FINANCIAL HEALTH NETWORK

An Evolution of the Financially Underserved Market Size Study

The FinHealth Spend Report 2021

What Financially Coping and Vulnerable Americans Pay for Everyday Financial Services

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Prudential

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Executive Summary

As the nation grapples with the ongoing economic impacts of the COVID-19 pandemic, families are managing as best they can – leveraging financial services to manage their day-to-day lives, harness opportunities, and rebound from shocks. But given that the majority of households in America were struggling financially even before the pandemic,[1] it's critical to understand how they are spending on financial services and whether those products are enabling them to thrive.

As people in America work to cope and recover, our research demonstrates that certain segments of the population are driving a disproportionate share of spending on a variety of everyday financial services. Our data points the way forward for innovators and policymakers to design better solutions that contribute to improved resilience and financial health.

This report represents the evolution of the Financial Health Network's long-standing "Financially Underserved Market Size Study," which for nearly a decade served as an important resource for businesses and policymakers in support of responsible financial health innovation. Now, for the first time, we have combined original primary research with in-depth secondary research to identify not only the size of the market, but the consumers who are driving it. The report provides unprecedented insight into the fees and interest paid by consumers on dozens of everyday credit, payment, deposit, and planning services in 2020 – and finds significant differences in spending patterns and household impact. We segment the U.S. population using three lenses – **financial health, income, and race and ethnicity** – focusing on populations who face persistent barriers to achieving financial health.

> Financially Coping and Vulnerable households are those who struggle to spend, save, borrow, and plan, according to the FinHealth Score® measurement framework. As of 2020, they comprise approximately two-thirds of households in America.[2]
>
> Coping households struggle with some aspects of their financial lives while the Vulnerable struggle in almost all areas.

[1] "*Financial Health Pulse: 2020 Trends Report*." Financial Health Network, 2020.
[2] Ibid.

KEY FINDINGS

Total Market Spending of $303 Billion on Interest and Fees for Everyday Financial Services

$255B Paid by Financially Coping and Vulnerable Households

$47B Paid by Financially Healthy Households

Financially Coping and Vulnerable Households...

Represent **64%** of Households Surveyed

but Comprise **84%** of Total Spending

Percentage of Annual Income Spent on Fees and Interest, by Financial Health Tier

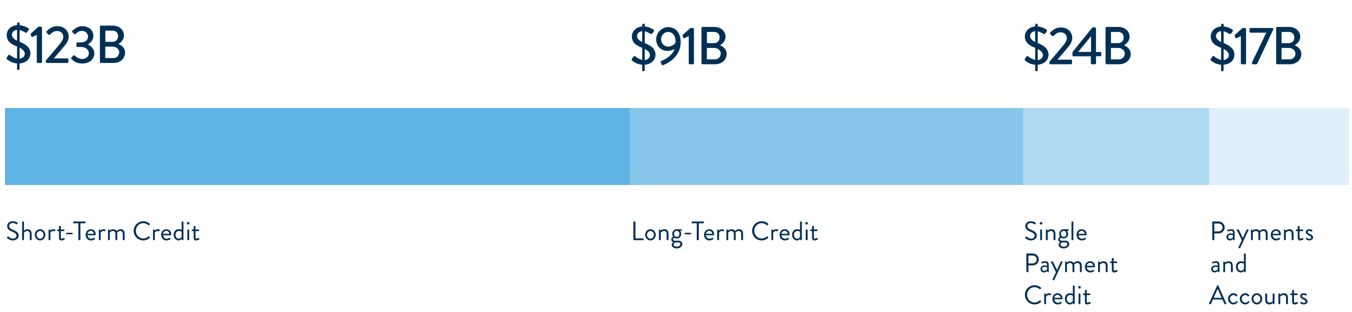
13% Financially Vulnerable Households

5% Financially Coping Households

1% Financially Healthy Households

Figure 1: In 2020, Financially Coping and Vulnerable households spent an estimated $255B on everyday financial services.

Spending on interest and fees ($B) by category



Short-term credit: Credit products that typically function either on an installment basis with terms of up to two years or that serve as a line of revolving credit
Long-term credit: Loans that function on an installment basis, with typical terms of two years or more
Single payment credit: Loans due in one lump sum, typically with terms of one month or less
Payments and accounts: Products that allow consumers to transact, convert, send, receive, deposit, invest, and hold funds

In this paper, we present a primary view of our research findings by financial health tier. Our enhanced methodology also enables us to analyze U.S. household spending using additional frames of income and race/ethnicity.

$127B

Total Spending on Interest and Fees for Everyday Financial Services **by Low- to Moderate-Income Households in 2020**

$101B

Total Spending on Interest and Fees for Everyday Financial Services **by Black and Latinx Households in 2020**

Percentage of Annual Income Spent on Everyday Financial Services, by LMI Status

7%

LMI Households

3%

Non-LMI Households

Percentage of Annual Income Spent on Everyday Financial Services, by Race/Ethnicity

6%

Black Households

5%

Latinx Households

3%

White Households

We also look deeper into spending by product, identifying key trends and insights.

Black households are...	Latinx households are...	LMI households are...
2.7 times more likely to use pawn loans than White households.	**3.1 times more likely** to use payday loans than White households.	**1.8 times more likely** to have overdrafted than non-LMI households.

The economic impacts of the pandemic **led to contractions in several markets, including fees and interest from credit cards, remittances, single payment credit products, and subprime auto financing.**

- Conversely, Financially Healthy consumers were able to take advantage of low interest rates, leading to an expansion in prime auto loan volume. This points to growing disparities among families who were already well-off versus those who were struggling pre-pandemic.

Credit cards and auto loans are the largest drivers of spending, despite impacts from the pandemic.

- Interest and fees from revolving balances on general purpose credit cards are estimated at $90 billion from Financially Coping and Vulnerable households.
- Spending by the Financially Coping and Vulnerable on used auto loans totals $63 billion.

The consumer segments discussed in this report are more likely to utilize high-cost, single payment credit products and other alternative financial services, reflective of economic and racial disparities in access to mainstream services.

- Black households are 2.7 times more likely to use pawn loans and 3.8 times more likely to use payday loans than White households. Latinx households are 3.1 times more likely to use payday loans than White households.
- LMI households are 7 times more likely to use pawn loans and, among checking account holders, 1.8 times more likely to have overdrafted than higher-income households.
- Forty-three percent (43%) of Vulnerable households with checking accounts report having overdrafted in the past year, with 9.6 overdrafts on average.

For the first time, we estimate the markets for auto, home, and renters insurance (these are totaled separately from other products analyzed).

- We estimate 2020 premiums, across all markets, to be $329 billion, with spending from the Financially Coping and Vulnerable comprising $170 billion (52%).

Households in America are spending hundreds of billions of dollars on everyday financial services, yet many are still struggling to achieve financial well-being.

We encourage business leaders, innovators, and policymakers to leverage our findings to design and build products, services, and policies that support families to be resilient and thrive. By going beyond the aggregate, this report further underscores the opportunity to continually push for high-quality solutions that improve financial health – *for all.*

Introduction

The COVID-19 pandemic has dramatically exposed the fragile economic circumstances of many Americans, the majority of whom are not financially healthy.[3] Financial services are meant to help families manage their daily lives, weather difficult times, and build toward better futures. But they come at a cost, and little is known about who is paying what – a critical question in the emerging focus around racial and economic equity.

This report aims to shed light on this fundamental issue. In 2020 – a year unlike any other – the Financial Health Network set out to uncover how much households paid for a variety of everyday financial services. With this report, we contribute to the body of knowledge about the financial lives of Americans, especially those who are struggling financially.

