Highlights of the $103 Billion Market:

➤ The United States financially underserved market generated approximately $103 billion in fee and interest revenue in 2013, based on consumer usage volume of $1.3 trillion in financial products and services.

➤ Market revenue grew by 7.1% to $103 billion from 2012 to 2013, increasing from $96 billion.

➤ Market revenue has experienced significant and steady growth, expanding 26% from 2009 to 2013, demonstrating a compound annual growth rate of 6%.

➤ The market is projected to grow by 4.6% from 2013 to 2014, reaching total revenue of $107 billion.

Sizing the Financially Underserved Market

Financial services for underserved consumers in the US constitute a diverse and continually growing marketplace, encompassing 26 products and $103 billion in spending in 2013.

CFSI and Core Innovation Capital present this analysis to describe the financially underserved market landscape and identify significant trends in the market. This report is not intended as a commentary on the appropriateness, safety, or quality of any specific product for consumers. Market size and growth rates reported do not constitute an endorsement of market well-being for providers or financial health impact for consumers.

2013 Underserved Market Revenue: Product Category and Segment

Financial Product Categories

- Single-Payment Credit
  - Loan products for which payment is due in one lump sum, typically with terms of one month or less

- Short-Term Credit
  - Loan products that function on an installment basis with terms from several months to 1-2 years or as a line of revolving credit

- Long-Term Credit
  - Loan products that function on an installment basis with typical terms longer than 2 years

- Payments
  - Products that enable consumers to send funds or transact and convert funds into other forms such as electronic payments

- Deposit & Other
  - Direct Deposit Accounts, other types of accounts, and personal financial management services

Total Market $103 Billion
The Financially Underserved Consumer

We anchor this analysis in the products used by those who are traditionally defined as unbanked or underbanked. The FDIC sizes this part of the underserved market at 68 million adults in the US, based on their lack of bank accounts and use of alternative financial services such as check cashing or payday loans. In addition, this report includes a wider range of products used by US individuals who are challenged by subprime credit scores or thin or no credit files, and those who may find their access to a full range of conventional financial products otherwise limited by low-to-moderate household incomes or income volatility.

As a result, some of the products included in this analysis, such as checking accounts and auto loans, are also used by customers who are not traditionally defined as underserved. In these cases, we include only the portion of the revenue generated by those who meet our criteria for financially underserved individuals. Accounting for market revenue in this way allows for a fuller examination of financial services spending by individuals who are experiencing financial health challenges.

Underserved consumers are responsible for more than 2 out every 10 dollars spent by the total marketplace on these crossover products, and 4 out of 10 dollars spent on all of the products included in this analysis.

Supporting Financial Health

Financial health means an individual’s daily financial system functions well and increases the likelihood of long-term financial resilience and opportunity. Pursuing and maintaining financial health should be vital goal for all American consumers. Providing products that support financial health represents a vast market opportunity, particularly to address the needs of underserved consumers.

Key Trends in the Underserved Market

Cheap and Available Credit Ongoing for Subprime Auto and Revolving Subprime Credit

Falling subprime rates and pent-up consumer demand in the wake of the recession continue to drive strong growth in Subprime Auto Loans and Subprime Auto Leases, which were the primary factors propelling 10.7% growth in the Long-Term Credit category in 2013 and projected growth of 9.2% in 2014. High growth is not replicated for Buy Here Pay Here Auto Loans, which have struggled to compete for market share against the lower rates of other auto loan models, resulting in stagnant growth in 2013 and a projected decline in 2014 revenue.

The increasing availability of subprime credit through credit cards has brought renewed strength to consumer solicitations and approvals in the Subprime Credit Card segment, a trend projected to continue in 2014. Secured Credit Cards also saw a sharp jump in revenue driven by a 30% increase in average fees from 2012 to 2013, but is expected to hold steady through 2014 as these fees plateau.
Short-Term Credit Overtakes Single-Payment Credit

Revenue generated by revolving credit and loans with installment models has built from year to year since 2010, while revenue for Single-Payment Credit has stagnated since 2012. Short-Term Credit grew by 11.2% in 2013 and is projected to grow by 8.2% the following year, while Single-Payment Credit revenue grew only 1.5% in 2013 and is expected to fall by 3.4% next year.

