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Getting to Know Underbanked Consumers: A Financial Services Analysis

EXECUTIVE SUMMARY

During the past ten years, the financial services activities, attitudes and behaviors of low- and moderate-income consumers have become the subject of a good deal of interest by government, academics, alternative financial services providers and—increasingly—banks and credit unions. While interest has grown, the ability to act on that interest has been limited by, among other things, the kind of market research and segmentation that traditional market research organizations provide with respect to the broader population. The survey described herein, conducted by ShoreBank Advisory Services[1] in 2003 and 2004 in Washington, D.C., Los Angeles and Chicago, provides the basis for such a financial services segmentation of the low- and moderate-income population in those three cities.

We have identified ten clusters, ranging from very low income **Never Banked Natives** to the **Making It** cluster, with a median income over $70,000, and have been able to suggest products and services appropriate for each cluster's financial needs and desires. Moreover, we found that these clusters came in pairs that were similar in most demographic characteristics. Three sets of paired clusters suggested a pathway of development in the use of financial services. This suggests a reason for optimism with respect to serving this population: households move through the age spectrum naturally, and many also move through education or income levels as they age—and can be encouraged and assisted in doing so. Banks, and other financial services providers, willing to reach out responsibly to this sector with the products and services people need when young are likely to find that, like those in other demographics, these new customers can become core, profitable customers.

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[1] Ellen Seidman is Senior Managing Director/National Practice at ShoreBank Advisory Services; Moez Hababou was previously Senior Research Manager and Jennifer Kramer an Analyst at MetroEdge, formerly a business of ShoreBank. The initial survey work was performed by MetroEdge. In early 2005, certain of the financial services activities of MetroEdge were absorbed back into ShoreBank Advisory Services.

The Center for Financial Services Innovation
An Initiative of ShoreBank Advisory Services

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INTRODUCTION

To help banks and others interested in meeting the financial services needs of low- and moderate-income households learn more about the financial behavior and preferences of low-income consumers, ShoreBank Advisory Services, a business of ShoreBank, with the support of the Fannie Mae Foundation, Ford Foundation, MacArthur Foundation and Annie E. Casey Foundation, conducted a large survey of households in low- and moderate-income neighborhoods of Washington, D.C., Los Angeles, and Chicago with two central questions in mind. First, what are the most important reasons why so many low- and moderate-income households do not hold a checking or savings account? Second, to what extent do households with bank accounts also participate in the alternative financial sector[2], and in what ways are unbanked households connected to the mainstream financial sector?

The survey utilized a multistage stratified random sampling design in which census tracts were stratified by city, race/ethnicity, and income. Survey households were drawn from 63 low- and moderate-income tracts, 21 tracts in each of the three cities. Approximately 500 households were surveyed in each city, for a total of 1,532 interviews.[3] About two-thirds of the interviews were conducted by telephone, and one-third in person. All respondents were offered the opportunity to complete the survey in Spanish, and 10% chose to do so. In each household, the survey was administered to the person identified as being responsible for most of the financial decisions. The overall response rate for the survey was 48%, with a higher response rate for in-person interviews. The survey was conducted from August 2003 to January 2004.

The survey represented almost 1 million households in the three cities, 20% of them white, 40% black, 33% Latino and 5% other or mixed race. About 27% of the population was born outside the United States, primarily in Mexico. The median income was $18,522, with about half the population working and the remainder retired, disabled or unemployed. The population's average age was 44.5 years. Almost half the population has had some college education, and 20% are college graduates. About 31% percent of the population owns their own homes; the remainder rent.[4]

Following convention, we label a household with neither a checking nor a savings account *unbanked*. Households holding either type of account are termed *banked*. Almost 30% of the survey population is unbanked, a figure in line with previous surveys of urban low- and moderate-income populations.[5]

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[2] For purposes of the survey and this analysis, the "alternative financial sector" is limited to check cashing, purchasing money orders, or sending remittances—all at other than a bank or credit union—and use of payday lenders, rent-to-own stores, pawn shops and auto-title lending. The "mainstream financial sector" is limited, for this analysis, to banks and credit unions.

[3] The survey estimates for a sample of 500 will have a sampling error of roughly 4.5% at the 95% confidence level.

[4] A comprehensive report of the survey was presented at the Federal Reserve Board's 2005 research conference, and can be found at www.chicagofed.org/cedric/files/2005_conf_paper_session2_seidman.pdf.

[5] The 95% confidence interval for the percentage unbanked is 27 to 32%.

To date, most discussions about the financial services practices of low- and moderate-income consumers have proceeded as if these consumers fit neatly into two mutually exclusive categories, the banked and the unbanked. The banked are assumed to be fully integrated into the mainstream financial sector by virtue of having a checking or savings account, whereas the unbanked are on the fringe, completely excluded from traditional financial networks.

The reality is that most low- and moderate-income households, as represented by the survey population, rely on a patchwork of financial services provided by both bank and non-bank institutions. For example, two-thirds of the 70% of the population that is banked still use non-bank services, ranging from buying money orders and sending remittances from other than a bank to using payday lenders, pawn shops and auto title lenders as primary sources of credit[6]. Clearly, engagement in the mainstream and alternative sectors by low- and moderate-income households should be thought of as a continuum rather than a simple dichotomy of banked and unbanked.

