

2011 UNDERBANKED MARKET SIZING STUDY

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CFSI Center for
Financial Services Innovation

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United States underbanked financial services are a \$78 billion marketplace that encompasses close to two dozen products and services provided to over 68 million consumers.

In 2011, the fees and interest generated by the underbanked market amounted to **\$78 billion** across credit, payment, deposit and other products. Overall, industry revenue expanded by over **7%** from \$73 billion in 2010.

The underbanked marketplace continues to show growth in payments, short term credit and very short term credit as these sectors capitalize on technological advances, respond to regulatory changes and address the needs of consumers in a post-recessionary economy.

CFSI and Core Innovation Capital present this Knowledge Brief to share the significant trends and the range of revenue opportunities the underbanked marketplace offers today and in the future. The inclusion of products in this report reflect the underbanked landscape and do not constitute a commentary on the appropriateness, safety or quality of any specific product for consumers.

Note: This year's underbanked market size estimate is significantly higher than our 2010 report due to the inclusion of several new product segments and improved methodological approaches. Please see page 8 for more information.

Key Findings

- The **underbanked marketplace generated** approximately **\$78 billion in fee and interest revenue in 2011 from a volume of approximately \$682 billion** in principal loaned, funds transacted, deposits held and services rendered.
- The underbanked market saw **annual growth in revenue of 7%**, from a previous total of \$73 billion, while the **volume of business conducted grew 5%** from \$649 billion in 2010.
- The underbanked market shows consistent revenue growth across all categories: **short term credit grew by 10.9% from 2010 to 2011 and very short term credit grew by 6% while payment products grew at a modest 2.5%.**
- Very strong growth segments in 2011 included: **subprime credit cards (39.4%), internet payday loans (32.4%) and open-loop prepaid cards - both payroll (21.8%) and general purpose reloadable (21.6%).**
- **Subprime auto loans represented the largest revenue segment at \$27 billion**, accounting for **more than 1 in 3 revenue dollars** in the underbanked market overall, and grew by **9.9%.**
- Recent indicators and trends project the underbanked industry to **grow by more than 9%** in 2012 to a total of **\$85 billion.**