For nearly a decade, the "Financially Underserved Market Size Study" has guided businesses and policymakers in pursuit of responsible financial health innovation. This year, the Financial Health Network has re-envisioned the study, refreshing the methodology to create an even more valuable resource.

For the first time, we have added large-scale primary research to our approach, which historically relied solely on secondary data sources. This primary research – a nationally representative survey of consumers on their financial product usage – allows new insights into market spending estimates by specific segments of the population. This disaggregated approach enables us to view spending through several key lenses. We present a primary view based on financial health, with supplemental analyses by income, race and ethnicity.[4]

The scope of the report has also expanded to include separate estimates of the auto, renters, and homeowners insurance markets. Premiums for these markets totaled $329 billion in 2020, with spending from Financially Coping and Vulnerable households comprising more than half, at $170 billion (52%).

In future years, we will continue to expand our product range to more fully capture the financial services market. Additionally, given the enhancements to our methodology, this report focuses on 2020 fees and interest generated by consumers. Where notable, we identify significant trends in category growth or contraction, such as from the COVID-19 crisis. Subsequent years will enable additional year-over-year analysis.

[3] "Financial Health Pulse: 2020 Trends Report," Financial Health Network, 2020.

[4] Previously, only the portion of usage and spending on fees and interest generated by financially underserved individuals was included in our modeling. Sizing the full markets allows us to better apportion total spending to a range of consumer profiles using our primary survey data. See Appendix II for details.

Sizing the Market

METHODOLOGY IN BRIEF

We utilized two research approaches for sizing the market. First, we conducted extensive secondary research to estimate total fees and interest generated by consumers in 2020 for more than two dozen financial services products that impact financial health. We used the most current, reliable resources available, including industry reports and government filings. The products we study fall into five categories (see Table 1).

Second, in November 2020, we fielded a nationally representative survey (n = 4,090) to estimate household usage and spending for these products, allocated by household demographic profiles. We then overlaid this data onto our secondary analyses. For smaller product categories and those with a relatively consistent industry fee average, we apply spending based on proportional usage by a given segment. Where fees are more variable and the product category is larger, we calculate spending based on reported balance and assumed annual percentage rate (APR) based on reported credit tier.

While we strive to utilize the best sources and data available, market sizing is in itself an exercise in informed estimation. We welcome input and partnership to continually strengthen our methodology over time. For full methodological details, please see the appendices.

Defining Usage by Households

This study utilizes the household as the primary unit of measurement. We selected this approach to align with our survey, which queried respondents on their household usage of a variety of products. Survey respondents self-identified as the primary or co-decision maker on household financial matters. For person-level characteristics, such as race and ethnicity, we used the characteristics of the respondent to represent the household.[5]

[5] *This approach is commonly utilized among governmental sources, such as the Federal Deposit Insurance Corporation (FDIC), "How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey," October 2020. For further details, please see Appendix II-D.*

Table 1: Products Analyzed

Category and Definition	Products Included
Short-term credit Credit products that typically function either on an installment basis with terms from several months to two years or as a line of revolving credit.	Credit cards (revolving balances on general purpose and private label cards, secured cards); installment loans; rent-to-own; title loans
Long-term credit Loans that function on an installment basis, with typical terms of two years or more.	Auto leases; auto loans (new and used, including Buy-Here-Pay-Here); private student loans
Single payment credit Loans due in one lump sum, typically with terms of one month or less.	Overdraft, pawn, payday, refund anticipation checks
Payments and accounts Products that allow consumers to transact, convert, send, receive, deposit, invest, and hold funds.	Account maintenance fees (checking and savings accounts), check cashing, money orders, prepaid cards, remittances, retirement plan leakage fees
Insurance Products that manage risk by safeguarding against loss. *Note that we have calculated these separately from other categories, given their differential revenue structure.*	Auto, homeowners, renters insurance

DISAGGREGATING THE DATA

This year's revised methodology – layering a nationally representative survey sample on top of detailed secondary revenue totals – represents an important step forward in our ability to go beneath surface-level statistics, disaggregating data to gain insight into the experiences of various populations.

In this report, we have chosen to highlight spending by several important segments of the population:

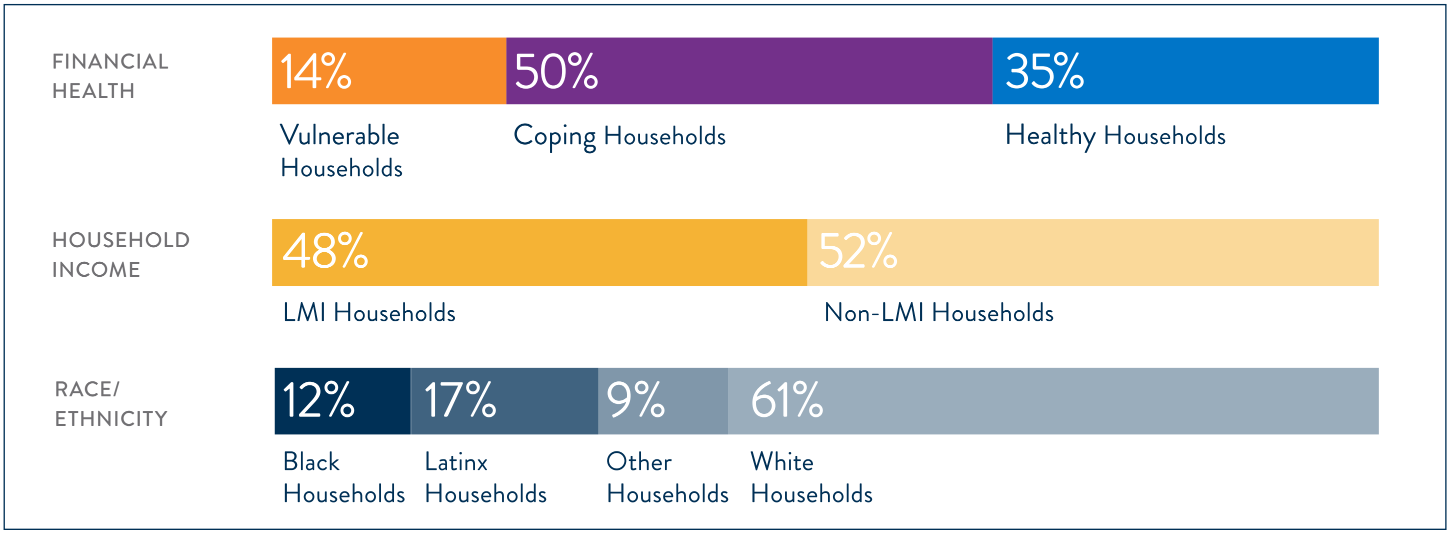
- **Financially Coping and Vulnerable households**
- **Households with low to moderate incomes[6]**
- **Black and Latinx households**

These groups are not mutually exclusive – in fact, there are meaningful intersections between them. For example, Black and Latinx households are more likely to qualify as low- to moderate-income (LMI) and Financially Coping or Vulnerable than their White counterparts. Likewise, people who are not Financially Healthy are more likely to be people of color and to have lower incomes.

These populations face challenges in achieving financial health for various reasons. By definition, Financially Coping and Vulnerable households need financial services to work better for them, so they can be more resilient and pursue opportunities. Meanwhile, households with low to moderate incomes are often not attractive to financial service providers given their lower revenue potential compared with higher-income households. And Black and Latinx communities have long faced systemic barriers, structural inequities, and discriminatory practices that have restricted access and led to a substantial and enduring racial wealth gap.[7]

By estimating the spending by these groups on a variety of financial products, we hope to shed light on potential opportunities for innovations in products and services that help meet their financial needs and lead to improved financial health outcomes.