The sheer volume of financial activity in low- and moderate-income neighborhoods is enough to warrant focused research on these markets. Generalizing from our survey to the total of 957,850 households in low- and moderate-income neighborhoods in Chicago, Los Angeles, and Washington, D.C., we estimate that there are 580,733 households with checking accounts and 478,129 households with savings accounts. Another 281,030 households are unbanked. Together, households in these neighborhoods buy 1.2 million money orders each month and cash 1.9 million checks. Moreover, 172,080 households sent money internationally last year, many doing so on multiple occasions. Given the amount of activity in these three cities alone, the total size of the urban low- and moderate-income market nationally is simply too great for any financial institution to ignore. Not only is there an opportunity to serve the currently unbanked population, but with almost two-thirds of banked households conducting at least some of their financial business with non-bank institutions, there is plenty of opportunity for banks to expand their business with existing customers.

However, low-income consumers are not a homogeneous group, and a one-size-fits-all strategy in marketing and product development for low- and moderate-income consumers runs the risk of appealing to no one in particular. In addition to the remarkable demographic diversity in this market, we have also seen that there is substantial diversity in attitudes, preferences, and experience. For example, for the half of unbanked households that have had a bank account in the past, the issue is winning back those whose experience with the system has not been positive—a fundamentally different marketing challenge from attracting those who have never had a bank account. Customers who find managing a checking account difficult may require a different set of products and services than customers who routinely make payments with checks. Financial education curricula also need to be tailored to the needs of individual groups. Curricula developed to bring the unbanked into the banking system need to differ from curricula for segments that were formerly banked, although both need to offer preventive tools designed to address account management issues.

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[6] The 3-City Survey is heavily weighted toward understanding behavior and attitudes with respect to bank accounts and financial transactions – use of cash, check cashing, bill paying, remittances. The survey yielded less information with respect to the population's behavior with credit and insurance. These are important topics for future work.

To better understand the rich diversity of the low- and moderate-income population, we have conducted a segmentation analysis on the survey data and defined distinct clusters within this market. The need to size a local market and identify distinct consumer preferences and segments is, of course, not new to the financial services industry. However the conventional approach to defining consumer segments is of limited applicability for lower-income urban markets. Until now, there has been little differentiation among market segments of lower-income, urban consumers.

Few if any have tried to segment the lower-income market with the same analytical rigor applied to the wealthy market. This report begins to fill that gap through specialized analysis guided by specifically tailored questions designed to elicit accurate responses and reveal a clearer picture of the characteristics, preferences and behavior that impact the financial product choices of the low- and moderate-income population.

CLUSTER DESCRIPTIONS AND GROUPINGS

Survey households have been grouped into ten distinct market segments on the basis of demographics and use of and attitude toward financial products and services. From this clustering of the data, we have produced profiles for each of the market segments, detailing the product usage, preferences, and demographic characteristics of each segment, identifying the key features that distinguish the segments from one another, and suggesting products appropriate to each service. Three cluster pairs are quite similar to each other in characteristics other than age and/or education. In each case, the older or better educated cluster is using more sophisticated and likely more profitable bank products, strongly suggesting a real opportunity to develop the market represented by the younger or less educated cluster. The lowest income cluster pair—the **Never Banked Natives** and the **Formerly Banked**—presents a cautionary note about the importance of appropriate products and services, as these clusters differ primarily in the fact that one group has never tried the mainstream financial system and the other has tried it but been dissatisfied with or rejected by it. Although the segmentation is based on information only from the surveyed cities, financial institutions and others that are seeking to meet the financial service and product needs of lower-income consumers more broadly will find the segmentation scheme presented here useful in developing approaches for reaching these customers based on their preferences, existing product usage and need for financial education and intervention.

IDENTIFIED CLUSTERS:

□ Nearing Success

Up and Comers (10.7% of the population, median income $46,376) – **Up and Comers** are a young and diverse cluster; they average 36.3 years of age. The cluster is almost equally white and African-American, with a group of Latinos. 29% have a college degree and an additional 16% have done some graduate study. 91% have checking accounts and 85% have savings accounts, although 31% still pay some bills with money orders. 39% own their homes. This group uses credit heavily; they have credit card balances and student loans and in addition, have more payday loan users than any of the other ten clusters.

Making It (4.5% of the population, median income $72,586) – The **Making It** segment consists of U.S.-born, highly educated, young to middle-aged families. These households have the highest median income of any of the clusters and are the biggest savers. 69% own their homes, and they have an extended relationship with financial institutions across all products. They rank the highest in the population in terms of product usage for checking accounts, savings accounts, insurance coverage, and various types of loans.

☐ Working Their Way

Young Families (8.4% of the population, median income $23,490) – The **Young Families** cluster is mostly comprised of young African-American high school graduates who have had some college education or vocational school and have children. They rank second in percentage that saved during the past twelve months (60%). Only 39% have credit cards. A higher percentage pay bills with money orders than with checks, perhaps because about 48% of those with checking accounts bounced a check in the past year. They have few outstanding loans.

Core Customers (7.7% of the population, median income $32,967) – The **Core Customers** segment consists of young professionals. These households have high levels of education, work for a salary and are U.S.-born. About 40% have children, 30% are married or in a relationship, and 61% make $25,000 to $50,000 per year. They rank high in terms of checking account and credit card usage. About 70% saved during the last 12 months and about two-thirds have a savings account.

☐ Older Natives

Older Margin (18.1% of the population, median income $13,746) – The **Older Margin** cluster is an older and primarily African-American segment. 84% receive benefits[7], and 42% of the households have no adult working. They have attained a wide distribution of educational levels. They are among the least likely to be married/living with a significant other or have children. 82% have checking accounts and 59% have savings accounts. However, while 60% do not report disliking anything about their account, 32% use money orders and they are the most likely of any cluster to buy a money order from somewhere other than a bank.