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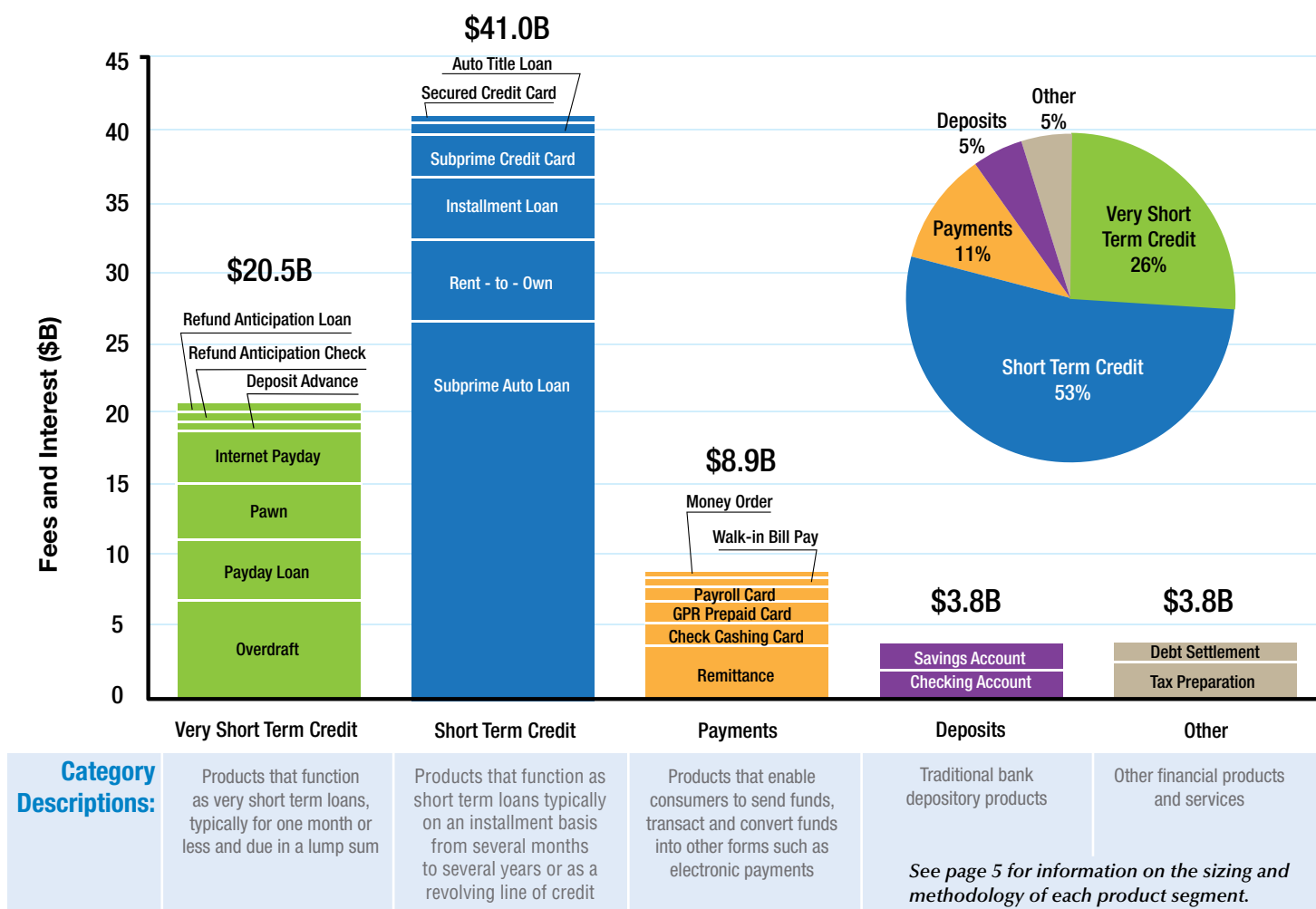
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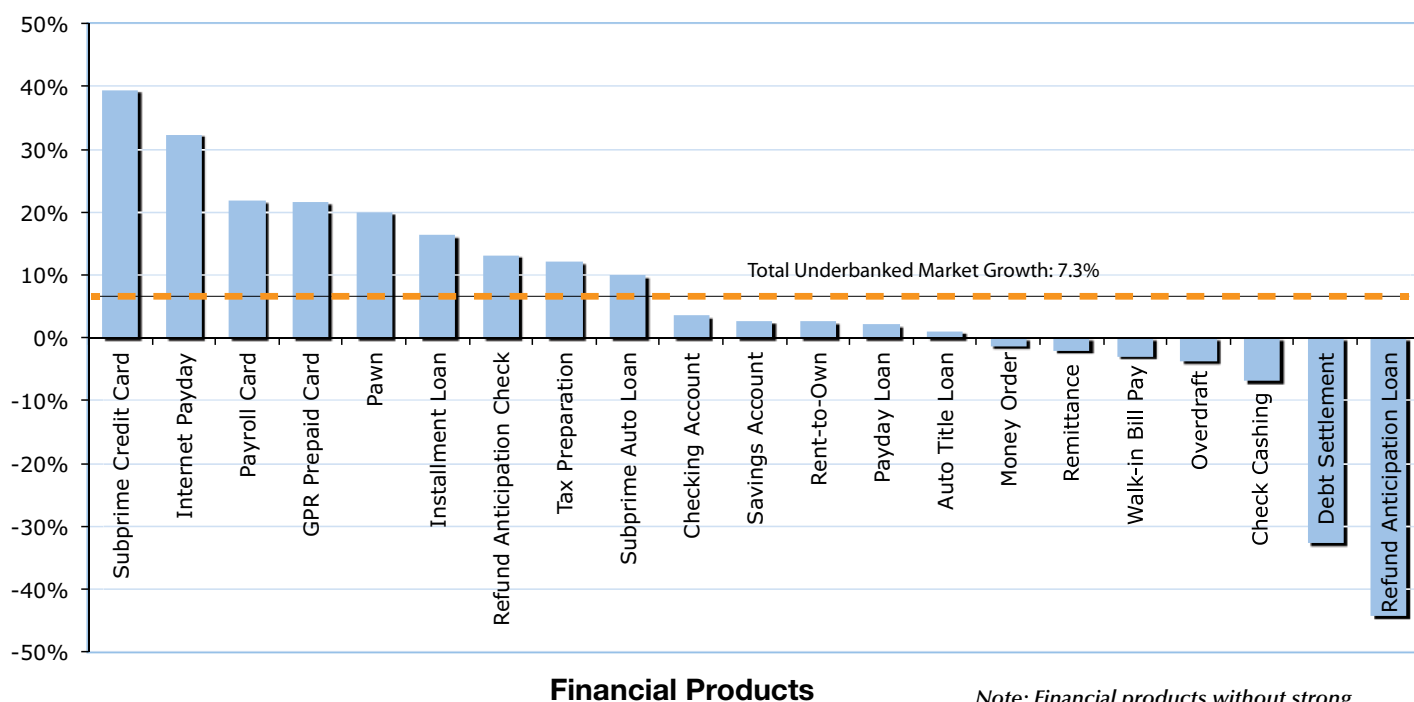
Who are the Underbanked?

