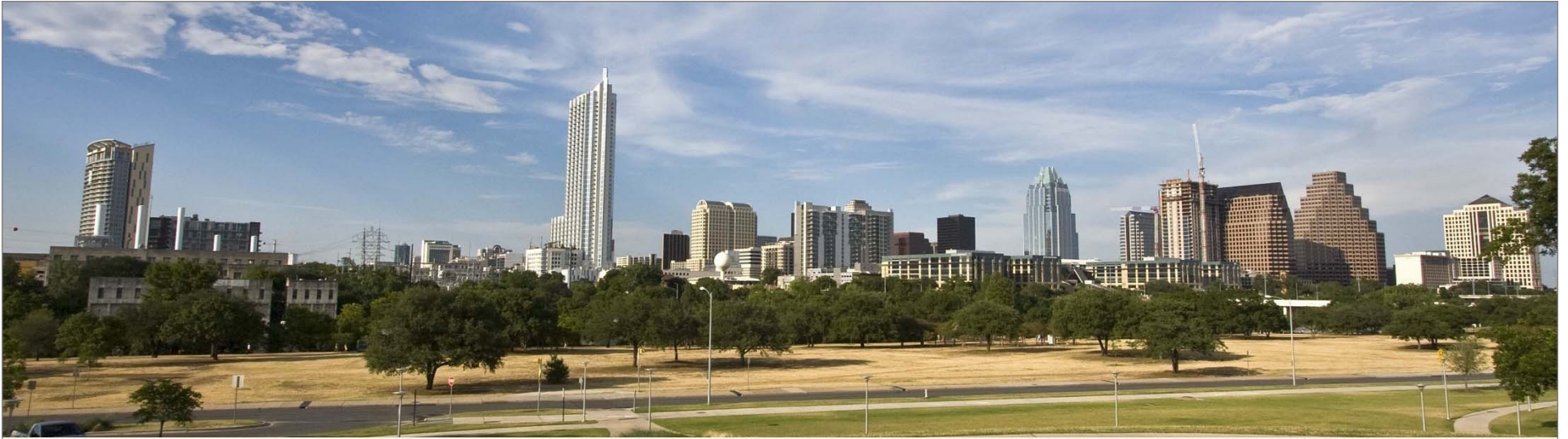


# Bank on Central Texas: Assessing the Market Opportunity





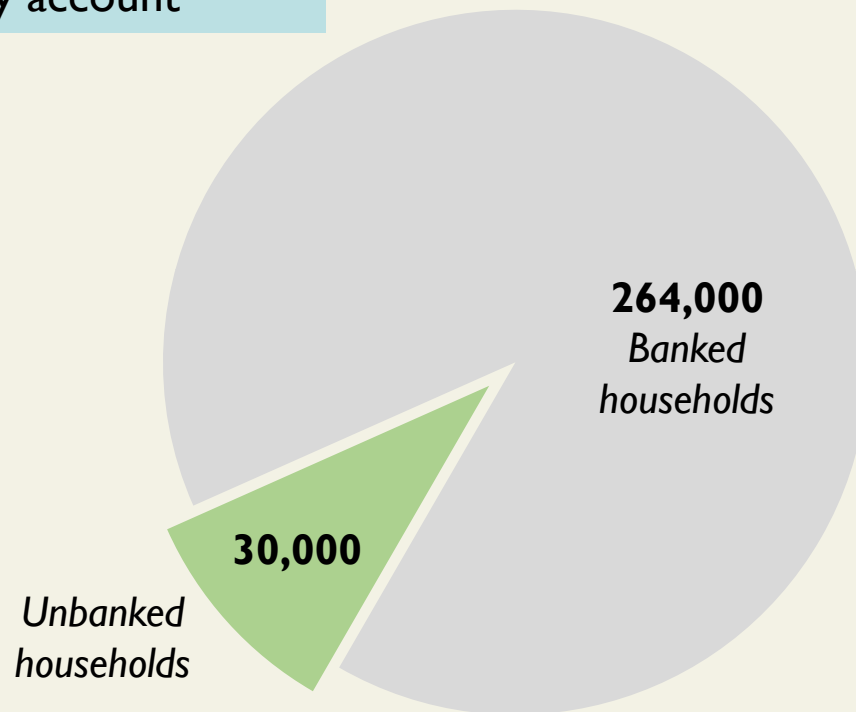
## I The Overall Market Opportunity

## II The Bank On Market Opportunity

## III Major