These shifts led to a turning point in 2013, when Short-Term Credit generated greater revenue than Single-Payment Credit for the first time. The downward trend for Single-Payment Credit is due in large part to regulatory actions that have curtailed Online Payday through the Justice Department’s Operation Choke Point, largely eliminated Storefront Payday in states with strict regulations, slowed uptake of Overdraft services through opt-in requirements in Regulation E, and led to the discontinuation of Deposit Advance services in early 2014 following FDIC and OCC guidance. In response to this downward pressure, more short-term loans, both online and storefront, were offered through Installment Loan credit models and secured forms of credit such as Title Loans or Pawn services.

As consumers turn to other models for small dollar credit needs, the upward trend for Short-Term Credit was driven by increasing use of Title Loans and Subprime Credit Cards, as well as an uptick in Secured Credit Card revenue due to fee increases. The ascendency of Short-Term Credit over Single-Payment Credit is expected to further accelerate in 2014. Rent to Own did not grow from 2012 to 2013, but is projected to regain positive growth in 2014 adding momentum to Short-Term Credit's rise.

Many forms of small-dollar credit, whether designed with a single-payment model or otherwise, will continue to draw scrutiny in coming years as regulators and others examine how rates and terms impact quality for consumers.

2013 Financially Underserved Market: Revenue Growth by Product Category

<table>
<thead>
<tr>
<th>Year</th>
<th>Single-Payment Credit</th>
<th>Short-Term Credit</th>
<th>Long-Term Credit</th>
<th>Payments</th>
<th>Deposits &amp; Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
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<td>2012</td>
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<td>2013</td>
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<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
### Macroeconomic Drivers Impact Revenue Growth

Product segments aligned with economic recovery reflected increasing consumer usage in 2013 as wage earnings grew. RAC (Refund Anticipation Check) services were increasingly used by tax filers to cover the advance cost of tax preparation. More Remittance dollars were sent abroad after the segment endured negative growth from 2009 to 2011. Declining remittance revenue is due entirely to lower fees as money transfer technologies provide increasingly efficient and competitive remittance channels, suggesting that increasing consumer usage will allow revenue to rise again in the future if falling fees stabilize.

Meanwhile, product segments aligned with mitigating the negative effects of the recession showed signs of declining revenue as the immediate after-effects of the economic crisis have begun to wear off. Lower spending on Retirement Plan Leakage Fees and a decrease in that segment’s overall outstanding loan balance from 2011 to 2014 indicate less consumer reliance on drawing down savings.

**Government Benefits Prepaid Card** revenue generated by consumer fees declined significantly in 2013 and is expected to register a more moderate decline in 2014, due primarily to lower fees imposed. Simultaneous growth in usage volume, however, was driven in part by a Treasury ruling that ended the option of dispersal by paper check in 2013 for all benefits, including Social Security, and in part by consumer uptake of federal benefits that address ongoing economic hardship, primarily SNAP benefits.

### Prepaid Growth Hints at Coming Maturity

**GPR Prepaid Card** growth continued to replicate the brisk pace of recent years, although projected growth at a tapering pace signals a coming era of market maturation. While initial uptake by underserved consumers moves closer to market saturation, opportunity exists to increase the volume of usage and length of ownership for each card. New growth areas also include younger consumers and those with higher incomes, bank accounts, and credit cards, whose use of **GPR Prepaid Cards** rose swiftly in 2013. If uptake by these consumers continues to rebalance the profile of users, **GPR Prepaid Cards** may join products such as **Checking Accounts** for which only the portion of revenue attributable to the underserved is sized in future analyses. **Payroll Card** growth is projected to have slowed in 2014 due to media and governmental scrutiny as the industry awaited federal guidance on **GPR Prepaid Cards**. New guidelines, proposed by the CFPB in November 2014, are designed to include provisions for **Payroll Cards** as well.
**Migration from Storefront to Online and Electronic Channels Continues**

Alternative financial services based on storefront channels, such as **Walk-in Bill Pay**, continue to give way to electronically based product models, often provided through **GPR Prepaid Cards**, that offer broader functionality and real-time accessibility to customers, as well as greater efficiencies and data collection abilities for providers. Technology-savvy innovators are also increasingly leveraging mobile channels to reach underserved consumers, who have high levels of feature phone and smartphone usage, with services such as bill pay reminders or real-time tracking of prepaid card spending. In 2013, 34% of underbanked consumers reported using mobile banking and 19% reported making mobile payments.13