The term “underbanked” in this report refers to those consumers whose financial needs are not fully served by traditional financial institutions. These consumers use alternative financial services - such as check cashing or payday loans - to meet some or all of their financial needs. The “underbanked” designation in this report also applies to consumers who have subprime credit scores, thin or no credit files, or find their access to mainstream financial products challenged by low to moderate household incomes. Collectively, the underbanked represent over \$1 trillion in annual income.

Industry Revenue by Category and Segment in 2011



Year Over Year Growth Rates by Product Segment (2010-2011)



Note: Financial products without strong historical data for 2009 and 2010 are excluded from the product segments above.

Market Trends

■ ***Online and Mobile Technology Driving Product Usage***

Financial products capitalizing on increasingly inexpensive internet and mobile infrastructure – such as GPR Cards, Payroll Cards and Internet Payday Loans – are growing rapidly while those reliant on older technologies and revenue models are losing market share, with the exception of Pawn Loans. We expect this trend to continue next year as access to mobile technology by underbanked consumers continues to grow. Underbanked utilization of mobile phone services at the start of 2012 outpaces the mass market as a whole. 91 percent of underbanked consumers have a mobile phone and 57% of these consumers have a smartphone, compared to only 87% and 44%, respectively, among all consumers.¹

■ ***Regulatory Changes Propel Product Evolution***

New consumer protection laws and regulations, enacted in response to concerns about product fairness and transparency, have impacted the revenues and fee structures of financial products such as Overdraft, Refund Anticipation Loans, and Debt Settlement services, leading to revenue decreases for these products in the past year. The effects of changes to Regulation E and tightened regulations from the IRS and FTC will continue to impact these sectors in coming years, as will passage of the Dodd-Frank Act, and establishment of the Consumer Financial Protection Bureau.

