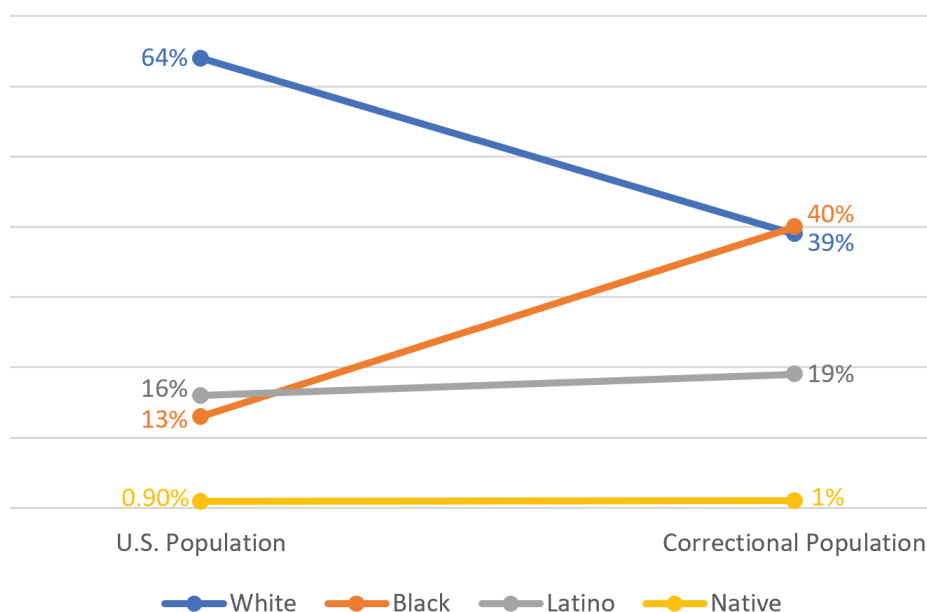
Source: prisonpolicy.org/reports/pie2020.html



Incarcerated individuals are more likely to be low-income and/or Black or Hispanic. This group also is disproportionately un- and underbanked. This means they are unable to conventionally cash checks with a bank account. Instead they must seek out alternative check cashing methods which can quickly become expensive. This takes funds away from an underserved community that often lives paycheck-to-paycheck and fall into a financial crisis if an emergency occurs.

Racial and Ethnic Disparities in Correctional Facilities

Source: prisonpolicy.org/reports/pie2020.html



UNCLAIMED FUNDS AFFECT ACCOUNTS

An outstanding check is a check payment that has not been cashed or deposited by the payee (or recipient of funds). Outstanding checks are considered a liability for the payor as they must keep enough money in the account to cover the amount until it is cashed—sometimes lasting weeks or months. Typically, after 60-90 days or 6 months, the outstanding check becomes stale and cannot be cashed. If sufficient funds are not in the bank if the check is cleared, the payor's account may be charged an overdraft or non-sufficient funds (NSF) fee by the bank.

Inflated account balances, unclaimed assets, and reconciliation adjustments are timely complications that arise from outstanding and stale checks. To avoid escheatment, companies must be proactive to encourage recipients to cash the check. Companies should keep records of calls or letters sent to payees.

Escheatment laws differ per state, but the general consensus is that financial institutions are required to report when personal property (including outstanding checks) has been abandoned or unclaimed after about five years. After the firm reports the inactive account, the state claims the account through escheatment whereby the state becomes the owner of the account.^[10]



[10] <https://www.sec.gov/fast-answers/answersescheat.htm>



“When a business writes a check, it deducts the amount from the appropriate general ledger cash account. If the funds have not been withdrawn or cashed by the payee, the company’s bank account will be overstated and have a larger balance than the general ledger entry.”^[11]

[11] <https://www.investopedia.com/terms/o/outstanding-check.asp>

DISBURSEMENT SOLUTION

Rapid Financial Solutions is built around a “user-driven input model” which means we listen more than we talk. Our technology is customized to fit your needs. Rapid has processed over \$1.5 billion in payments by servicing over 1,000 county governments and municipalities in nearly every state in the USA. Our mission is to provide frictionless payment, access, and identification solutions through technology innovations. Our technology is designed to help relieve the workload of administrators and improve individuals’ experience by accelerating the speed and accuracy of payments.

Benefits at a Glance

We built our products specifically to relieve the workload of administrators and improve individuals’ experience.

Payors

- Increase Individual satisfaction by providing payment options
- Significant cost savings from going paperless
- Eliminate escheatment of unclaimed funds
- Eliminate check fraud
- Immediate reconciliation



Payees

- Get paid regardless of being unbanked
- Eliminated need to cash checks and the burden of check cashing fees
- Payment is available immediately once account is funded
- Cost-free options to receive their money



Rapid offers a variety of disbursement options to ensure funds do not go unclaimed and are easily accessible.



Immediate use of debit card provided



Transfer to bank account



Transfer to merchant gift card



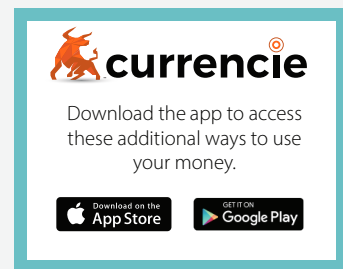
Transfer to PayPal



Receive a paper check



Donate to charity



CONCLUSION



14.1 million adults are unbanked in the United States. This community is unable to easily cash checks so Rapid Financial Solutions offers a variety of disbursement options. These are designed to seamlessly integrate into current payment methods for the payor, so it reduces the workload required. Payor accounts can be loaded through credit or debit card, ACH, wire, or check for ease of use. Payees can decide which disbursement works best for them so they can claim funds easier and faster. Our solution also eliminates check fraud from companies and gives immediate reconciliation to save your company time and money. Building trust between payor and payee is important to us and we work hard to support it.