Entry Barriers

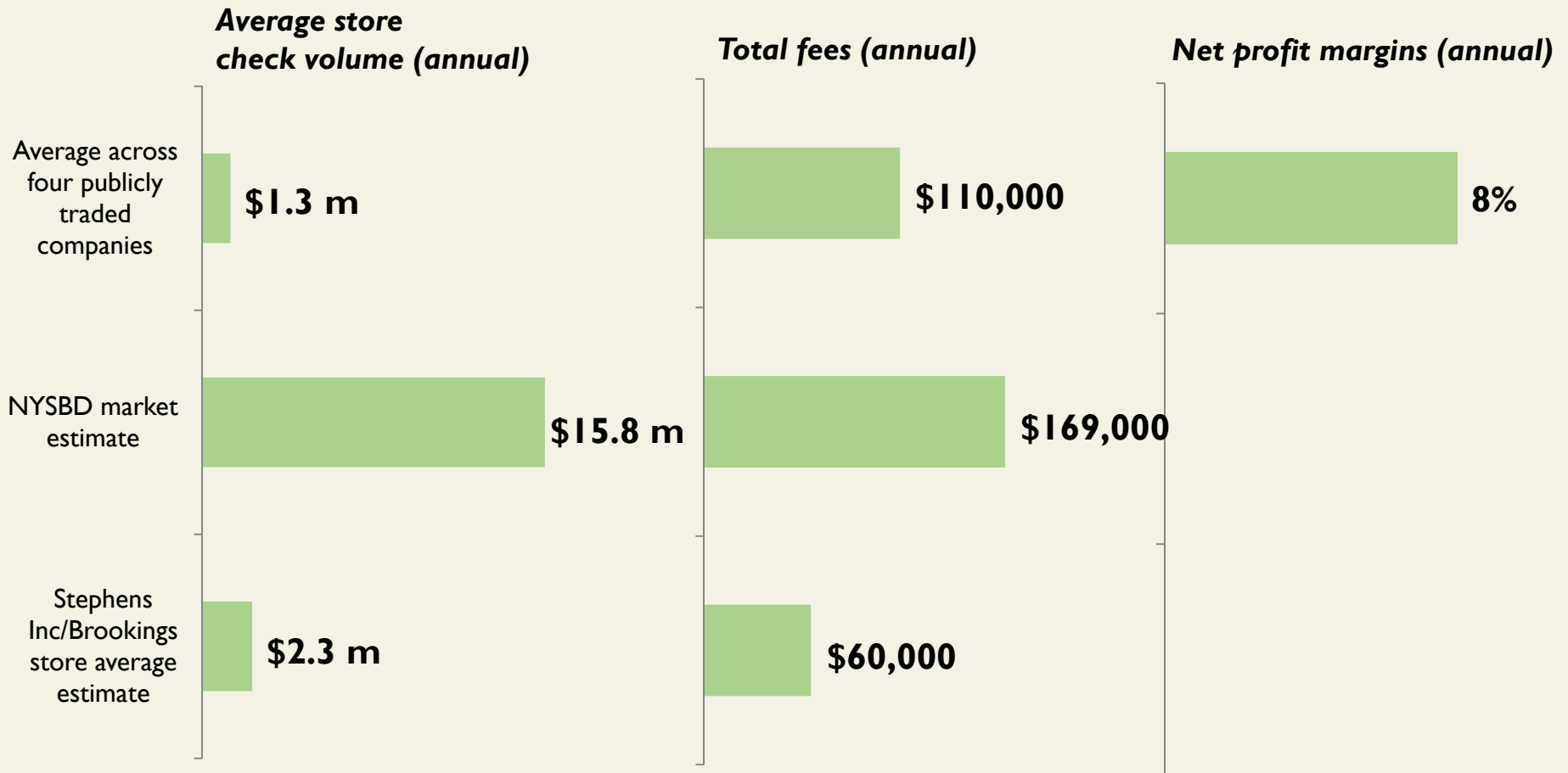
**In Austin, approximately 30,000 households lack a basic depository account, relying on both depository institutions and non-depository institutions to manage their income.**