Several product segments relying in part on older, less technologically advanced models, such as **Check Cashing**, **Storefront Payday loans**, and **Walk-in Bill Pay**, show only slight growth, stagnant growth, or declining revenues as usage by consumers remains relatively flat. **Money Orders** are also experiencing decreased usage, although increases in the dollar amount per transaction have propped up fee revenue slightly. Meanwhile, payments products which continue to rely on storefront models are slashing fees to remain competitive, or to position their services as loss leaders for big-box retailers providing financial services as one of many verticals.

**Endnotes**

1. All figures in this report are the result of original research and analysis by CFSI and Core Inovation Capital when not otherwise sourced. Please refer to the appendix for a full description of methodology and sourcing.
2. Updated from previous annual Market Size report to reflect revised 2012 estimates.
4. All revenue generated by consumer spending is sized for products in this report which constitute alternative financial services, typically used by underserved consumers. For eight product segments in this report used more widely across the consumer market, only the portion of revenue generated by underserved consumers or by subprime rate product offerings are sized. Savings and Checking accounts, Overdraft, Tax Preparation, and prime rate Auto Leases, Auto Loans, Credit Cards, and Loans all generate revenue in this wider market, bringing the total revenue for consumer spending on products in this report, including spending of $103 billion by the underserved, to $255 billion in 2013. When only these eight products are considered, spending by the underserved constitutes $44 billion out of $196 billion spent by all consumers.
6. The United States Department of Justice launched the Operation Choke Point initiative in March of 2013 which scrutinizes and enforces banks’ responsibilities to prevent fraudulent or otherwise illegal online small loan providers and payment processors from accessing consumer bank accounts to withdraw loan payments not authorized by the consumer or allowed under state law.
8. Regulation E, revised in 2010 by the Federal Reserve, includes a provision that all consumers must affirmatively choose the option of overdraft coverage for ATM and point of sale transactions when opening a deposit account and be charged any related fees accordingly.
9. In November 2013 the FDIC and Office of the Comptroller of the Currency released guidance on increased underwriting standards for Deposit Advance, resulting in its discontinuation by all banks providing the service by early 2014.
10. The Financial Management Service, Department of the Treasury, issued a rule, effective March 31, 2013, that all individuals who did not elect to receive federal benefits via direct deposit would receive funds by prepaid card, ending the dissemination of benefits by paper check.
## APPENDIX: Market Size Analysis Methodology and Data

### Market Size Analysis Methodology and Data

Market sizing analysis is an exercise of best estimation for a quantity that is frequently unknowable or has a range of recognized figures. For this analysis, we sought sources that are credible, consistent with other estimates, and continuous, providing historic figures for reference. In many cases, we extrapolated from a selection of data sources to arrive at our final estimate for a given product segment. Our sources and key figures are summarized in the Appendix on the following page, and we transparently disclose our level of confidence – high, medium, or low – in the accuracy of each product segment. We encourage readers with access to further information to share those figures 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
  - Source discloses methodology, but with significant assumptions

- **LOW**
  - No methodology disclosed
  - CFSI/Core estimate requiring significant extrapolations and assumptions
  - Relies on pre-2011 data

