CORE INNOVATION CAPITAL CFSI Center for Financial Services Innovation

Knowledge Brief
November 2011

2010 Underbanked Market Size

by Core Innovation Capital and CFSI[1]

The products and services that cater to the needs of financially underserved consumers are big business. In 2010, providers in the underbanked marketplace received an estimated $45 billion in fees and interest. This revenue originated from a total estimated volume of $455 billion in principal borrowed, dollars transacted, and deposits held. These financial service companies provide credit, payment, and deposit services to the estimated 60 million[2] underbanked consumers in the U.S. Both the payments and credit segments within the underbanked marketplace experienced strong growth from 2009 to 2010. Technology-centric solutions and products enjoyed particularly high growth.

Core Innovation Capital and CFSI have produced this knowledge brief in order to investigate the large and diverse revenue opportunity from financial services in the underbanked marketplace and to track trends over time. The inclusion of a product in this report is not a commentary on the appropriateness, safety, or quality of the specific product for the consumer.

Who's in the Underbanked Marketplace?

The FDIC defines underbanked consumers as individuals who have a checking or savings account but also rely on alternative financial services. These services include products such as money orders, check cashing, payday loans, rent-to-own agreements, and pawnshops. Unbanked refers to individuals who do not currently have a checking or savings account. For the purposes of this report, we use the term underbanked marketplace to represent the market for financial products and services utilized by both underbanked and unbanked consumers.

Key Findings

- **Underbanked consumers in the U.S. generated approximately $45 billion in fee and interest revenue** for financial services providers in 2010.
- The **total dollar volume of the underbanked marketplace in 2010 was approximately $455 billion** in principal borrowed, dollars transacted, and deposits held.
- The market has shown strong growth in certain segments: **payment services grew by 6% from 2009 to 2010; credit services grew by 2% in the same period.**
- Several individual products witnessed **very high revenue growth rates** between 2009 and 2010: **internet-based payday lending (35%), general purpose reloadable (GPR) prepaid cards (33%), and payroll cards (25%).**

By the Numbers:

60 Million

underbanked consumers in the U.S.

$45 Billion

in interest and fees

$455 Billion

in principal borrowed, dollars transacted, and deposits held

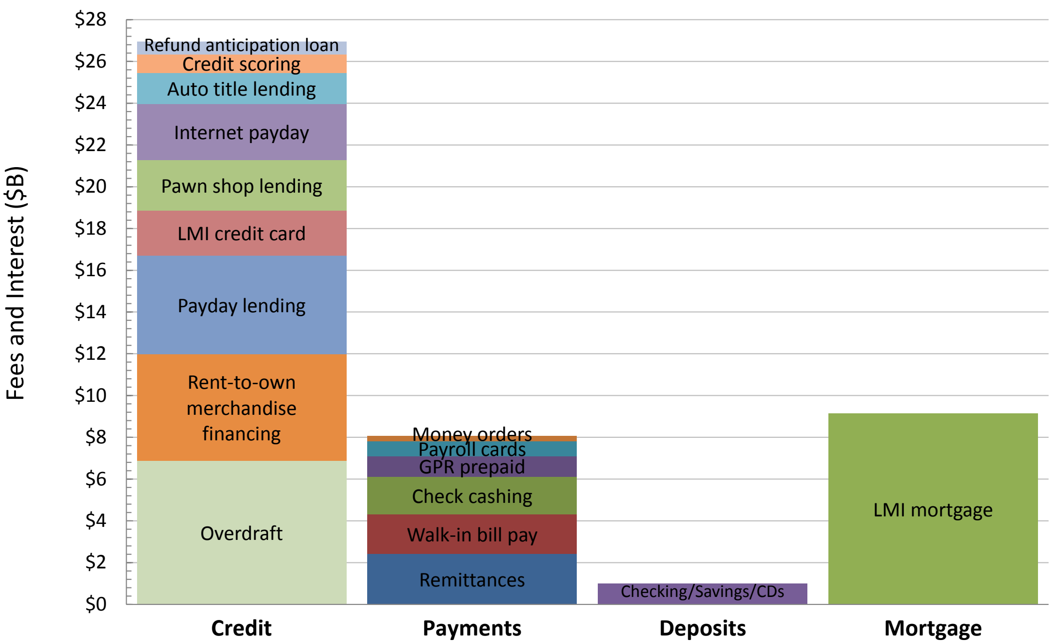
[1] The Underbanked Market Size is an annual report created jointly by Core Innovation Capital and the Center for Financial Services Innovation (CFSI). Special thanks to Ryan Kennedy, CFSI summer associate, for his work in the creation of this year's report.