Share of Austin households who do not have a depository account



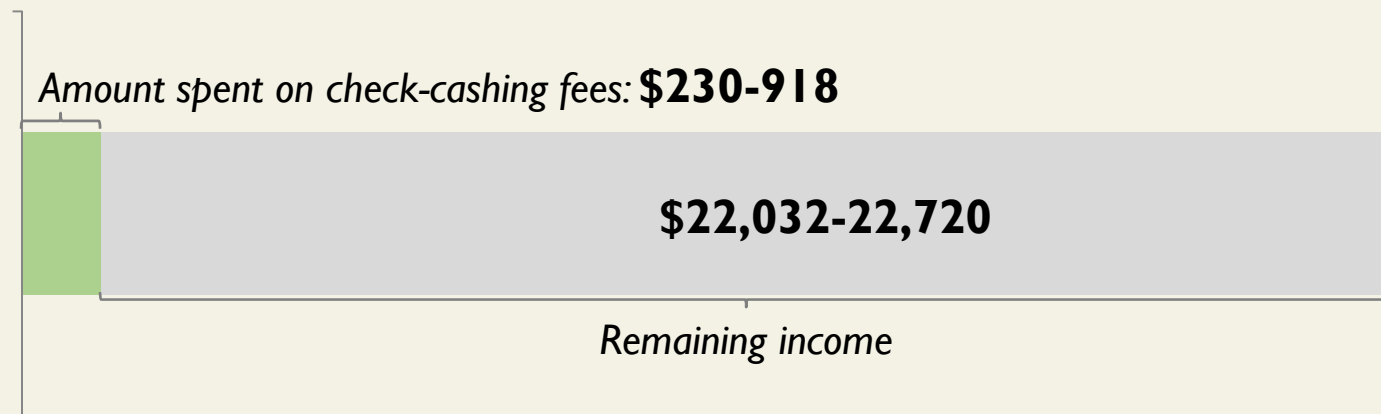
These unbanked households use both DFIs and non-DFIs to cash their paychecks, pay their bills, borrow money, and/or wire money (in addition to buying groceries and gas, in some cases).

**The economics for the non-depository institutions in this market are generally attractive. But the specifics of that information are hard to come by, so public estimates are widely variable and not clearly comparable. For instance:**



Source: Hoover's, New York State Banking Department, the Brookings Institution, Stephens Inc.  
Note: Net profit margins were averaged across three companies, not four, and represent all business lines, not just check cashing.

**For customers, these economics work out differently depending on how regularly they use a check casher and the state they live in. The typical working, unbanked household in Austin pays between \$230 and \$918 to cash paychecks over the course of one year.**



In addition, there are unknown direct costs such as money orders, bill payment services, and remittances; as well as the unknown indirect cost of having no or limited access to wealth-building credit or loans.

Source: Analysis of data from Fellowes and Mabanta 2008; profile fits the median household without a bank account.

Note: There is no limit on check cashing rates in Texas. A random survey revealed that check cashers in Austin charge, on average, between 1 and 4 percent to cash payroll checks.



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## What is the Bank On opportunity in Austin?