Older Core (7% of the population, median income $33,494) – The **Older Core** group consists of U.S.-born, educated retirees. The cluster is 57% white. These households no longer work, and their income is almost entirely from benefits. They have attained levels of education and income higher than the population average. 92% are homeowners, by far the highest of any cluster. Almost all have checking accounts and three-fourths have savings accounts. Of all the clusters, they are most likely to say they would save a $10,000 windfall.

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[7] Medicare and Medicaid were grouped together as a single response to the question about receipt of benefits, so there is no distinction between those receiving status-related benefits and those receiving means-tested benefits.

□ Immigrants

Nuevo Latinos (8.5% of the population, median income $14,482) – The **Nuevo Latinos** are composed of low-income, young immigrant families. They are mostly foreign-born Latinos, half of whom send money home. This is the least educated cluster. 60% are employed for salary and an additional 6% are self-employed. 96% rent their homes, the most of any cluster, but of all the clusters they are most likely to say they would use $10,000 to buy a home. This cluster does not have either savings or checking accounts, citing income and hard barriers (poor credit, no credit, lack of proper ID) as being the biggest reason for not being banked. They are the biggest users of pawn shops of all clusters.

Settled In (14.3% of the population, median income $23,358) – Also a heavily Latino group, only 13% of the **Settled In** cluster households were born in the U.S. In contrast to the Nuevo Latinos, 84% of the households have checking accounts and 74% have savings accounts. 57% of this cluster sends money to their home country and although they are banked, they are heavy users of non-bank money transfer facilities. They are widely distributed in age but primarily fall in the lower educational attainment levels. They have the greatest number of people married or living with a significant other of all ten segments, and 70% have children at home.

□ Struggling

Never Banked Natives (6.9 % of the 3-city low- and moderate-income population, median income $7,922) - The **Never Banked Natives** cluster is composed of low-income, young and middle-aged single parents. They are mostly U.S. born African-Americans and have a high school degree or less education. The rate of unemployment is the third highest of all clusters and about 80% of households receive government benefits. Very few households save and about 30% have outstanding loans, mostly car loans.

Formerly Banked (14.1% of the population, median income $13,726) – The **Formerly Banked** are primarily U.S.-born although 30% are Latino. Most are young and have children, but only one-fifth are married or living with their significant other. About three-quarters were somewhat or very satisfied with their bank accounts. They are less likely than average to have banked family and friends, and the most common reason they closed their bank accounts was the cost. 90% would like to open an account in the next five years.

Segmentation schemes by definition are designed to cluster distinct groups of consumers. Nevertheless, it is helpful to look at similarities across clusters to understand likely opportunities for successful targeted product development, marketing and outreach strategies. As shown in the cluster descriptions and groupings above, three of the five cluster pairs represent clusters that have many similarities, but differ in age, income or education. The product usage and attitudes of the older or better-educated clusters strongly suggest that the sector has significant possibilities for long-term profitability. In addition, this information can be useful in developing effective strategies for the younger cluster. For example, although the **Settled In** group actively uses their bank accounts, they continue—like their less-banked counterparts in the **Nuevo Latino** group—to be heavy senders of remittances. This not only suggests that tying savings products to remittances for the **Settled In** group might be a good strategy to increase their savings rate, it also confirms

that remittances are an important lead product for Latinos that can bring in customers who will ultimately want a full range of banking services. Similarly, both the **Up and Comers** and the **Making It** cluster are doing relatively well, but the percentage of homeowners is far higher among the latter group. The **Up and Comers** need products and services designed to help them become and remain homeowners, such as IDAs, credit builder loans and quality home ownership counseling services. Financial services providers may also find working with Employer-Assisted Housing programs and various government and community-based homeownership programs useful in attracting this segment. Products such as fairly-priced mortgage loans, home equity loans and home improvement loans designed to help the **Making It** cluster manage the asset represented by their home, are likely to be successful with that group.

In contrast, the **Never Banked Natives** and **Formerly Banked** clusters illustrate not a pathway but rather a cautionary message. These clusters are quite similar, except that one has tried to use the banking system but is no longer using it, while the other has not tried. These clusters illustrate the importance of products and services that enable both newcomers and those who have had difficulty with the banking system to better manage their finances and their accounts. Stored value cards[8] and bill payment mechanisms that enable these clusters to more efficiently manage their money without danger of overdraft or over-extension, can be combined with savings incentives, education and outreach strategies that will enable those members of the clusters who are able to save to use successfully a broader array of mainstream products and services.

The charts that follow describe the segment pairs more fully, suggest products and services appropriate for each segment, and indicate the relationships between the pairs.

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[8] At the time the survey was administered, general purpose stored value cards, and even payroll cards, were relatively new. It has become clear in the intervening two years that these card products are being heavily marketed to the survey population, and can be an alternative to both cash and accounts for transactional purposes. However, it will be important to functionally describe the product, as there continues to be no common terminology, and the distinction between stored value cards (which usually are not account-related) and debit cards (which are account-related) is often not clear.

