Center for Financial Services Innovation

Secured Credit Cards: Innovating at the Intersection of Savings and Credit

CFSI Center for Financial Services Innovation

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VISA

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EXECUTIVE SUMMARY

Americans rely on credit and savings to weather financial shocks and build a better future, but for the financially struggling these tools are often unavailable when they need them. To better understand the intersection between savings and credit for consumers, Visa partnered with CFSI on groundbreaking research on the savings and credit challenge with a particular focus on the secured credit card.

Secured credit cards combine the flexibility of a credit card with a forced savings mechanism in the form of a security deposit. The security deposit enables issuers to offer a credit card to someone who otherwise has insufficient or poor credit history. Over time, secured credit accountholders may “graduate” to unsecured credit products and financial services from their card issuer. In addition, the use of the secured card is reported to the credit bureaus, helping the consumer to build a credit score that may qualify them for additional financial products at other providers.

Despite their many benefits, secured credit cards are underutilized by the population that would most benefit from the opportunity to build credit. Secured credit cards make up only a small fraction of the credit card market at nearly six million active lines.[1] At the same time, there are an estimated 108 million consumers whose credit score, or lack thereof, prevents them from accessing affordable, high quality credit when they need it.[2] The potential market for secured credit cards is huge.

For secured card issuers, profit margins tend to be quite low, and in some cases negative, for the first one to two years. Thus, secured credit products must be viewed as a long-term investment for issuers. However, financial institutions willing to make this investment in the financial health of their customers are likely to build strong customer relationships that can lead to more profitable product offerings in the future.

To assemble this report, CFSI drew from its organizational expertise in the credit-building and lending sectors, conducted a market scan including interviews with industry experts, and commissioned a survey of current secured card account holders. Highlights of the secured card user study include:

- The vast majority (82%), of consumers who expect to graduate, plan to use the same issuer for their unsecured credit card. This supports the secured card issuer business model to graduate and retain customers.
- The expectation was that most secured card holders got the card to establish or rebuild their credit. In fact, 51 percent reported this as the primary reason (23% as Establishers and 28% as Rebuilders). Two additional customer segments that were not envisioned emerged: Transactors (25%), who report needing a card to make purchases with, and Savers (19%), who saw the card as a way to save.

[1] Wolkowitz, Eva and Schmall, Theresa. “2014 Underserved Market Size: Financial Health Opportunity in Dollars and Cents”. Center for Financial Services Innovation. December 2015. Accessed December 2015. <http://bitly.com/marketsize14>

[2] ibid

- 40 percent of users consistently use 25 percent or more of their credit limit per month and 17 percent don't know how much of their credit limit they typically use. For optimal credit-building, experts recommend keeping credit utilization at 30 percent or less.
- 63 percent of users in the survey reported planning on using the deposit for savings; yet none of the providers interviewed explicitly offer the ability to put the deposit into a savings product upon graduation.

Four Key Challenges to the Secured Credit Card Market Growth

Despite the clear benefits of a credit-building product with immediate swipe-to-pay capability, secured card use is a fraction of its potential. The following are the four key challenges to wide-spread adoption:

1. **Customer Acquisition and Awareness**: A primary barrier to uptake is the lack of familiarity and knowledge of the product. Those with thin or no credit profile often do not know they are locked outside of the system until they need credit. When they do desire credit-building assistance, secured cards are buried among less effective and more costly options.
2. **Funding the Deposit**: The vast majority of customers who are approved for a secured card struggle to fund the deposit of typically $300 or more. Secured card issuers are trying to address this hurdle by allowing payment over time or offering a partially secured credit card to those who qualify.
3. **Optimal Customer Usage**: Once the consumer has scaled the hurdles of application, approval, and funding the deposit, they are then at risk for not using the card in a way that improves their credit score. The user's credit score is best served by keeping credit utilization at around 30 percent but with the typically low credit limit, this is an ongoing challenge. Increasingly, users have visibility into their credit score via their credit card provider.
4. **Graduation and Building a Long-term Relationship**: Secured credit card users are often unclear on the issuer's graduation policies. Meanwhile, competitors can monitor the user's improving credit score and aggressively offer unsecured cards. To reap the return of issuing the secured credit card, providers need to retain the customer as they graduate into unsecured credit products with higher limits. This has prompted providers to undertake proactive monitoring and offer more transparent graduation plans, including the return of the deposit without customer action.

Four Recommendations for Secured Credit Card Market Growth

Our research and analysis led to the following four recommendations:

1. **Increase Marketing Efforts for Secured Credit Cards**: Arguably the greatest barrier to increased uptake of secured credit cards is their invisibility to most consumers. A public marketing campaign to generate awareness and understanding of the security deposit could make the product an option for millions more Americans.
2. **Segment the Customer Base and Customize the Product**: Conducting sophisticated underwriting at the onset of the customer relationship provides information that can be used to graduate the customer more quickly and tailor the customer experience with guidance and product recommendations. The four customer segments identified in the consumer survey are a natural place to start.

3. **Develop a Customer Graduation Strategy**: The secured card business model is predicated on graduation to unsecured credit, however users can feel they are relegated to a product that is an afterthought for the provider. Building a customer experience that reflects the customer's needs and desires will support the issuer's ultimate goal of retaining that customer as they seek additional financial products over time.
4. **Leverage the Security Deposit as a Savings Promotion Tool**: The security deposit is the user's savings and once the consumer has accumulated the funds, they have overcome a considerable barrier that so many Americans face. Providers can use the funds as a starting point for promoting savings products and behavior.

The Prepaid Card Opportunity

We also uncovered potential for secured card growth within the prepaid card market. By leveraging their large, existing base of customers interested in credit building and the ability to easily transfer funds into the security deposit, prepaid card providers may be in a particularly strong position to overcome many of the obstacles facing the secured card industry.

The secured card is both a savings and credit-building vehicle, poised to assist consumers in building resilience by improving access to high-quality credit and an emergency savings fund. The extensive research and analysis undertaken for this paper is an effort to encourage innovation and growth of the secured card market so that more consumers can start on a path to better financial health.

INTRODUCTION: INNOVATING AT THE INTERSECTION OF SAVINGS AND CREDIT

A lack of savings and limited access to quality credit affect millions of Americans. Financial shocks from unexpected swings in income and expenses are nearly impossible to absorb without savings and credit tools. CFSI estimates 108 million Americans are financially underserved due to their credit profile.[3] To better understand the intersection between savings and credit for consumers, Visa partnered with CFSI on groundbreaking research on the savings and credit challenge with a particular focus on the secured credit card.

Secured credit cards are almost identical to traditional credit cards except that they require a security deposit equal to the credit limit. The security deposit is held by the credit card issuer in a bank account and only used if the consumer fails to pay their outstanding balance. All other functions, including credit reporting to the credit bureaus, are equivalent to an unsecured credit card. As the consumer uses the card and makes on-time payments their credit score typically improves, allowing them to graduate to a larger, unsecured credit line. The secured credit card permits a provider to offer a credit card to a population that otherwise is denied access and the user gains a revolving credit line and the potential to improve their credit score.

While the secured card offers a path to credit -- employing the consumer's savings as the entry -- few take advantage of the product. This paper details market growth challenges, innovative solutions to the challenges, and includes insights from a secured card user survey to provide the consumer's perspective on the secured card product. The paper benefits from Visa's industry leadership, intellectual guidance, and generous financial support.

METHODOLOGY

Market Scan

To build a comprehensive understanding of the current secured credit card market and products that have similar uses, such as credit builder loans and some unsecured credit cards, CFSI conducted a market scan of the product offerings, issuers and publications on credit building and secured credit card use. As the leader in consumer financial health, CFSI drew from its organizational expertise in sub- and near-prime consumers, and in small dollar credit innovation in the credit building and lending sectors. This work included:

- **Interviews with industry experts:** Interviews were conducted with nearly twenty financial service providers, credit building experts and credit scoring companies to bring the latest thinking on credit building, credit cards, and consumer needs to the project. See appendix for a complete listing of organizations interviewed.
- **Analysis of public consumer commentary on secured cards:** Hundreds of user comments and reviews of secured credit cards on websites such as CreditKarma.com, NerdWallet.com and Creditcards.com were analyzed to understand users' options and experiences with current products.
- **Business model development:** The secured credit card business model, detailed in the key challenges section, was developed in consultation with credit card issuers and industry experts including the Mercator Advisory Group.

[3] ibid

- **Secondary consumer research:** In-depth research into consumer struggles and trends regarding credit and savings was conducted, using both proprietary and external sources.

Primary Consumer Research
CFSI commissioned GfK Custom Research, LLC to complete a survey of 400 active secured card users to better understand the consumer expectations and experience during use, and to build a profile of the typical user of secured credit cards. The online survey was conducted from November 12 to 23, 2015 by participants in GfK's Knowledge Panel, a fully representative random sample of the US population. See the appendix for full data tables and detailed information on the research methodology.

THE ROLE OF CREDIT AND SAVINGS IN CONSUMER FINANCIAL HEALTH

Nearly a decade post-recession, 57 percent of Americans still lack financial health. Financial health is achieved when one's day-to-day financial system functions well and increases the likelihood of long-term financial resilience and opportunity.[4] Yet, the ability to stay resilient in the face of financial shocks and to create long-term financial opportunities often depends on one's access to credit and savings products that remain out of reach for millions of Americans.

Financial health comes about when your daily systems help you build resilience and pursue opportunity.

For many of these households, lack of access to even small amounts of savings or credit can turn a bump along one's financial path, such as a car repair or medical bill, into an overwhelming hurdle with short-term and long-term negative consequences. Consumers facing these financial realities may turn to high-cost forms of credit, such as payday loans, or constant bill juggling, which can damage credit profiles and exacerbate financial stress.

The need for credit or savings, especially in the short term, is often predicated on income volatility. Unexpected dips in income, or spikes in expenses, create a need for a buffer to smooth the discrepancy. The U.S. Financial Diaries (USFD) analyzed detailed data on the inflows and outflows of 235 low-and moderate-income households over the course of one year, and among other groundbreaking findings, the data revealed that income spikes and dips were commonplace for families. Incomes had, on average, 2.7 spikes, and 2.7 dips - defined as 25 percent deviation from the norm - for a total of five months of the year in which income was materially different from the "average".[5] Unfortunately, the issue extends beyond volatility, as most households have no way of predicting when the income spikes and dips will happen, and more often than not, the spikes in expenses and income do not align.

[4] Garon, Thea and Gutman, Aliza and Hogarth, Jeanne and Schneider, Rachel. "Understanding and Improving Consumer Financial Health in America". Center for Financial Services Innovation. March 2015. Accessed November 2015. <http://www.cfsinnovation.com/Document-Library/Understanding-Consumer-Financial-Health>
[5] Murdoch, Jonathan and Schneider, Rachel. "Spikes and Dips: How Income Uncertainty Affects Households". U.S. Financial Diaries. October 2013. Accessed November 2015. <http://www.usfinancialdiaries.org/issue1-spikes>

Households and consumers with fluctuating incomes and expenses face complex challenges. More and more, practitioners and providers are realizing that income alone is not a sufficient indicator of financial stability, but that cash flow plays an equally important role. Tools and services that help individuals leverage income bumps can help those consumers weather income dips. Within the management of these unpredictable cycles, credit and savings play a valuable role by smoothing the variability. Indeed, the categorization of a financial vehicle as credit or savings may be less important than its ability to aid the household in accumulating a lump sum when needed.[6] The reality for many struggling consumers however, is that access to both credit and savings can be a challenge. Innovative and high-quality forms of credit, especially for those with thin or no credit profile, can therefore play a critical role in increasing financial health.