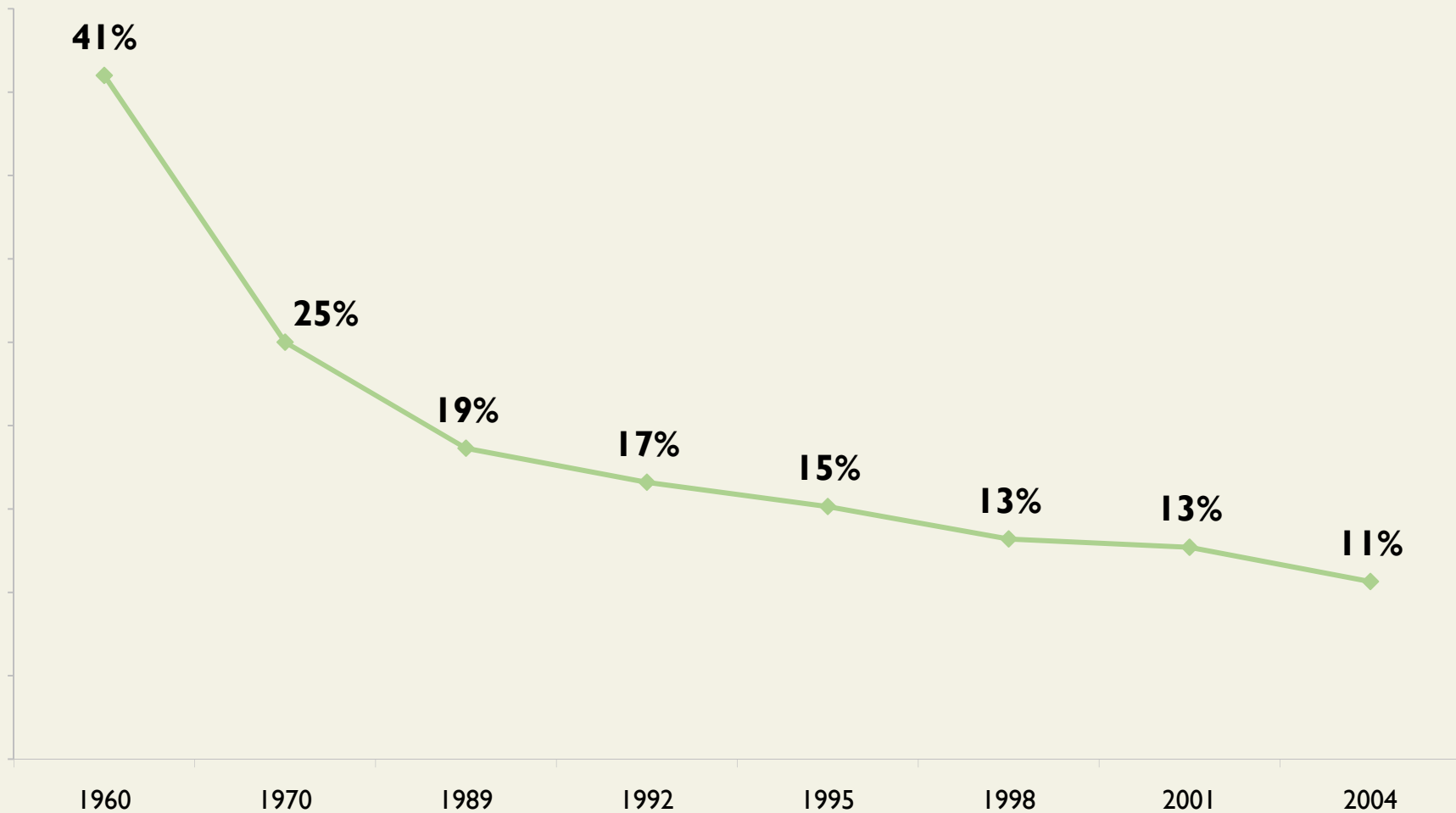
It's not the entire unbanked market. Some unbanked consumers have a history of fraud and/or identity theft, some want to fly under the radar, some can't manage a depository account, some live in a cash economy, and some don't have appropriate paperwork.

Non-depository and some depository institutions address this segment, as do some market innovations. The trick, though, is to sell these innovations to people who stand to financially benefit from them.

The bottom line is that the majority of the 30,000 households without depository accounts in Austin are likely to be qualified for an appropriate account and can be served by banks and credit unions. Here are seven reasons why.