UP AND COMERS

- Young cluster (39% under age 30)
- Diverse in ethnicity; roughly equal percentages are white and African-American and a smaller group is Latino
- Majority has at least some college or vocational school
- Median income: $46,376
- 39% homeowners, 79% own a car

- Highest rank in student loans and credit card balances
- Most likely to receive payday loans (18%)
- Greatest percentage say they like the features of their account(s) (22%)

IDAs and other incentive savings products

*Payday loan alternatives
(preferably with direct deposit)*

Credit builder loans

Mortgages

Insurance

Investment products and services

These two clusters are the best educated and most stable segments of the population. The Young Families cluster needs products and services that will encourage the savings and insurance behaviors that will enable them to withstand setbacks, and to grow into the Making It cluster. The latter cluster has the potential to be immediate customers of profitable bank products.

MAKING IT

- Mostly between the ages of 30 and 60
- Most educated cluster (ranked first in both undergraduate and graduate work)
- Two-thirds white with the rest African-American or Latino
- 93% earn over $50,000 per year
- Median income: $72,586
- 69% homeowners, 85% own a car

- Greatest percentage of checking, savings, and credit cards
- Most likely to save, use an ATM, and pay bills by automated payment
- Heavy users of insurance and loans

Savings accounts

Mortgages

Home improvement loans

Insurance

Investment products and services

YOUNG FAMILIES

□ Mainly concentrated in younger age brackets

□ 39% are married/living with significant other and 70% have children

□ Mainly composed of African-Americans

□ Wide income distribution

□ Majority have graduated from high school or have some college/vocational school

□ Median income: $23,490

□ 22% homeowners, 64% own a car

□ Most likely to purchase a money order from a bank

□ More likely to use money orders to pay bills than checks and 22% use a bill payment place

□ Like the convenience of their account(s) but dislike the cost

IDAs and other incentive saving products
Checkless checking accounts
Credit builder loans
Mortgages
Student loans
Insurance
Youth accounts

These two young, working clusters are having some success but need good financial supports to sustain that success and to increase relatively low levels of homeownership. The Young Families group, on a path to become "Core," could benefit from both lower cost bank-based transaction services and savings incentives.

CORE CUSTOMERS

□ Younger than average

□ Lowest percentage of households where no adult is working

□ Have high levels of education and work for a salary

□ Median income: $32,967

□ 32% homeowners, 72% own a car

□ Pay bills with checks

□ Like the cost and convenience of their bank account(s)

□ Most likely to use $10,000 to pay off debts or pay off/repair their home/apartment

Savings accounts
Mortgages
Home improvement loans
Insurance
Investment products and services

OLDER MARGIN

□ Second-oldest cluster (average age 61.1)

□ 60% African-American with another 22% white

□ Has a wide distribution of educational attainment

□ Among the least likely to have children living with them or be married/living with a significant other

□ Median income: $13,746, with 84% receiving benefits

□ 39% homeowners, 52% own a car

□ Most likely cluster to purchase a money order from an alternative provider

□ Like convenience of bank, unlikely to report disliking something about their account(s)

□ Below average use of checking accounts, savings accounts, and loans

Checkless checking account with low-cost money orders and telephone bill pay

Savings accounts

Reverse annuity mortgages

Credit Builder Loans

While these clusters are similar in age and in having bank accounts, they differ in income, assets, and account usage, with the Older Margin group being strong users of money orders. Whereas 40% of the Older Margin group would likely use a windfall to pay debts, 42% of the Older Core group would save such a windfall. To encourage the Older Margin group to become more consistent savers and users of their accounts will require products and services designed to encourage sound financial management.

OLDER CORE

□ Oldest cluster (average age 67.2)

□ Majority white

□ Most households where no adult is working (48%)

□ Have attained levels of education higher than the population average

□ Most homeowners of any cluster (92%)

□ Greatest percentage (97%) receive benefits

□ Median income: $33,494

□ 92% homeowners, 100% own a car

□ Greatest percentage with secured credit cards (10%)

□ Least likely to report disliking something about their account(s)

□ Heavy users of insurance and direct deposit

Unsecured credit cards

Home improvement loans

Estate planning service (wealth management, homeownership transfer)

Reverse annuity mortgages

NUEVO LATINOS

- Youngest group (48% are under age 30)
- This cluster is entirely Latino with 87% born in Mexico
- Greatest percentage with children (80%)
- Least educated (57% do not have high school diploma)
- Majority earns between $10,000 and $25,000 per year
- Median income: $14,482
- 4% homeowners, 22% own a car

- Want to save (greatest percentage would save $10,000 and say saving would be easier if they had an account)
- Hard barriers to bank accounts prevalent
- Most likely to receive income by cash and to pawn

Remittances with saving feature

Stored Value Cards

IDAs and other incentive saving products

Youth savings accounts

These two clusters consist heavily of immigrants, mainly Latinos. In many ways, the Settled In group is an older, more settled version of the Nuevo Latinos. The Settled In group's use of banking services illustrates the promise of serving the younger cluster. But there is also more to offer the older group – they are on the cusp of becoming users of core bank credit products.