Credit, Credit Scores and the Unscorable

There are a variety of reasons a consumer may struggle with access to high-quality, affordable credit, including past economic hardship or lack of sufficient credit history. Whatever the reason, the determination of access to credit depends primarily on a credit score. Despite enormous advances in data collection and analysis, nearly all credit decisions are based on a small number of commercially available credit scoring models, typically from FICO or VantageScore. These scores are derived almost entirely from records created by three nationwide credit reporting agencies, or “bureaus” (NCRAs).[7] Consumers who have a limited credit record, no record at all, or a record with negative marks, face dramatically limited options to borrow money from high-quality lenders.

According to a recent CFPB report, nearly 45 million American consumers remain outside of this credit mainstream.[8] Of this total, 26 million were found to be credit invisible, possessing no score at all, and an additional 19 million were deemed unscorable, typically due to insufficient or outdated records.[9] CFSI estimates there are 108 million Americans whose credit score, or lack thereof, prevents them from accessing affordable, high quality credit when they need it.[10]

In many cases, savings should be the first stop for addressing a financial emergency, however, many financially struggling consumers lack sufficient savings or prefer to use credit rather than spend down their savings. Yet relying on high-cost forms of credit such as payday or pawn loans can place undue financial burden on these consumers with low or no credit scores. Ubiquitous providers of immediate small dollar credit often have high rate and fee structures, which can create cycles of debt that trap consumers. Even for those consumers with access to more traditional lines of credit, a low credit score can cost tens of thousands of dollars in additional interest on a loan. For example, on a 5-year auto loan for $16,000, the difference

[6] Murdoch, Jonathan and Ogden, Timothy, and Schneider, Rachel. “An Invisible Finance Sector: How Households Use Financial Tools of Their Own Making”. U.S. Financial Diaries. August 2014. Accessed November 2015. <http://www.usfinancialdiaries.org/issue3-informal>

[7] Brevoort, Kenneth P. and Grimm, Phillip and Kambara, Michelle. “Data Point: Credit Invisibles”. The CFPB Office of Research. 2015. Accessed November 2015. <http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf>

[8] ibid

[9] ibid

[10] Wolkowitz, Eva and Schmall, Theresa. “2014 Underserved Market Size: Financial Health Opportunity in Dollars and Cents”. Center for Financial Services Innovation. December 2015. Accessed December 2015. <http://bitly.com/marketsize14>

between a prime and subprime loan would be over $3,000 in interest over the life of the loan.[11] In general, a consumer with a low credit score can expect to pay more than $200,000 more for financial services over a lifetime, compared to an individual with a strong credit score.[12] Low credit scores not only limit access, they are quite costly.

Beyond credit decisioning, credit scores can also be used to determine pricing premiums for insurance and utilities, and for qualifying potential tenants and employees.

The Challenge of Saving

The relationship between savings and credit can be thought of as opposite sides of the same coin; each turns a large purchase into a smaller set of more manageable payments. In savings, those "payments" happen before the purchase in the form of deposits, and in credit, those "payments" happen after the purchase through the loan repayment. Savings is usually free and ideally interest bearing, but typically requires discipline and excess income. Credit possesses the critical element of immediacy, without the need to deplete one's savings, as well as the ability to build a credit history, but often comes with high interest rates and fees. There is both a psychological and financial cost to every borrow and save decision.

Previous CFSI research revealed that over 30 percent of U.S. households lack the savings to cover basic expenses for more than three months if faced with an unexpected drop in income, such as losing a job or having benefits cut.[13] However, the same research also found that even among financially unhealthy segments, many consumers are still able to save.[14] Among consumers at lower income levels, saving most commonly happens by keeping what is left at the end of each month. While the amount may vary, it is significant that the habit exists. Similarly, the U.S. Financial Diaries research found that, on average, 17 percent of households' income is being directed into a savings or restricted savings account, which is approximately three times the national savings rate. This suggests that households are trying to save more than common savings rate metrics may indicate but that these efforts are being negated by the need to use the savings frequently throughout the year.[15] Together, these studies reveal that financially struggling consumers often have some savings at some points in the year, and that these savings could be leveraged for credit building purposes.

THE SECURED CREDIT CARD: AN OVERVIEW

Secured credit cards present a growing opportunity to confront the consumer challenges described above. Secured cards incorporate spend, save, and borrow elements, including the chance to build a credit profile that will lead to greater access to credit in the future.

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[11] Assumes a 2.5% prime interest rate and 9.7% subprime interest rate, which could be considered conservative.

[12] Edgecomb, Elaine and Gomez, Luz and Klein, Joyce. "Asset Building Through Credit Pilot". Field at the Aspen Institute. 2013.

[13] Garon, Thea and Gutman, Aliza and Hogarth, Jeanne and Schneider, Rachel. "Understanding and Improving Consumer Financial Health in America". Center for Financial Services Innovation. March 2015. Accessed November 2015. <http://www.cfsinnovation.com/Document-Library/Understanding-Consumer-Financial-Health>

[14] ibid

[15] Murdoch, Jonathon and Schneider, Rachel. "Savings Horizons Issue Brief". US Financial Diaries. June 2015.<http://www.usfinancialdiaries.org/issue5-savhoriz>

As the name suggests, this product grants credit to an individual to be used towards purchases, similar to mainstream credit card products, and typically starting at relatively low credit limits. However, unlike a more traditional, unsecured product, a secured credit card requires a cash deposit, and one's credit line is typically determined by the amount of this deposit, as well as one's income and ability to repay. While making an initial deposit in order to be granted credit can feel counterintuitive, the fact that monthly payments are reported to the credit bureaus means that secured cards can be a powerful tool for consumers who are working to establish or rebuild their credit profile.

The secured card market is poised for expansion. Technology advances are allowing providers to offer partially secured credit cards, thereby expanding the potential pool of customers, and to offer cards with better tools such as credit score monitoring. Increased media attention on consumer credit scores and mass-market websites such as CreditKarma.com are leading to an overall increased awareness of individual credit building needs. The CARD Act of 2009 has effectively reduced high-fee card offers for subprime consumers, causing these consumers to seek alternative credit card options and in turn creating a bigger market for secured cards from mainstream financial institutions. Even government regulators have recognized the importance of serving this market; the National Credit Union Administration recently published "Serving the Credit-Invisible", a guide to extending credit to those with limited reported credit.[16] Finally, the maturation of the prepaid card market has opened opportunities for marketing the secured card to a new audience.

Combining savings, spending, and credit features into one product creates a distinct set of benefits, both for the consumer and the provider. The structure of this product grants consumers who may not qualify for other forms of unsecured credit a vehicle to revolve a credit line. With a self-collateralized safety net, individuals can spend and pay down balances, with little fear of overextending or racking up an unmanageable debt load. Secured credit cards are designed specifically for people who either have no formal credit history, or one that is damaged. Through proper use of this product, healthy credit profiles are created, increased familiarity with a ubiquitous form of payment is gained, and future access to improved credit terms is more likely.

For providers, the product is a means to serve a customer base that would otherwise be considered too risky. Due to these consumers' lack of a positive credit profiles, banks and other issuers have struggled with how to integrate these consumers into their product suites. The security deposit mitigates this risk and serves as an entry point. While margins on this product are often low, and acquisition costs high, providers strive to build a longer-term relationship with the customer. Indeed, most providers view this product as a step towards graduation and an eventual long-term relationship with more profitable products. In as little as six to twelve months, an active user of certain secured card products may be eligible for "graduation", whereby the provider can increase the credit line, either through an additional security deposit, or a partial security (when a credit line is increased with no required additional deposit). Eventually, a provider can offer this customer, once ineligible for traditional products, access to a full product suite.

[16] "Serving the Credit-Invisible". National Credit Union Administration, Office of Small Credit Union Initiatives. April 2016. < https://www.ncua.gov/services/Pages/small-credit-union-learning-center/Documents/serving-credit-invisibles.pdf>

Consumer loyalty appears to be strong. Among respondents to the secured card user survey, the vast majority (82%), of consumers who expect to graduate, plan to use the same issuer for their unsecured credit card as their secured card (see Table 1 the Appendix).

Secured Credit Card Marketplace

The size of the U.S. secured card market is challenging to measure. While credit cards are approaching ubiquity in the U.S., with over 507 million credit cards in use in 2013[17], secured credit cards are only a small fraction of that market, with an estimated 5.8 million active lines. Most mainstream providers include secured card products within their larger credit card portfolios. Yet among these providers, secured credit often goes undistinguished from traditional credit cards, making it difficult for banks, networks, or even reporting bureaus to accurately assess the total number of secured card accounts. As part of its annual Market Sizing report, CFSI worked to create useful estimates of the size, revenue, and activity within this product line. The research found that the estimated revenue per customer has grown steadily from 2011 through 2014, from $177.65 to $182.53 respectively, bringing the total market size to $1.05 billion in revenue over $46.8 billion in annual spend.[18] The revenue increase is primarily due to an increase in average annual fees (from $23.22 to $31.25) and an average interest rate hovering at 19%.[19]

Most of the large credit card issuers offer a secured card, with the largest market share (according to the CFSI survey) belonging to Bank of America, Wells Fargo, and Capital One. There's also significant investment and innovation happening across a host of medium and smaller providers (many of whom are featured in this report), including First National Bank of Omaha, many credit unions, and several of the largest prepaid card providers. Among the card networks, Visa represents the majority of all secured cards by a two-to-one margin over MasterCard (see Tables 13 and 14 in the Appendix).

Secured Credit Card Business Model

Issuing credit cards, whether secured or unsecured, is a business that greatly benefits from volume, both in number of customers and in the amount customers transact on their cards. The greatest expense for each card issued is the marketing and customer acquisition cost. This cost can include millions of dollars spent on television commercials, which is then allocated across all the cards issued that year, or the cost of an internet referral link, which can be directly attributed to an individual applying for the card on the issuer's website. These costs run so high partly because so much money is spent on reaching consumers who do not become customers. This is especially true for secured credit card customers who may apply for the card but then fail to fund the deposit.

[17] Ray, Daniel P. and Ghahremani, Yasmin. "Credit Card Statistics, Industry Facts, and Debt Statistics". CreditCards.com. Accessed Nov 2015. <http://www.creditcards.com/credit-card-news/credit-card-industry-facts-personal-debt-statistics-1276.php>
[18] Wolkowitz, Eva and Schmall, Theresa. "2014 Underserved Market Size: Financial Health Opportunity in Dollars and Cents". Center for Financial Services Innovation. December 2015. Accessed December 2015. <http://bitly.com/marketsize14>
[19] ibid

When calculating the cost per card, the customer acquisition and marketing costs include total dollars spent divided by the cards issued, not the applications received nor the website views. Ultimately this cost is highly subjective and organizations chose to allocate costs differently, depending on the purpose of the analysis. The business model below estimates these customer acquisition costs at $150 or more per issued card. Some issuers have significantly lower customer acquisition costs because they do not market their secured card or they minimize spending on general brand awareness marketing.

While decreasing marketing dollars would theoretically lead to greater profitability, limiting spending to only the most tailored efforts would be unsuccessful because greater profitability and value come from a long-term relationship with as many customers as possible. The expenses of issuing credit cards, from investments in infrastructure to fees paid to outside vendors, are all minimized as the number of cards issued increases and the card portfolio grows.

The typical secured credit card has a low credit limit that prevents significant transaction volume and minimizes revenue from interchange fees. In addition, the low credit limit prevents the consumer from carrying a balance that would generate material interest income. To make up for the low interchange fee revenue, a card may charge an annual fee. However several issuers now offer a secured card without an annual fee, a feature that consumers may grow to expect.