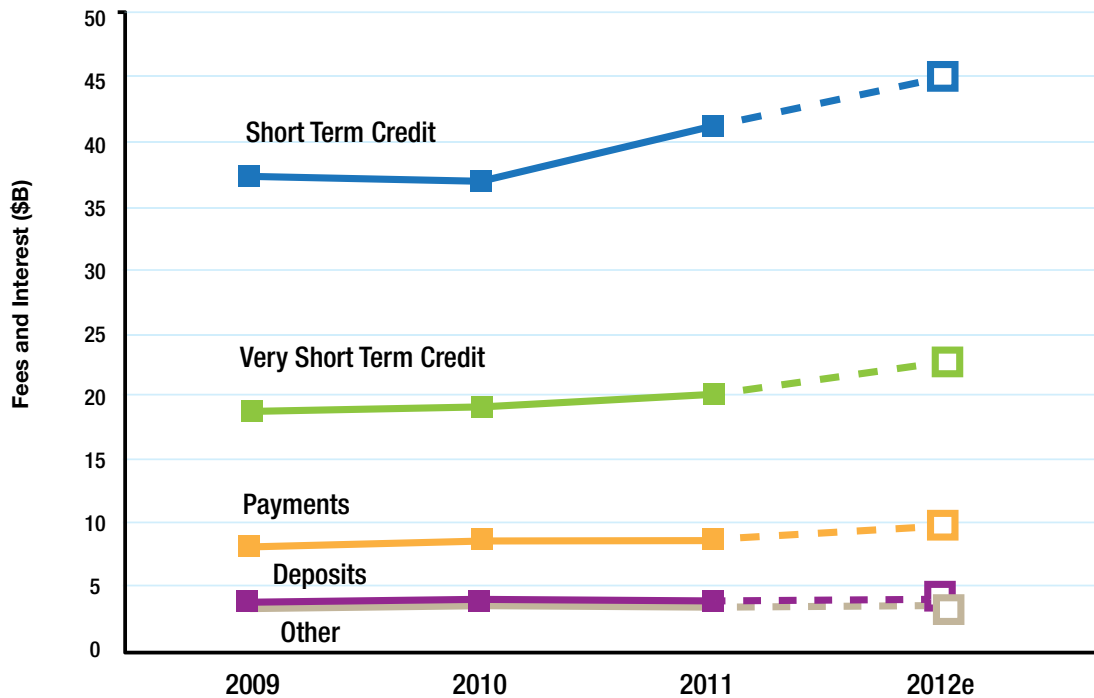
■ ***Subprime Credit Rebounds for Short Term Credit Sector***

Data from the first half of 2012 suggests that pent-up demand for goods, coupled with the first hints of a loosening of subprime credit, has led to an increase in Subprime Auto Loans and Subprime Credit Card products. Subprime Auto Loans for new cars in 2012 currently exceed pre-recession totals, and bank credit lending to subprime consumers reached a four-year high at the end of 2011.² Auto Loan interest rates continued to fall in 2011 for all risk categories although subprime rates remained significantly higher than prime rates for both new and used vehicles. Consumers with subprime credit ended 2011 holding approximately 27% of all outstanding auto debt and generating about half the interest revenue on auto loans for the year.

■ ***Emerging Products Capture New Customers, Shift Usage from Older Products***

Shifts in consumer demand, technological innovation, and regulatory frameworks are fostering a dynamic in which emerging products are replacing products with older models or structures. Deposit Advance, Installment Loans, and Internet Payday Loans are increasing their market share relative to traditional storefront-originated Payday Loans. Prepaid Cards are increasing in market share relative to cash-driven payment products such as Check Cashing, Money Orders, and Walk-in Bill Pay. Refund Anticipation Checks are gaining ascendancy as providers phase out Refund Anticipation Loans in response to regulatory changes.

Underbanked Market Revenue Growth by Category



Where is the Underbanked Market headed in 2012?

Based on activity in the first half of 2012 and other economic trends, growth in the underbanked market is projected to reach 9% for 2012, resulting in \$85 billion in overall revenue, driven by 9% growth in the Short Term Credit category, 12% growth in the Very Short Term Credit category and 10% growth in the Payments category. Trends also point to moderate growth in Deposits of 3%.

While these categories are generally expected to show corresponding growth in volume as their revenues increase for 2012, volume for Very Short Term Credit is likely to contract by about 5%, with concurrent revenue growth driven by higher average fee percentages for some products.