SETTLED IN

- 79% Latino
- Primarily young to middle-aged
- Greatest percentage of people born in countries outside of the United States, Mexico, or Latin America (23%)
- Majority are married/living with a significant other and have children
- Median income slightly below average
- 10% self-employed
- Median income: $23,358
- 18% homeowners, 70% own a car

- Saving is made easier by their bank account(s)
- Most money transfers from both banks and other institutions and heaviest users of auto title loans
- Like their bank account(s) because of the convenience

Remittances with saving feature

Savings accounts

Checking accounts

Payday loan alternatives (preferably with direct deposit)

Mortgages (ITIN and other)

Small business loans

Student loans

Youth savings accounts

NEVER BANKED NATIVES

- Although average age is 41.2, this cluster has a slightly younger age distribution than Formerly Banked
- Mainly African-American, this cluster is U.S.-born and speaks English at home
- Cluster with the greatest percentage of people earning less than $10,000 per year; 80% receive benefits
- Low education levels
- 60% have children and 13% are living with a significant other
- Median income: $7,922
- 11% homeowners, 21% own a car

- Most likely cluster to pay their bills with money orders or through a bill payment place
- Users of pawn shops and rent-to-own stores
- Three-quarters were satisfied with their account(s) and majority hope to open an account in the next five years

Stored value cards

Checkless checking accounts

Reduced Price Money Orders

*Payday loan alternatives
(preferably with direct deposit)*

Youth savings accounts

These two unbanked clusters are relatively young and have low incomes. They are very similar in product usage. This similarity highlights the importance of working closely with the never banked population as they begin their relationship with mainstream financial institutions and of providing products and services that minimize the challenges of account management and of money management in general.

FORMERLY BANKED

- Average age of 40.9, distributed across all age groups under 60
- Primarily African-American with another 30% Latino, this cluster is 83% U.S.-born and 82% speak English at home
- High percentage with children (61%) while 21% are married or living with a significant other
- One-third have moved in the past two years
- Median income: $13,726
- 12% homeowners, 30% own a car

- Very likely to buy money orders from alternative institutions and use money orders to pay bills
- Users of pawn shops and rent-to-own stores
- Three-quarters were satisfied with their account(s) and majority hope to open an account in the next five years

Checkless checking accounts with low cost money orders and telephone bill pay

*Payday loan alternatives
(preferably with direct deposit)*

Savings accounts

Credit builder loans

CONCLUSION

By recognizing and acting on the nuances of these distinct and related segments of the low- and moderate-income population, banks and other financial services providers can increase their service to and profitability from this sector, both by gaining more business from existing customers and by increasing their new customer acquisition rate. The consumers themselves will benefit if more effective outreach by the mainstream financial services sector gives them access to not only more cost-efficient products and services but additional asset-building opportunities.

As the survey demonstrates, however, alternative financial service providers are used by consumers in low- and moderate-income areas regardless of race, ethnicity or income levels. Competition from these institutions is fierce. Moreover, some consumers turn to informal networks of family and friends for their financial needs. It is important that both banks and non-banks who want to serve the sector well match their value proposition to the market demand and product preferences of the consumers. It will not work the other way around. Consumers will not value a free checking account, for instance, if there are alternatives that are more convenient, more cost effective and more readily accepted by the networks within which consumers operate. The survey demonstrates that many low-income consumers make rational financial services decisions, particularly given the limited range of options that mainstream institutions offer to them. Convincing them to change their current behavior requires concerted effort and careful thought—about appropriate outreach strategies and delivery channels (including partnerships), products, services, customer service strategies, and, in general, making the banking experience meet the customer's needs.
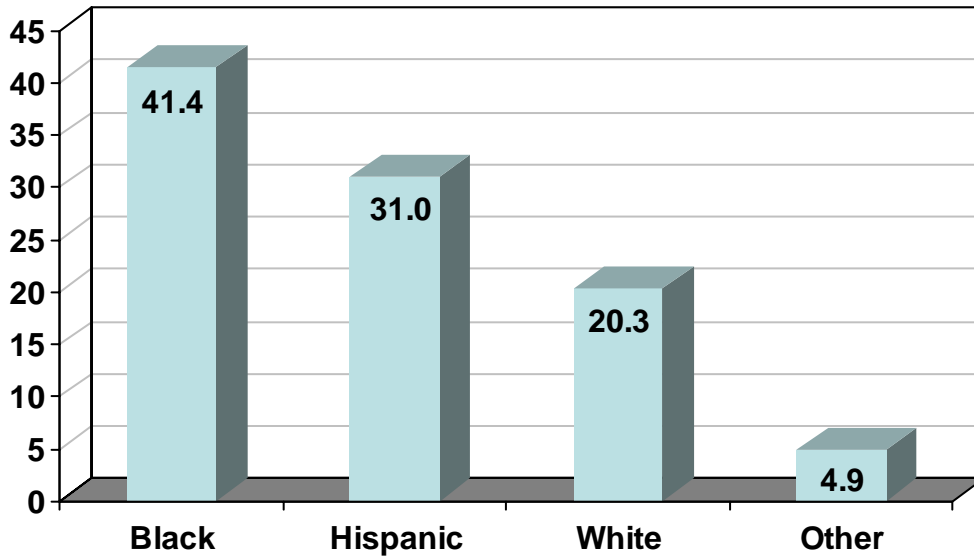
The work presented here represents a significant step toward accumulating better information on the size of the market for financial products and services in low- and moderate-income communities and suggests delivery channels, outreach and product lead strategies to reach these customers. Coupling opportunities to incorporate new technologies (e.g., stored value cards) that will enhance the profitability of products while maintaining responsible prices and terms will continue to be a challenge going forward.