Figure 2: Weighted Distribution of Household Characteristics[8,9]



[6] We follow Housing and Urban Development's (HUD) definition of low- and moderate-income households, which takes into account variability in cost of living. According to this definition, a household that has income below 50% of area median income (AMI) is considered a low-income household, whereas a household that has income from 51% to below 80% of AMI is considered a moderate-income household. For most households, the area is a Census tract. For some households, the area is the state of residence because of a lack of detailed geographic information.

[7] According to the Federal Reserve Board 2019 Survey of Consumer Finances, the typical White family has eight times the wealth of a typical Black family and five times the wealth of a typical Latinx family.

[8] Percentages may not add up to 100% because of non-response. "Other" in Race/Ethnicity includes respondents who indicated they were American Indian or Alaska Native, Asian, Native Hawaiian or Other Pacific Islander, or multiple races. We were unable to analyze these segments separately because of small sample sizes. Please see Appendix II-D for more details. Our financial health distribution differs slightly from the Financial Health Pulse 2020 Trends Report because of survey timing and use of households as the unit of analysis.

[9] The average percentage of LMI households nationwide is 40% based on HUD figures derived from 2011-2015 American Community Survey (ACS) data and 2010 Census geographies. Please see the note in the appendices on the discrepancy between our figure and the national average.

MEASURING FINANCIAL HEALTH

Financial health is a composite measurement of a person's financial life. Unlike narrow metrics like credit scores, financial health assesses whether people are spending, saving, borrowing, and planning in ways that will enable them to be resilient and pursue opportunities. The analysis we present in this report leverages the FinHealth Score® framework, which is based on eight survey questions that align with the eight indicators of financial health (Figure 3).

Based on an individual's answers to these eight questions, an aggregate FinHealth Score is calculated. Figure 4 below shows how to interpret financial health scores across the spectrum of 0 to 100. Approximately two-thirds of people in America are classified as Financially Coping (struggling with some aspects of their financial lives) or Vulnerable (struggling with almost all aspects of their financial lives).[10]

Figure 3: Eight Indicators of Financial Health

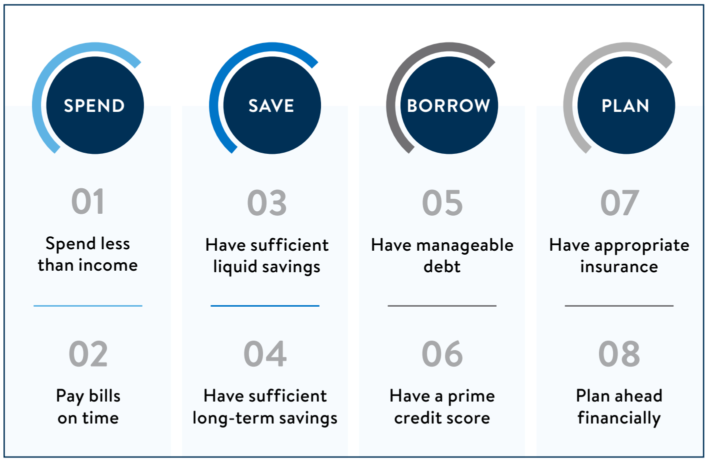
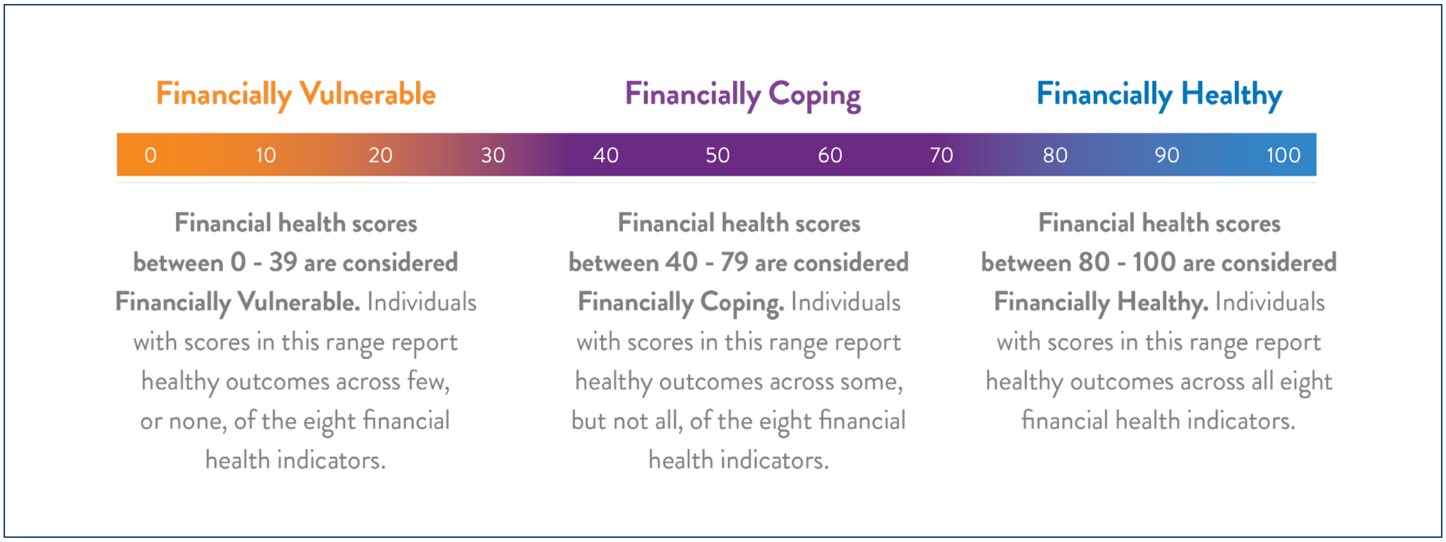


Figure 4: Interpreting FinHealth Scores®



View the full scoring instrument and learn more about how the framework was developed at finhealthnetwork.org/score.

