

## Brief

# Unbanked, Underbanked, or Something Else Entirely?

Rethinking How We Measure Financial Inclusion

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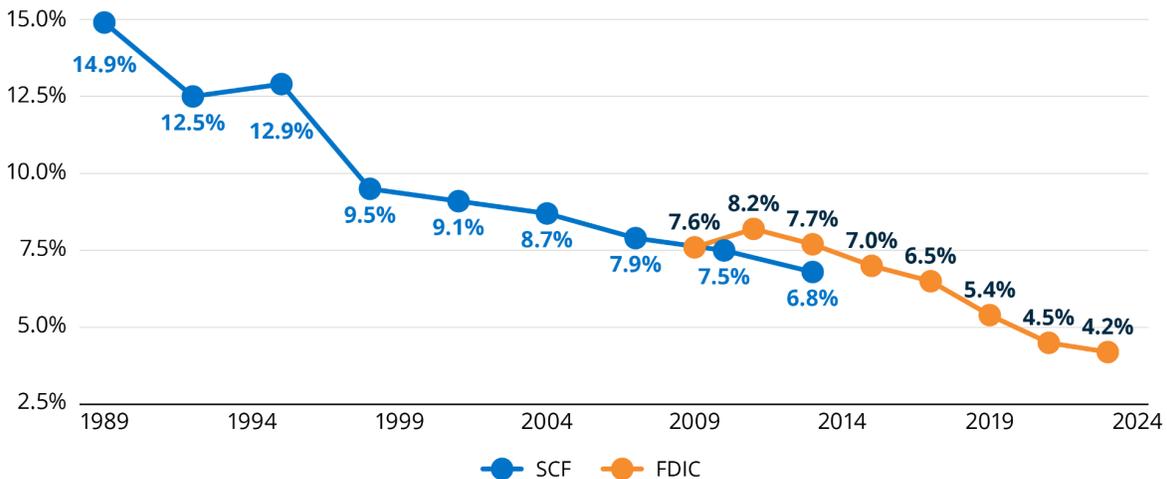
## Introduction

In 2009, the Federal Deposit Insurance Corporation (FDIC) ran its first national study of unbanked and underbanked consumers, aiming to encourage banks to expand their services to underserved populations.<sup>1</sup> Unbanked households presented a policy problem: Consumers without depository accounts at federally insured institutions lacked safe and convenient ways to save, transact, and borrow money; were more vulnerable to theft; and were not protected by FDIC deposit insurance. In that first report, the FDIC estimated that 7.6% of U.S. households were unbanked.<sup>2</sup>

At the time, the size of the unbanked population had already been steadily shrinking. Previous estimates from the Federal Reserve’s Survey of Consumer Finances (SCF) showed that, between 1989 and 2007, the share of households without any transactional accounts declined from 14.9% to 7.9% (Figure 1). Even earlier estimates from Federal Reserve surveys prior to the launch of the SCF indicated that as many as 25% of consumers did not have a checking account in 1970.<sup>3</sup> Access to bank accounts had been improving for decades—and would continue to do so, thanks in part to technological advances and financial inclusion initiatives like Bank On—but mainstream financial institutions were still falling short of meeting many households’ needs.

**Figure 1. Over the past 35 years, the unbanked rate has steadily declined.**

Shares of U.S. households without bank accounts, 1989-2023.



<sup>1</sup> “[FDIC National Survey of Unbanked and Underbanked Households](#),” Federal Deposit Insurance Corporation, December 2009.

<sup>2</sup> Ibid.

<sup>3</sup> “[Survey of Consumer Finances, 1983](#),” Federal Reserve, accessed January 2026. These estimates across different survey efforts are not strictly comparable due to differences in question type and wording, but it’s clear that overall access to basic deposit and transactional accounts improved in the final decades of the 20th century and first two decades of the 21st century.

Notes: Estimates from SCF and FDIC survey data releases. Each survey asks about bank account ownership slightly differently, yielding small differences in estimates in overlapping years (e.g., 2013). After 2013, the SCF included prepaid cards in its definition of transactional accounts, making results from 2016 and 2019 incomparable.

To demonstrate the scope of unmet needs beyond bank account ownership, the 2009 FDIC report also included an estimate for the *underbanked*: households that have a checking or savings account but who also “rely on more costly financial service providers.”<sup>4</sup> These alternative financial services (AFS) originally included nonbank money orders, nonbank check cashing, payday loans, rent-to-own agreements, pawn loans, and tax refund anticipation loans. By 2013, nonbank remittances and auto title loans had joined the list, bringing the estimated underbanked population to 20% of U.S. households.<sup>5,6</sup>

Defining households as underbanked (instead of the binary of banked or unbanked) marked a key step toward recognizing financial inclusion as a spectrum, rather than something that begins and ends with bank account ownership. Together, estimates of the unbanked and underbanked populations demonstrated that more than one-quarter of American households were operating at least partly outside the financial mainstream—and by implication, were underserved by banks and credit unions.

Over the past 15 years, FDIC findings have shaped the national conversation around financial access and inclusion. Industry leaders, advocates, and policymakers continue to cite underbanked estimates in their appeals for greater financial inclusion for vulnerable groups.<sup>7,8,9,10</sup> Researchers use the FDIC definitions in their own studies to establish theories of financial access and demonstrate empirical links between AFS use and financial health.<sup>11,12,13,14</sup>

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<sup>4</sup> [“FDIC National Survey of Unbanked and Underbanked Households,”](#) Federal Deposit Insurance Corporation, December 2009.

<sup>5</sup> [“Addendum to the FDIC National Survey of Unbanked and Underbanked Households,”](#) Federal Deposit Insurance Corporation, June 2013.

<sup>6</sup> [“2013 FDIC National Survey of Unbanked and Underbanked Households,”](#) Federal Deposit Insurance Corporation, October 2014.

<sup>7</sup> [“Bank On,”](#) Cities for Financial Empowerment Fund, accessed January 2026.

<sup>8</sup> [“FDIC Releases New Survey Results on Unbanked and Underbanked Households,”](#) National Disability Institute, accessed January 2026.

<sup>9</sup> [“Unbanked and Credit Invisible: Building Financial Inclusion for America’s Underserved Populations,”](#) United States Senate, March 2022.

<sup>10</sup> Nadia van de Walle, [“New Frontiers in Financial Inclusion,”](#) Financial Health Network, May 2025.

<sup>11</sup> Matthew B. Gross et al., [“Use of Financial Services by the Unbanked and Underbanked and the Potential for Mobile Financial Services Adoption,”](#) Federal Reserve, September 2012.

<sup>12</sup> Caroline Ratcliffe et al., [“Where Are the Unbanked and Underbanked in New York City?”](#) Urban Institute, September 2015.