Basic income model	Secured credit card YEAR 1 Credit limit of $200	Secured credit card YEAR 2 Credit limit of $1,000	AUTO LOAN (Example graduation product)
Revenue			
Application / annual fee	$0 - $35	$0 - $35	$0
Interchange fees	Minimal due to low credit balance	$100	$0
Interest	Minimal due to low credit balance	$10	$900
Late fees	$30 - $35	$30 - $35	$0
Expenses			
Customer acquisition and marketing	$150 - $200	$0	$50
Underwriting and KYC	$5	$0	$5
Operations to take the deposit and issue card	$10	$0	$0
Servicing: customer service and disputes	$10	$5	$5
Processing fees, cost of funds and other infrastructure	Minimal due to low credit balance	$25	$10
Net Income (Loss)	**$(115)**	**$85**	**$830**
Customer Profitability Running Total	**$(115)**	**$(30)**	**$800**

Note: • Most secured cards do not offer premium features, thus minimizing the requisite expenses to the issuer. • Charge offs and associated losses are minimal for the secured card. The security deposit protects the lender from an uncollectible balance and may incentivize the consumer to avoid delinquency.

The model above shows an average secured card user in the first and second year of use and later graduation to an auto loan. However averages hide the different customer user behavior. A portion of users will keep credit utilization low and not incur late fees. These customers will have the most success in increasing their credit score but generate the least revenue from the secured card. To become profitable, these customers need to graduate into unsecured credit card users with higher utilization. Another customer segment will incur fees from late and returned payments, which can make a card profitable in the first year but can also indicate the customer is not using the card optimally to build credit. These customers will have a more difficult time graduating to other products and may eventually close their account or not use the card.

The secured card business model demonstrates that even in year two of use, the customer still may not be profitable. The key to secured card economics is lifetime value. Focusing only on the cost to acquire a customer and the lack of profitability from a secured card user misses the opportunity to create a lifetime customer with access to mainstream credit and products. Once a customer who might otherwise not have access to credit products at all becomes a secured credit card user, the issuer has overcome much of the customer acquisition costs and can soon cross-sell that customer into an unsecured credit card or other credit and banking products. Given the $38 billion spent annually on single payment credit by underserved consumers[20] such as payday and pawn loans, this represents a major revenue opportunity for providers who can capture even a small portion of this spend while offering a higher quality credit option for consumers who have few good options to choose from.

Segmenting the Secured Credit Card Market

In general, secured card issuers tend to target two primary types of users - those seeking to repair a damaged credit history and those without a formal credit profile who wish to build one. Throughout this report, these groups will be referred to as Rebuilders and Establishers, respectively. There are many reasons a Rebuilder may have a negative credit profile, including inability to repay debts, consistently delinquent monthly payments, or defaulting on a credit line. These consumers face the challenge of correcting for the past, which can often take time. Establishers, on the other hand, are new to the formal credit system. These consumers may be new immigrants, young consumers, or unbanked consumers who have sustained a cash-based financial system and are now looking to access credit. While the ultimate goal of creating a positive credit profile is the same for both groups, there are specific issues that differ between each group, which we will address further in this report.

[20] Wolkowitz, Eva and Schmall, Theresa. “2014 Underserved Market Size: Financial Health Opportunity in Dollars and Cents”. Center for Financial Services Innovation. December 2015. Accessed December 2015. <http://bitly.com/marketsize14>

The existence of these two segments was corroborated by the results of the secured card user survey. In that research, 28 percent of users indicated they were “Rebuilders” and 23 percent indicated they were “Establishers.”

However, our research also found two additional, distinct reasons that consumers sought out a secured card, which may represent new customer segments that had not been previously perceived of as secured card target customers. In our survey, 25 percent of secured card users indicated their main reason for getting a card was that they “needed a card to make purchases with” (“Transactors”) and 19 percent “saw this as a way to save” (“Savers”) (see Table 2 in the Appendix). The remaining respondents gave other reasons (including cosigning for a family member, convenience, emergency fund, encouraged by bank employee, and safety and security). Below, we share the results of our initial analysis into these four consumer segments.

Establishers

Establishers tended to be younger (18-34), single, minority, with a high school education, and working as an employee (see Table 21 in the Appendix). They also tended to be in households with higher incomes ($75,000 to $99,999); in part, this may be a function of younger persons still living at home (that is, the respondents may have a lower income but they live in a household with middle- to higher-income people). Establishers generally thought they had “good” credit (vs fair or excellent). They were more likely than others to say they became aware of secured cards in person at a financial institution (bank or credit union) or from friends and family, and to have had their cards for two years or more. They were more likely to use their cards at grocery stores, clothing stores, online, and at restaurants (see Table 22 in the Appendix).

Rebuilders

Rebuilders were somewhat older (with higher proportions age 25-34 and 45-54), with some college education, working as an employee, and renting. They were more likely to be in the lower half of the income distribution (one-third reported incomes under $40,000 and about one-fourth reported incomes between $40,000 and $74,999). Rebuilders generally rated themselves as having fair or poor credit. They were more likely to say they learned about cards from online sources – either online research (search engines) or online credit tracking sites and to have had their cards for less than a year. They were also the least likely to say they paid their cards in full each month. They were more likely to use their cards at gas stations, convenience stores, and big box stores.

Transactors

Transactors tended to be both younger (18-24) and older (55 and over), Hispanic, with a high school education, and not working as an employee. They also tended to have lower incomes (under $40,000). Transactors thought they had “good” credit, but they were also the segment most likely to be unbanked (had neither checking nor saving account) and to use prepaid cards. They were more likely than others to say they became aware of secured cards from a financial coach or counselor or from an online credit tracking site. The hypothesis was that Transactors might be more likely than others to use their cards online, as cards are the primary way to pay for online purchases, and thus cards are “needed.” However, this turned out not to be the case

– Transactors were just as likely as others to use their cards online, but were more likely than others to use their cards at big box stores and for health care visits.

Savers

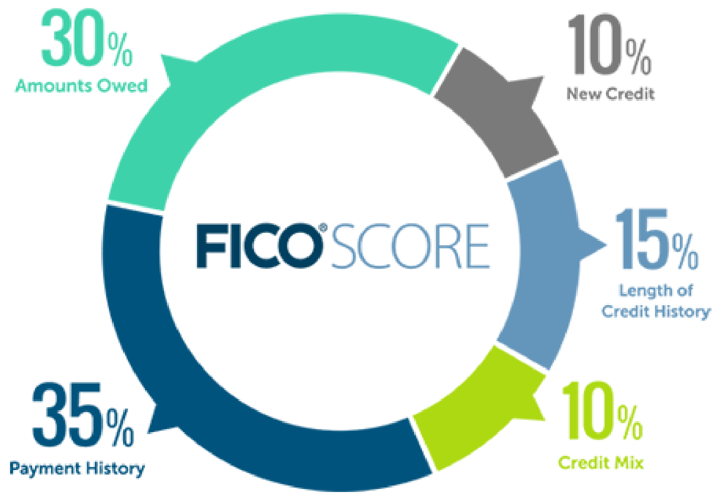
Savers were more likely to be older (55 and over), married, retired, and with a high school education. Hispanics were more likely to classify themselves as Savers. This group also had the highest income ($100,000 or more) and rated themselves as having excellent credit scores. While it may be surprising to see secured card users with such high credit scores, many of those in the Savers segment had their card for over two years, allowing their credit score to benefit from positive use over time. They were more likely than others to say they became aware of secured cards through financial institution websites and via mail advertisements. They were the most likely to say they used their card online or to give other reasons (other reasons included travel-related uses and car maintenance and repair).

Given this range of reasons and the distinct consumer segments identified, issuers could consider broadening their marketing of secured cards to promote the various features to distinct target audiences. For example, because they are more likely to be unbanked, targeting the Transactor segment may mean working with community-based partners. And because a higher proportion of people in the Transactor segment use prepaid cards, secured cards could be a good product for them to adopt, allowing them to build credit while increasing interchange revenue for the issuer. The Saver segment supports the concept of secured cards as a savings vehicle, as evidenced by both their longevity as customers and, to a lesser extent, their repayment behaviors. These consumers may be attracted to the enforced repayment framework, and deserve additional exploration and analysis.

Secured Card Credit Reporting and Scoring

Credit score modeling and generation are complex and variable, using proprietary algorithms and sophisticated analysis. Scoring algorithms take into account various factors, including payment history, total amount owed, new credit, length of credit history, and the different types of credit used, or credit mix. The chart below shows the weights of each of these different factors for the FICO Score.[21] VantageScore uses a similar set of factors.

[21] ibid



The largest factor, "Payment History", represents a consumer's history of on-time, late, or missed payments. "Amount Owed," the second largest, details the total amount of all combined credit lines that a consumer has outstanding. "New Credit" takes into account several factors regarding recent credit activity. Opening several new credit accounts in a short period of time can represent risk.[22] "Length of Credit" measures how long a consumer has kept an active account and when credit was first established. "Credit Mix" considers a consumer's mix of credit products, such as credit cards, retail accounts, installment loans and mortgage loans.[23]

This scoring model, while helpful as a guide, will look different for different individuals. For example, people who are trying to establish credit for the first time will be evaluated differently than those with a longer credit history.[24] The impact of these different factors changes over time, as a consumer's behavior and profile changes.

What is not clearly highlighted in the above chart is the idea of credit utilization, which ends up playing a big role in credit scoring. "Amount Owed" is one of the primary drivers of a credit score, however it is a relative number, and must be assessed with regard to one's total credit limit. If one's credit limit is $1,000, a $900 balance equates to a 90 percent utilization rate. For a different consumer, with a $9,000 credit limit, that same balance of $900 represents a 10 percent utilization rate. An industry rule of thumb for a desired utilization rate is 30 percent or less.

When it comes to secured credit cards, credit scoring and reporting look identical to that of unsecured cards. While both FICO and VantageScore can identify a secured card, typically with a simple abbreviation, there is no difference in the calculation of the score. Interviews with both VantageScore and FICO revealed that due to the relatively small volume of secured cards, there is insufficient predictive upside to creating a separate category within the modeling systems.

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[22] "What's in Your Score". FICO. <http://www.myfico.com/crediteducation/whatsinyourscore.aspx>
[23] ibid
[24] ibid

However, because secured cards are reported to credit bureaus with a specific code (i.e. "SC"), credit score analysts can track behavior and transactions on these accounts for internal purposes. Looking at balance, timeliness of repayment, and credit limits, analysts we spoke to found little difference between secured card users and their unsecured counterparts. Though generally, and by definition, credit limits will be noticeably lower. This is an important point when considering the role of credit utilization in one's score – with lower limits, it is easier for a consumer to exceed the suggested 30 percent credit utilization ratio, and thereby hurt one's score.

The fact that secured cards are targeted to consumers who are either trying to rebuild or establish their credit carries implications for credit score changes over time. Establishers can typically see results in six months, while Rebuilders require more time to strengthen their profiles. Establishers are well served to demonstrate excellent repayment and low total utilization and encouraged not to open additional tradelines too quickly. For Rebuilders, a more comprehensive management of all tradelines should be the focus.

Fortunately, both segments appear to be having success with improving their credit score through card usage. Among the respondents to the survey, 57 percent of Establishers noted an improvement in their credit score since enrolling in a secured card and 78 percent of Rebuilders noted an improvement (see Table 4 in the Appendix).

Most consumers and providers are interested in transitioning from fully secured credit to unsecured credit.[25] However, there are a few structural complexities that both parties should be aware of, which can impact a consumer's credit score. On the provider side, it is often operationally preferable to close out a secured line upon graduation and open a separate, new unsecured line, as these two products are underwritten differently. However, for a consumer concerned with maintaining the healthy credit profile they have been working towards, creating new lines of credit, and closing historically positive ones, can impact their score negatively. Fortunately, the impacts of closed lines and new lines are less significant than overall utilization. Credit scoring analytics track the overall length of credit history, so the closed account will appear in one's timeline. In general, having one line with a higher limit can be preferable to having several lines with lower limits, but most important is the credit utilization and on-time payment history.

KEY CHALLENGES AND PROMISING SOLUTIONS TO GROWTH IN THE SECURED CREDIT CARD MARKET

Challenge #1: Customer Acquisition and Awareness

<u>Consumer Challenges</u>

Knowing what products exist

Most U.S. consumers do not know that secured credit cards exist. CFSI's 2010 survey found 63 percent of students, 56 percent of those New to Credit, and 25 percent of those with Affected

[25] As noted in Table 1 (Data Appendix), roughly two out of five consumers do not expect to graduate to an unsecured card.