Long Term Credit in the Underbanked Marketplace

Long Term Credit products also play a substantial role in the underbanked market and in the lives of underbanked consumers, typically featuring terms of five to thirty years and often characterized by subprime rates and onerous terms. Long term debt carried by underbanked consumers is dominated by Subprime Mortgages and Student Loans. While not the subject of this report, these products can be critical factors in the financial calculus of underbanked consumers and have great potential for innovation.

Market Size Analysis & Data

Methodology

Market sizing analysis is an exercise of best estimation for a quantity that is frequently unknowable. For this analysis, we sought sources that are credible, consistent with other estimates, and continuous, providing historic figures for reference. Our methodology is summarized below, and we transparently disclose our confidence level (high, medium, low) in each element of the market estimate. We encourage readers with access to better information sources to share those ideas so that we can continuously improve our analysis.

CONFIDENCE LEVELS

HIGH

- Methodology disclosed
- Based on surveys or company-specific information
- Cited by industry leaders

MEDIUM

- Estimate derived from credible market data

LOW

- No methodology disclosed
- CFSI/Core estimate requiring significant extrapolations and assumptions
- Pre-2009 data

Product Segment	Rev. (\$B) 2011	Previous Rev. (\$B) 2010	Vol. (\$B) 2011 ³	Previous Vol. (\$B) 2010 ³	Growth of Revenue in 2011	Growth of Volume in 2011	Confidence Level	Methodology/Source
Auto Loan (Subprime) ⁴	26.6	24.2	173	161	9.9%	8.0%	High	Calculated from Experian Automotive data by risk segment, interest rate and loan volume. (2009-2012)
Auto Title Loan	1	1	1.3	1.3	1.1%	1.1%	Low	CFSI/Core extrapolation from MO, VA and IL state agencies reporting on title lending. Extrapolated using number of cars per state for the 18 states where title lending is legal. Rollovers counted as additional volume. (2008, 2010, 2011)
Checking Account ⁵	2.1	2	72	71.8	3.5%	0.4%	Medium	CFSI/Core extrapolation based on Federal Reserve Surveys of Consumer Finances (2007 & 2010) and FDIC National Survey of Underbanked Households. (2009, 2012)
Check Cashing	1.7	1.8	54	58	-6.9%	-6.9%	Medium	Volume estimate from FiSCA as reported by Packaged Facts. Fee percent estimate from FDIC's AFS Primer. (2011)
Credit Card (Subprime) ⁶	3	2.2	11.3	9	39.4%	25.0%	Low	CFSI/Core extrapolation based on Equifax and Moody's bureau reports of new originations and typical product structure and fees. (2011)
Credit Card (Secured)	0.28	N/A	5.2	N/A	N/A	N/A	Low	CFSI/Core estimate based on confidential information provided by industry sources, combined with data from The Nilsen Report, 2011, on average loans outstanding and number of providers offering secured cards. (2011)
Debt Settlement	1.1	1.6	N/A	N/A	-32.6%	N/A	Low	CFSI/Core estimate based on state lawsuits, news accounts and industry reports of consumer volume, typical fees, average amount paid for services and average length of engagement/ drop-out rate. (2009 - 2011)