<sup>13</sup> [“Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream,”](#) Pew Health Group, October 2011.

<sup>14</sup> Zibei Chen & Terri Friedline, [“Make the Invisible Underbanked Visible: Who Are the Underbanked?”](#) Journal of Financial Counseling and Planning, April 2022.

**But since that first FDIC report in 2009, the financial services landscape has changed dramatically.** Digital channels and mobile banking have made establishing and accessing bank accounts and a range of other financial products easier than ever, sometimes without ever having to interact directly with a bank. Nonbank financial services have proliferated, expanding from the brick-and-mortar services outlined by the FDIC (corner check cashers or pawn shops, for instance) to a rapidly growing world of app-based and embedded financial services, including earned wage access (EWA), buy now, pay later (BNPL), and peer-to-peer (P2P) digital wallets. The very notion of which financial services are considered “mainstream” has shifted.

What does it mean to be unbanked or underbanked today? As the financial services ecosystem has changed rapidly, existing definitions and metrics of financial inclusion haven't kept up with the pace. In this brief, we use data from our FinHealth Spend research initiative to show how interpretations of these categories need to evolve. As we will show, **a large majority of consumers are using nonbank financial services to meet at least some of their financial needs**, raising critical questions about the measurement of financial access. Can the use of nonbank services still be a valid measure of financial inclusion or exclusion? If so, which services should be included and under what conditions?

While there are no simple answers to these questions, one thing is clear: Financial inclusion is no longer a simple matter of whether or not someone is unbanked or underbanked (if it ever was). Instead, inclusion metrics must be based on more nuanced understandings of consumers' evolving financial needs, how consumers consider diverse solutions and resources to meet those needs, and—crucially—the financial health impacts associated with different products and services.

Refining our definitions and metrics of financial inclusion will be essential for a wide array of public and private sector institutions, including but not limited to:

- **Policymakers** looking to build policy initiatives that extend beyond universal bank account ownership and reduced AFS use
- **Banks and credit unions** seeking to understand and reach underserved markets in more nuanced and effective ways
- **Fintechs and other nonbank financial institutions** scoping their ability to compete with banks and legacy AFS by offering more affordable, lower-risk financial services
- **Nonprofits and advocacy groups** refining their outreach strategies, impact goals, and measurement approaches
- **Employers** considering alternative payroll and credit solutions for their employees
- **Government agencies** developing government-to-person payment strategies

### Key Findings at a Glance

- **The unbanked population may be as much as 20% smaller than commonly estimated**, possibly because many survey respondents do not consider their online-only bank accounts to be checking or savings accounts
- **Nonbank financial services are now mainstream**, with at least three-quarters of U.S. households using them
- **Including new AFS products substantially changes the size of the underbanked population**
- **A revised definition of “underbanked”** may benefit from distinguishing between “transactional underbanked” and “credit underbanked” households who face distinct access challenges

### Part 1

## Who is “Unbanked” Today?

Mobile banking has transformed how Americans access financial services, making it easier than ever to open and use bank accounts—in some cases without ever visiting a physical branch or interacting directly with a chartered financial institution. Online-only banks, such as Varo, SoFi, and Ally, hold bank charters and offer many of the same core services as traditional banks through entirely digital channels. Others, such as Chime, do not hold a bank charter and instead operate as fintech platforms that open FDIC-insured depository accounts at partner banks.<sup>15</sup> In addition, some consumers use peer-to-peer (P2P) payment wallets, like Venmo, PayPal, and Cash App, as substitutes for deposit accounts. Consumers also increasingly have money stashed in less expected places, such as retailer-specific stored-value cards (like gift cards) or their digital equivalents.<sup>16</sup>

Which of these, if any, should qualify as a bank account? Online platforms that hold a bank charter or partner with FDIC-insured banks to offer depository accounts provide many of the core services and consumer protections associated with financial inclusion policy goals, even if they lack some of the conveniences of brick-and-mortar banks, such as paper checking, proprietary ATM networks, and access to a broader suite of financial products. P2P wallets, on the other hand, are not typically FDIC-insured and offer only minimal protections against fraud and payment errors.<sup>17</sup> As a result, it may make sense to explicitly classify consumers with online-only bank accounts as banked and consumers who only use P2P wallets as unbanked.

<sup>15</sup> Rebecca Lake, “[FDIC Insurance: How It Works](#),” Chime, November 2024.

<sup>16</sup> Steve Goldstein, “[The bank of Starbucks: Coffee retailer has \\$1.77 billion in unredeemed gift cards](#),” MarketWatch, August 2024.

<sup>17</sup> Stephanie Landry, “[Little Change Since 2022: Peer-to-Peer Services’ Policies Still Need Additional Clarity and Coverage to Protect Consumers from Fraud and Scams](#),” Consumer Reports, September 2024.

### Online-Only Banks

Online-only banks provide deposit accounts and payment functionality through digital channels without access to physical bank branches. Some are FDIC member institutions and regulated through a bank charter. Others function as fintech platforms that open FDIC-insured accounts via third-party banks.

Provider	Bank charter?	Ability to order paper checks?
Varo	Yes	No
SoFi	Yes	Yes
Ally	Yes	Yes
Chime	No; establishes accounts at FDIC member partner banks	No
Dave	No; establishes accounts at FDIC member partner banks	Partly; offers “send a check” feature
Cleo	No; establishes accounts at FDIC member partner banks	No
MoneyLion	No; establishes accounts at FDIC member partner banks	Partly; offers “send a check” feature

The day-to-day limitations of using an online-only bank lie mostly in the lack of access to physical branches and, in some cases, the inability to order checks, which may matter more to some consumers than others. Access to customer service support may also vary widely across providers without a physical location to visit. While all these platforms offer checking and savings accounts, some online-only banks offer a narrower suite of additional products and services (such as mortgages, wealth advising, or small business services) than traditional banks.

Researchers and advocates have raised broader concerns about consumer deposit protections offered by nonbank fintech platforms. These institutions typically open accounts at FDIC-insured institutions, protecting consumer deposits in the case of the partner bank’s failure. However, questions remain about deposit security after the failure of a third party or intermediary in these banking relationships. This concern was fueled by the collapse of Synapse in 2024, which left more than 100,000 people without access to \$265 million held across several fintech platforms.<sup>18,19</sup>

<sup>18</sup> Rafael Morales-Guzman, “[The Synapse Collapse Exposes Why the World Needs Stronger Fintech Regulation](#),” Yale Journal of International Affairs, December 2025.