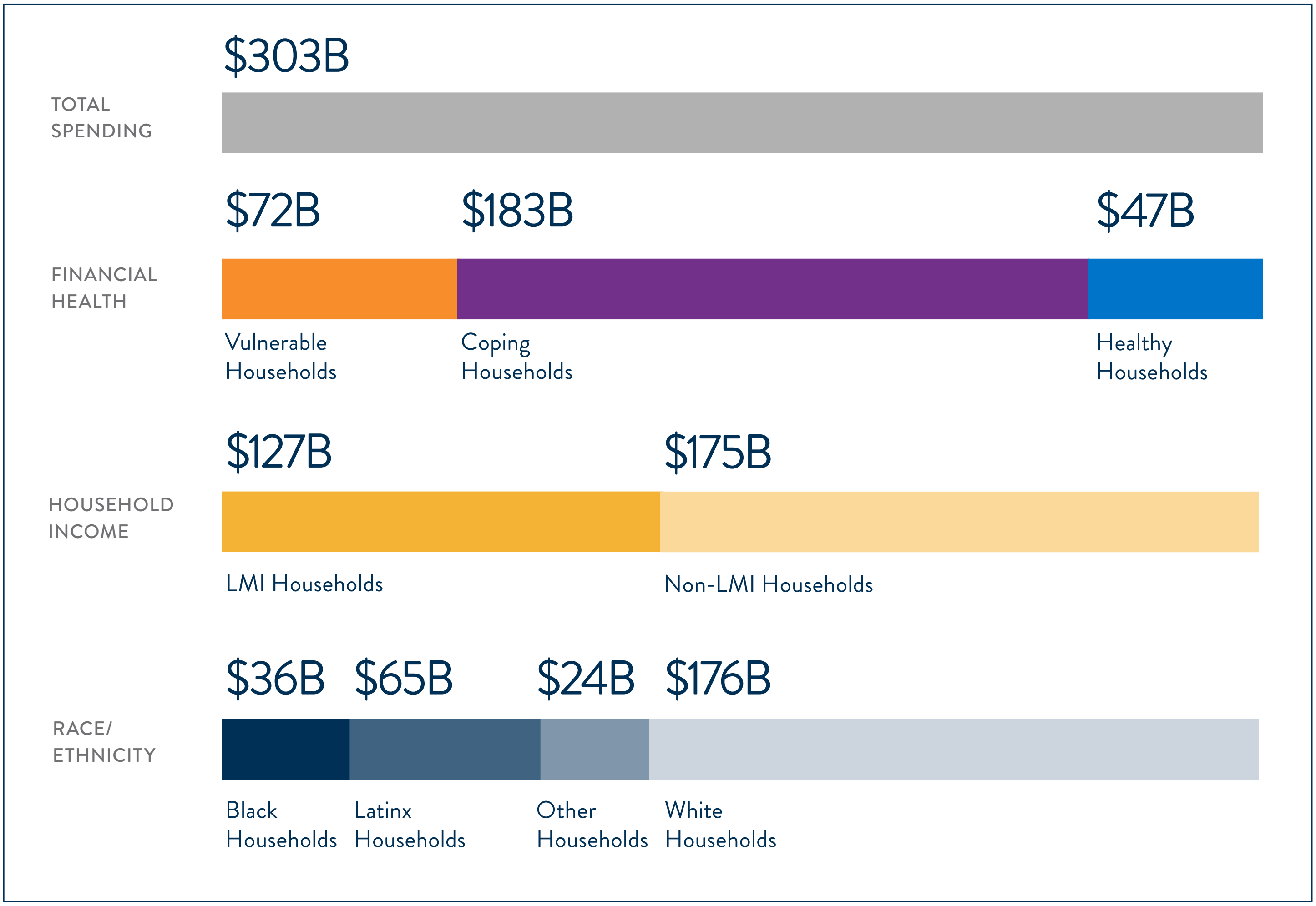
[10] "*Financial Health Pulse: 2020 Trends Report*," *Financial Health Network, 2020.*

Spending on Everyday Financial Services by Segment

In the sections below, we present total household spending on fees and interest by segment, taking a primary view by financial health. We also estimate the impact this spending has at a household level by calculating the percentage of income allocated to fees and interest, and contextualize the totals by comparing the proportion of the population to the proportion of spending.

Figure 5: U.S. spending on everyday financial services in 2020 totaled $303 billion.[11]

Interest and fees by segment

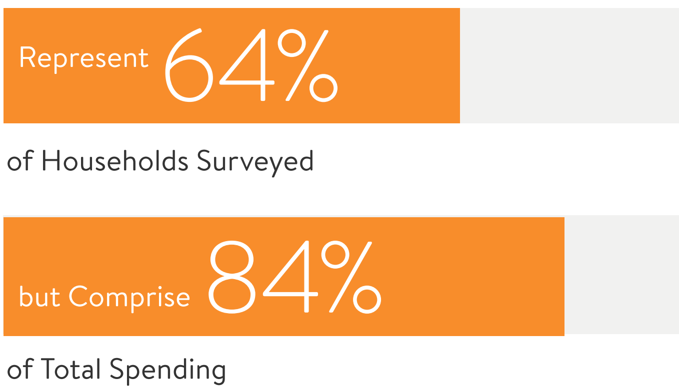


[11] *Segment totals may not equal $303 billion due to rounding and non-response for financial health, LMI status, or race/ethnicity.*

Spending by Financially Coping and Vulnerable Households

- Financially Coping and Vulnerable households paid $255 billion in fees and interest on everyday financial services in 2020 (Figure 6), out of a total market of $303 billion.
- We estimate that Financially Vulnerable households spent, on average, 13% of their annual household income on fees and interest for the products studied – before addressing housing, insurance, and basic needs.[12] Financially Coping households spent 5% of their income, while Financially Healthy households spent just 1%.
- **Although the Financially Coping and Vulnerable represent 64% of households in America, they drove 84% of all dollars spent on the financial services studied.** Further, the Financially Vulnerable represent 14% of households, yet incurred 24% ($72 billion) of the fees.
- Financially Coping and Vulnerable households spent the most on short-term credit ($123 billion). They also spent $91 billion on long-term credit, $24 billion on single payment credit, and $17 billion on payments and accounts.

Financially Coping and Vulnerable Households...



Percentage of Annual Income Spent on Fees and Interest, by Financial Health Tier

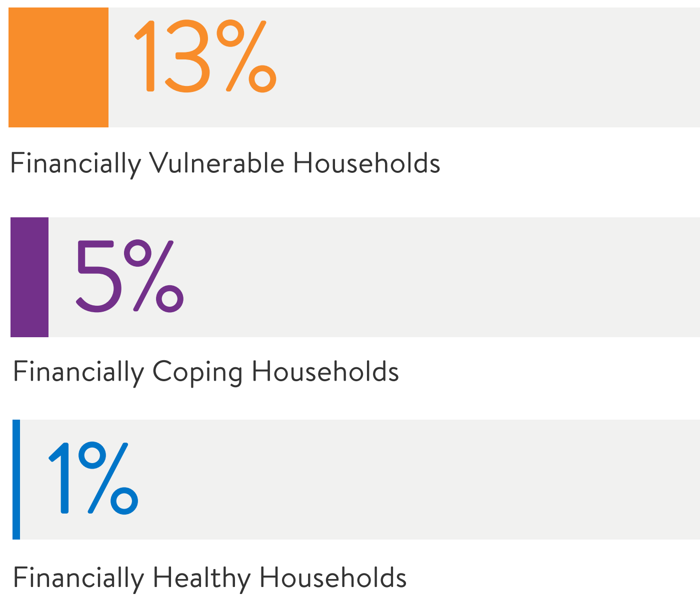
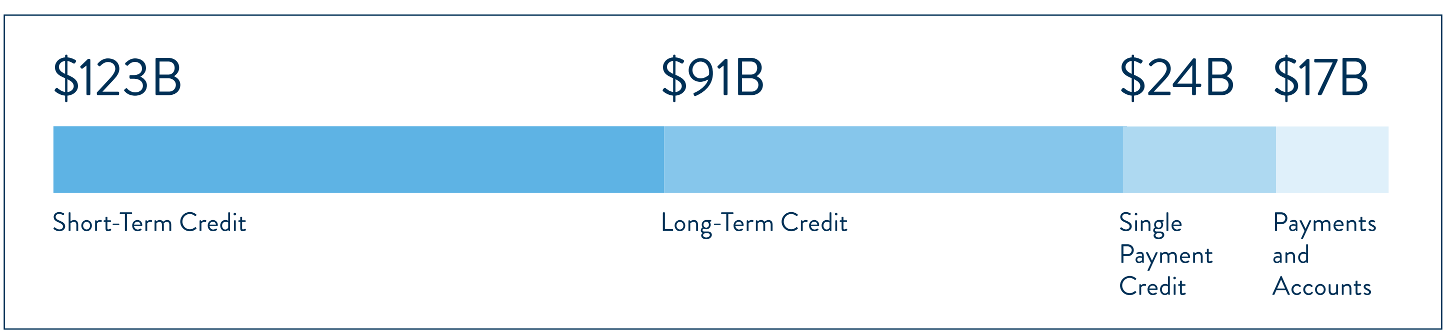


Figure 6: In 2020, Financially Coping and Vulnerable households spent $255B on everyday financial services.

