

Exhibit 5 Unbanked and Underbanked Consumers in the United States

In 2011, FDIC surveyed 45,000 U.S. households to determine their degree of participation in the banking system. The resulting survey results are projectable to the entire U.S. population.

Definitions and Key Findings:

- **Depository Institutions.** Banks and credit unions that provide insured checking and savings accounts up to \$250,000. There are approximately 90,000 depository branches in the United States.
- **Alternative Financial Services Providers.** Financial institutions that provide any of the following services: non-bank money orders, nonbank check-cashing services, nonbank remittances, payday loans, rent-to-own services, pawn shops, or tax refund anticipation loans (RALs). Approximately 25% of households used some form of AFS in the 12 months prior to the survey. Almost 10% used two or more AFS products.
- **Unbanked Households.** Households in which no individual holds a checking or savings account in an insured depository institution. 8.2% of U.S. households are unbanked, up 0.6% since 2009. An estimated 24.2 million U.S. households are underbanked. An estimated 9.9M households are unbanked.
- **Underbanked Households.** Households in which an individual has a checking and/or savings account but used AFS providers in the past 12 months to meet financial needs. 20.1% of U.S. households are unbanked, up 1.9% since 2009. An estimated 24.2 million U.S. households are underbanked.
- **Banked Households.** Households in which all individuals are fully engaged in the financial mainstream, and did not use AFS in the past 12 months. 68.8% of U.S. households are fully banked, down 2.5% since 2009. An estimated 88.2 million U.S. households are banked.
- **Unbanked Cash Households.** Households in which no individual has a depository account, and have not used AFS in the last 12 months. 29.5% of unbanked households rely purely on cash.
- **Employment Status.** Not surprisingly, banking status is positively correlated with employment. 64.1% of all underbanked households, however, have members who are employed.
- **Income.** Having a depository account is positively correlated with income. 40.8% of underbanked households make less than \$30,000 in annual income. 17.1% of all underbanked households, however, make between \$30,000 and \$50,000, and 18.3% of all underbanked households make \$75,000 or more.
- **Home Ownership.** An estimated half of all U.S. homeowners are underbanked (52.1%).

Source: Federal Deposit Insurance Corporation Department of Depositor and Consumer Protection, "2011 FDIC National Survey of Unbanked and Underbanked Households: Executive Summary," September 2012.

were notoriously skeptical of banks' efforts involving moderate-income consumers. (In 2010, the Consumer Financial Protection Bureau [CFPB] was formed, in part, to demystify the agreements consumers made with providers of financial services).¹⁸

Options in a Competitive Landscape

The EG team wasn't alone in recognizing the opportunities in a changing landscape in financial services. Consumers were gradually changing the way they made transactions, altering the medium they used to make their payments. See Exhibits 6 and 7 for indicators of the movement to a greater reliance on debit and prepaid cards among U.S. consumers. Exhibit 8 provides the purchase volume, market share, and 2010 growth rates of leading U.S. card companies.

Although the Bank 2.0 initiative team was attempting to serve the underbanked, the team knew that the term "underbanked" was in some ways deceiving. First, underbanked consumers regularly engaged in financial transactions—those transactions were simply outside of the traditional banking system. For example, they performed many transactions in cash and used check-cashing centers, payday lenders, and remittance companies (known as alternative financial services [AFS]).¹⁹ The team recognized that all of these were potential services that could be provided by payments companies. Second, in addition to these AFS competitors, a cadre of technology start-ups was already attempting to enter the market with novel solutions.²⁰ For example, Green Dot was testing the marketplace through a partnership with Wal-Mart, while GoBank and NetSpend had forged relationships with check cashers. Square Cash had also launched, providing an opportunity for consumers to