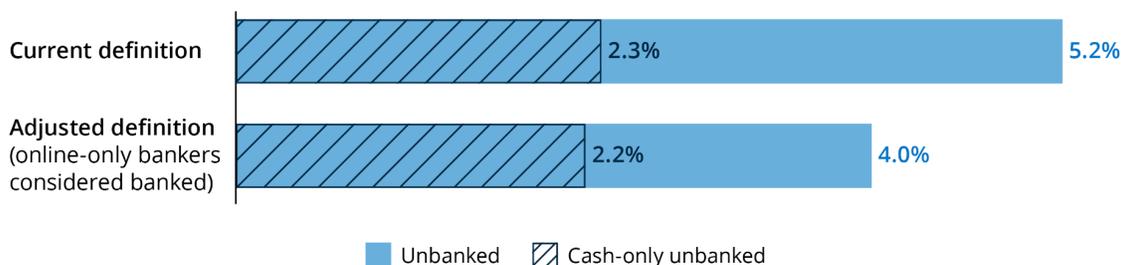
<sup>19</sup> William C. Johnson, “[Fintech Practices and Banking Regulation](#),” Journal of Banking Regulation, July 2025.

Most surveys, including FinHealth Spend and FDIC surveys, identify unbanked households by asking whether respondents have a checking or savings account, leaving it up to respondents to determine what qualifies as such.<sup>20</sup> With this in mind, we asked all 2024 FinHealth Spend survey respondents who reported not having a checking account in their household whether they had “an account with an online bank with no physical branch locations (e.g., Chime, Ally, SoFi, Varo, etc.)?” Over one in five (23%) said “yes.”<sup>21</sup>

This suggests that a portion of the unbanked population, as it is typically estimated, may actually hold money in FDIC-insured accounts. When we account for this in our estimates of banking status by considering these households “banked,” our estimate of the share of households that are unbanked drops from 5.2% to 4.0% (Figure 2).<sup>22</sup>

**Figure 2. The unbanked population may be as much as 20% smaller than commonly estimated.**

Banked status estimates before and after explicitly including households with only online-only bank accounts.



Notes: FinHealth Spend 2025 survey data. N = 5,096.

Another way of narrowing the unbanked definition is to remove all households that use prepaid cards or P2P wallets, leaving only those who rely entirely on cash or other nonbank services (such as money orders) to manage their money. The FDIC refers to this population as the “cash-only” unbanked.<sup>23</sup> We estimate that 2.3% of households are cash-only unbanked, just over half of the total unbanked population. After removing online-only banked households from this definition, our estimate of the cash-only unbanked decreases only slightly to 2.2% (Figure 2).

<sup>20</sup> The FDIC survey asks about checking and savings account ownership in a single question, whereas the FinHealth Spend survey asks in two separate questions.

<sup>21</sup> Hannah Gdalmán, Shira Hammerslough, Amber Jackson, & Meghan Greene, “[FinHealth Spend 2025: The Cost of Financial Services For American Households](#),” Financial Health Network, October 2025.

<sup>22</sup> Before making this adjustment, our estimates of the size of the unbanked population were higher than the FDIC’s most recent estimate (4.2%), likely due to small differences in survey methodology. As a result, we cannot be sure how much the FDIC’s estimates would change if they narrowed their unbanked definition using a similar methodology.

<sup>23</sup> “[2023 FDIC National Survey of Unbanked and Underbanked Households](#),” Federal Deposit Insurance Corporation, 2023.

The discrepancy between unbanked estimates before and after explicitly including online-only banks in the definition may reflect consumer uncertainty about whether their online accounts are bank accounts. In other words, survey respondents' notions of what a bank account is may not have kept pace with how bank accounts have changed over the past 15 years. Survey questions (such as ours) that specifically ask respondents whether they have a "checking" account may invite further confusion, as fewer and fewer consumers use paper checks. Indeed, some online-only accounts and Bank On accounts do not offer paper checks at all.

As a result, researchers and practitioners may need to clarify how banked status is framed to explicitly consider online-only bank accounts. Additional clarification may also be helpful to distinguish between online banks and P2P wallets.

## Part 2

# Who is "Underbanked" Today?

The question of what qualifies as an alternative financial service (AFS) is at the core of what it means to be "underbanked." Since 2013, the FDIC has defined AFS as eight financial activities performed outside a bank: money orders, check cashing, remittances, payday loans, rent-to-own agreements, pawn loans, tax refund anticipation loans, and auto title loans. Using FinHealth Spend data, we estimate that 22% of households are underbanked under this definition.

This list, however, omits several products that have since become important parts of the consumer financial services landscape, such as P2P wallets, EWA, and BNPL. This raises the question of whether the underbanked definition should be amended to include these products, and what it means for a financial service to be considered "alternative" in the first place. Is every nonbank financial product that substitutes for a "core banking service" an AFS? Or, in the spirit of the FDIC's original framing, should the definition only include costly or risky nonbank products? And if so, how should we determine which products meet that threshold?

## Emerging Alternative Credit Products

### Earned Wage Access (EWA) and Cash Advance

EWA and direct-to-consumer (D2C) cash advance services both advance cash to workers ahead of payday, often without a credit check. Effectively, these services use the predictability of payroll or regular direct deposits to underwrite small dollar short-term credit. Typically, neither EWA nor D2C providers engage in collections activities or negative credit reporting.<sup>24,25</sup>

	EWA	D2C
<b>Distribution model</b>	Employer-provided	Offered directly to consumers
<b>Underwriting</b>	Linked to payroll	Linked to checking account data
<b>Revenue model</b>	<ul style="list-style-type: none"> <li>Express delivery fees paid by workers</li> <li>Other transaction fees, which can be covered by the employer</li> </ul>	<ul style="list-style-type: none"> <li>Express delivery fees</li> <li>Subscription fees</li> <li>Voluntary “tips”</li> </ul>
<b>Examples</b>	DailyPay, Payactiv, Instant Financial	MoneyLion, Brigit, Dave, Klover, FloatMe

Source: Arjun Kaushal & Devina Khanna, [“Earned Wage Access and Direct-to-Consumer Advance Usage Trends.” Financial Health Network, June 2021.](#)

### Buy Now, Pay Later (BNPL)

BNPL is another product reshaping how small dollar credit is underwritten and accessed. Typically offered at the point of sale, BNPL splits up a purchase into four equal bi-weekly installments, with the first installment due at the point of sale. Some BNPL providers also offer longer-term installment loans with interest, although the FinHealth Spend survey only tracks the use of interest-free pay-in-four products.

BNPL pay-in-four loans are typically fee- and interest-free, relying primarily on revenue from merchants and occasional late fees from consumers. Because most BNPL loans require automatic repayments from a checking account or credit card, defaults are relatively rare.<sup>26</sup> However, unlike

<sup>24</sup> Terri Bradford, [“As Earned Wage Access Grows, Oversight Tries to Catch Up,”](#) Federal Reserve Bank of Kansas City, May 2024.