Spending on interest and fees ($B) by category



[12] *Spending per household is calculated by the total spending per segment divided by the number of households in that segment nationwide. The percentage of income is the average household income (using mid-range points of categorical income variable) per segment divided by the spending per household in that segment.*

Spending by LMI Households

- LMI households (households with incomes below 80% of area median income) spent $127 billion on fees and interest for everyday financial services in 2020. This represents 42% of the overall market. LMI households comprised 48% of respondents to our survey.
- Spending constitutes 7% of LMI income on average, compared with 3% for higher-income households. Further, on average, low-income households (those with incomes below 50% of area median income) spent 10% of their income on these financial services.
- LMI households spent an estimated $51 billion on short-term credit and $47 billion on long-term credit. They spent $18 billion on single payment credit and $11 billion on payments and accounts (Figure 7).

$127B

Total Spending on Interest and Fees for Everyday Financial Services **by Low- to Moderate-Income (LMI) Households in 2020**

Percentage of Annual Income Spent on Everyday Financial Services, by LMI Status

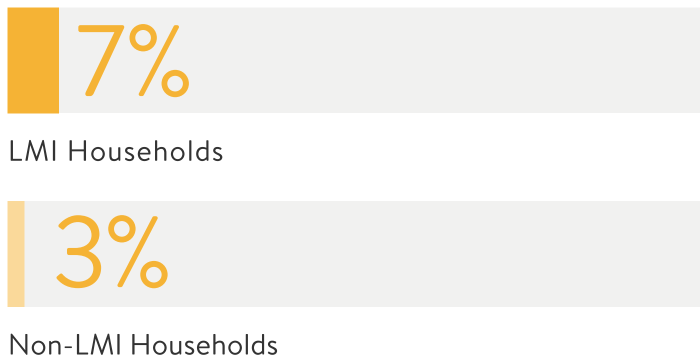
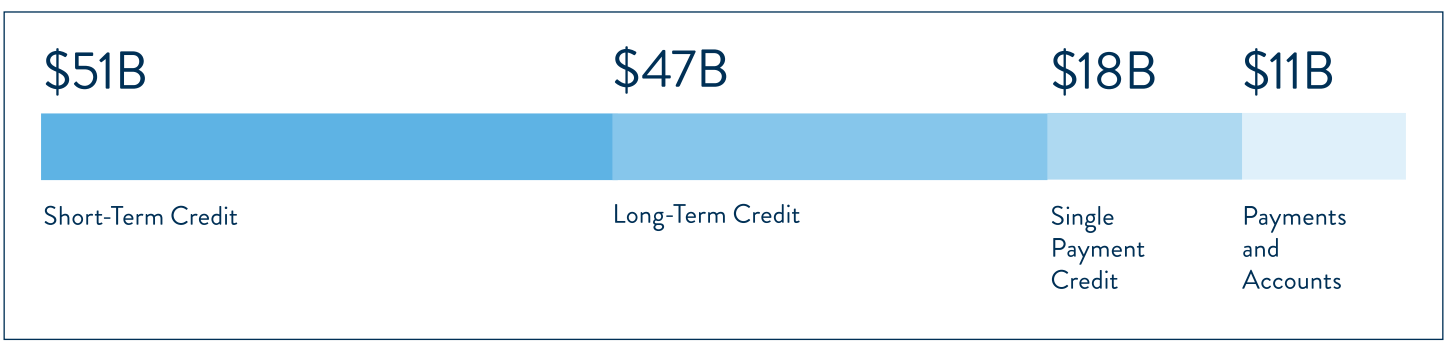


Figure 7: LMI households spent an estimated $127B on everyday financial services.
Spending on interest and fees ($B) by category



Spending by Black and Latinx Households

- We estimate that Black and Latinx households together spent $101 billion on the products studied (Figure 8), with Black households spending $36 billion and Latinx households spending $65 billion, compared with $176 billion spent by White households.
- We estimate that Black households spent, on average, 6% of their income on the financial services studied. Latinx households spent 5%, while White households spent 3%.
- Black households spent $15 billion on long-term credit, $13 billion on short-term credit, $5 billion on single payment credit, and $3 billion on payments and accounts.
- Latinx households spent $29 billion on short-term credit, $24 billion on long-term credit, $7 billion on payments and accounts, and $6 billion on single payment credit.
- Black households comprise 12% of the population and 12% of spending. Latinx households comprise 17% of the population and 22% of spending. White households comprise 61% of the population and 58% of spending.
- Single payment credit represents a greater share of Black household spending on financial services than other segments: It comprises 13% of Black household spending on everyday financial services, compared to 9% of Latinx households and 7% of White households.

$101B

Total Spending on Interest and Fees for Everyday Financial Services **by Black and Latinx Households in 2020**

Percentage of Annual Income Spent on Everyday Financial Services, by Race/Ethnicity

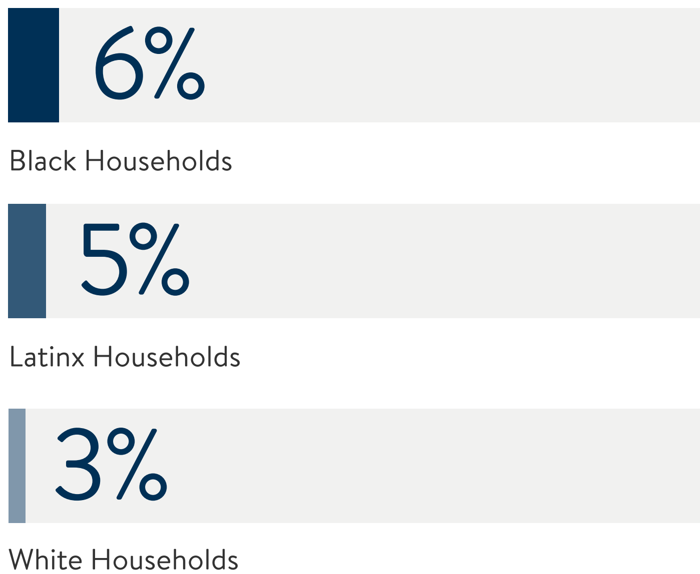
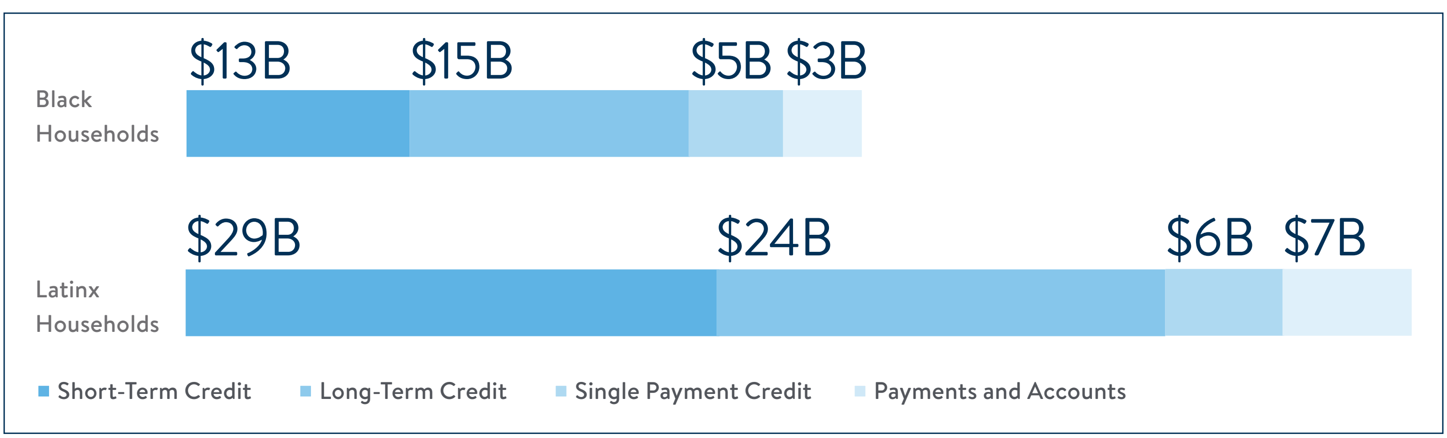


Figure 8: Black and Latinx households spent an estimated $101B on everyday financial services.