Dealing with regulatory barriers that make it difficult to offer savings vehicles to those who need liquidity or to offer mortgage loans to immigrant consumers requires a commitment on the part of financial institutions to stay engaged in the regulatory and legislative activities that affect this market. Leadership that believes in the viability of the opportunity in the low- and moderate-income market and is willing to allocate appropriate resources toward tailored offerings that meet the needs of the customer can be successful in building relationships with a population that has the potential for growth and profitability. These are likely to become long-term customers, whose increasing financial health and stability will continue to enhance the value of their relationship to both customer and provider.
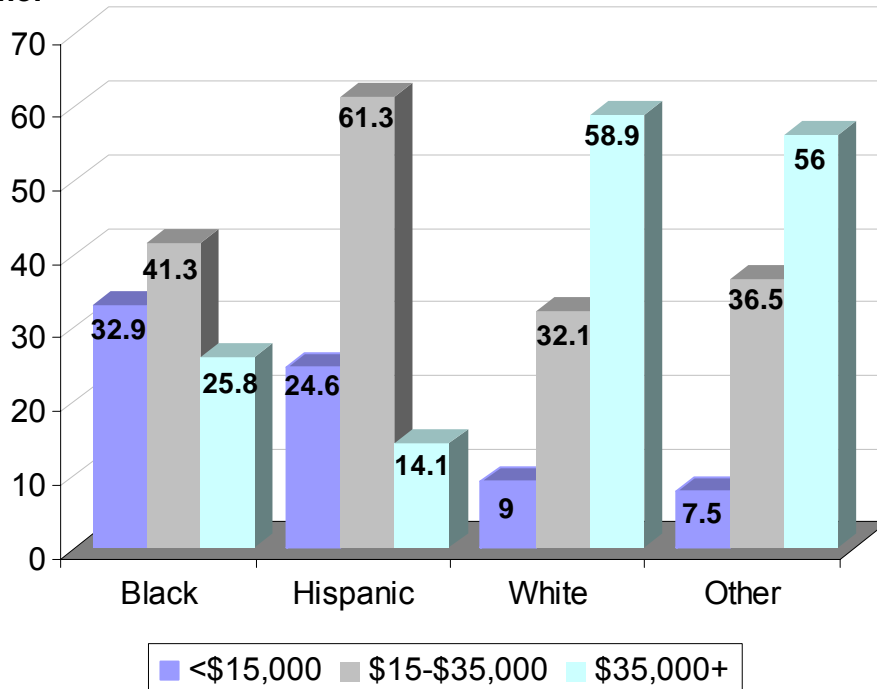
APPENDIX

I. SURVEY DEMOGRAPHICS

Race:

Income:

Educational Attainment:

Bar chart showing Educational Attainment:
- Less than HS: 25.8
- High school: 25
- Some college: 26.6
- College degree: 12.9
- Grad degree: 7.8

Employment Status:

Bar chart showing Employment Status:
- Salaried: 48
- Self-Employed: 6.8
- Unemployed: 16.4
- Retired/Disabled: 26.6

Bank Account Ownership:

Savings only 9%

Unbanked 30%

Savings and Checking 41%

Checking only 20%

Housing Tenure

	Own	Rent
	30.6	69.5
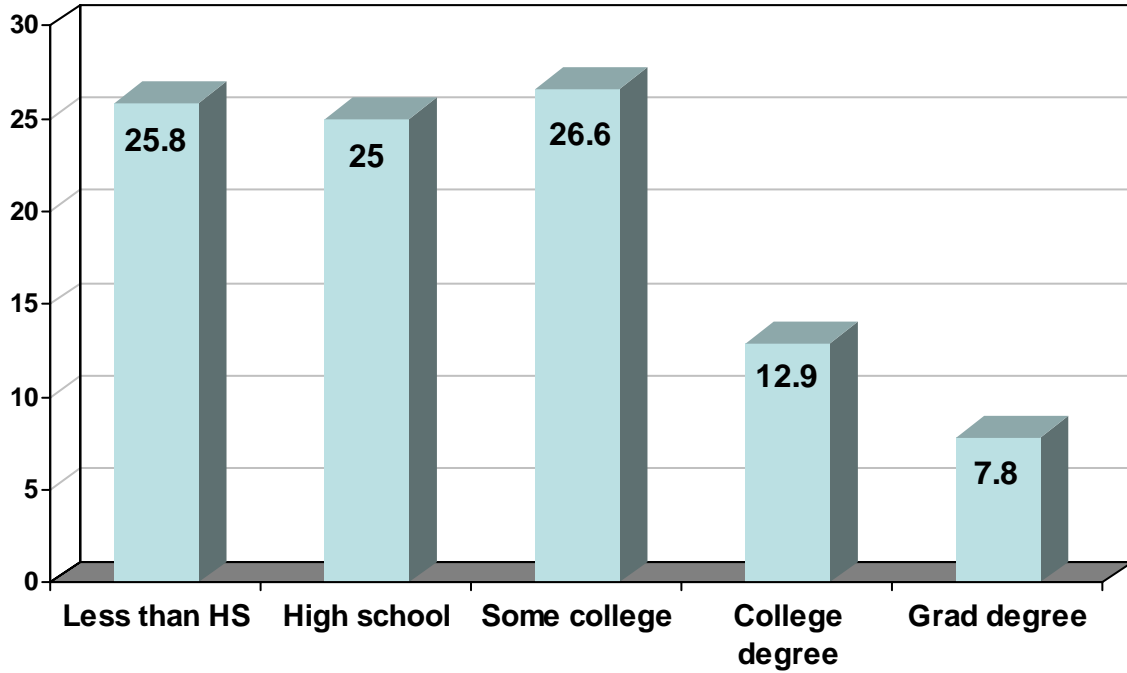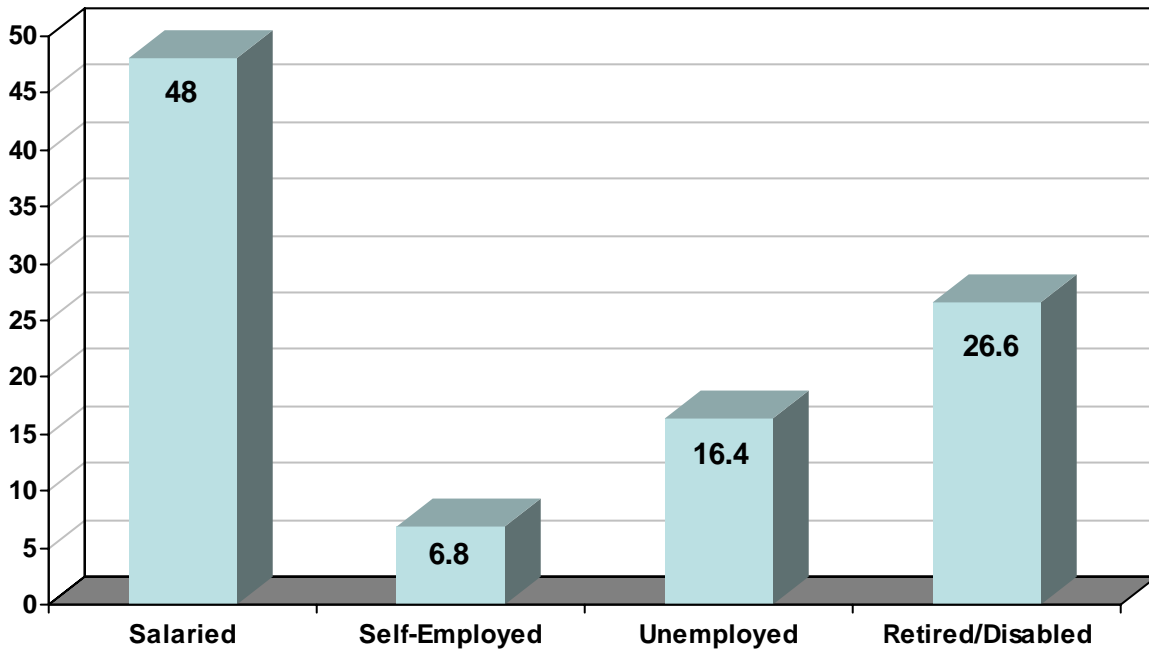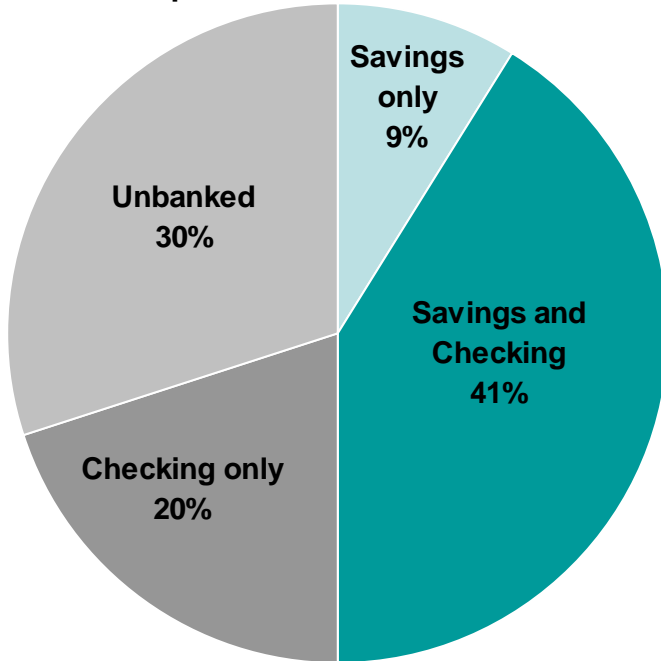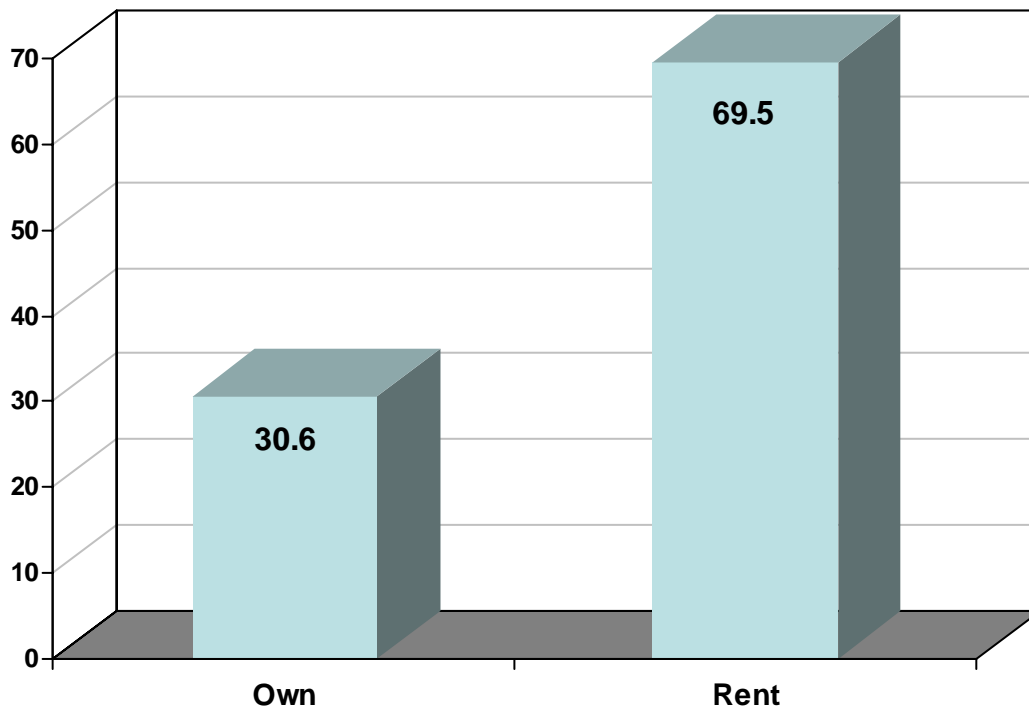
Median Rent by Cluster