<sup>25</sup> Jason Cover et al., [“CFPB Rescinds 2020 Advisory Opinion on Earned Wage Access Products,”](#) Troutman Pepper Locke, January 2025.

<sup>26</sup> [“Consumer Use of Buy Now, Pay Later and Other Unsecured Debt,”](#) Consumer Financial Protection Bureau, January 2025.

EWA and D2C loans, BNPL providers may report late payments to credit bureaus and send accounts to collections.<sup>27</sup>

Examples include:

- Affirm
- Afterpay
- Klarna
- Sezzle

## Approach 1: The Widest Net

Perhaps the simplest way to update the definition of the underbanked is to be maximally inclusive of nonbank financial products, both new and old. Under this approach, we would classify any household with a bank account that also uses any nonbank financial services for core banking activities (making payments, storing money, or borrowing) as underbanked. This definition is, admittedly, unlikely to be a useful measure of financial inclusion. Still, it is helpful in demonstrating just how common it has become for households to rely on financial services outside of banks and credit unions.

FinHealth Spend data allow us to add the following nonbank products to the FDIC's list of AFS:<sup>28</sup>

- P2P wallets (PayPal, Venmo, Cash App)
- Prepaid cards
- BNPL pay-in-four loans
- Cash advance apps, also called direct-to-consumer earned wage access (D2C)
- Employer-linked EWA

Under this “widest net” definition, we estimate that more than three-quarters (76%) of households would be considered underbanked—several times larger than the current FDIC definition (Figure 3). Most of this increase is driven by P2P wallet usage alone, with 70% of households reporting use in the past year.<sup>29</sup>

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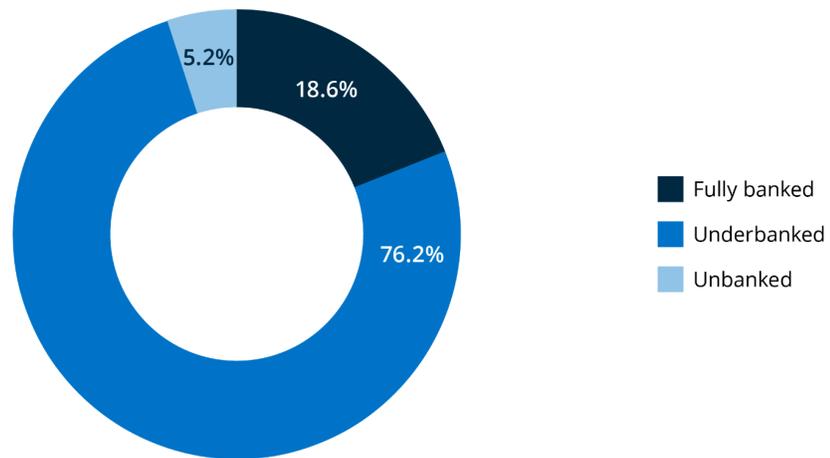
<sup>27</sup> [“New Rights for Buy Now, Pay Later Purchases,”](#) National Consumer Law Center, December 2024.

<sup>28</sup> We chose not to include cryptocurrency ownership in this list because prior research has shown that the vast majority of cryptocurrency owners hold cryptocurrency as an investment, and only a small fraction use it in transactions. Because of this, it is difficult to make the case for cryptocurrency as a core transactional, depository, or credit service. See: [“FDIC National Survey of Unbanked and Underbanked Households,”](#) Federal Deposit Insurance Corporation, 2023.

<sup>29</sup> Please see the Appendix for individual product usage estimates.

**Figure 3. More than three-quarters of households would be underbanked if all nonbank financial services were included in the definition.**

Banked status estimates if all nonbank financial products were considered indicators of being underbanked.



Notes: FinHealth Spend 2025 survey data. N = 5,096.

This estimate would be even higher if we expanded the definition to include other sources of nonbank lending, such as mortgages and auto loans made by finance companies or independent mortgage companies. Even federal student loans could theoretically be considered AFS, since they are not originated by banks.

In what sense are the users of these products not fully banked? At face value, it might seem strange or counterintuitive to suggest that the majority of the U.S. population is underbanked. While it is true that each of these households, by definition, does not have all of its financial needs met by banks, this is partly the result of an expanding universe of useful nonbank products that complement bank access.

It is clear that the providers through which consumers access financial products are no longer limited to traditional financial institutions. As a result, while this definition illustrates that the vast majority of households use financial services outside of banks and credit unions, **it ultimately does very little to track progress towards financial inclusion or identify underserved populations.**

## Approach 2: Costly or Risky Products

A more targeted approach to updating the list of AFS would be to include only products that pose higher costs or risks to consumers than equivalent services commonly available at mainstream financial institutions. Early FDIC reports explicitly characterized AFS as “costly” and noted that households that use AFS “may be more vulnerable to loss or theft.”<sup>30</sup> Many research and advocacy discussions of the underbanked population similarly focus on the costs consumers might avoid if they could access these services from banks or credit unions.<sup>31,32,33</sup>

Under this framework, if households are banked but still rely on a costly or risky alternative to a core banking product, that reliance may signal that they are underserved by their primary financial institution.

That said, deciding which products are more costly or risky to consumers than mainstream equivalents is not straightforward. Costs and risks vary greatly by provider, product features, and the consumer’s personal circumstances and usage patterns. There is substantial disagreement, for example, about the risks associated with the use of BNPL and the costs and risks associated with EWA and D2C advances.

Using FinHealth Spend data, we can selectively include or exclude certain products to propose a reasonable range of estimates, allowing room for varying perspectives on which products are costlier or riskier than mainstream equivalents. Below, we outline four options for revising the FDIC’s AFS list to include products and services that pose risks to consumers but are not currently included in the definition.

### Option 1: Add nonbank prepaid cards

Nonbank prepaid cards have been widely available for over a decade, yet they have not typically been included in definitions of underbanked. Under certain conditions, prepaid cards can be a costly alternative to bank products due to fees associated with card purchase, activation, cash reloading,

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<sup>30</sup> [“FDIC National Survey of Unbanked and Underbanked Households,”](#) Federal Deposit Insurance Corporation, December 2009.

<sup>31</sup> Matthew B. Gross et al., [“Use of Financial Services by the Unbanked and Underbanked and the Potential for Mobile Financial Services Adoption,”](#) Federal Reserve, September 2012.

<sup>32</sup> [“Unbanked and Credit Invisible: Building Financial Inclusion for America’s Underserved Populations,”](#) United States Senate, March 2022.