Market Size Analysis & Data - continued

Product Segment	Rev. (\$B) 2011	Previous Rev. (\$B) 2010	Vol. (\$B) 2011 ³	Previous Vol. (\$B) 2010 ³	Growth of Revenue in 2011	Growth of Volume in 2011	Confidence Level	Methodology/Source
Deposit Advance	0.4	N/A	5.4	N/A	N/A	N/A	Low	CFSI/Core estimate based on publicly traded industry leaders' annual report data and confidential information provided by industry sources. (2010, 2011)
GPR Prepaid Card	1.6	1.3	51.5	38.5	21.6%	33.8%	High	CFSI/Core calculation using Aite Group and Mercator total dollars loaded and fee estimate based on 2010 NetSpend and Greendot operating revenue / total dollars loaded ratio. (2010 - 2012)
Installment Loan	4.4	3.8	15.2	13.7	16.3%	10.5%	Medium	CFSI/Core estimate based on publicly traded industry leaders' annual report data and market share data. (2009 - 2012)
Money Order	0.25	0.25	44.4	45	-1.3%	-1.3%	Medium	Volume estimate from Packaged Facts (2011) and USPS and Fed data (2011, 2012). Fees estimate based on post office fee for average money order and typical private market fees. (2011, 2012)
Overdraft ⁵	6.9	7.2	8.6	9.4	-3.7%	-8.7%	Medium	CFSI/Core estimate based on portion of overdraft revenues (Moebs, 2011) attributable to underbanked consumers (per 2009 and 2012 FDIC Underbanked Survey). Assumes underbanked equally likely to overdraft as average checking account customer. (2009 - 2012)
Pawn Shop	4	3.3	12.5	9.4	20.0%	32.0%	Medium	CFSI/Core estimate based on publicly traded industry leaders' annual report data and market share data from the National Pawn Brokers Association and Texas Office of Consumer Credit Commissioner statistics. (2009 - 2012)
Payday Loan	4.8	4.7	29.8	29.2	2.1%	2.1%	High	"Payday Loan Industry." Stephens 2011 and Stephens March, 2012. CFSI/Core estimate also based on publicly traded industry leaders' annual report data and market share data. (2011, 2012)
Payday Loan (Internet)	3.6	2.7	14.3	10.8	32.4%	32.4%	High	"Payday Loan Industry." Stephens 2011 and Stephens March, 2012. CFSI/Core estimate also based on publicly traded industry leaders' annual report data and market share data. (2011, 2012)

Market Size Analysis & Data - continued

Product Segment	Rev. (\$B) 2011	Previous Rev. (\$B) 2010	Vol. (\$B) 2011 ³	Previous Vol. (\$B) 2010 ³	Growth of Revenue in 2011	Growth of Volume in 2011	Confidence Level	Methodology/Source
Payroll Card	0.9	0.7	31	25	21.8%	24.0%	Medium	CFSI/Core calculation using Aite Group 2011 report for total dollars loaded in 2010 and estimated for 2011, 2012; fee estimate based on 2010 NetSpend operating revenue / total dollars loaded ratio. (2010 - 2012)
Refund Anticipation Check (RAC)	0.4	0.4	N/A	N/A	13.2%	N/A	High	National Consumer Law Center estimate based on tax return data; industry typical fees. (2009 - 2011)
Refund Anticipation Loan (RAL)	0.3	0.6	18.5	23.8	-44.2%	-22.1%	High	National Consumer Law Center estimate based on tax return data. (2009 - 2011)
Remittance	3.7	3.8	55	51.6	-2.0%	6.6%	High	World Bank 2011 estimate of 2010 inflows and outflows. Fee percent estimated from typical industry fees and past World Bank measurement. (2009 - 2011)
Rent-to-Own Merchandise Financing	5.7	5.6	7.8	7.6	2.6%	2.6%	Medium	RTOHQ.org industry estimate of volume. Fees estimate based on Rent-A-Center and Aaron's market share and gross margin 2010 (Revenue - COGS) / Revenue. (2009 - 2012)
Savings Account ⁵	1.7	1.7	42.5	41.3	2.7%	2.7%	Low	CFSI/Core estimate based on FDIC National Survey of Underbanked Households (2009, 2012) and underbanked consumer survey data and account balance survey data from Consumer Federation of America data (2010) as reported in New America Foundation study "Beyond Barriers". (2011)
Tax Preparation ⁵	2.7	2.4	N/A	N/A	12.1%	N/A	Low	CFSI/Core estimate based on IRS data on EITC eligibility and claims filed (2009 - 2011), combined with New Haven EITC leakage study (2008) and industry estimates of volume and typical fees (2010, 2011). Estimates exclusive of RAL and RAC volume and revenue. (2008, 2009 - 2011)
Walk-in Bill Pay	0.7	0.7	28	32	-2.9%	-12.5%	Medium	CFSI/Core calculation based on 2011 Mercator study of third party bill pay volume, transaction fees and customer activity and 2009 Atlanta Federal Reserve figures for same. (2009, 2011)
Total Underbanked Market	78	73	682	649	7.3%	5.1%		

The Underbanked Market Size is an annual report created jointly by the Center for Financial Services Innovation (CFSI) and Core Innovation Capital. Special thanks to Eva Wolkowitz, CFSI summer associate, for her work in the creation of this year's report.

