Secure Future for Secured Cards

Background

The current economy has spawned renewed examination of the market potential for secured credit cards. In the upcoming years, secured credit cards have the opportunity to become the popular choice for people whose credit has been negatively impacted, as well as people who are new to credit.

Revolving credit has already been reduced for millions of cardholders. Many consumers faced with economic challenges such as delinquent payments, foreclosure, or bankruptcy are focusing on savings, reducing debt, and spending within their ability to pay. These consumers and those just entering the credit market represent ideal candidates for secured cards. Unfortunately, many of them do not know that secured card products would be a safe and responsible choice.

This first inBrief, in a series of three, addresses this knowledge gap issue more closely. It provides a snap-shot of a comprehensive study done on secured card products: what consumers understand and what the potential benefits and possibilities are.

The current economic climate provides renewed opportunities for the secured card marketplace.

3 consumer groups

Students  New to Credit  Affected Credit

research project from 2009-2010

2,600 responses

CFSI recognized the potential growth of the secured card market and led a consumer research study on secured card products, conducted with MasterCard and Blue Flame Consulting. CFSI created a series of inBriefs to highlight a number of key findings from the study, conducted among three consumer segments, relating to their needs, preferences, and behaviors toward these products.
Research Goals

Identify, profile, and size three consumer segments:
- New to Credit
- Students
- Affected Credit (including damaged credit, reduced credit, and closed accounts)

Understand consumer needs and preferences in these three segments and what features and benefits they desire, including:
- Attitudinal preferences and needs
- Preferences and approach toward credit/increased debt
- Drivers for obtaining a secured card
- Ideas for positioning the card for each segment

METHODOLOGY

Survey invitations were sent to Lightspeed and eRewards Internet research panel members targeting:
- Students: 18-24 year-olds enrolled in full-time degree programs
- New to Credit: Age 18 and up not enrolled in a full-time degree program

Email invitations were distributed by a credit counseling agency to members of its national email lists targeting:
- Affected Credit individuals: Age 21+ who are not enrolled in a F/T degree program, are seeking credit counseling. A Spanish language version of the survey was also developed and fielded.

Key Findings

Finding #1 People know that having good credit is important

A majority of consumers say that having a good credit history or credit score is important to them—a value proposition a secured card product can directly address. Most Students and New to Credit consumers categorized a good credit as “important.”

However, knowledge about what constitutes good credit varied significantly from group to group.

How important is it to you to have a good credit history or credit score?*

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<thead>
<tr>
<th></th>
<th>Not Important</th>
<th>Neutral</th>
<th>Important</th>
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<tbody>
<tr>
<td>Students</td>
<td>2</td>
<td>14</td>
<td>77</td>
</tr>
<tr>
<td>New to Credit</td>
<td>7</td>
<td>19</td>
<td>63</td>
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<tr>
<td>Affected Credit</td>
<td>2</td>
<td>19</td>
<td>87</td>
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*Not applicable (N/A) numbers are not listed on this chart. N/A reporting as follows: Students 7%, New to Credit 11%, and Affected Credit 1%
Finding #2 Consumers do not necessarily have a solid understanding about how credit works

Despite understanding the importance of good credit the majority of Students and New to Credit consumers indicated they have not established a credit history and/or were unable to describe their credit score.

On the other hand, Affected Credit consumers were very knowledgeable on this issue. Nearly the entire Affected Credit group indicated they had established credit and were much more likely to specifically describe their credit score.

Finding #3 There is very limited knowledge about secured card products

Even though secured card products would likely be a good fit for these consumers, there was a general lack of product familiarity across all consumer segments. This finding represents a major challenge for market growth within these consumer segments.

Not surprisingly, Students and New to Credit consumers demonstrated the least amount of knowledge on secured card products. Almost all respondents reported they had little or no knowledge of secured card products. Half of this group reported that they had never heard of secured credit cards.

Affected Credit consumers also lacked product familiarity, but they were clearly more knowledgeable than the Students and New to Credit consumers. Almost half the group reported they had heard of the cards, but only a few (15%) said that they had a card in the past.

Across the board, benefits and uses of secured cards were not well understood. Even by consumers who reported they have been or are unsatisfied with their current combination of plastic cards.
Conclusion

For consumers new to credit, just establishing credit, or trying to repair their credit, a secured card may be an ideal solution. Secured cards still face a major challenge in the market—lack of awareness and product familiarity—particularly among Students and New to Credit consumers.

Almost all respondents understood that having good credit is important, but most Students and New to Credit consumers have not yet established a credit history. This issue could be addressed with a well-structured, well-priced secured card. Secured card product providers have an opportunity to deliver educational messages that secured credit cards are a safe and responsible form of lending that can help to build credit history.

Sneak Peak

Consumers value having a plastic payment card. In November, look for CFSI’s next inBrief to get greater insight on the why customers value plastic payment products, along with challenges and opportunities secured card products need to address for successful market acquisition and distribution.

About CFSI

The Center for Financial Services Innovation is the nation’s leading authority on financial services for underbanked consumers. Since 2004, its programs have focused on informing, connecting, and investing – gathering enhanced intelligence, brokering and supporting productive industry relationships, and fostering best-in-class products and strategies. A nonprofit, CFSI works 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.

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