<sup>33</sup> [“Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream,”](#) Pew Health Group, October 2011.

and inactivity fees.<sup>34,35</sup> They are also frequently targeted by scammers.<sup>36</sup> Households with access to a fee-free checking account with a debit card attached arguably have few reasons to use a prepaid card regularly. On the other hand, some prepaid cards offer minimal fees and provide much of the same functionality as an online checking account. Adding nonbank prepaid cards to the definition increases the size of the underbanked population to 31.3% (Figure 4).

### Option 2: Add P2P wallets used for storing money

Using P2P wallets to make purchases or transfer money between friends is an inexpensive convenience for most consumers. However, money stored in P2P wallets is not protected by FDIC insurance and generally has weaker fraud protection than money stored in bank accounts. In the FinHealth Spend survey, we distinguish between households that use P2P wallets for storing money and those who merely use them for transactions, such as sending money to friends or making purchases.

Of course, households that keep a tiny portion of their total cash in P2P wallets as a payment convenience face less risk than those storing a substantial portion of their savings in P2P wallets. Unfortunately, our data do not tell us the amount saved in P2P wallets, so this definition assumes that everyone who reports using P2P for “storing money” is storing more than a trivial amount. Adding P2P wallets for storing money in addition to prepaid cards increases the size of the underbanked population by just under 3 percentage points (Figure 4).

### Option 3: Add EWA and D2C cash advances

Proponents argue that employer-linked EWA allows employees to access wages already earned in advance of payday, posing less risk of ballooning debt than payday lending.<sup>37</sup> Critics note that consumers still incur fees, even on very small advances, and many users borrow repeatedly—suggesting that EWA does not solve underlying liquidity constraints.<sup>38</sup>

D2C advances are not employer-linked and instead rely on income predictions generated from bank account data. As with EWA, proponents see it as a safer alternative to payday loans, while critics raise concerns about fees and repeated use. Because D2C services rely on predictions of future income, rather than actual payroll data—and because they directly debit consumers’ bank accounts for repayment—they pose additional risks compared with EWA products. For example, an ill-timed

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<sup>34</sup> Jeannette Bennett, “[From Coins to Big Bucks: The Evolution of General-Purpose Reloadable Prepaid Cards](#),” Federal Reserve Bank of St. Louis, April 2015.

<sup>35</sup> “[What types of fees do prepaid cards typically charge?](#),” Consumer Financial Protection Bureau, October 2024.

<sup>36</sup> “[Prepaid Debit Card Scams](#),” The Office of the Minnesota Attorney General, accessed January 2026.

<sup>37</sup> “[Earned Wage Access \(EWA\)](#),” American Fintech Council, accessed January 2026.

<sup>38</sup> “[Payday Loan Apps](#),” Center for Responsible Lending, September 2025.

debit from a D2C provider could lead to an overdraft of the consumer's checking account, triggering additional fees.<sup>39</sup> Loan stacking is also a higher risk among D2C users than EWA users. Research from the Center for Responsible Lending found 53% of D2C users borrowed from more than one lender in a year.<sup>40</sup>

While there is debate about the status of these products as loans, both are ultimately products used by consumers whose liquidity constraints are not fully met by banks. Costs will vary from product to product and a borrower's circumstances, but using EWA or D2C is typically more costly than using a credit card that is paid in full each month.

Use of EWA and D2C still remains relatively uncommon. Including these products in the definition alongside prepaid cards and P2P wallets used for storing money only increases the population of the underbanked by a little over 1 percentage point (Figure 4).

#### **Option 4: Add BNPL**

BNPL is more widely used than EWA or D2C advances. Unlike EWA and D2C, BNPL is typically fee- and interest-free to the consumer. Banks do not yet offer many equivalent products; credit cards only allow consumers to delay payments for a month after receiving a statement before interest accrues, and then only if the consumer has not carried a balance from the prior month.<sup>41</sup>

Because most BNPL providers require automatic repayment from a checking account or credit card, defaults are relatively uncommon.<sup>42</sup> Still, some consumer advocates have raised concerns about BNPL's lack of rigorous underwriting, leading to loan stacking, overspending, and delinquencies on other debts.<sup>43</sup> Because BNPL is more commonly used than EWA or D2C, including it in the list of AFS (in addition to prepaid cards, P2P wallets used to store money, EWA, and D2C) pushes the estimate of the underbanked up by 7 percentage points (Figure 4).

#### **What About Remittances?**

Finally, having added all the arguably risky AFS recorded in FinHealth Spend data, we model removing nonbank remittances from each of these options (Figure 4). Remittances can be expensive, but banks do not typically offer cheaper alternatives. After considering exchange rates and fees,

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<sup>39</sup> Jennifer Tescher & David Silberman, "[Earned wage access and advances on pay are very different processes](#)," American Banker, January 2024.

<sup>40</sup> Christelle Bama & Lucia Constantine, "[Escalating Debt: The Real Impact of Payday Loan Apps Sold as Earned Wage Advances \(EWA\)](#)," Center for Responsible Lending, September 2025.

<sup>41</sup> This may change in the near future as banks develop their own interest-free installment products. See: "New U.S. Bank Split™ Card Launch Might Change the Case for Investing in U.S. Bancorp (USB)," Yahoo Finance.

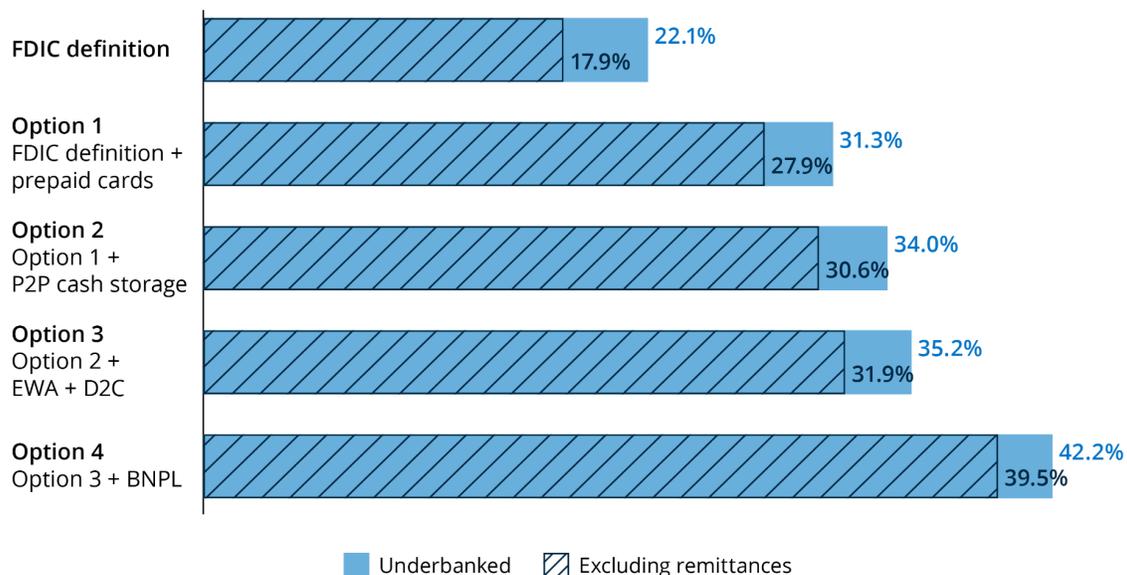
<sup>42</sup> "[Consumer Use of Buy Now, Pay Later and Other Unsecured Debt](#)," Consumer Financial Protection Bureau, January 2025.