[Damaged] Credit had never heard of a secured card.[26] The need for credit building and a revolving credit line are increasingly common but awareness of potential product solutions is not.

Unlike unsecured cards, there are virtually no mass-market advertising campaigns focused on the benefits of secured credit cards. Accordingly, the consumer survey executed for this report found that of those who have a secured credit card, the top three ways that the consumer became aware of the product were from an in-person recommendation at a bank or credit union (39%), friends and family (22%), or on a bank or credit union's website (16%) (see Table 3 in the Appendix). Currently the primary drivers of secured card uptake are high-touch moments, in which the recommendation is made in-person or from a trusted source.

Understanding the role of credit building and credit scores

Many consumers fail to understand the importance of credit building and thus the value proposition of the secured credit card. Establishers, in particular, may not be aware of the opportunity and advantage of establishing credit prior to finding themselves in a situation where they need access to credit immediately.

In addition, the specific behaviors that are reported to credit bureaus and used in computing a credit score are often mistaken by both segments. For example, 40 percent of borrowers believe that personal characteristics such as age and marital status are used in calculating credit scores, when in fact, they are not.[27]

Understanding the secured credit card product

How a secured credit card functions adds another level of complexity for the consumer to understand. Communicating to consumers the value and need to provide a deposit in order to receive the use of the credit card is contrary to the mainstream narrative that credit cards are easy to come by in the U.S.

Review of customer comments in online customer review forums showed a strong relationship between the customer's understanding of the product and their satisfaction. Those who had the expectation of credit building and were knowledgeable about how to use the card to build credit gave positive reviews and touted the product to others. Dissatisfied customers had negative attitudes toward the financial institution and frustration with the harsh penalties for late payments. Below is a customer review where a Rebuilder used the secured card to repair credit after a bankruptcy and within a year had both a low-interest car loan and an unsecured credit card. [28]

> 5 star review on CreditKarma for Capital One card: ***Great card for new/restoring credit****: This was my first card after my Chapter 13 bankruptcy was discharged. I gave them the $49 plus an additional*

[26] CFSI. "Secured Future for Secured Cards." September 2010.

[27] Consumer Federation of America and VantageScore. "CREDIT SCORE KNOWLEDGE 2013 Consumer Survey: Summary Results." 2013. Accessed November 2015. < http://www.consumerfed.org/pdfs/CFA-VSS-Survey-Results.pdf>

[28] Note: This review was found on CreditKarma.com, where the identity of the poster and the authenticity of their experience cannot be verified. It is meant to be illustrative of the numerous positive reviews in which a satisfied consumer shares their success in credit rebuilding using the secured credit card.

$250 to make my credit line $500…. [One year later] I received a car loan from them with 1.7% APR (yes 1.7% - I thought it was a typo and called to verify 1.7% on new car 100% financed). One year after opening this card I applied for their Quicksilver card. Instantly received a $3,000 credit line (It's now at $4,500)

Diagram of the secured card consumer process:

Issuer Challenges: Finding the Right Customer

The market for secured credit cards is potentially 108 million. But cost-effectively finding the individuals who are best qualified and educating them on the complicated mechanics of a secured card is an enduring challenge.

One provider shared that the majority of their secured card customers learn about the secured card in their banking centers from an associate who proactively explains the card to them. These customers are typically turned down for an unsecured credit product but having the secured credit card as an offering means the customer is not turned away completely. Nearly three out of ten (29%) of the secured card users in the survey were first turned down for an unsecured product before obtaining the secured card (see Table 5 in the Appendix).

A challenge and opportunity for issuers is the lack of comparative shopping by secured card users. Remarkably 77 percent of secured card users did not compare products before selecting their current secured card (see Table 24 in the Appendix). This places the challenge on finding the consumer who is a good fit before they are actively shopping, as opposed to competing with other secured card products on features or other directly comparable aspects.

Beyond offering secured cards as a "turndown product", how can issuers attract the right customers? Finding the right message to attract consumers who would benefit from proactive credit building makes marketing the secured card a challenge. Our analysis of the business model for secured cards found it was only profitable in the first year if the marketing and customer acquisition costs were minimal. In fact, customer acquisition costs are by far the highest cost for the issuer in the first year.

To keep the customer acquisition costs low, marketing specifically for the secured card is typically focused on getting a consumer who already wants a secured card to choose the issuer, as opposed to creating awareness and understanding of the secured credit card product as a whole or on credit building as an activity to undertake proactively. CreditKarma, creditcards.com and other consumer resources can be an ideal source of such customers. However, they only represent the most informed consumer segments, most likely Rebuilders, and secured cards must compete with subprime lenders for those same users. Issuers repeatedly expressed the need for similar arenas where they could cost-efficiently find the consumers who have self-identified as seeking a secured credit card.

Innovative Solutions

- **Leverage brand and marketing spend for unsecured cards:** First Bankcard, which issues credit cards branded with Chrysler, Jeep® and Dodge Brand vehicles, offers the secured card alongside the unsecured card, with the same branding as the unsecured card. Rather than incur additional marketing spend, this allows the secured card product to benefit from existing marketing already taking place.
- **Use prepaid customer behavior to find ideal users:** Prepaid customers, who are often outside the financial mainstream, may be the ideal secured card customers, and many prepaid issuers are developing or evaluating products to offer secured credit to this segment. Prepaid providers can further segment their own customers to identify those with strong deposit histories and sufficient balances to fund the security, thus dramatically lowering acquisition costs.
    - Banking Up is piloting a "build credit" function for about 800 of its prepaid customers, as one of U.S. Treasury's Financial Empowerment Innovation Fund research projects. Banking Up is inviting its prepaid cardholders to apply for a secured credit card and enabling them to transfer the required security deposit amount from their prepaid card. Cardholders can then manage both the prepaid card and the secured credit card through the mobile app.
- **Identifying the right consumer through trusted intermediaries:** The Asset Building through Credit (ABC) Pilot Program, a partnership of FIELD at the Aspen Institute, Justine Petersen and the Citi Foundation, piloted offering a secured credit card to micro entrepreneurs. The five pilot sites screened potential participants, and with 93 percent of participants approved for the card[29], the program demonstrated the value that a trusted intermediary can play in identifying consumers who would most benefit from the product.

[29] Joyce Klein, Luz Gomez and Elaine Edgcomb. "Asset Building Through Credit Pilot." 2013. <http://fieldus.org/Publications/AssetBuilding.pdf>

Challenge #2: Funding the Deposit

The deposit required by a secured card is its signifying attribute and perhaps the aspect that most prevents its wide-scale adoption. The security deposit is put in place to mitigate the risk that credit card issuers take on in providing a credit card to a consumer that does not otherwise meet their credit profile. However, funding the deposit means that an individual who is in the market for credit is first required to provide funds instead of receive them.

Consumer Challenges

The deposit is a consumer pain point from many angles. Firstly, the consumer may not have the money available to fund the deposit; most cards require at least $300 or more. Even among the existing secured card users in our survey, who by definition were able to fund the deposit, nearly two-fifths (39%) said that is was not easy for them to save up for it. Secondly, the potential user may not understand the mechanics of providing the deposit or trust the financial institution to return the deposit. And finally, the consumer may simply get lost in the multiple steps required to fund the deposit. Most issuers require the deposit after the customer is approved for the card. The customer must then transfer the funds to the issuer from another checking or savings account. Every step in the process is a hurdle for the consumer and this reduces conversion rates. As a result, the vast majority of customers who are approved for a secured card never fund the deposit.

Issuer Challenges: Operating a Complex Product

It is surprisingly onerous for many credit card issuers to establish the bank account to hold the deposit. The bank account must be customized to allow for deposit by the consumer and withdrawal by the issuer but remain otherwise inaccessible. This creates a barrier for credit card issuers to offer a secured card and it continues to be an operational headache even after the infrastructure is established. For most issuers, the secured card is a small part of the overall credit card portfolio and the operational quirks of issuing secured cards create the need for a sub-team of staff who know the specifics of deposit operations. Consumers may find only a subset of customer service associates can assist with their card and understand the details of how to refund the deposit.

Innovative Solutions

- **Application and deposit in one:** First National Bank of Omaha's Kickstart card requires funding of the deposit simultaneous with the application, reducing the loss of customers at the deposit funding stage. Though any difficulty in accumulating the funds for the deposit is not alleviated for the customer, it does streamline a process that requires several steps where a consumer could drop out.
- **Incremental funding:** Capital One allows for funding of the deposit in increments of $20 or more over an 80-day period.
- **Use customer's funds already on hand:** Regions Bank offers a secured installment loan that uses customer's savings already held at the bank. The bank simply puts a hold on the funds, minimizing the operational undertaking. Several prepaid card companies who are developing or evaluating secured cards are contemplating similar functionality.
- **Start with a credit builder loan first:** Many non-profits and credit unions, as well as fintech startup Self Lender, offer a credit building loan, which does not require a deposit or initial

funds from the borrower. Consumers borrow a lump sum that is held in escrow and then make monthly payments that are accumulated for the consumer over the term of the "loan". Each payment is reported to the credit bureaus and at the end of the term the consumer has a lump sum of money, which can then be leveraged to the fund the security deposit for the secured card.

- **Assistance in saving for the deposit:** Justine Petersen, a nonprofit lender, offers the Twin Account product through their partnership with LISC. Their credit-builder installment loan helps the consumer to put away funds for the deposit, which are matched by donor funds, and build credit through the installment loan.
- **Allow cash funding of the deposit at convenient, non-bank locations:** Unlike current secured card providers, many prepaid cards have cash reload networks to add funds in person if desired, which can then be leveraged for the security deposit. Many prepaid card users do not have a formal banking relationship and thus allowing funds held by the prepaid card issuer to be used for the deposit opens up a new avenue to the secured credit card product.
- **Use spikes in cash flow as an opportunity:** The non-profit MEDA has identified tax time as an opportunity for the clients of their free tax preparation service to use $200 of their tax refund proceeds to fund the deposit and establish a credit profile.
- **Partially secured cards:** Partially secured cards offer one of the most innovative solutions to the challenge for consumers to provide a deposit as a large lump sum to the issuer. Capital One offers a partially secured card from day one by allowing as low as a $49 deposit for a $200 credit line, depending on the customer's credit history. Other issuers "graduate" their users into partially secured cards by increasing their credit limit without requiring additional funds.
    - NOTE: The partially secured card brings its own set of consumer and issuer challenges. In some ways, the product may be even more confusing for the consumer than a fully secured card, operating in a strange nexus between secured and unsecured. For the issuer, a partially secured card may require additional underwriting because unsecured credit is being offered and additional risk is assumed. Determining the right amount of security deposit requires a sophisticated underwriting system, an investment only a high volume issuer, such as Capital One, may be able to undertake.