[2] Based on "National Survey of Unbanked and Underbanked Households." Federal Deposit Insurance Corporation. December 2009.

Market Size by Product and Segment

Companies in the underbanked marketplace received an estimated $45 billion in fees and interest in 2010, originating from a total estimated volume of $455 billion in principal borrowed, dollars transacted, and deposits held. We have divided this market broadly into four segments: credit ($27B), payments ($8B), deposits ($1B), and mortgages ($9B).

2010 Underbanked Market Size Estimate: Fees & Interest



The credit category represents products and services that allow consumers to borrow funds on a short-term basis. The payments category is comprised of products and services that allow consumers to send funds, transact with funds, and convert funds into another form such as cash or a money order. The deposit category consists of traditional bank depository products. Mortgages have been placed in their own category because, although they function as a credit product, they can also enable consumers to build assets through equity accumulation.

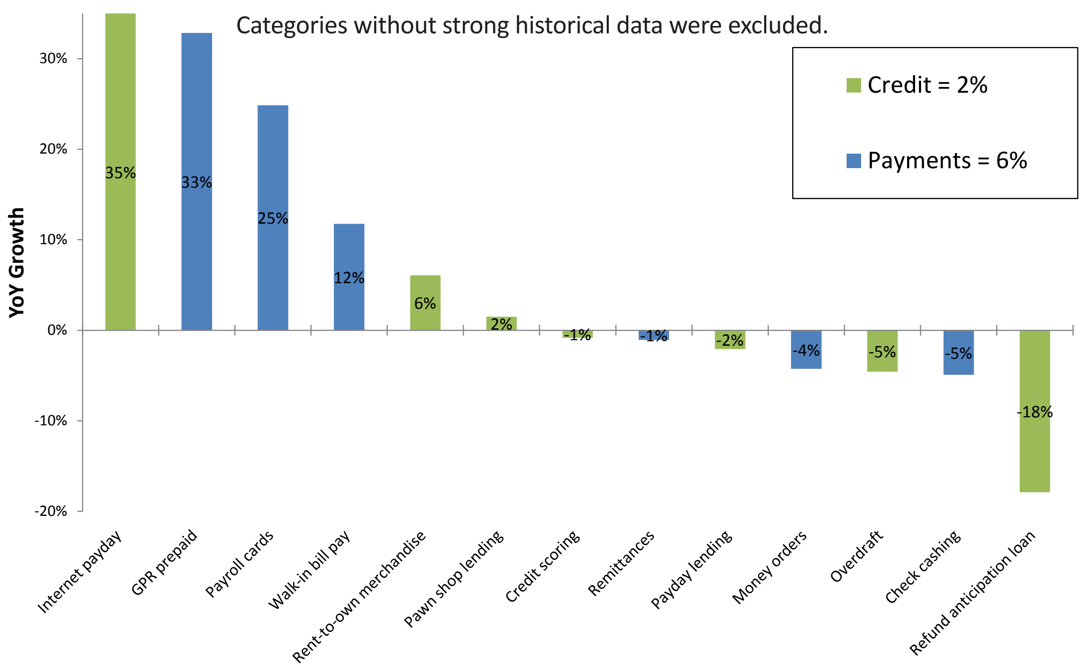
Year-over-Year Growth Rates by Product and Segment

As categories, the payments segment grew by 6% and the credit segment posted a gain of 2%, over estimates from 2009. Importantly, revenue growth for the credit segment was negatively impacted by a drop in overdraft fee revenue of 5% from 2009-2010, as financial institutions adapted to changes to Regulation E that required customers to opt-in to the programs. Without overdraft included, the credit segment would have posted a 5% overall gain.

Within these segments, several products experienced significantly high growth rates: internet payday (35%), GPR prepaid (33%), and payroll cards (25%). Much of the growth in the underbanked market is driven by the introduction of technologies to replace established ways of transacting. Internet payday partly supplants traditional storefront-based payday lending. GPR prepaid and payroll cards replace traditional cash- and check-based transactions. And walk-in bill pay represents the use of electronic terminals to move bill payment into everyday locations such as convenience stores and other retail locations.

Underbanked Market Growth 2009-2010

Categories without strong historical data were excluded.