<sup>43</sup> "[Risks and Advice for Buy Now, Pay Later Borrowers](#)," National Consumer Law Center, May 2025.

international bank transfers are typically more expensive than specialized international money transfer services.<sup>44</sup> Prior research also finds that both banked and unbanked immigrants show a preference for nonbank remittances, likely due to both cost savings and convenience.<sup>45,46</sup> Removing remittances from the definition reduces each estimate by around 3 percentage points (Figure 4).

**Figure 4. The size of the underbanked population varies depending on which products are considered costly or risky.**

Share of U.S. households considered underbanked using alternative underbanked definitions.



Notes: FinHealth Spend 2025 survey data. N = 5,096.

The result of this exercise is an array of estimates of the underbanked population ranging from roughly 28% to 42%—about 1.3 to 1.9 times larger than the size of the population under the FDIC definition (22%), but far smaller than the “widest net” definition (76%).

It is challenging to recommend any single one of these options as a suitable revision to the FDIC definition, given limited evidence on the risks posed by newer products, the diversity of the product landscape (even within a single product category), and the speed of change in the marketplace. Not all EWA, D2C, BNPL, prepaid cards, and remittance products charge the same fees or offer the same

<sup>44</sup> “Spencer Tierney, [“5 Best Ways to Send Money Internationally,”](#) NerdWallet, December 2024.

<sup>45</sup> [“Immigrant Financial Services Study,”](#) New York City Department of Consumer Affairs, November 2013.

<sup>46</sup> [“Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream,”](#) Pew Trusts, October 2011.

consumer protections, and new services enter the market each year. Therefore, we offer these estimates merely as examples of ways the underbanked population’s size shifts under different assumptions.

### How Costly Is “Costly”?

Another challenge in evaluating the costs posed by AFS is that the actual costs incurred by consumers can vary widely—from free to hundreds of dollars per year—depending on usage patterns and product design.

### EWA and D2C

Annual costs for EWA and D2C services can vary substantially based on both the revenue model and how borrowers use the services. Previous research indicates that many users borrow repeatedly. Estimates of the average number of advances range from 27 to 50 per year, and around half of users borrow at least once a month.<sup>47,48,49</sup> One Financial Health Network study found that around 10% of users took more than 10 consecutive semi-monthly advances in a row over a one-year period.<sup>50</sup> A Center for Responsible Lending study found that 72% of D2C users took out more than one loan within a two-week period.<sup>51</sup>

Costs per advance can vary widely as well, depending on whether an employer covers fees, whether the user needs instant transfers, and whether the user is tipping in a tip-based service. Prior research estimates average per-advance costs at around \$2-\$6, though they can range from \$0 to \$12 or higher.<sup>52</sup> The estimates below are hypothetical examples based on plausible consumer profiles supported by these research findings.

Consumer profile	Number of advances per year	Cost per advance	Total annual cost
Light EWA user who does not need instant transfer; employer covers all costs	3	\$0	\$0

<sup>47</sup> [“Data Spotlight: Developments in the Paycheck Advance Market,”](#) Consumer Financial Protection Bureau, July 2024.

<sup>48</sup> “2021 Earned Wage Access Data Findings,” California Department of Financial Protection and Innovation, 2023.

<sup>49</sup> Jonathan M.V. Davis, [“The Impacts of Earned Wage Access: How Giving Workers More Control Over Pay Timing Can Increase Income and Boost Financial Stability,”](#) University of Oregon, November 2025.

<sup>50</sup> Arjun Kaushal & Devina Khanna, [“Earned Wage Access and Direct-to-Consumer Advance Usage Trends,”](#) Financial Health Network, June 2021.

<sup>51</sup> Christelle Bamona & Lucia Constantine, [“Escalating Debt: The Real Impact of Payday Loan Apps Sold as Earned Wage Advances \(EWA\),”](#) Center for Responsible Lending, September 2025.

<sup>52</sup> Taylor Mitchell, [“What Is A Cash Advance Fee?,”](#) Cleo, March 2024.

Moderate EWA/D2C user who typically needs instant transfer <i>or</i> who typically tips	13 (every other biweekly pay period)	\$4	\$52
Heavier D2C user who always uses instant transfer and who frequently tips	26 (every biweekly period)	\$4 (fee) + \$4 (tip)	\$208

### BNPL

Because BNPL is typically fee- and interest-free, it is less likely to result in any direct cost to the consumer. However, it can still carry risks, especially for vulnerable users. Missed or rescheduled payments can trigger late fees ranging from \$2 to \$17.<sup>53</sup>

While automatic repayment makes BNPL defaults relatively uncommon, it may also have the side effect of prioritizing BNPL payments over other payment obligations, increasing the risk of delinquencies on other debts or bills. Prior research finds that BNPL users carry higher credit utilization and more past-due payments than non-BNPL users, suggesting that they are more vulnerable to these outcomes.<sup>54</sup> However, the costs of these consequences are difficult to quantify and vary based on each household's circumstances. As a result, the cost of BNPL can range from completely free to a significant source of financial hardship.

### Part 3

## The Financial Health Implications of Different Underbanked Definitions

One argument for an underbanked definition that considers cost and risk—difficult though it may be to specify—is that it aligns more closely with financial health outcomes than the widest net definition. Among households that are underbanked under the widest net approach, 31% are Financially Healthy, 54% are Financially Coping, and 15% are Financially Vulnerable—a nearly identical financial health profile to the general population. This is unsurprising, given how large a portion of the general population would be considered underbanked under this definition.