**First, the national share of unbanked/unserved households has been steadily falling since 1960, demonstrating strong underlying demand for and supply of DFI accounts.**

Share of U.S. households that lack a checking account, 1960-2004



Source: Analysis of data from the Federal Reserve's triennial Surveys of Consumer Finances



**Second, DFIs already serve the vast majority of households in demographic groups that dominate the unbanked market.**

Share of U.S. households that have checking accounts, by select demographic segments

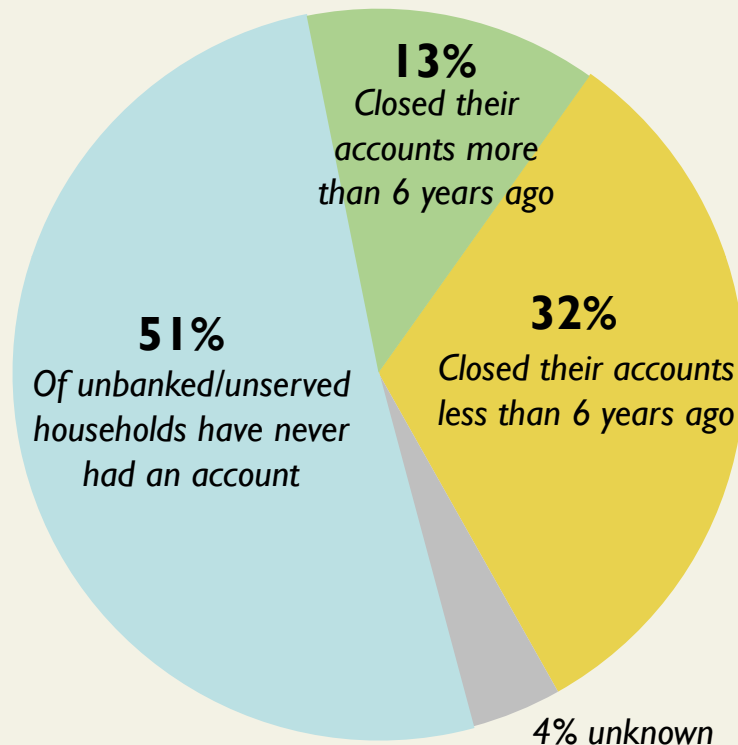


Source: Analysis of data from the Federal Reserve's 2004 Survey of Consumer Finances

Note: With the exception of household income, demographic characteristics are attributed to the head of household.

**Third, most unbanked/unserved households do not have a negative ChexSystems record.**

**DFI history of unbanked/unserved households**



We know nothing about why these households closed their accounts.

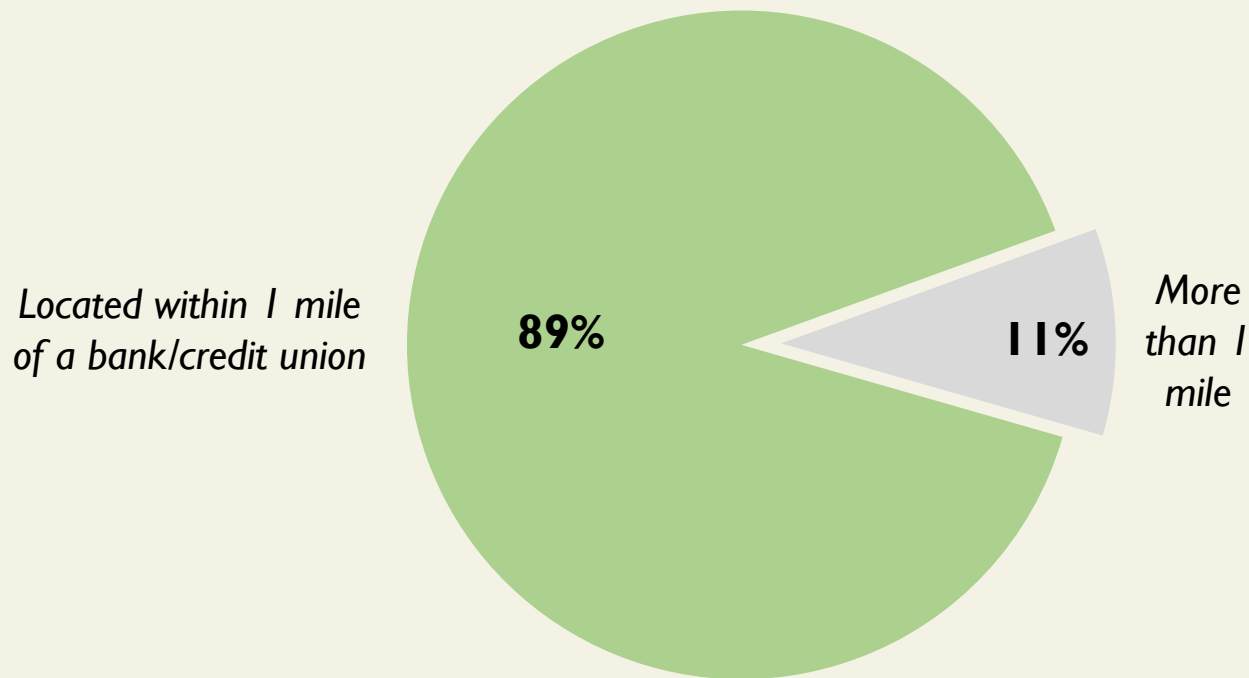
**Fourth, the most common reasons that people give for being unbanked/unserved point largely to misperception barriers, which can be relatively easily solved.**