Challenge #3: Optimal Customer Usage

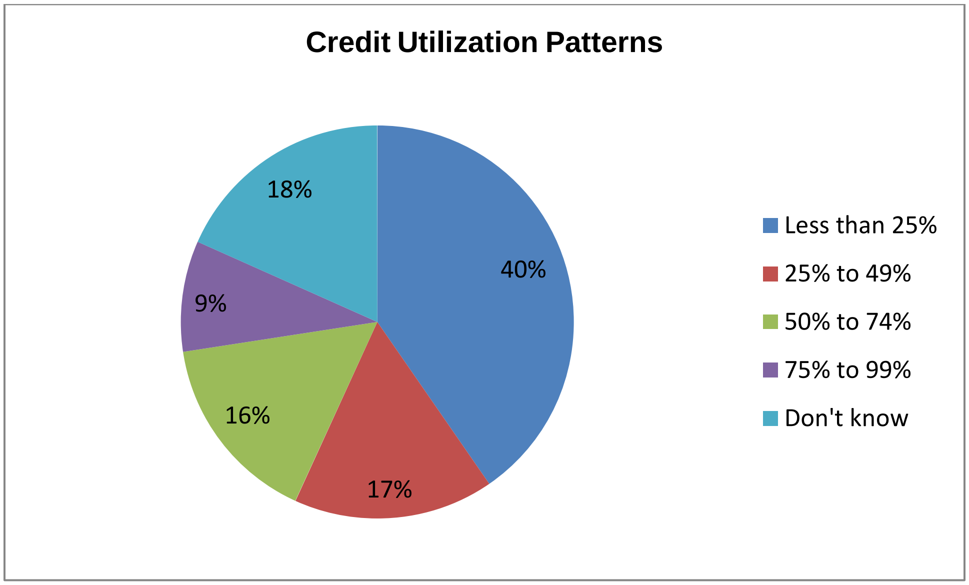
Consumer Challenges

As a combination of credit, savings, and payments, the secured credit card product is confusing for many consumers, posing a challenge to proper usage, especially for those who are financially struggling. Once the consumer has scaled the hurdles of application, approval and funding the deposit, they are then at risk for not using the card in a way that benefits their credit score and could even hurt their score. Typically the consumer only has the one secured card with a low credit limit of just a couple hundred dollars, and thus the margin for error is slim.

The user's credit score is best served by keeping credit utilization at around 30 percent or less. With such a low credit limit, this means at any time the card balance should be $150 or less, given a typical initial credit limit of $500. This is clearly a challenge for many secured cardholders as the user survey found two-fifths (40%) of users consistently use 25 percent or more of their credit limit per month and 17 percent don't know how much of their credit limit they typically use (see chart below and Table 8 in the Appendix).

On-time payments are also crucial for someone just starting out with a card, but establishing a flawless system that does not upset already tenuous finances can be a difficult balancing act. For example, 15 percent of the respondents in the user survey reported that they had already been charged a late fee (see Table 9 in the Appendix).

Secured card user behavior survey findings



Note: Fewer than 10 observations of credit utilization at 100%.

More than half of the respondents (53 percent) indicated that they always paid their card in full each month. This compares favorably with about 40 percent of unsecured card holders who pay off their cards each month[30] according to other research. While the overall credit line for a secured card is typically much lower than for an unsecured card, this finding suggests that secured card customers may be more responsible users of credit than they are commonly perceived.

Another interesting finding around consumer behavior is that respondents with perceived scores of Good or Excellent were less likely to add funds to increase their credit line than those who have a perceived credit score of Fair; those with Excellent perceived scores were less likely to increase their credit line than those with Good scores. This may suggest that those with excellent scores are not dependent on the credit line, or are not using their card in the same way as those in the lower credit score ranges. Conversely, it also suggests that those with lower perceived credit scores are more inclined to increase their credit line in order to provide themselves with greater access to credit and to possibly improve their credit score at a more rapid pace.

[30] Board of the Governors of the Federal Reserve System. "Survey of Consumer Finances" September 2, 2014. < http://www.federalreserve.gov/econresdata/scf/files/BulletinCharts.pdf>

Issuer Challenges: Communicating with the Customer

Providing consumers with guidance on how to use their secured card to build credit poses a challenge for the issuer. Consumers are inundated with disclosures and marketing materials for financial institutions, much of which goes unread. Many issuers are looking for ways to better communicate with all of their customers about responsible credit use and using their products to improve the consumer's financial health. At the same time, issuers and credit score industry players are limited by the threat of running afoul of the Credit Repair Organizations Act (CROA) if they provide customers with certain kinds of credit related advice. As a result, guidance on credit use, reporting and scoring is limited to generic best practices as opposed to individualized advice that could be more likely to spur behavior change.

Innovative Solutions

- **Credit score transparency:** Recently, consumers have gained far more access to their credit scores for free. The specific credit score provided varies by issuer and program, but the ability to see the score over time and with the reasons behind the score offers a potentially powerful educational tool and motivator for credit building, and one that consumers desire. "Access to my credit report or credit score" was the second-most desired feature (29%) from secured card users in the user survey.
    - Capital One includes access to their CreditWise feature which displays the user's credit score, provides a letter grade rating for each of the five aspects of the credit score, and Credit Simulator which allows the user to model the effect of behaviors on their credit score. Users can also receive alerts when their score changes. This is an especially cost effective feature because it is available for all credit card customers, not developed for or limited to secured card customers.
    - FICO Score Open Access allows issuers to provide consumers with the FICO score that the issuer uses for free on a monthly basis. As part of the program, FICO allows the lender to present the reason codes, or top factors influencing the consumer's score, and general advice for score improvement.
        - Initial evidence from an evaluation of the FICO Open Access program by the Federal Reserve Bank of Philadelphia found promising results for behavior change among subprime (<660) consumers. Compared to a control group of similar customers, credit card utilization declined, delinquency rates decreased, and credit scores increased after enrollment in the program.[31]
- **Removing variability:** Credit builder loans remove the volatility of variable payment amounts that are typically generated by credit cards. Credit builder loans are installment loans with the same amount due each month, making it easier for customers to get into a habit of paying the same amount each month.
- **Financial coaching though partner nonprofits:** The ABC Pilot Program coupled credit education by financial coaches with ongoing use of the secured credit card. While expensive

[31] Vyacheslav Mikhed. "Can Credit Cards with Access to Complimentary Credit Score Information Benefit Consumers and Lenders?" Payments Card Center, Federal Reserve Bank of Philadelphia. Sept 2015. <https://www.philadelphiafed.org/-/media/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2015/d%202015_can-credit-cards-with-access.pdf>

to scale, the results were impressive. Within six months, 70 percent of users experienced an increase in their credit score.[32]

- **Limiting card spend to one purchase category:** Coaches in the ABC Pilot Program recommended selecting one regular bill and putting only that on the card, which kept credit utilization low, and discouraged using the card for discretionary spending that could break the user's budget.

Challenge #4: Graduation and Building a Long-term Relationship

There are two general approaches to graduation: proactive monitoring and return of the deposit or an increase of the credit limit while retaining the deposit. Regardless of the approach, the process of "graduating" to an unsecured card is largely opaque to the customer, causing uncertainty and creating an opportunity for competitors to cherry pick users right as their credit profile improves.

Consumer Challenges

Secured card issuers each have a unique process for monitoring secured card customers and graduating them if they demonstrate strong payment behavior. And consumers often do not know their issuer's particular graduation policy when they apply for the card or while they are using it. Thus, while the vast majority of consumers (82%) plan to stay with the same card issuer if they are offered an unsecured card upon graduation, many consumers are still susceptible to direct marketing efforts from other card issuers as their credit score increases. Without good guidance, consumers may end up making poor decisions in accepting new credit offers that could threaten a newly improved credit profile.

One of the most exciting elements of graduation is the opportunity to get one's initial security deposit back. However, many find the delay in receiving the deposit unexpectedly long. Most issuers allow six to eight weeks to return the deposit to ensure a full billing cycle has taken place and all outstanding balances are paid in full. The issuer must then request the funds be returned from the bank account where the deposit is held, which is not the same department as the one servicing the customer's credit card. This slow process can be especially frustrating to a consumer who is excited to free up the funds held in deposit and may damage the relationship being built between the customer and issuer. In the survey, 46 percent of survey respondents indicated that they did not know when the deposit would be returned after graduation (see Table 16 in the Appendix).

Issuer Challenges: Easing the Graduation Process

Keeping a customer who has demonstrated creditworthiness is the lynchpin of the secured credit card business model. For issuers to see the fruits of issuing the secured card, the user needs to remain a customer for more than one year. But when the card "works as designed" and builds the user's credit, they are susceptible to being poached by competitors. Competing issuers can monitor credit bureau data for potential customers and solicit them with offers for unsecured cards before the secured card issuer has made a graduation offer. Thus, having a

[32] Joyce Klein, Luz Gomez and Elaine Edgcomb. "Asset Building Through Credit Pilot." 2013. <http://fieldus.org/Publications/AssetBuilding.pdf>

sophisticated graduation strategy is essential to secured card profitability, but also incredibly difficult to master.

For example, issuers may seek to be more transparent about their graduation policy in order to keep customers motivated, but an issuer cannot predict the future nor control the credit score. It is difficult for issuers to give guidance or set expectations on when a customer's credit profile will change to meet their underwriting criteria for graduation. Therefore, any communication to new and potential customers is necessarily vague in detailing when the customer will graduate.

Graduating a customer introduces a need for underwriting that was not required when the credit limit was fully secured and represents an additional challenge. When the customer follows "best practices" for credit building they may only use the card for a few isolated transactions per month. This would generate the greatest gains in a user's credit score but provides little new information for the issuer to evaluate.

Ultimately the need to keep the consumer has prompted multiple issuers to institute proactive monitoring and a transparent graduation plan, including the return of the deposit without customer action. Recognizing the desire of the customer to achieve their credit goals as soon as possible and release the funds, issuers have the opportunity to provide a product that assists in opening the door to affordable credit from their own institution and build a long-term relationship.

Innovative Solutions

- **Guarantee the credit score increase:** Although not a secured card, Guaranty Bank's credit builder loan offers a money back guarantee of any interest paid on the product if the consumer's credit does not improve by the end of the loan term, assuming good credit behavior.[33]
- **Know the customer's ultimate goal:** Regions Bank's mortgage loan officers often recommend their deposit-secured loan as a way to help customers improve their credit score and possibly qualify for a lower mortgage rate. By understanding the customer's goal of a mortgage, they have attracted a customer who will likely choose them as their banking partner for multiple products.
- **Monitor proactively with an explicit graduation plan:** Bank of America's secured card clearly states that accounts may be reviewed after 12 months for potential return of the deposit, and many issuers have relayed that they review some accounts as early as six months after card issuance.
- **Use alternative data to graduate customers faster:** CreditBridge, a secured card start-up, plans to speed the time to graduation by analyzing alternative financial data like verified income, cash flows and spending behaviors.
- **Keep the customer by helping them keep their savings:** Instead of simply returning the deposit after the customer has graduated to an unsecured card, TD Bank unfreezes the customer's personal savings account but encourages them to keep the money in their account and to keep saving.

[33] See https://www.guarantybank.com/Loans/CreditBuilder.aspx

- **Credit card rewards programs encourage loyalty:** Until recently, most secured cards didn't offer rewards programs, even though unsecured cards have offered rewards for years to increase consumer retention and loyalty. Indeed, "coupons, reward points, or cash-back" was the most highly coveted (47%) additional feature by secured card consumers in our survey.
    - First Bankcard offers merchant-branded secured cards with the same reward programs as their unsecured versions. When the customer graduates to the unsecured card, they maintain the same account and rewards program.
    - Discover, TD Bank, and SunTrust Bank now all offer secured cards with 1% cash back on purchases and 2% on select items such as dining or gas.
    - To encourage further loyalty and retention, Discover offers new customers the opportunity to receive a one-to-one match on their rewards at the end of their first year.

CONCLUSION AND RECOMMENDATIONS

The secured credit card serves an important role in offering consumers an affordable, low-risk path to credit but, as detailed above, there are significant challenges to wide-scale adoption. This paper contains many innovative solutions to the challenges outlined, but few are practiced industry-wide. Based on our research and analysis, below are four recommendations for driving greater customer adoption, usage, and success across the secured card industry.

1. Increase Marketing Efforts for Secured Credit Cards

Arguably the greatest barrier to increased uptake of secured credit cards is their invisibility to the consumers who need them most. A public marketing campaign to generate awareness and understanding could make the product an option for millions more Americans, especially young adults, immigrants, and other credit establishers. The security deposit is an important feature for consumers to understand, including the fact that, unlike fees, the deposit remains their money. While most card issuers will have limited financial capacity to conduct a marketing campaign specific to the secured cards, larger industry players with an interest in growing the overall market and improving consumer credit, such as card networks and the credit bureaus, could make a critical contribution with a relatively moderate marketing spend. Partnerships with financial counselors and nonprofit providers are also an underutilized pipeline – only five percent of secured users report learning about secured cards from a financial coach or counselor (see Table 3 in the Appendix).