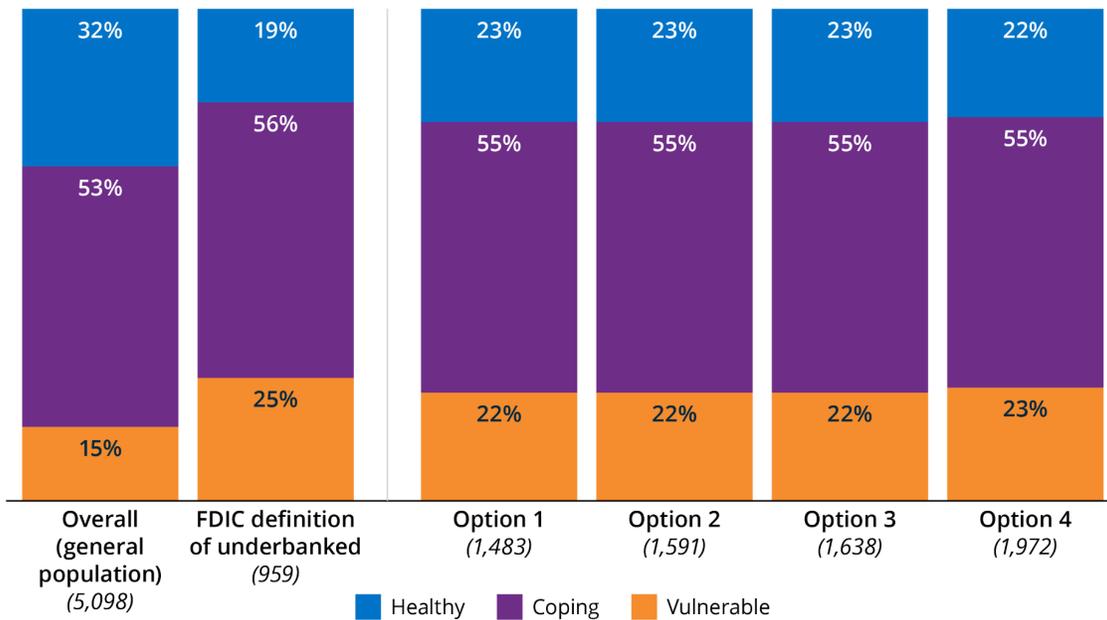
<sup>53</sup> Not all BNPL services charge late fees, but many do. See: Jackie Veling, "[What Is Buy Now, Pay Later \(BNPL\)?](#)," NerdWallet, October 2025.

<sup>54</sup> Valeria Zeballos Doubinko & Tom Akana, "[How Does Buy Now, Pay Later Affect Customers' Credit?](#)," September 2023.

By contrast, the alternative options outlined in Part 2 capture a population that is more likely to be Financially Vulnerable and less likely to be Financially Healthy than the general population (Figure 5). Despite their substantially different sizes, all four options have nearly identical financial health profiles to each other. They are also, on average, slightly more Financially Healthy than households classified under the more restrictive FDIC definition. This suggests that households using more traditional forms of AFS, such as check cashing services and payday loans, may be slightly more Financially Vulnerable than those using EWA or BNPL. Future research could focus on the financial health associations with each individual nonbank product to determine whether a clear “most vulnerable” set of nonbank financial services exists.

**Figure 5. Households using costly or risky AFS are less likely to be Financially Healthy than the general population, regardless of which definition is used.**

Financial health profiles of different underbanked definitions.



Notes: FinHealth Spend 2025 survey data.

## Part 4

# Two Types of Underbanked Households

Underbanked status is typically discussed as a single indicator of financial exclusion. A household's use of any individual AFS is taken as a sign that their needs are not being fully met by mainstream financial institutions. However, a household's use of alternative transactional or deposit services may reflect needs that are distinct from the use of alternative credit products.

Consider two unique households, both with checking and savings accounts at different banks. The first household, despite having a checking account and ATM card, uses check cashing services and loads significant amounts of money onto prepaid cards, paying substantial fees for each. This household may not be fully using its checking account because its bank only offers those services in inconvenient or costly ways. For example, the bank might not be able to release the full value of a check soon enough to meet this household's needs.

Now consider a second household that uses its checking and savings accounts for all of its day-to-day transactions, but also relies on payday loans or EWA to cover essential expenses towards the end of the month. This household has full access to and awareness of the credit products offered by its bank, and may even prefer them. However, borrowing on its credit card may be too expensive or impossible for this household due to high interest rates or limited available credit.

Both of these scenarios represent households whose basic financial needs are not fully met by their banks, but in distinct ways. In the first example, checking account services are inaccessible because of convenience or cost barriers. In the second example, credit is inaccessible due to the bank's underwriting practices. Because the solutions needed to better serve each of these households differ, one way to make a measure of "underbanked" more useful might be to distinguish between:

- **Transactional underbanked** households: those using transactional or depository AFS
- **Credit underbanked** households: those using credit AFS
- Households that are both transactional and credit underbanked

Considering all the possible nonbank services that might be more costly or risky than mainstream alternatives, **transactional or depository AFS** could include:

- Nonbank check cashing
- Nonbank money orders
- Nonbank remittances
- P2P wallets (PayPal, Venmo, Cash App) used for storing money
- Prepaid cards

**Credit AFS** could include:

- Payday loans
- Pawn loans
- Rent-to-own agreements
- Tax refund advance loans
- Auto title loans
- Cash advance apps or direct-to-consumer earned wage access (D2C)
- Employer-linked earned wage access (EWA)
- Buy now, pay later (BNPL)

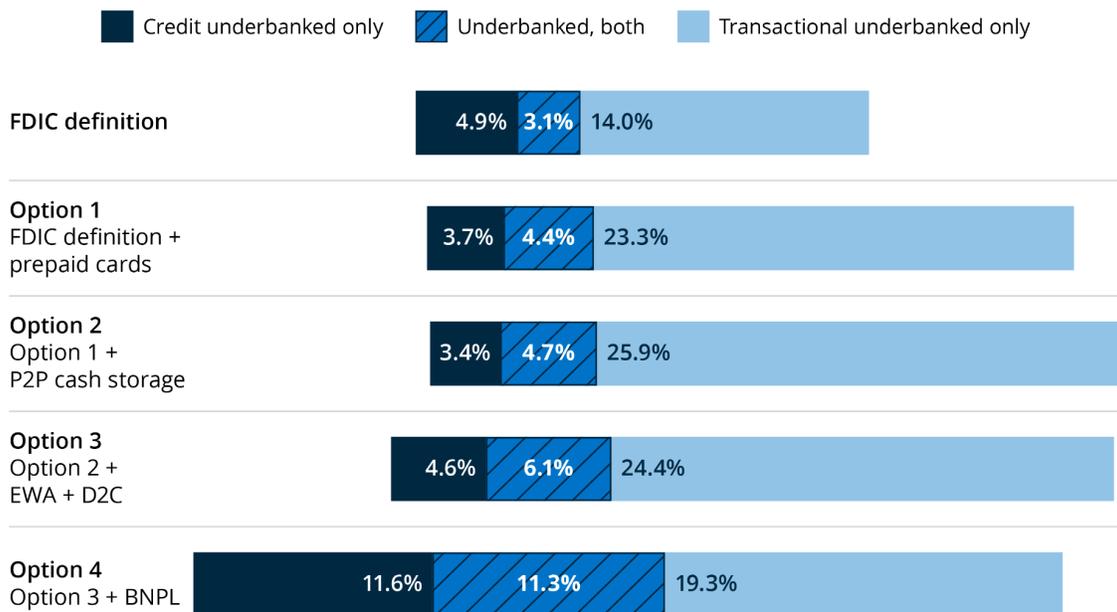
Below, we distinguish between transactional and credit underbanked populations, estimate their size, and examine their overlap under the FDIC definition and all four alternative options outlined in Part 2. Across all alternative definitions, we find that it is more common to be transactional underbanked than credit underbanked. However, the size of each group and its overlap varies, depending on which products are included in each definition.