Spending on interest and fees ($B) by category



Products and Trends

In this section, we look deeper into fees and interest paid for specific products, detailing estimated spending by segment and drawing out key insights and trends. In these sections, all data points come from our primary and secondary research unless otherwise noted. An expanded data table is available in Appendix I.

SHORT-TERM CREDIT

Short-term credit products typically function either on an installment basis with terms from several months to two years, or as a line of revolving credit.

Category Overview

- Financially Coping and Vulnerable households spent an estimated $122.9 billion on fees and interest for short-term credit products in 2020, representing 87% of the total market of $140.7 billion (Table 2).
- The largest product is general purpose credit cards, with an estimated $90.5 billion in fees and interest from the Financially Coping and Vulnerable.

Table 2: Financially Coping and Vulnerable households comprised $123B of $141B in short-term credit spending (87%).
Short-term credit spending by product

Spending by Product		Financial Health			Income	Race and Ethnicity	
Product	Total ($B)	Coping Households	Vulnerable Households	Total Coping and Vulnerable	LMI Households	Black Households	Latinx Households
Credit Card - General Purpose (Revolving Balance)[13]	$103.6B	$70.4B	$20.1B	$90.5B	$34.4B	$8.4B	$19.9B
Installment Loan[14]	$17.3B	$9.0B	$5.3B	$14.3B	$5.7B	$1.0B	$4.2B
Credit Card - Private Label (Revolving Balance)[15]	$12.7B	$8.1B	$3.8B	$11.9B	$5.5B	$2.4B	$2.8B
Title Loan	$3.8B	$1.7B	$1.5B	$3.3B	$3.0B	$0.7B	$1.2B
Rent-to-Own	$3.0B	$1.7B	$1.1B	$2.8B	$2.4B	$0.6B	$0.8B
Credit Card - Secured	$0.3B	$0.1B	$0.1B	$0.2B	$0.2B	$0.1B	$0.1B
Total	**$140.7B**	**$91.0B**	**$31.9B**	**$122.9B**	**$51.2B**	**$13.2B**	**$28.9B**

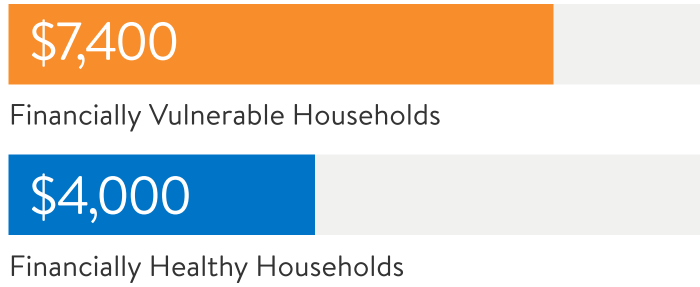
2020 total spending estimates derived from secondary research; segment extrapolations are calculated using survey data. For detailed notes and estimates of accuracy, please see the appendices.

[13] *Credit card totals include interest on revolving balances as well as annual fees, transactional fees, and penalty fees.*
[14] *The installment loan product category measures nonbank, noncredit union installment lending.*
[15] *See footnote 13.*

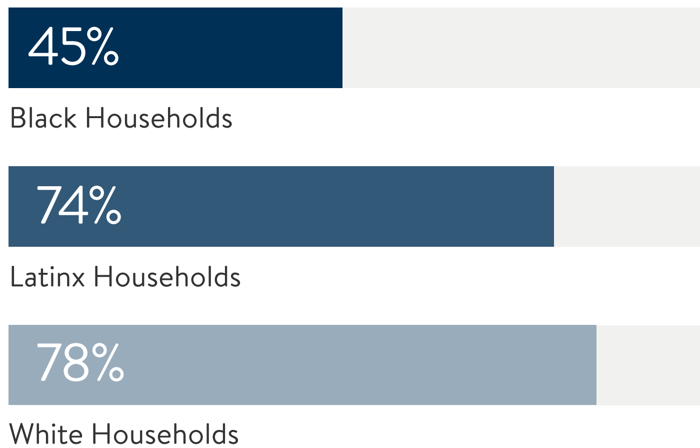
Insights and Trends

- 55% of all general credit card holders report carrying a balance for at least part of the year, as do 40% of private label credit card holders.
- Among those who carry balances on general credit cards, the Financially Coping and Vulnerable are more likely to carry larger balances and pay higher interest rates compared with the Financially Healthy.
  - » The Financially Vulnerable report an average balance of $7,400, compared with $4,000 for the Financially Healthy.
- Black and Latinx households are less likely to hold general purpose credit cards than White households, but are more likely to carry balances.
  - » 45% of Black and 74% of Latinx households hold general purpose credit cards, compared with 78% of White households; however, 77% and 72% carry balances, compared with 50% of White households.
- Credit card balances saw a dip starting in Q2 2020 as consumers pulled back on spending because of COVID-19.[16] This decline in spending reduced overall interest and fee revenue compared with prior years.
- Fintech installment lending volumes have grown exponentially over the past decade.[17] In 2020, a little more than half the estimated total installment revenue was attributed to fintech installment lending, while the remainder of revenue was attributed to traditional finance companies.

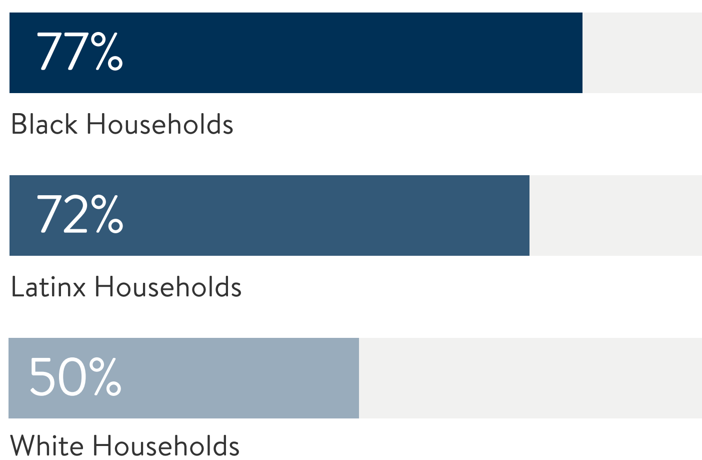
Average Revolving Balance on General Purpose Credit Cards



Percentage with General Purpose Credit Cards, by Race/Ethnicity



Percentage of General Purpose Cardholders with Balances, by Race/Ethnicity



[16] Haughwout, Andrew et al., "A Monthly Peek into Americans' Credit During the COVID-19 Pandemic," Federal Reserve Bank of New York, 2020.
[17] "2018 US Digital Lending Market Report," S&P Global Market Intelligence, 2018.

LONG-TERM CREDIT

Long-term credit loans function on an installment basis, with typical terms of two years or more.

Category Overview

- Total fees and interest generated by Financially Coping and Vulnerable households for long-term credit products is estimated at $91.4 billion for 2020, out of a total market of $113.4 billion – 81% of the total (Table 3).
- The category is driven by auto loans, specifically used auto loans ($62.8 billion from the Financially Coping and Vulnerable, including Buy-Here-Pay-Here loans).

Table 3: Financially Coping and Vulnerable households comprised $91B of $113B in long-term credit spending (81%).