The most common reasons that people give for their unbanked/unserved status are largely related to misperceptions...

<b><u>Most Important Reason for Not Having an Account</u></b>	<b><u>Share of Households</u></b>
Do not write enough checks to make it worthwhile	28%
Do not like dealing with banks	23%
Do not think that I have enough money	14%
Fees are too high	12%
All other reasons	23%

## Fifth, depository financial institutions have the physical grounds to compete with non-depository institutions.

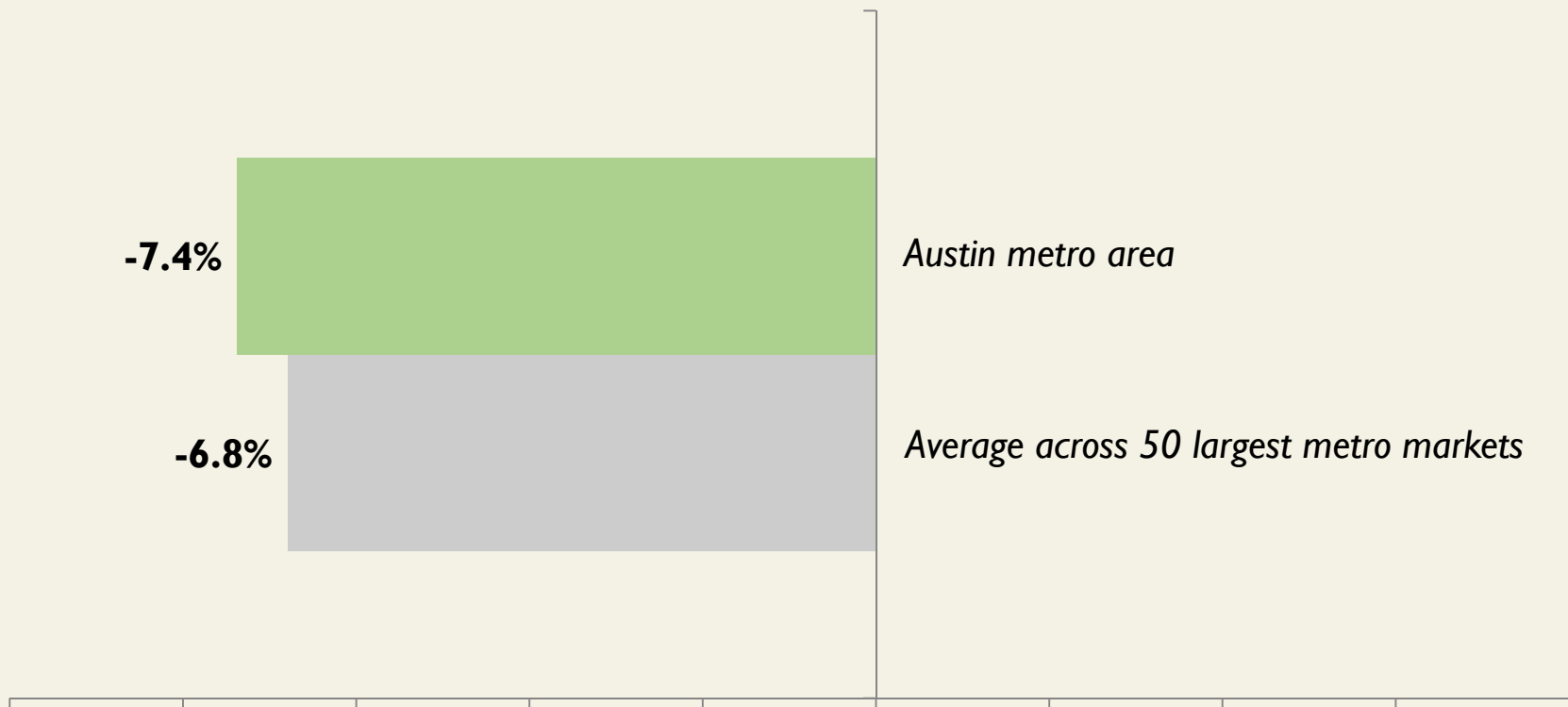
About 89 percent of full-service, licensed check cashers in the Texas are located within one mile of a bank or credit union...