### Table: Market Size Analysis Methodology and Data

<table>
<thead>
<tr>
<th>Product Segment</th>
<th>Product Definition</th>
<th>REVENUE</th>
<th>VOLUME</th>
<th>Confidence Level</th>
<th>Methodology/Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Revenue</strong></td>
<td><strong>Volume</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auto Lease, Subprime</td>
<td>Car lease provided to consumers with FICO credit scores less than 660.</td>
<td>0.4</td>
<td>34.1%</td>
<td>22.6%</td>
<td>1.4</td>
</tr>
<tr>
<td>Auto Loan, Subprime</td>
<td>Car loan provided to consumers with FICO credit scores less than 660. Exclusive of Buy Here Pay Here auto loans.</td>
<td>20.4</td>
<td>18.2%</td>
<td>22.1%</td>
<td>226.1</td>
</tr>
<tr>
<td>Buy Here Pay Here Auto Loan</td>
<td>Car loan with high interest rates and payments typically due at the place of sale, often utilized by consumers with low credit scores.</td>
<td>16.4</td>
<td>2.8%</td>
<td>-6.8%</td>
<td>68.4</td>
</tr>
<tr>
<td>Check Cashing</td>
<td>A service to quickly convert checks to cash or electronically available funds.</td>
<td>1.9</td>
<td>2.2%</td>
<td>4.2%</td>
<td>73.1</td>
</tr>
<tr>
<td>Checking Account</td>
<td>Basic Bank or Credit Union Checking Account, exclusive of Overdraft.</td>
<td>2.9</td>
<td>2.6%</td>
<td>0.5%</td>
<td>136.9</td>
</tr>
<tr>
<td>Credit Card, Secured</td>
<td>Credit card backed by money deposited into the account and used as collateral for the credit available.</td>
<td>1.0</td>
<td>7.0%</td>
<td>1.9%</td>
<td>5.2</td>
</tr>
<tr>
<td>Credit Card, Subprime</td>
<td>Revolving line of credit provided to consumers with FICO credit scores below 660.</td>
<td>6.7</td>
<td>16.2%</td>
<td>18.3%</td>
<td>13.6</td>
</tr>
<tr>
<td>Deposit Advance</td>
<td>Single payment loan offered directly by depository institutions to their account holders, Repaid directly from borrower accounts.</td>
<td>0.4</td>
<td>1.9%</td>
<td>discontinued</td>
<td>4.1</td>
</tr>
<tr>
<td>Government Benefits Prepaid Card</td>
<td>Prepaid card used to access government benefits such as TANF, SNAP, Unemployment, Social Security, Disability, if the recipient does not receive funds by direct deposit.</td>
<td>0.2</td>
<td>-8.4%</td>
<td>-2.6%</td>
<td>142.0</td>
</tr>
<tr>
<td>GPR (General Purpose Reloadable) Prepaid Card</td>
<td>An open-loop card which serves as an account where consumers can load, store and spend funds electronically.</td>
<td>2.5</td>
<td>32.2%</td>
<td>13.3%</td>
<td>84.3</td>
</tr>
<tr>
<td>Installment Loan</td>
<td>A short-term loan which is repaid over time in a set number of scheduled payments.</td>
<td>4.2</td>
<td>2.7%</td>
<td>-3.4%</td>
<td>9.6</td>
</tr>
</tbody>
</table>