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This paper has been sponsored by Morgan Stanley and has benefited greatly from the company's strategic input. The opinions expressed in this report are those of Core Innovation Capital and CFSI only and do not necessarily represent those of Morgan Stanley.



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CORE INNOVATION CAPITAL

Core Innovation Capital is the only venture capital fund that invests exclusively in financial technology companies serving America's underbanked consumer market. Its target segment consists of more than 68 million consumers, who generate over \$1 trillion in annual income and spend more than \$78 billion in fees and interest on financial services per year. The fund partners with proven entrepreneurs who seek above market-rate returns and share its vision to improve the lives of low- to moderate-income Americans. Based in New York City, the partnership is backed by leading institutional investors. For more information about Core Innovation Capital, visit <http://www.corevc.com>.

Differences between the 2011 and 2010 Market Sizing Reports

Several financial products have been newly incorporated or redefined in the 2011 Underbanked Market Size Report to reflect a broader scope of products that impact the underbanked marketplace and improved methodological approaches: Subprime Auto Loan, Checking Account, Subprime Credit Card, Secured Credit Card, Debt Settlement, Deposit Advance, Installment Loan, Refund Anticipation Check, Savings Account, Tax Preparation.

The following products have been modified or removed from this year's report in order to focus on financial products that address the immediate needs of underbanked consumers: Checking/Savings/CDs, Credit Cards for Low/Moderate Income consumers, Credit Scoring, Subprime Mortgage for Low/Moderate Income consumers.

All year-over-year growth rates reflect revised 2009 and 2010 figures based on updated data and methods where applicable and the retroactive inclusion or exclusion of financial products, as stated above, to ensure that annual changes are directly comparable. For information on our 2010 methodology, see our [2010 market scan report](#) on CFSI's web site. Please note that the inclusion and exclusion of the above categories has markedly increased our overall estimates of market volume and revenue from previous years.

Endnotes

1. Federal Reserve Bulletin, September 2012, Vol. 98 No.4 p.10
2. Experian Auto press release, September 4, 2012 at <http://press.experian.com/United-States/Press-Release/experian-automotive-subprime-auto-loans-in-q2-2012-exceeded-prerecession-levels.aspx> Equifax press release, March 29, 2012 at <http://news.equifax.com/index.php?s=18010&item=126087>
3. We do not compare volume to revenue for the products in this report because volume analysis varies depending on product category. Very Short Term Credit volume is sized according to annual dollars borrowed to reflect the usage of products which are often extended multiple times to a consumer during one year; Short Term Credit is sized by average outstanding volume to reflect loans paid in installments and balances carried over a longer period; Payments are sized by annual transaction volume; Deposits are sized by average annual balances held in accounts; and the volume of Other financial products and services, which generate revenue and fees independent of volume, are not sized in this report.
4. Subprime Auto Loans indicate loans to consumers with a VantageScore under 640, approximately comparable to a FICO score of 650 or below.
5. Only the portion of the relevant sector encompassing underbanked consumers was considered for this report. Estimates are based in part on the share of consumers designated "underbanked" by the FDIC National Survey of Unbanked and Underbanked Households reports issued in 2009 and 2011. CFSI/Core is aware of the differences in methodology between the two FDIC report years and have adjusted our calculations to compensate.
6. Subprime Credit Cards are typically marketed to consumers with FICO scores below 660.

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