...however, recent survey findings indicate that service hours may remain an access barrier.

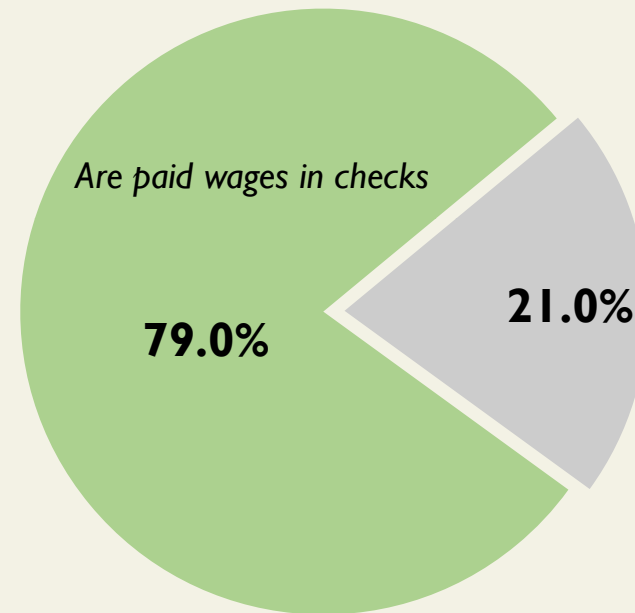
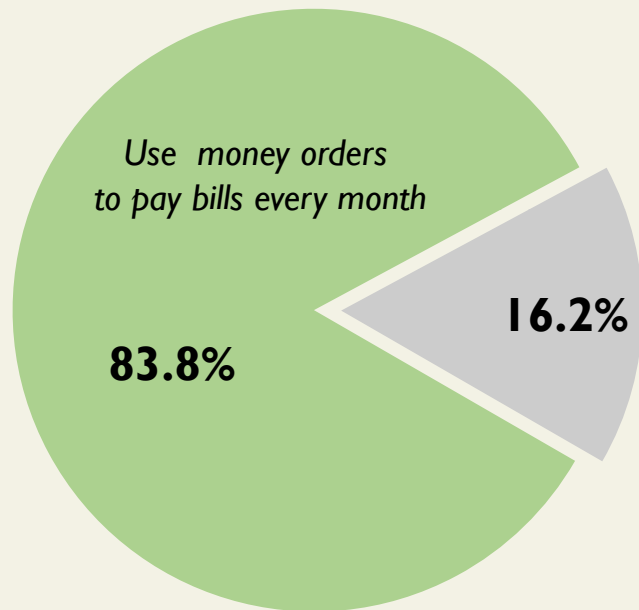
**Sixth, DFIs are hungry for core deposit growth and less expensive customer acquisition strategies, something that the Bank On campaigns offer. This is especially true in the Austin metro area.**

Compounded annual growth rate for bank deposits from 2003 to 2007



**Finally, the majority of unbanked/unserved households are already relying heavily on paper checks; they do not live in a cash economy.**

Share of unbanked/unserved households that...