> This report sizes only the portion of revenue generated by consumers defined by the, “2013 FDIC National Survey of Unbanked and Underbanked Households,” as un- or underbanked.
> - Deposit Advance discontinued in 2014.
> - All federal government benefits not accessed through direct deposit are legally required to be provided by prepaid card as of March 31, 2013.
> - Only measures remittance outflow from the United States to international destinations.
> - Interest payments made on funds borrowed from retirement account are paid back to the account itself and result in no net loss to the consumer. This report measures only the additional fees paid by the consumer to access this loan option.
> - This report sizes only the portion of revenue generated by consumers eligible for the Earned Income Tax Credit (EITC).
<table>
<thead>
<tr>
<th>Product Segment</th>
<th>Product Definition</th>
<th>Revenue Growth</th>
<th>Volume Growth</th>
<th>CONFIDENCE LEVEL</th>
<th>METHODOLOGY/SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Order</td>
<td>Service that converts cash to a paper check equivalent with stated amount of funds guaranteed by the issuing institution.</td>
<td>0.3</td>
<td>3.6%</td>
<td>0.9%</td>
<td>57.7</td>
</tr>
<tr>
<td>Overdraft</td>
<td>Extension for a checking account holder to spend beyond their available balance, for a fee to be repaid from the same account.</td>
<td>6.9</td>
<td>0.4%</td>
<td>0.1%</td>
<td>11.6</td>
</tr>
<tr>
<td>Payday, Online</td>
<td>Single payment loans offered by non-bank lenders through online channels.</td>
<td>4.1</td>
<td>-4.7%</td>
<td>-14.6%</td>
<td>15.0</td>
</tr>
<tr>
<td>Payday, Storefront</td>
<td>Single payment loans offered by non-bank lenders through brick and mortar storefronts.</td>
<td>4.0</td>
<td>0.7%</td>
<td>-1.4%</td>
<td>30.0</td>
</tr>
<tr>
<td>Payroll Card</td>
<td>An open-loop card which serves as an account for employers to deposit employee salaries, wages, or other compensation on a regular basis. Consumers can store and spend funds electronically.</td>
<td>0.9</td>
<td>11.7%</td>
<td>2.9%</td>
<td>30.6</td>
</tr>
<tr>
<td>RAC (Refund Anticipation Check)</td>
<td>Fee-based service that allows tax preparation fees to be paid from expected tax refund rather than at the time of preparation.</td>
<td>0.8</td>
<td>14.8%</td>
<td>16.0%</td>
<td>3.7</td>
</tr>
<tr>
<td>Remittance</td>
<td>Service that transfers funds from sender in US to recipient abroad.</td>
<td>3.4</td>
<td>-3.4%</td>
<td>-2.2%</td>
<td>52.1</td>
</tr>
<tr>
<td>Rent to Own</td>
<td>Service that allows for the purchase of furniture, appliances, and other big-ticket household items through payments made in regular installments over a period of time.</td>
<td>5.1</td>
<td>-0.2%</td>
<td>2.4%</td>
<td>7.6</td>
</tr>
<tr>
<td>Retirement Plan Leakage Fees</td>
<td>Fees paid to release funds previously dedicated to a personal retirement plan.</td>
<td>1.7</td>
<td>-5.4%</td>
<td>-2.8%</td>
<td>170.3</td>
</tr>
<tr>
<td>Savings Account</td>
<td>Basic bank saving account or equivalent credit union share account.</td>
<td>0.7</td>
<td>0.8%</td>
<td>0.0%</td>
<td>40.7</td>
</tr>
<tr>
<td>Student Loan, Private, Subprime</td>
<td>Private student loan provided to consumers with FICO credit scores less than 650.</td>
<td>2.6</td>
<td>7.3%</td>
<td>7.4%</td>
<td>18.5</td>
</tr>
<tr>
<td>Tax Preparation</td>
<td>Service which prepares and files personal income taxes for a fee, exclusive of Refund Anticipation Check (RAC).</td>
<td>3.7</td>
<td>-4.8%</td>
<td>-1.3%</td>
<td>61.6</td>
</tr>
<tr>
<td>Title Loan</td>
<td>An installment loan secured with a vehicle in which the title is provided to the lender as collateral.</td>
<td>5.0</td>
<td>29.4%</td>
<td>11.9%</td>
<td>2.1</td>
</tr>
<tr>
<td>Walk-in Bill Pay</td>
<td>Storefront service that converts consumer cash payments to funds sent to billers.</td>
<td>0.7</td>
<td>-2.6%</td>
<td>-2.8%</td>
<td>21.8</td>
</tr>
</tbody>
</table>

**TOTAL MARKET**

102.6 7.1% 4.8% 1,303.7 2.6% 1.7%
Morgan Stanley

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The Financially Underserved Market Size Study is an annual report created jointly by the Center for Financial Services Innovation (CFSI) and Core Innovation Capital. Special thanks to authors Eva Wolkowitz, CFSI Research Analyst, and Elisa Manheim, CFSI Summer Associate, and to the CFSI Marketing and Communications team.

Differences between the 2013 and 2012 Market Sizing Reports

Several financial products have been newly incorporated or redefined in the 2013 Underserved Market Size Report to reflect a broader scope of products that impact the underserved marketplace: Subprime Private Student Loans, Retirement Plan Leakage Fees, Subprime Auto Lease, and Government Benefit GPR cards.

Due to the fragmented nature of the industry, Debt Settlement has been removed this year following methodological changes that makes quantifiable revenue too negligible to include in the report.

Note that the projected revenue for deposit advance is set to zero in 2014, as this service has been effectively discontinued.

To ensure that the above changes in methodology and product inclusion or exclusion do not influence the measurement of growth rates, these changes are retroactively applied to the sizing of products for the complete data set from 2009 to present. All year-over-year growth rates reflect revised figures for past years to ensure that annual changes are directly comparable. For information on our 2012 methodology, see the 2012 Underserved Market Sizing Study.

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