2. Segment the Customer Base and Customize the Product

Strides in underwriting sophistication have lowered one of the largest hurdles for customer adoption - the deposit - by allowing issuers to further segment applicants and offer partially secured cards to those who present a lower credit risk. Potential users have a much lower barrier to funding the card and beginning to build credit when the security deposit is closer to $50 (akin to a monthly cell phone bill) rather than the traditional $500.

Basic ability-to-pay underwriting and know-your-customer validation is required by existing regulation but card issuers can go a level deeper and segment customers using more advanced, proprietary analysis. This data collection and analysis starts the issuer off with information that can be used to offer a partially secured card from the outset, graduate the customer more quickly, and tailor the customer experience with guidance and product recommendations. Technology and data analytics advancements have also brought down the cost of collecting, processing and applying new sources of customer information. The underwriting information collected during the customer's application and on-boarding provides more information to use in customization of the product and experience.

Understanding the consumer's goals can be beneficial for both the consumer and the provider. The user survey found that the majority of users have the product in order to build their credit, but others primarily needed a payment vehicle. (See Segmenting the Secured Card Market section for the four segments.) Building on the popularity of offering access to the user's credit score, an interactive servicing portal could include a goal-setting questionnaire, an interface for tracking financial goals over time, and even financial health monitoring. Creating a financial dashboard and resources portal for the customer demonstrates a long-term commitment to the customer, reinforcing customer loyalty.

3. Develop a Customer Graduation Strategy

The secured card is, hopefully, only the first step in a customer's credit-building journey. Card providers who treat secured card applicants as potential lifetime customers and build business processes that reflect that view can take advantage of the full potential of the product to create a pipeline of long-term customers. The secured card business model is predicated on graduation to unsecured credit; however users can feel they are relegated to a product that is an afterthought for the provider.

A clear path to graduation and/or credit line increases from day one makes users and the issuer partners in the consumer's journey. To evaluate the success of their secured card product, issuers can track expected graduation and actual graduation of users. Our user survey found half (49.5%) of users expect to graduate, providing a starting point for issuers to benchmark. Building a customer experience that reflects the customer needs and desires will support the issuer's ultimate goal of retaining that customer as they seek additional financial products over time.

4. Leverage the Security Deposit as a Savings Promotion Tool

The secured credit card was chosen as the focus of this research because it has credit, savings and payment components. The credit aspect of the card often dwarfs other aspects because the user's credit profile is the reason that the card is secured. However that security deposit is the user's savings and once the consumer has accumulated the funds, they have overcome a considerable barrier that so many Americans face. Additionally, most secured cards allow their cardholders to increase their security deposit and thereby increase their credit limit, providing a further incentive for additional saving.

With this functionality already in the place, the security deposit should be better leveraged as a tool for building savings among existing secured card customers and successfully graduated ones. In fact, 63 percent of users in the survey reported planning on using the deposit for savings (either in a savings account or as rainy day funds) after they graduated; yet none of the providers interviewed explicitly offer the ability to put the deposit into a savings product upon graduation (see Table 16 in the Appendix). Additionally, 19 percent of current users report the primary reason for having the secured credit card is a “way to save” (see Table 2 in the Appendix); yet none of the providers promoted the product as a savings opportunity at any point in the customer lifecycle. There is an exciting opportunity to expand the savings components of secured credit cards and respond to consumers’ desire to save.

The prepaid card opportunity

Prepaid card issuers have the opportunity to assist millions of their users in building credit by using their existing customer relationship as the entry point for a secured card. Several prepaid card issuers have indicated they will be acting on or evaluating this opportunity in 2016. These issuers are in a position to bypass many of the issuer challenges outlined above, from customer acquisition to customer engagement expertise. Prepaid cards are typically used by those who are underserved by traditional financial institutions and a natural fit for the on-ramp to credit provided by secured cards. Using their existing customer data to identify ideal users, prepaid issuers have more information to assist in underwriting and customer segmentation.

The Transactor customer segment values a card that they can make purchases with, the same as the functionality of a prepaid card, which suggests that many prepaid card users may find a secured credit card meets their needs as well. Additionally, many prepaid cardholders have already overcome the hurdle of adding funds to a card, which can then be used as the deposit, providing a more seamless on-boarding process to a secured card. The challenge that prepaid card issuers will face is developing additional financial products or referral relationships to serve the customer after they graduate and to support a successful business model.

The intersection of credit and savings

Ultimately, the secured credit card is a part of a larger set of financial products and tools that a consumer will rely on throughout their financial lives. Providers seek ways to reach new customer segments, build customer loyalty, and meet customers’ financial product needs as part of a long-term relationship. The secured credit card does so in numerous ways and provides an entryway for an otherwise difficult to serve population. This report is the first step in facilitating innovation in joint credit and savings products by providing new consumer research and a focused analysis on the secured card product.

APPENDIX

EXAMPLE SECURED CARD FEES, TERMS, & FEATURES

Fees, terms, and features for the most commonly cited issuers per the user survey (Table 13)

	Annual Fee	APR	Min. Deposit	Ability to Add to Deposit After Activation	Free Credit Score	Graduation Path per Publicly Available Information	Rewards
Bank of America Secured Visa	$39	20.49%	$300	Not stated	Yes	"After 12 months, your account may be reviewed and you could qualify to have your security deposit returned while you continue to use your card."	No
Capital One Secured MasterCard	None	24.99%	$49*, $99* or $200	No	Yes	"You may also earn a credit line increase later based on your payment history and creditworthiness."	No
Citibank Secured MasterCard	$25	22.24%	$200	Not stated	Yes	Not stated	No
Discover it Secured Card	None	23.24%	$200	Yes	Yes	"Starting one year after you've been a secured credit card member, we'll review your account monthly to see if we can return your security deposit while you continue to enjoy your card benefits."	Yes; 1% cash back on every purchase and 2% cash back at restaurants or gas stations**
Fifth Third Bank Secured MasterCard	$24	24.24%	$300	Not stated	No	Not stated	No
First National Bank of Omaha (FNBO) Kickstart Secured Visa	$29	21.24%	$300	Yes, in $50 increments.	Yes	"As you continue to manage your card responsibly, you could qualify for additional unsecured credit — without sending an additional deposit — in as few as 7 months. As soon as 11 months after opening your account, you could be eligible for an unsecured card from First National Bank — and upon approval automatically get your deposit back!"	No (Although some FNBO co-branded cards offer merchant rewards.)
Navy Federal Credit Union nRewards Secured MasterCard	None	9.24% - 18.0%	$500	Not stated	No	Not stated	Yes; 1 point per net dollar spent
OpenSky Secured Visa	$35	17.64%	$200	Yes	No	No unsecured credit card offered.	No
USAA Secured Visa Platinum	$35	10.15% - 20.15%	$250	Yes	Yes	Not stated	No
U.S. Bank Secured Visa	$29	19.24%	$300	Not stated	Yes	"When you've managed all of your credit obligations responsibly and consistently for 12 months, you'll be well on your way to a stronger credit standing, and we may be able to move you to an unsecured credit card product."	No (Although some USB co-branded cards offer merchant rewards.)
Wells Fargo Secured Visa	$25	19.24%	$300	Not stated	No	"With responsible use over time, you may be eligible for an upgrade to an unsecured credit card."	No

Information in this table is from publicly available websites and disclosures as of May 4, 2016.

* Capital One offers a partially secured card to applicants based on credit worthiness criteria. For Capital One, the minimum deposit listed is for a credit line of $200.

** New customers are also eligible for a one-time match on their rewards after one year.

CONSUMER RESEARCH SURVEY

Survey Instrument and Implementation

The Secured Credit Card Survey instrument includes questions regarding consumers' acquisition, use, and experience with secured credit cards, along with selected indicators of financial health from CFSI's Consumer Financial Health Survey and a set of socioeconomic and demographic variables.

CFSI partnered with GfK, a global market and consumer research firm, to field the survey. E-mail invitations were sent to a sample of GfK's KnowledgePanel® participants who indicated on their financial profile form that they have or had a secured credit card. The survey was fielded from November 12 through 23, 2015. To enhance the completion rate, GfK sent e-mail reminders to non-responders. The final sample includes 404 survey respondents for a completion rate of 44 percent.

Those invited to take the survey were disqualified if they indicated that they did not currently own a secured credit card. The duration of those completing the full survey was about 15 minutes.

Respondents were also asked for authorization to obtain their credit score range; they were offered 10,000 survey points for opting in. Panelists typically receive 1,000 points for every survey session they complete, which is equal to $1. Points can be redeemed for cash, games, gift cards, or merchandise. Approximately 40 percent of the sample provided consent.

Because all survey respondents were current secured cardholders, including 47 percent for over two years (see Table 1), respondents reported higher incomes and credit scores than is typically understood for a target secured card customer. We believe this is due to high barrier to entry for LMI consumers created by the secured deposit and to the positive impact of the product on consumer credit scores over time.

About GfK's KnowledgePanel®

KnowledgePanel® is a large national, probability-based panel that provides a representative sample for online research. The panel was first developed in 1999 by Knowledge Networks, a GfK company, with panel members who are randomly selected, enabling results from the panel to statistically represent the US population with a higher degree of accuracy than results from volunteer opt-in panels. [34]

Unlike opt-in panels, individuals can become panelists only after being randomly selected; no one can just volunteer to be a member. Originally, panelists were selected using random-digit dialing (RDD) but address-based sampling (ABS) has been employed since 2009. ABS provides

[34] For comparisons of results from probability versus non-probability methods, see Yeager et al., 2011

a statistically-valid sampling method with a published sample frame of residential addresses that covers approximately 97 percent of U.S. households, including households that:

- Have unlisted telephone numbers
- Do not have landline telephones
- Are cell phone only
- Do not have current Internet access
- Do not have devices to access the Internet

Non-Internet households that are selected in the sample are provided a web-enabled computer and free Internet service so they can also participate as online panel members. GfK's KnowledgePanel recruitment methodology uses the same or similar quality standards as mandated by the Office of Management and Budget in the "List of Standards for Statistical Surveys," which indicates that "Agencies must develop a survey design, including… selecting samples using generally accepted statistical methods (e.g., probabilistic methods that can provide estimates of sampling error)."

List of tables

Tables

Table 1			
Expectation to graduate by length of card ownership (in percentages)			
	Full sample length of ownership	Yes, expect to graduate	No, don't expect to graduate
Full sample expectation of graduation		49.5	47.2
Less than 6 months	10.4	54.1	41.9
6 months to 1 year	16.9	60.8	37.7
1 to 1.5 years	13.5	55.5	38.0
1.5 to 2 years	10.5	49.5	48.5
2 years or more	47.0	43.0	56.0
Numbers do not sum to 100 due to non-response.			
Chi Sq significant at 0.00			
Among those that expect to graduate, issuer offers an unsecured card		67.9	
Among those that expect to graduate and issuer offers unsecured card, respondent plans to use same card company for unsecured card		81.5	

Table 2		
Reasons for getting a secured card (in percentages)		
	Given as a reason	Given as primary reason
Wanted to establish a new credit history (Establishers)	28.7	22.5
Wanted to rebuild my credit history or credit score (Rebuilders)	30.9	27.7
Needed a card to make purchases with (Transactors)	31.1	24.6
Saw this as a way to save (Savers)	22.0	18.6
Other	6.8	6.5
Numbers do not sum to 100 due to non-response.		

