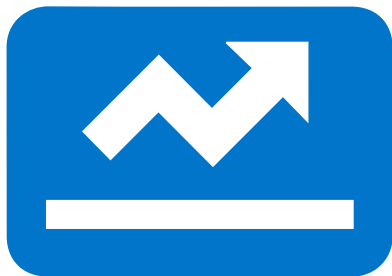


Hidden in Plain Sight: How Secured Credit Cards Can Build Credit and Engage New Customers



**Over 100 million Americans
lack access to high-quality credit**



**Only 1% of US credit cards
are secured cards**



**One-third of Americans could
be using these cards to improve
their credit**

Over 100 million consumers lack access to high-quality credit due to poor or absent credit scores. Meanwhile the secured credit card – a proven tool for improving credit scores, building savings, and increasing financial health – is underutilized.

CFSI, in partnership with Visa, sought to understand this challenge and point the way forward. In this executive summary we highlight findings from new consumer research into secured card users, identify four key strategies that providers can adopt to build lifelong customers through secured cards, and discuss new opportunities for marketing secured cards to prepaid card customers.

How Does a Secured Credit Card Work?

Secured credit cards function like typical credit cards with an added requirement that the customer put down a security deposit, usually \$300 or more. Typically the credit line equals the amount of the security deposit. The deposit helps to minimize issuer risk and enables providers to offer the card as a credit-building tool to people who would not normally qualify for unsecured credit, thus expanding a brand's reach to a new customer base. Customers who successfully use the card can see significant increases in their credit score over time and may eventually "graduate" to an unsecured card and regain access to their savings.

Four Key Barriers to Secured Card Use:

- 1. Lack of consumer awareness**
The 45 million people with thin or no credit profile, especially millennials, often don't know they are outside the system until seeking credit.
- 2. Difficulty in funding the deposit**
Most customers approved for a secured card struggle to fund a deposit of \$300 or more.
- 3. Suboptimal card use**
Credit utilization around 30% or less typically improves credit scores the most—but many customers use too much or don't track usage.
- 4. Difficulty graduating**
Even though 82% of secured card users plan to stick with their issuer when graduating to an unsecured card, issuers struggle to provide a path to graduation and establish long-term relationships with users.

To learn more, download the free, full paper "[Secured Credit Cards: Innovating at the Intersection of Savings and Credit](#)" or subscribe to our research alerts today: bitly.com/cfsiresearch

This paper was authored by CFSI in partnership with Visa.

What Do Secured Card Customers Use Their Cards For?

CFSI's consumer study found four primary needs driving secured card users towards the product.

1. **Establishing a credit history** for the first time
2. **Rebuilding credit** from a troubled credit past

3. **Transacting** with their card at retailers or online

4. **Saving** by using the security deposit as a forced savings tool

Breaking with conventional wisdom, this research suggests secured card users see value in the product beyond credit score improvement, which presents new opportunities for innovation.

Strategies to Build a Quality, Profitable Secured Card Business



1. **Increase secured card marketing.** Hardly any marketing spend goes towards secured credit cards by providers. Creating awareness of the importance of credit building and the benefits of secured cards could generate demand among millions more Americans.



3. **Develop a customer graduation strategy.** Building an experience that reflects customer needs will help retain them as they seek additional financial products and improves the business case for issuers. The vast majority of secured card users plan to stick with their issuer when graduating to an unsecured card.



2. **Segment customers and customize the product.** Advanced underwriting and segmentation techniques can be used to reduce minimum deposit requirements, graduate the customer more quickly, and tailor the customer experience with guidance and product recommendations. The four use cases CFSI identifies above are a great place to start.



4. **Leverage the security deposit as a savings promotion tool.** Providers can help customers increase their savings by positioning the deposit as an accomplishment on which to build a savings habit. Of secured card holders, 63% reported planning to use the deposit for savings after graduating, yet most providers do not offer this option when the deposit is returned.

Prepaid Cards and Secured Credit Cards: Perfect Together?

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.

Making the Business Case for Secured Cards

Getting the business model right is challenging but achievable. For secured card issuers, profit margins tend to be quite low or even negative for the first one to two years. Thus secured credit products must be viewed as a long-term investment for issuers. The opportunity here lies in finding ways to create a lifetime customer and provide them additional products in the future, such as unsecured credit cards and auto loans. The secured credit card is an important on-ramp to establishing credit for both consumers and providers and can be the first step to meeting a customer's lifetime credit and savings needs.

Read the full paper to discover how you can take advantage of these opportunities.

The full paper includes:

- » Innovative, in-market solutions that are succeeding
- » How to design a profitable secured card business model
- » Results from CFSI's 400-person survey of secured credit card users
- » Strategies for enabling consumers to build (or rebuild) credit and increase savings with secured credit cards

To learn more, download the free, full paper **"Secured Credit Cards: Innovating at the Intersection of Savings and Credit"** or subscribe to our research alerts today: bitly.com/cfsiresearch

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