Only 25 percent of unbanked/unserved households report paying one or more monthly bills in cash.

**In summary, the major reasons why the Bank On initiative represents a real market opportunity for banks and credit unions are:**

1. A well-established trend that demonstrates solid supply and demand
2. Robust market expertise
3. Acceptable customer profiles
4. Relatively easily surmountable mistrust and perception barriers
5. Sunk capital costs
6. Ongoing related bank priorities
7. Unbanked households' already-established reliance on traditional payment instruments, such as checks



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**The Bank On campaign and major national institutional partners are addressing many of the major entry barriers.**

## Barrier

## Solution

Limited supply of high-quality, actionable analytics, which has hampered segmentation ID, related marketing strategies, and product/service design, where needed

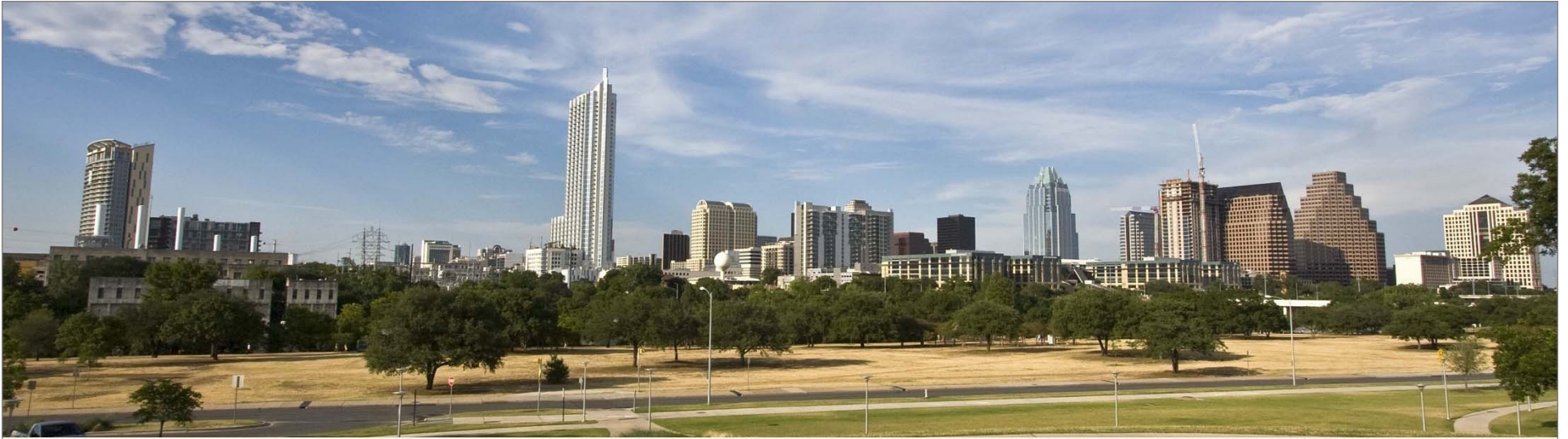
**Forthcoming research by Pew, FDIC, CFSI, and others will hopefully address some of these gaps. The Bank On campaigns will also help build knowledge by bringing together a diverse group of institutions, each with their own core competencies.**

Widespread trust and misperception issues among unbanked households

**The Bank On campaign will leverage trusted community figures in nonprofits and elected officials to overcome these issues.**

A relatively less enticing business proposition

**A challenge, but pressure for core deposit growth mitigates this somewhat; so do lower-cost banking tools.**



**In conclusion, the available evidence suggests that the majority of the unbanked market is qualified for appropriate accounts, although that is not to say that there is not also a large unqualified share.**

**Evidence also suggests that banks are already going after this segment. The Bank on Central Texas partnership will help add value to those efforts by accelerating this market trend in a relatively low-cost manner.**



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