Table 3	
How respondents became aware of secured cards (in percentages)	
In-person recommendation at a bank or credit union	39.1
Friend/Family member	22.1
On a bank or credit union's website	16.3
Mailed advertisement or offer	14.0
Online research with internet search engines and shopping sites	11.6
Online credit tracking and monitoring sites	6.9
Financial coach or counselor	5.4
Other (Please Specify)	3.4

Table 4							
Rebuilder/Establisher and perceived improvement in credit score (in percentages)							
	Full Sample	Got worse significantly	Got worse somewhat	No movement	Improved somewhat	Improved significantly	Don't know
		*	2.9	24	37.7	19	14.3
Establisher	22.5	*	*	11.3	52.4	25.4	*
Rebuilder	27.7	*	*	12.9	52.4	19.2	11.9
Convenience (need a card)	24.6	*	*	36.9	24.6	10.2	20.6
Saver	18.6	*	*	30.9	*	*	*
Chi sq significant at 0.00							
* fewer than 10 observations							

Table 5	
Path to owning a secured card (in percentages)	
I applied for an unsecured card (not requiring a deposit), but did not qualify, and was offered this card by the financial institution	17.9
I applied for an unsecured card (not requiring a deposit), but did not qualify, and ultimately applied directly for a secured card elsewhere	11.5
I only applied directly for a secured card	66.3
Numbers do not sum to 100% due to non-response.	

Table 6	
Degree of difficulty in saving up for security deposit (in percentages)	
Very easy	36.0
Somewhat easy	22.4
Neither easy nor difficult	30.1
Somewhat difficult	7.0
Very difficult	2.3

Table 7	
Credit limit on card (in percentages)	
Less than $100	*
$100-$199	*
Less than $200	4.4
$200-$299	5.9
$300-$399	8.3
$400-$499	5.4
$500-$1000	21.4
More than $1000	38.2
Don't know	15.6
* fewer than 10 observations	

Table 8	
Line of credit utilization rates (in percentages)	
Less than 25%	39.0
25% to 49%	15.9
50% to 74%	15.2
75% to 99%	8.8
100%	*
Don't know	17.7
***** fewer than 10 observations	

Table 9	
Payment behaviors (in percentages)	
Monthly payments	
I always pay the secured credit card payments in full	52.8
Generally, I make more than the minimum payment, but carry over a balance and pay interest	36.7
Generally, I make the minimum payment only	7.5
Other payment behaviors	
I generally make a payment in the middle of the billing cycle so I can open up more on my credit line	30.3
Occasionally I have been charged a late fee because I forgot to pay my bill on time	9.3
In some months, I have been charged a late fee because I did not have money to pay on time	5.5
In some months, I have been charged an over-the-limit fee for exceeding my credit line	3.0
In some months, I used the secured credit card for a cash advance	6.5
I have sometimes left a balance on my secured credit card instead of using other savings to pay off the balance	16.1

Table 10			
Expectations to move to unsecured card (in percentage of those who expect to graduate)			
	Within the next 6 months	Within the next 12 months	Not sure
Full sample	39.2	19.8	39.6
By reason for card			
Establisher	50	18.3	28.9
Rebuilder	43.1	25.4	31.5
Convenience	20.1	30.6	49.3
Saver	19.8	*	47.4
Chi sq significant at 0.00			
By card tenure			
Less than 6 months	45.4	*	*
6 months to 1 year	36.9	*	36.8
1 to 1.5 years	42.6	*	*
1.5 to 2 years	*	*	*
2 years or more	41.5	10.2	45.9
Chi sq significant at 0.00			
*****fewer than 10 observations			

Table 11	
Socioeconomic and demographic characteristics of the sample (in percentages except where noted)	
Age	
18-24	6.5
25-34	25.2
35-44	22
45-54	14.2
55-64	16.5
65-74	9.9
75 and over	5.7
average age (years)	45.4
Education	
Less than high school	9.6
High school	23.5
Some college	31.7
Bachelors degree or higher	35.1
Income	
Less than $40,000	27.1
$40,000 - $74,999	24.6
$75,000 - $99,999	23.2
$100,000 or more	25.1
Race/ethnicity	
White, Non-Hispanic	53.2
Black, Non-Hispanic	14.3
Other, Non-Hispanic	9.6
Hispanic	21.9
Gender	
Male	49
Female	51
Marital status	
Married	56
Widowed	4.2
Divorced	9.5
Separated	*
Never married	21
Living with partner	7.7
Region	
NorthEast	21
MidWest	18
South	36

West	25
Home owner**	70.5
Employment status	
Working – as a paid employee	52.8
Working – self-employed	10.3
Not working – on temporary layoff from a job	*
Not working – looking for work	4.9
Not working – retired	15.8
Not working – disabled	8.5
Not working – other	6.4

*fewer than 10 observations
** Home ownership rates reflect address-based sampling framework used by GfK; national rate is 67.3

Table 12	
Financial health profile variables of the sample (in percentages)	
When you think about saving money for the future, which of these time frames is most important to you?	
Next few weeks	12.9
Next few months	6.5
Next year	9
Next few years	19.4
Next 5-10 years*	24.4
Longer than 10 years*	19.6
None of these	6.4
Which of the following statements comes closest to describing your savings habits?	
Don't save- usually spend more than income	2.7
Don't save- usually spend about as much as income	11.7
Save whatever is left over at the end of the month- no regular plan	34.6
Save income of one family member, spend the other	3.2
Spend regular income, save other income	5.3
Save regularly by putting money aside each month*	40.5
Does your household plan ahead to make sure you have the money accessible to pay for large irregular expenses?	
Yes, my household plans ahead for large expenses*	55.6
No, my household doesn't plan ahead for large expenses	7.5
We would plan ahead if we could	21.4
We do not need to plan ahead because there is always enough money in the bank account to pay for large expenses*	8.4
Other	1.6
Not sure	3.6
Which one of the following statements best describes how well your household is keeping up with your bills and credit payments at the moment?	
Keeping up with all bills and payments without any difficulties*	44
Keeping up with all bills and payments, but it is a struggle from time to time	34.1
Keeping up with all bills and payments, but it is a constant struggle	11.5

Falling behind with some bills or credit payments	1
Falling behind with many bills or credit payments	2
Don't know	2.3
Don't have any bills or credit payments	2.8
In the past 12 months, how often has your household run out of money before the end of the month, including when you had to use credit to get by?	
Never*	52.3
Only a few months	20.4
Some months	15.2
Most months	5.4
Every month	2.8
Don't know	2.9
* responses associated with positive financial health	

Table 13	
Market distribution by card issuer (in percentages)	
Bank of America	15.9
Capital One	13.0
Citi	6.1
Discover	6.0
Fifth Third	1.0
First National Bank of Omaha (FNBO)	2.0
Navy Federal Credit Union	2.7
Open Sky	0.5
USAA	2.8
U.S. Bank	4.3
Wells Fargo	13.3
Don't know	9.0
Other (Please Specify)*	23.0
***Others mentioned include Chase, First Premier, PNC, and a number of credit unions**	

Table 14	
Market distribution by card network (in percentages)	
American Express	5.7
Discover	5.3
MasterCard	23.9
Visa	54.7
Don't know	7.8
Other (Please Specify)	1.5

Table 15		
Factors considered important when choosing a card (in percentages)		
	Considered this important	Considered this the most important
Annual fee amount	59	19.9
Interest rate (APR)	68.9	42.4
Security deposit amount	41.7	11.9
Credit limit	60.4	11.7
Option to have a credit limit that was more than my security deposit	24.2	5.6
Financial tracking tools/apps	17	2.9
Application requirements, ability to be approved	24.4	3.5
Ability to qualify for an unsecured credit card quickly	18.5	2.2

Table 16	
Information about return of security deposit (in percentages)	
When will security deposit be returned?	
It will be applied to my secured credit card balance	26.6
After my secured credit card is closed	22.6
Two months after my secured credit card is closed	3.6
Don't know	45.6
If your security deposit was released, how would you use it?	
Put it in a savings account	41.1
Hold it in my checking account as a rainy day reserve	21.8
Apply it towards an outstanding credit card balance	18.1
Use it for other outstanding bills/rent/commitments	8.4
Spend it	6.0
Other (Please Specify)	1.9

Table 17	
Where cards are used (in percentages)	
Grocery stores	51.3
Gas stations	48.1
Convenience stores	22.6
Big box retailers (Target or Walmart)	39.1
Clothing stores	32.0
Health care visits	15.7
Online	33.9
Restaurants	30.1
Bills	22.5
Other (Please Specify)	5.4

Table 18		
Frequency of use and review of card account (in percentages)		
	Use card this often	Review card activity this often
Daily	4.7	14.8
2-5 times per week	16.8	17.8
2-5 times per month	24.3	20.4
Once per month	26.9	30.0
Once every 6 months	9.9	5.1
Once every year	5.5	0.9
Never	10.4	8.1

Table 19	
Interest in additional features (in percentages)	
Added Features: Access to financial advice/coaching	14.7
Added Features: Text messages for balance and payment alerts	15.9
Customized tips based on my spending patterns	15.3
Access to my credit report or credit score	28.7
Coupons, reward points, or cash-back	46.6
Clear timeline for moving to an unsecured credit card	17.9

Table 20	
Extent to which card meets expectations (in percentages)	
Using a scale of 1 to 5, where 1 is does not meet my expectation at all and 5 is completely meets my expectation, how well is your secured credit card meeting the expectations you had when you first decided to get the card?	
1. Does not meet my expectations at all	3.6
2	5.9
3	33.4
4	29.3
5. Completely meets my expectation	23.4

Table 21.										
Consumer Characteristics by Reason for Getting a Secured Card (from Table 2) (in percentages)										
		Establisher		Rebuilder		Transactor		Saver		Other reason
	Total Sample	22.5		27.7		24.6		18.6		6.5
		column	row	column	row	column	row	column	row	column	row
Credit range											
Nonprime	3.5	*	*	*	*	*	*	*	*	*	*
Prime	21.3	30.1	30.5	26.5	33.1	13.6	15.1	21.9	18.3	*	*
Super prime	11.4	12.5	23.6	29.5	29.5	13.5	24.7	10.4	16.2	*	*
Missing (did not pull score)	62.9	55.7	20.8	53.1	24.4	63	25.6	66.8	20.6	79.9	8.6
Perceived credit score											
Very poor or poor	6.5	6.4	22.2	15.0	63.8	*	*	*	*	*	*
Fair	17.2	11.3	14.8	35.8	57.7	9.8	14.0	*	*	*	*
Good	32	40.3	28.4	25.5	22.1	41.9	23.2	25.4	14.7	*	*
Excellent	31.2	27	19.5	15.5	13.8	35.9	28.3	44.1	26.3	58.1	12.0
Don't know	9.8	12.1	27.8	*	*	*	*	14.8	28.0	*	*
Has neither checking nor saving	7.4	*	*	*	*	11.4	37.6	*	*	*	*
Has prepaid card	16.6	10.8	14.7	18.6	31.2	20.5	30.4	12.7	14.2	*	*
Age											
18-24	6.5	9.7	35.1	3.8	17.0	11.0	42.2	*	4.7	0.0	0.0
25-34	25.2	36	31.7	38.0	41.2	14.6	14.0	17.9	13.0	0.0	0.0
35-44	22	18.7	18.7	21.5	26.4	24.3	26.4	26.9	22.2	22.0	6.4
45-54	14.2	8.3	13.0	20.3	39.1	10.9	18.6	11.4	14.8	32.1	14.5