Long-term credit spending by product

Spending by Product		Financial Health			Income	Race and Ethnicity	
Product	Total ($B)	Coping Households	Vulnerable Households	Total Coping and Vulnerable	LMI Households	Black Households	Latinx Households
AUTO LOANS AND LEASE							
Auto Loan (Used)	$71.8B	$45.1B	$17.7B	$62.8B	$34.7B	$10.2B	$14.4B
Auto Loan (New)	$26.5B	$16.2B	$2.7B	$18.9B	$8.0B	$2.9B	$7.4B
Auto Lease	$5.2B	$2.8B	$0.8B	$3.6B	$2.0B	$0.8B	$0.9B
STUDENT LOANS							
Private Student Loan	$9.9B	$5.5B	$0.6B	$6.1B	$2.0B	$0.7B	$0.9B
Total	**$113.4B**	**$69.6B**	**$21.8B**	**$91.4B**	**$46.8B**	**$14.5B**	**$23.6B**

2020 total spending estimates derived from secondary research; segment extrapolations are calculated using survey data.
For detailed notes and estimates of accuracy, please see the appendices.

Insights and Trends

- Regardless of the type of auto loan, Financially Coping and Vulnerable populations are paying higher rates for vehicle financing, partly because of lower credit scores. In particular, **57% of Vulnerable respondents have credit scores classified as "deep subprime"** (Table 4).
- Black and Latinx households are also more likely to pay higher costs for credit. In our survey, just 19% of Black respondents and 42% of Latinx respondents indicated a prime credit score, compared with 60% of White respondents.
- Buy-Here-Pay-Here (BHPH) auto loans, also known as "no credit check loans," are estimated to comprise as much as $20 billion of the $71.8 billion used auto loan market. These loans are often utilized by consumers who lack viable credit scores, since credit checks are not typically required, and carry interest rates estimated between 24% and 35%. Prior to the onset of the COVID pandemic, average default rates for BHPH loans were as high as 37%.[18]
- 2020 saw a sizable drop in subprime auto financing. This contrasts with the growth in auto loans among prime borrowers, who benefited from lower interest rates and other incentives in 2020.[19]
- Financially Coping and Vulnerable households are more likely to report carrying student loan debt, with 24% carrying federal student loans,[20] compared with 13% of Healthy households. They also report turning to more expensive private loans at higher rates: 7% of Financially Coping and Vulnerable respondents hold private loans, compared with 4% of Healthy respondents.

Table 4: Financially Coping and Vulnerable households paid more on average for auto loans.

Average auto loan rate by credit tier

Credit Tier[21]	Average Auto Loan Rate (2020)[22]	Healthy	Coping	Vulnerable
Super Prime	3.5%	69%	17%	1%
Prime	5.2%	22%	23%	4%
Nonprime	9.6%	6%	26%	9%
Subprime	16.1%	2%	22%	28%
Deep Subprime	20.0%	1%	12%	57%

[18] *"Used Car Industry Report, 2019," National Independent Automobile Dealers Association, 2019.*

[19] *Zabritski, Melinda, "Automotive Industry Insights, Finance Market Report Q3 2020," Experian, 2020.*

[20] *Interest yield from federal student loans, which comprises roughly 92% of the total volume of student loans, is not yet sized in this report.*

[21] *Credit tiers were mapped according to survey responses to the question, "How would you rate your credit score?" Responses of "Excellent" were assigned to Super Prime; "Very Good" to Prime; "Good" to Nonprime; "Fair" to Subprime; and "Poor," "I don't have a credit score," and "Don't know" to Deep Subprime.*

[22] *Average auto loan rates sourced from Experian and weighted based on new and used auto loan origination split; exclusive of Buy-Here-Pay-Here loans.*

SINGLE PAYMENT CREDIT

Single payment credit products are loans due in one lump sum, typically with terms of one month or less.

Category Overview

- In 2020, single payment credit products generated a total of $25.3 billion in interest and fees, with the Financially Coping and Vulnerable spending $23.7 billion, or 94% (Table 5).
- Overdraft comprises almost half of total category spending by the Financially Coping and Vulnerable, at $11.8 billion. The Financially Coping and Vulnerable dominate spending on this product, accounting for 95% of revenue.

Table 5: Financially Coping and Vulnerable households comprised $24B of $25B in single payment credit spending (94%).
Single payment credit spending by product

Spending by Product		Financial Health			Income	Race and Ethnicity	
Product	Total ($B)	Coping Households	Vulnerable Households	Total Coping and Vulnerable	LMI Households	Black Households	Latinx Households
Overdraft	$12.4B	$5.0B	$6.9B	$11.8B	$7.3B	$1.4B	$3.1B
Pawn[23]	$7.5B	$3.2B	$3.8B	$7.0B	$6.5B	$1.9B	$1.2B
Payday	$4.5B	$2.2B	$2.0B	$4.1B	$3.4B	$1.2B	$1.4B
Refund Anticipation Check	$0.9B	$0.5B	$0.3B	$0.8B	$0.7B	$0.2B	$0.2B
Total	**$25.3B**	**$10.9B**	**$12.9B**	**$23.7B**	**$17.9B**	**$4.8B**	**$5.8B**

2020 total spending estimates derived from secondary research; segment extrapolations are calculated using survey data. For detailed notes and estimates of accuracy, please see the appendices.

[23] *Pawn spending includes both the cost of the loan as well as revenue from forfeited loan collateral.*

Insights and Trends

- **Usage of single payment products is dominated by consumers who are struggling to get by.** Forty-three percent (43%) of Vulnerable respondents with checking accounts report having been charged an overdraft fee, versus 5% of Financially Healthy respondents. In addition, 14% of Vulnerable households have used payday loans and 15% have used pawn loans, compared with just 1% of each for Financially Healthy households.

- Among survey respondents who overdrafted, the average number of overdrafts per year was 9.6 for Vulnerable households, 3.9 for Coping households, and only 2 for Healthy households. **The CFPB estimates that 9% of consumers overdraft more than 10 times a year and account for almost 80% of all overdraft fees.**[24]

- Black and Latinx households also comprise disproportionate spending on high-cost, single payment credit products, particularly payday loans.

  » Black households are 3.8 times more likely to use payday loans, 2.7 times more likely to use pawn loans, and, among those with checking accounts, 1.9 times more likely to have overdrafted than White households.

  » Latinx households are 3.1 times more likely to use payday loans, and, among those with checking accounts, 1.4 times more likely to have overdrafted than White households.

- We see similar trends among LMI households, who are 7 times more likely to use pawn loans and, among checking account holders, 1.8 times more likely to have overdrafted than non-LMI households.

- While single payment credit revenue was already on the decline prior to the pandemic, it appears that stimulus measures coupled with reduced expenses further contributed to the contraction. Starting in Q2 2020, payday lending saw decreased transaction volume and publicly traded pawn companies saw steeper declines in revenue and volume.[25] Overdraft data from Federal Financial Institutions Examination Council (FFIEC) Call Reports also indicated a smaller revenue increase than expected starting in Q2 2020, a trend which is confirmed by other overdraft reporting.[26]

Black households are...

2.7 times more likely

to use pawn loans than White households.

Latinx households are...

3.1 times more likely

to use payday loans than White households.

[24] *"Data Point: Frequent Overdrafters," Consumer Financial Protection Bureau, 2017.*
[25] *Fox, Zach and Ronamil Portes, "Update: COVID-19 Impact Study on Small-Dollar Lending," Veritecs, 2020.*
[26] *"Overdraft fees plunge 49% due to COVID-19 shutdown," S&P Global, 2020.*

PAYMENTS AND ACCOUNTS

Payment and account products allow consumers to transact, convert, send, receive, deposit, invest, and hold funds.