Appendix: Market Size Analysis 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.

For several categories in this report, we used a proxy for underbanked because sufficient market data does not exist to develop a precise underbanked market estimate (e.g. credit card). In these cases, we used proxies such as low-income, low credit score, or both. All such assumptions are noted.

High Confidence

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

Medium Confidence

- Estimate derived from credible market data

Low Confidence

- No methodology disclosed
- CFSI/Core estimate requiring significant extrapolations and assumptions
- Pre-2008 data

Business	Market size ($B)	Vol. ($B)	Est. year	Confidence level	Methodology/source
Auto title lending	1.5	3.7	2009	Low	CFSI/Core extrapolation from TN Department of Financial Institutions report on title lending. Extrapolated using number of cars per state for the 18 states where title lending is legal. Rollovers counted as additional volume.
Check Cashing	1.8	58	2010	Low	Volume estimate from Packaged Facts 2011. Fee percent estimate from FDIC's AFS Primer.
Checking/ savings/CDs (spread)	1.0	31	2007	Low	Dated estimate. Estimate for families < 40% household income. CFSI/Core extrapolation from Federal Reserve Survey of Consumer Finances 2007. Spread is estimated as the difference in yield on assets minus cost of funds.
Credit card LMI	2.2	14.8	2010	Low	CFSI/Core extrapolation based on Federal Reserve Survey of Consumer Finances. Represents credit card balance of households below 40th percentile in income. Assumes 14.7% interest rate. Excludes late fees, annual fees.
Credit Scoring	0.9	N/A	2010	Medium	Revenue estimate for US business of Experian, Transunion, Fair Isaacs, Equifax with the assumption that the underserved market is represented by the 15% of individuals who are thin/no file and 25% who are low score.
GPR Prepaid	1.0	35	2010	High	CFSI/Core calculation using Aite Group total dollars loaded and fee estimate based on 2010 Netspend operating revenue / total dollars loaded ratio.
Internet Payday	2.7	10.8	2010	High	"Payday Loan Industry." Stephens 2011
Money Orders	0.3	45	2010	Low	Volume estimate from Packaged Facts 2011. Fees estimate based on post office fee for average money order.
Mortgages/ LMI	9.1	111	2005	Medium	CFSI/Core estimate based on Experian –Oliver Wyman Market Intelligence Report: Total mortgage balance < 600 credit score * HMDA data on % of subprime to < 80% AMI * (Freddie Mac 30-Yr Mortgage Rate + 350bps)
Overdraft	6.9	8.8	2010	Medium	CFSI/Core estimate based on portion of overdraft revenues (Moebs, 2011) attributable to underbanked consumers (per 2009 FDIC Underbanked Survey). Assumes underbanked equally likely to overdraft as average checking account customer.
Pawn Shop	2.4	3.9	2010	Medium	CFSI/Core estimate based on store count from Hoovers. Assuming $100K average loan balance per store based on industry contacts and assuming revenue per loan balance outstanding mirrors Cash America 10-K 2011 figures.
Payday Lending	4.7	29	2010	High	"Payday Loan Industry." Stephens 2011
Payroll Cards	0.7	25	2010	High	CFSI/Core calculation using Aite Group total dollars loaded and fee estimate based on 2010 Netspend operating revenue / total dollars loaded ratio.
Refund Anticipation Loan	0.6	24	2009	High	National Consumer Law Center estimate.
Remittances	2.4	48	2009	High	World Bank 2010 estimate of 2009 outflows. Fee percent estimated at 5% from Federal Reserve Reg E Proposal.
Rent-to-own Merchandise Franchising	5.1	7.0	2009	High	RTOHQ.org estimate of volume. Fees estimate based on Rent-A-Center gross margin 2010 (Revenue – COGS) / Revenue.
Walk-in Bill Pay	1.9	N/A	2010	Low	Estimate from 2006 by the Aite Group for the 2010 market size. Given dated estimate, low confidence.

About 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 60 million consumers, who generate over $1 trillion in annual income and spend more than $45 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.

About CFSI:

The Center for Financial Services Innovation (CFSI) is the nation's leading authority on financial services for underserved consumers. Through insights gained by producing original research; promoting cross sector collaboration; advising organizations and companies by offering specialized consulting services; shaping public policy; and investing in nonprofit organizations and start-ups, CFSI delivers a deeply interconnected suite of services benefiting underserved consumers. Since 2004, CFSI has worked with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com