	Total Sample	Establisher		Rebuilder		Transactor		Saver		Other reason	
		column	row	column	row	column	row	column	row	column	row
55-64	16.5	9.8	13.8	13.4	23.1	18.4	28.2	19.7	22.8	29.8	12.1
65-74	9.9	12.1	28.0	2.2	6.3	11.2	28.1	13.7	27.1	16.1	10.7
75 and over	5.7	5.3	22.3	*	3.8	9.7	43.8	8.8	30.1	0.0	0.0
average age (years)	45.4	41.8		40.8		47.7		50.1		52.9	
Education											
Less than high school	9.6	8.9	19.9	10.6	29.1	9.9	24.0	12.9	23.7	*	3.4
High school	23.5	30.9	30.2	18.6	22.4	27.4	29.2	16.1	13.0	*	5.1
Some college	31.7	17.4	12.4	40.7	35.7	31.1	24.1	34.4	20.2	36.7	7.6
Bachelors degree or higher	35.1	42.8	27.4	30.1	23.7	30.1	22.1	36.6	19.3	40.0	7.4
Income											
Less than $40,000	27.1	25.5	22.9	33.3	33.6	34.5	30.8	15.7	10.6	15.6	3.7
$40,000 - $74,999	24.6	22.5	21.1	27.1	31.3	24.9	25.4	23.3	18.0	15.6	4.2
$75,000 - $99,999	23.2	31.7	29.3	17.0	19.4	26.9	27.4	23.9	18.2	22.5	6.0
$100,000 or more	25.1	20.4	19.0	22.6	26.0	13.6	13.9	37.0	28.6	46.4	12.5
Race/ethnicity											
White, Non-Hispanic	53.2	54.2	22.8	51.1	26.5	48.2	22.2	56.2	19.5	72.4	8.8
Black, Non-Hispanic	14.3	18.2	29.6	13.6	27.1	13.3	23.5	9.5	12.7	15.0	7.0
Hispanic	21.9	17.5	17.6	19.1	23.7	30.5	33.5	28.0	23.3	6.6	1.9
Other, Non-Hispanic or 2 or more races	10.6	10.1	22.1	16.3	43.7	8.0	19.1	6.3	11.3	6.1	3.8
Gender											
Male	49	45.6	24.5	47.6	29.0	56.1	21.5	45.6	20.2	62.4	4.9

	Total Sample	Establisher		Rebuilder		Transactor		Saver		Other reason	
		column	row	column	row	column	row	column	row	column	row
Female	51	54.4	20.6	52.4	26.5	43.9	27.6	54.4	17.0	37.6	8.2
Marital status											
Married	56	53.6	21.5	50.4	24.8	51.6	22.5	71.2	23.5	66.4	7.7
Widowed	4.2	*	18.6	4.2	30.2	*	17.4	5.7	27.4	*	4.4
Divorced	9.5	3.6	8.6	9.8	29.0	16.4	42.9	5.3	10.4	*	9.1
Separated	*	*	*	*	*	*	*	*	*	*	*
Never married	21	26	28.0	18.9	25.1	23.7	27.8	15.4	13.6	*	5.6
Living with partner	7.7	12.5	35.9	13.1	46.3	4.7	14.7	*	3.1	*	0.0
Housing											
Home owner	70.5	68.2	22.1	57.0	22.7	68.7	24.2	85.6	22.8	87.8	8.2
Renter	26.1	31.8	26.8	37.7	39.1	26.0	23.9	10.1	7.0	*	3.0
Neither rent nor own	3.4	5.3	0.0	5.3	41.0	5.3	36.5	1.3	22.6	*	0.0
Employment status											
Working – as a paid employee	52.8	62.2	25.7	61.6	31.3	43.5	19.5	53.4	18.2	44.9	5.4
Working – self-employed	10.3	*	14.1	11.2	30.5	9.6	23.0	15.9	28.9	*	3.6
Not working – on temporary layoff	*	*	*	*	*	*	*	*	*	*	*
Not working – looking for work	4.9	*	18.9	7.4	44.3	*	21.8	*	6.9	*	8.2
Not working – retired	15.8	14.6	21.9	*	7.6	21.3	34.9	14.8	25.7	23.0	10.0
Not working – disabled	8.5	*	13.4	7.5	25.7	13.8	41.7	*	5.5	*	12.8
Not working – other	6.4	6.7	26.0	6.9	31.7	*	1.9	*	18.4	*	5.1

	Total Sample	Establisher		Rebuilder		Transactor		Saver		Other reason	
		column	row	column	row	column	row	column	row	column	row
Channel for awareness of card											
In person at FI	39.6	46.7	26.6	36.7	25.7	42.0	26.1	33.9	15.9	*	*
On FI website	16.6	14.4	19.5	19.1	31.9	14.4	21.3	19.0	21.3	*	*
Financial coach	5.4	*	*	*	*	9.5	41.8	*	*	*	*
Online research	12.2	13.4	24.8	18.1	41.2	*	*	*	*	*	*
Online credit tracking	6.8	*	*	11.2	45.5	9.5	34.0	*	*	*	*
Friends & family	22.3	26.5	25.6	17.1	21.3	24.2	26.7	21.4	17.9	*	*
Mailed advertisement	14.3	12	18.9	12.5	24.2	15.0	25.6	18.8	24.4	*	*
Length of ownership											
Less than 6 mos	10.6	*	*	*	*	11.6	26.8	14.5	25.3	*	*
6 mos – 1 year	17.3	17.1	22.3	25.8	41.4	16.3	23.2	*	*	*	*
1 to 1.5 years	13.3	*	*	17.6	36.9	16.1	29.9	*	*	*	*
1.5 – 2 years	10.8	*	*	16.1	41.5	*	*	*	*	*	*
2 years or more	47.3	52.7	25.1	32.1	18.8	48.2	25.1	56.7	22.3	63.7	8.8
Payment behavior											
In full	52.9	56.9	24.3	43	22.6	52.9	24.6	57.6	20.3	67.5	8.3
More than minimum	37.7	34.6	20.7	46.6	34.3	35.6	23.2	38.1	18.8	*	*
Only the minimum	7.6	*	*	9.7	35.4	*	*	*	*	*	*

*fewer than 10 observations
The "columns" sum to 100% (with rounding) within each reason. The "rows" sum to 100% (with rounding) across the reasons.

Table 22

Where Cards are Used by Reason for Getting a Secured Card (from Table 2) (in percentages)

		Establisher		Rebuilder		Transactor		Saver		Other reason	
	Overall	22.5		27.7		24.6		18.6		6.5	
		column	row	column	row	column	row	column	row	column	row
Grocery store	53	62.6	26.6	49.0	25.7	50.7	23.5	52.8	18.5	46.9	5.8
Gas station	49.8	43.3	19.6	62.6	34.9	48.0	23.6	47.6	17.8	31.8	*
Convenience store	23.2	21.9	21.3	31.9	38.0	23.1	24.4	14.6	11.7	16.2	*
Big box store	39.5	28.5	16.3	43.7	30.7	53.4	33.1	32.2	15.1	28.1	*
Clothing store	33	42.4	29.0	35.9	30.2	31.8	23.7	22.4	12.6	23.2	*
Health care visits	16.2	15.1	21.0	14.3	24.5	23.5	35.7	15.3	17.5	*	*
Online	35	40.3	25.9	36.6	29.0	33.8	23.7	31.6	31.6	25.1	*
Restaurants	30.5	35.9	26.5	29.0	26.4	31.5	25.4	22.5	13.7	37.7	8.1
Bills	22.9	23.8	23.4	23.9	28.9	20.5	21.9	25.3	20.6	18.3	5.2
Other*	5.7	*	15.2	7.3	35.6	*	21.4	22.9	9.5	14.6	16.8

Note: The "rows" sum to 100% (with rounding) across the reasons. The table reads: Of those saying they use SC at grocery stores, 26.6% are establishers, 25.7% are rebuilders, 23.5% are transactors, 18.5% are savers, and 5.8 % gave other reasons. Among Establishers, 62.6% said they use the card at grocery stores 43.3 % say they use the card at gas stations, etc.
*Other reasons include travel-related and vehicle-related reasons, plus miscellaneous responses.

Table 23

Line of Credit Use and Payment Behavior (in percentages)

		Less than 25%		25-49%		50-74%		75-100%		Don't know	
Total Sample		39		15.9		15.2		10.6		17.7	
		column	row	column	row	column	row	column	row	column	row
Always pay card in full	52.8	62.8	46.5	44.6	13.5	43.9	12.6	36.7	7.3	56.7	19
Make more than minimum payment	36.7	32.6	34.4	49	21.2	46.5	19.1	41	11.7	27.6	13.2
Make only minimum payment	7.5	2.7	14	5.2	11	8.6	17.6	20	28.3	10.8	25.5

The table reads: Of those that use less than 25% of their credit limit, 62.8% pay in full, 32.6% pay more than the minimum, and 2.7% make only minimum payments. Of those that always pay their cards in full, 46.5% use less than 25% of their limit, 13.5% use between 25 and 49%, 12.6% use between 50 to 75% of their limit, and 7.3 use 75% or more of their limit; further, of those that always pay in full, 19% don't know how much of their limit they are using.

Table 24

Shopping by APR and payment behavior over past 12 months
Note: shopping behaviors only asked of those who compared cards (23% of sample)

		APR is one criteria		APR is most important criteria	
	Total Sample	68.9		42.4	
		Column	Row	Column	Row
Always pay card in full	52.8	44.4	71.4	43.8	42.6
Make more than minimum payment	36.7	51.1	65.6	53.6	45.8
Make only minimum payment	7.5	4.5	47.4	2.6	16.8

The table reads: Among those who said APR is one shopping criteria they used, 44.4% said they always pay in full. Among those who always pay in full, 71.4% said that APR is one shopping criteria they used.

Table 25									
Perceived Score and Consumer PFM Tools (in percentages)									
		Online credit tracking tools				Mobile app online budgeting/tracking tool			
		Yes		No		Yes		No	
	Full Sample	26.4		73.6		16.7		83.3	
		column	row	column	row	column	row	column	row
Very poor	0.5	*	*	*	*	*	*	*	*
Poor	5.4	5.46	12.45	5.4	34.37	2.91	4.19	5.92	42.63
Fair	17.9	20.26	14.32	17.04	33.63	13.68	6.12	18.74	41.84
Good	44.2	41.36	16.37	45.15	49.87	62.1	15.54	40.56	50.69
Excellent	23.5	25.5	9.96	22.78	24.84	15.12	3.74	25.17	31.07
Don't know	5.2	3.95	4.49	5.7	18.07	2.93	2.11	5.7	20.45

Table 26											
Perceived Credit Score by Payment Behaviors (in percentages)											
		Payment behavior						Made extra payments to increase credit line			
		Pay in Full		Partial Pay		Minimum Pay		Yes		No	
	Full Sample	52.8		36.7		7.5		31.9		67.8	
		column	row	column	row	column	row	column	row	column	row
Very poor	0.5	*	*	*	*	*	*	*	*	*	*
Poor	5.4	3.31	33.06	4.96	34.67	20.76	29.39	4.32	24.73	5.71	75.27
Fair	17.9	11.65	36.07	22.64	49.06	33.89	14.88	19.86	35.27	15.83	64.73
Good	44.2	28.33	49.09	36.98	44.85	24.64	6.05	46.01	45.75	23.7	54.25
Excellent	23.5	40.26	68.9	22.73	27.22	11.88	2.88	20.55	20.17	35.32	79.83
Don't know	5.2	10.98	54.63	7.92	27.57	5.21	3.68	2.5	7.14	14.13	92.86

COMPANIES AND ORGANIZATIONS CONSULTED

Issuers and Providers

- Avant
- Banking Up
- Bank of America
- Capital One
- CreditBridge
- Fenway Summer
- First Bankcard / First National Bank of Omaha (FNBO)
- Green Dot
- Justine Petersen
- Local Initiatives Support Corporation (LISC)
- Merrick Bank
- NetSpend
- OpenSky
- Regions Bank
- Self Lender
- St. Louis Federal Credit Union
- TD Bank

Additional Companies and Organizations

- Consumer Action
- Consumer Financial Protection Bureau (CFPB)
- Core Innovation Capital
- Credit Builders Alliance
- D2D Fund
- FICO
- FIELD at the Aspen Institute
- Mercator Advisory Group
- National Consumer Law Center
- National Credit Union Administration
- Office of the Comptroller of the Currency (OCC)
- Pew Charitable Trusts
- U.S. Department of Treasury
- VantageScore