Median Rent

II. CLUSTER COMPARISON CHART

Clusters	Never Banked Natives	Formerly Banked	Nuevo Latinos	Settled In	Older Margin	Older Core	Young Families	Core Customers	Up and Comers	Making It
Current Product Usage	Above average usage of pawn and rent-to-own, greatest use of money orders to pay bills	Most users of rent-to-own (7%) and high percentage paying bills with money orders	Greatest use of pawn, high use of auto title loans and money transfers outside of bank	84% have checking and 74% have savings, most money transfers both at and outside of a bank	"Less banked" than other clusters, 82% have checking and 59% have savings accounts	Almost entirely with checking accounts, three-quarters with savings	Below average accounts and credit cards	Almost entirely with checking but only two-thirds with savings	Above average in accounts, most payday loan users	Greatest percentage of checking, savings, and ATM usage
Loans and Credit Cards Usage	Below average	Below average	Very few loans aside from "other"	Above average with outstanding loan	22% have credit card balance	2nd highest credit card usage but only 11% with balance	Few loans and credit card balances	Above average	High loan usage and most credit card balances	Majority have loans
Product Usage Index* — Credit Cards	5	23	19	106	113	191	81	174	161	203
Product Usage Index* — Money Orders (bank)	18	23	76	54	173	64	216	71	170	84
Product Usage Index* — Money Orders (non-bank)	114	151	84	140	165	0	152	0	120	0
Product Usage Index* — Remittances (bank)	0	17	249	333	67	17	13	7	64	164
Product Usage Index* — Remittances (non-bank)	0	85	260	324	22	0	75	0	91	0
Preferences and Barriers	Don't have enough income for account(s)	Closed account(s) because of cost	Hard barriers and not enough income	Convenience	Convenience	Convenience - least picky about accounts	Convenience	Convenience and cost	Convenience	Location and cost
DEMOGRAPHICS — Race/Ethnicity	African-American	Majority African-American, another 30% Hispanic	Entirely Hispanic	Primarily Hispanic	60% African-American	Majority are white	Majority are African-American	Half white, the rest split between African American, Hispanic, and other	Diverse (split between African-American and white with smaller group Hispanic)	Over two-thirds white (highest percentage)
DEMOGRAPHICS — Education	Majority with high school education or less	High school education or less, some with some college or vocational school	Greatest percentage with less than high school education	Majority with only high school education or less	Wide distribution	Most have at least some college	Mostly have high school diploma or some college	Wide distribution	Half have some college or vocational school	Most undergraduate and graduate degrees
DEMOGRAPHICS — Income and Benefits	Greatest percentage earning less than $10,000 per year (Median income: $7,922; Benefits: 80%)	Majority earn less than $25,000 per year (Median income: $13,726; Benefits: 69%)	Majority earn between $10,000 and $25,000 (Median income: $14,482; Benefits: 40%)	Most earn between $10,000 and $50,000 per year (Median income: $23,358; Benefits: 52%)	Below average median income, majority receive benefits (Median income: $13,746; Benefits: 84%)	Third highest median income but almost all receive benefits (Median income: $33,494; Benefits: 97%)	About average income and benefits (Median income: $23,490; Benefits: 57%)	Majority earn between $25,000 and $50,000 per year (Median income: $32,987; Benefits: 12%)	2nd highest median income (Median income: $46,376; Benefits: 20%)	83% earn more than $50,000 per year (Median income: $72,586; Benefits: 7%)
DEMOGRAPHICS — Home Ownership	11%	12%	4%	18%	38%	92%	22%	32%	38%	63%
DEMOGRAPHICS — With Children	60%	61%	80%	70%	22%	9%	70%	42%	38%	26%
DEMOGRAPHICS — Age	Average and median both around 41	Wide distribution (mostly between 18 and 49)	Youngest cluster	Wide distribution	Majority over 60	Oldest cluster	Mostly middle aged or younger	Young cluster	Young cluster	Mostly in 30's or 40's
Behavior: What would you do with $10,000 — Pay Off Debts	102	125	27	75	116	64	110	134	117	111
Behavior: What would you do with $10,000 — Buy a New House	93	95	165	199	65	26	109	79	46	79
Behavior: What would you do with $10,000 — Save	62	72	146	88	96	139	93	92	120	139

The Center for Financial Services Innovation (CFSI) assists the financial services industry to identify, develop, and implement innovative ways of delivering asset-building opportunities to the underbanked market that are profitable for both company and customer.

CFSI was founded in 2004 with support from The Ford Foundation to encourage the financial services industry's efforts to serve un- and underbanked consumers. The Center provides funding for innovative solutions, a meeting place for interested parties, resources for testing products and services, and identifies, develops and distributes authoritative information on how to respond to the needs of the underbanked profitably and responsibly. Banks, credit unions, technology vendors, alternative service providers, consumer advocates, and policy makers all can find support here to forge the new relationships, products, and strategies that will transform industry practice and people's lives. For more on CFSI, visit www.cfsinnovation.com.

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