

# Secured Credit Cards Offer a Path to High-Quality Credit for Rural Americans

Many rural residents lag their metropolitan counterparts in their overall financial health. Over 62% of individuals who live in rural communities are financially struggling and 26% have subprime credit scores, compared to 55% and 21% respectively for urban residents.<sup>1</sup> Rural Americans also take home smaller paychecks; individuals living in rural areas take home only seventy-five cents of every dollar that metropolitan workers make.<sup>2</sup> Widespread and persistent poverty is also more common. Of the 703 high-poverty counties in the United States from 2007 to 2011, 81% were located in rural areas.<sup>3</sup>

With declining populations<sup>4</sup> and some 50% of households with less than \$5,000 in total assets,<sup>5</sup> banks are leaving rural communities,<sup>6</sup> causing more families to live in pervasive rural “bank deserts”.<sup>7</sup> Community banks are typically the only source for rural financial services and credit,<sup>8</sup> as regional and national banks have stayed away from small markets.

Lower-quality, higher-cost financial service providers fill coverage gaps in rural communities as banks and other financial providers leave,<sup>9</sup> and this has made rural residents more vulnerable to products that can harm

their financial health.<sup>10</sup> Payday lenders, although more numerous in urban counties, can be found in higher per capita concentrations in many rural counties,<sup>11</sup> and they can have negative impacts on consumers’ debt levels. Of the top ten counties with the highest per capita payday loan fees collected in Kentucky in 2008, nine had populations of less than 50,000,<sup>12</sup> and rural counties also bore the most payday loan debt per capita.<sup>13</sup>

The financial hardships of reduced access to traditional credit have been seen to varying degrees throughout rural America. One powerful example is the rural Mississippi Delta. Of the 25 micropolitan areas with the highest percentage of credit invisible and unscorable consumers in the US, six are located in the Delta.<sup>14</sup> With no credit history, many Delta residents cannot finance new businesses, obtain a mortgage, or purchase vehicles. Some Delta residents have felt financially discouraged to the point where they do not apply for credit anymore due to a fear of being denied loans.<sup>15</sup> This fear of credit echoes across many communities in rural America where individuals believe that credit cards can get them into trouble.<sup>16</sup>

## The Opportunity to Serve Rural Americans



14% of Americans, an estimated 46.2 million in 2015, live in rural communities in the US



Percent of rural Americans are struggling financially



The amount a rural American earns for every dollar an urban American earns

### Note on Terminology

Rural can be defined many ways. For this brief, rural is defined as any county outside of a US Census Metropolitan Statistical Area (MSAs). Rural counties typically have less than 50,000 in population and do not have large commuting flows to or from an adjacent MSA county. According to USDA data, about 14% of Americans, an estimated 46.2 million in 2015, live in rural communities across the United States.

## Secured Cards Can Restore Rural America's Access to Credit and Increase Credit Scores

Access to credit, personal credit scores, and overall financial health can improve when credit products address the specific financial challenges faced by rural America, and secured cards can be a strong tool in the journey towards financial health for those communities.

Secured credit cards typically start with low credit limits, providing users with a degree of control that could be a way to calm the fears that some rural consumers have of credit cards. Individuals who are new to credit, or attempting to rebuild their credit, can achieve a higher credit score with the addition of the secured card tradeline, provided they maintain a low credit utilization rate. Once these individuals achieve higher credit scores and are eligible for unsecured credit, the graduation to unsecured credit can be done without visiting the bank branch. 78% of rural residents, just seven percent less than in urban areas, use the internet,<sup>17</sup> providing a conduit to the consumer that does not rely on geography. Reaching potential customers online is an untapped opportunity, as secured credit cards significantly lag behind unsecured credit cards in online account openings.<sup>18</sup>



### Provider Spotlight

**The Farmers Bank**,<sup>19</sup> an Indiana community bank, and **Hope Credit Union**,<sup>20</sup> located throughout the Mississippi Delta, both provide cards that are secured by savings accounts, earning interest while serving as a security deposit.



### Provider Spotlight

For those who live in rural bank deserts, lacking access to financial service providers, online loan providers serving low credit score consumers such as **Ascend** and **Lending Point** provide personal loans with rates much lower than payday lenders.<sup>21</sup>



### Provider Spotlight

**Green Dot**<sup>22</sup> uses retail locations, including Walmart, 7-11, and Dollar General, to accept cash for the deposit and to make payments on its secured credit card, in addition to its online servicing site.



### Provider Spotlight

**Rural Dynamics**, a nonprofit organization in six states throughout the Midwest and West, offers a credit builder loan which gets repaid automatically once a client deposits \$300 into an interest-earning savings account. The automatic and secured loan payments are then reported to the credit bureaus after the loan is completely paid back,<sup>23</sup> and credit builder loans typically result in measurable increases in clients' credit scores.<sup>24</sup>



### Provider Spotlight

Online credit builder loans from **Self Lender** can help those living in rural bank deserts build credit and establish savings, even for clients with sub-550 credit scores or none at all.<sup>25</sup>

# Acknowledgements

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## Sources and Notes

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