For example, under the FDIC definition, only 3% of households are both credit and transactional underbanked (Figure 6). This share doubles to 6% when prepaid cards, P2P wallets for storing money, EWA, and D2C cash advances are included (Option 3). It nearly doubles again if BNPL is included (Option 4).

Ultimately, being credit underbanked and transactional underbanked are distinct—but not mutually exclusive—experiences.

**Figure 6. Households are more commonly transactional underbanked than credit underbanked.**

Venn diagrams of the underbanked.



Notes: FinHealthSpend 2025 survey data. N = 5,096.

## Part 5

# Opportunities and Implications for Research and Practice

## Opportunities

This analysis represents an initial exploration into alternative definitions of unbanked and underbanked status. We do not ask about every possible nonbank financial service in the FinHealth Spend survey or include them in our definitions. Doing so would be challenging, given the rapid expansion of the nonbank financial landscape.

For example, the list of alternative credit products could be expanded to include all forms of nonbank installment lending beyond pay-in-four BNPL products. Definitions of underbanked status could extend even further to include people who store significant amounts of cash in their home, or who regularly borrow money from friends or family. As with any definition, researchers and subject matter experts will need to determine whether these nonbank financial activities pose costs or risks to consumers that bank alternatives could help them avoid.

Even without changing the product mix used to define underbanked status, there are other ways to measure underserved or at-risk households that we did not explore in this brief. For example, one might propose a definition of the credit-underserved population that takes into account not just use of alternative credit services over the past year, but also frequency of use, credit score, credit denials, or stated unmet credit need. Such a definition would represent a departure from the FDIC's original goal of measuring households that use potentially costly or risky services outside of banks. But in some contexts, it may be just as important to directly measure which products consumers have been denied access to as what they have or have not used.

## Implications

Banks and credit unions are central to the consumer finance ecosystem, and the question of how these institutions can better serve vulnerable communities remains vitally important. Our analysis of FinHealth Spend data shows that unbanked and underbanked populations are increasingly difficult to define. As many as 1 in 5 households classified as unbanked may actually hold online-only bank accounts. Meanwhile, new products have expanded the size of the underbanked population—but by how much depends heavily on which products are considered costly or risky.

These findings carry important implications for researchers, policymakers, and financial institutions.

### Implications for Researchers

- **Revise survey question wording to clarify what qualifies as a checking or savings account**, including online-only accounts.
- **Consider updating the definition of underbanked** to include newer nonbank products that may pose higher costs or risks than traditional products.
- **Distinguish between credit underbanked households and transactional underbanked households** in analysis.
- In data collection and analysis, **examine not only whether households use services, but also frequency, timing, and motivations for use** to help further distinguish between consumers who are at risk and those who may be using nonbank services in a way that meets their needs.
- **Continue to evaluate the financial health impacts of emerging products** such as EWA, D2C, and BNPL.

## Implications for Policymakers

- Follow emerging research to **establish guidance on which nonbank products pose higher costs or risks** to consumers, and under what conditions.
- **Refine financial inclusion policy goals** to take into account not only whether households use mainstream or alternative financial services, but whether those services meet their needs.

## Implications for Financial Institutions

- When forming a financial health strategy, **acknowledge that many customers already use nonbank financial services.**
- Distinguish between **customers relying on costly or risky nonbank products and those using nonbank products as helpful complements** to bank services.
- Distinguish between **customers with unmet credit needs from unmet depository or transactional needs.**
- **Identify opportunities to compete with nonbank financial services** by offering safer or more affordable alternatives.

As financial technology and product innovation continues to evolve, it seems likely that the unbanked population will shrink even further. At the same time, the use of nonbank financial services is likely to continue to grow. We may soon face a future where checking accounts are nearly universal, and yet very few households will have—or even expect to have—all their financial needs met by banks. How will we make sense of financial inclusion as a policy or industry goal in such a future?

One answer may be to shift the focus from banked and underbanked status to more specific measures of financial inclusion that consider consumers' access to and use of financial services for different purposes, bank or nonbank alike. For researchers and practitioners, now is the time to develop alternative metrics that provide insights into not just who is using which products, but how and whether those products are meeting consumers' needs.

## Appendix

### Individual Product Usage Estimates

Product	Share of households reporting usage in past 12 months
Nonbank money orders	10.9%
Nonbank check cashing	4.7%
Nonbank remittances	6.7%
Payday loans	2.1%
Pawn loans	3.0%
Rent-to-own services	3.0%
Auto title loans	1.9%
Tax refund advance loans	2.2%
Earned wage access (EWA)	3.4%
Direct-to-consumer cash advance (D2C)	2.6%
Prepaid cards	16.2%
Buy now, pay later (BNPL)	16.8%
P2P wallets	71.6%
P2P wallets for storing money	6.3%

Notes: FinHealth Spend 2025 survey data. N = 5,096.

### Methodology

All survey data are drawn from the 2025 FinHealth Spend survey, with data collected between January 8-February 5, 2025, using the Understanding America Study (UAS) Panel. UAS is a probability-based panel of consumers age 18+ designed to be representative of the U.S. population. The study included responses from 5,216 consumers from unique households (margin of error +/- 1.4pp).

## About the FinHealth Spend Report

The FinHealth Spend Report, previously known as the Financially Underserved Market Size Study, is one of the Financial Health Network's longest-running research initiatives. The report analyzes household spending on dozens of financial products and services, leveraging extensive secondary research as well as a nationally representative survey on consumer spending. Through this initiative, we gain insight into the impact that interest and fees have on families in the United States and uncover disparities in our system.