Category Overview

- Total fees and interest from Financially Coping and Vulnerable households for payment and account products is estimated at $16.9 billion, out of a total market of $23.1 billion, or 73% (Table 6).
- The largest product is remittances, with an estimated $5.2 billion in fees from the Financially Coping and Vulnerable in 2020.

Table 6: Financially Coping and Vulnerable households comprised $17B of $23B in spending on payments and accounts (73%).

Spending on payments and accounts by product

Spending by Product		Financial Health			Income	Race and Ethnicity	
Product	Total ($B)	Coping Households	Vulnerable Households	Total Coping and Vulnerable	LMI Households	Black Households	Latinx Households
Remittances	$7.8B	$3.6B	$1.6B	$5.2B	$3.8B	$1.0B	$3.6B
Retirement Plan Leakage Fees	$6.3B	$3.7B	$1.2B	$4.9B	$2.3B	$1.0B	$1.6B
Prepaid Cards[27]	$4.0B	$1.9B	$0.9B	$2.8B	$2.1B	$0.6B	$0.6B
Checking Account Maintenance Fees	$2.1B	$1.2B	$0.4B	$1.7B	$1.2B	$0.4B	$0.5B
Check Cashing[28]	$1.6B	$0.8B	$0.6B	$1.4B	$1.2B	$0.2B	$0.4B
Money Order	$0.9B	$0.5B	$0.1B	$0.6B	$0.5B	$0.2B	$0.2B
Savings Account Maintenance Fees	$0.4B	$0.2B	$0.1B	$0.3B	$0.2B	$0.1B	$0.1B
Total	**$23.1B**	**$12.0B**	**$5.0B**	**$16.9B**	**$11.3B**	**$3.5B**	**$6.9B**

2020 total spending estimates derived from secondary research; segment extrapolations are calculated using survey data. For detailed notes and estimates of accuracy, please see the appendices.

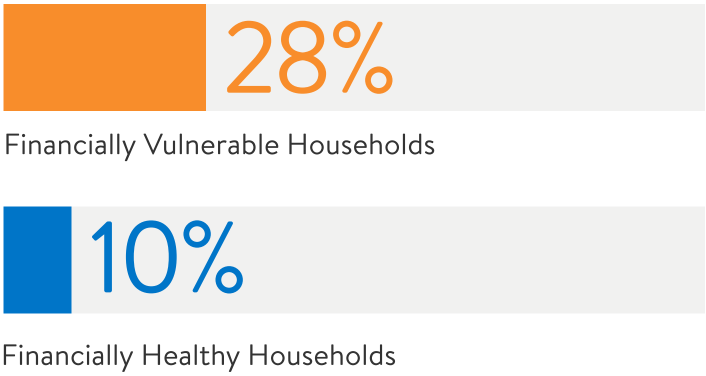
[27] *Estimate for prepaid cards includes fees and interest across three sub-categories: general-purpose reloadable cards, payroll cards, and government benefits cards.*

[28] *Total does not account for the estimated $66 million that CARES Act recipients paid to cash their Economic Impact Payment paper checks. See Murphy, Dan, "Economic Impact Payments: Uses, payment methods, and costs to recipients," Brookings, February 17, 2021.*

Insights and Trends

- Remittance spending in the U.S. is led by Latinx households, who comprise nearly half (46%) of all usage. Worldwide, the remittances market saw a significant downturn in 2020 from the COVID-19 pandemic (steeper than during the 2009 recession), which is expected to disproportionately impact low- to middle-income countries who rely most heavily on remittance inflows. Remittance flows to these countries is expected to decrease further in 2021.[29]
- Among prepaid cards, general purpose prepaid cards are most prominent, with estimated total revenue from all segments of $2.7 billion. Another $1.1 billion of revenue is derived from payroll cards. Finally, $0.2 billion is attributed to government benefits cards, though this figure does not capture any anomalous increase due to the CARES Act or other COVID-19 response efforts.
- Twenty-eight percent (28%) of Financially Vulnerable households with checking accounts from banks and credit unions report being charged a maintenance fee,[30] versus 10% of the Healthy. Black and Latinx households also report maintenance fees at higher rates than White households: 28% and 22%, respectively, versus 13% of White households with checking accounts.
- This year, we estimate the amount of revenue derived from early withdrawals and loans from retirement plans (denoted as retirement plan leakage fees). In future years, we will be expanding our scope to include additional products covering long-term savings and planning.

Percentage of Account-Holding Households Reporting Checking Maintenance Fees



[29] "Phase II: COVID-19 Crisis through a Migration Lens: Migration and Development Brief 33," KNOMAD, October 2020.
[30] Exclusive of overdraft.

INSURANCE

Insurance products manage risk by safeguarding against loss.

For the first time, we are including insurance market estimates in this report. We estimate that Financially Coping and Vulnerable households comprise $169.9 billion, or 52%, of auto, homeowners, and renters insurance premiums (Table 7).

We present these products separately in this report, since consumers pay recurring premiums for insurance coverage instead of interest and fees. Premiums are determined based on the type of insurance policy, the amount of coverage, and the consumer's risk profile, which is derived from factors such as geographic location, age, health history, and more.

Spending estimates by income, race, and ethnicity have been omitted due to wide confidence intervals for reported premiums. Instead, we focus on reported ownership rates.

Table 7: Financially Coping and Vulnerable households comprised $170B of $329B in auto, home, and renters insurance premiums (52%).

Insurance premiums by product

Product	2020 Premiums ($B)	Total Coping and Vulnerable
Auto Insurance	$242.8B	$124.4B
Homeowners Insurance	$83.2B	$42.6B
Renters Insurance	$3.5B	$2.9B
Total	**$329.5B**	**$169.9B**

Insights and Trends

- As of 2019, household rentership rates were at all-time highs for age groups under 65.[31] Still, our survey data shows that just 49% of Coping renters and 27% of Vulnerable renters have renters insurance, despite coverage being fairly low-cost (estimated premiums average $169/year).
- The COVID-19 pandemic affected several insurance markets. For example, the auto insurance market was impacted by a downturn in commuting and car travel in general – fewer vehicles on the road led to a decrease in accident and injury claims, and many insurers responded with premium rebates and temporary rate reductions.[32]
- **We also estimate that total 2020 premiums for individual life insurance grew to $155 billion in 2020**,[33] following an uptick in demand for life insurance during spring and summer of 2020.[34] Even so, only 19% of Vulnerable respondents report having an individual life insurance policy, compared with 47% of Healthy respondents. A 2020 study by industry group LIMRA found that over the past decade, life insurance ownership has decreased most significantly among households with annual incomes under $100,000.[35]
- Racial disparities are also evident. In particular, Black homeowners are significantly less likely than White homeowners to have home insurance (78% vs. 93%), and Black renters are less likely to have renters insurance than White renters (37% vs. 48%).

[31] *"America's Rental Housing 2020," Joint Center for Housing Studies of Harvard University, 2020.*
[32] *"Auto Insurer Profits Driven by Record Drop in Claims Frequency," FitchRatings, August 14, 2020.*
[33] *While we estimate total premiums for individual life insurance, spending by segment is not allocated due to wide confidence intervals for reported premiums.*
[34] *"LIMRA: Individual Life Insurance Premium Rebounds in the Third Quarter," Life Insurance Marketing and Research Association (LIMRA), November 23, 2020; "Covid-19 Pandemic Motivates Younger People to Buy Life Insurance," Wall Street Journal, February 1, 2021.*
[35] *Scanlon, James, et al., "2020 Insurance Barometer Study," LIMRA, 2020.*

Conclusion

The market for everyday financial products is massive.

Yet many communities struggle to build financial systems that allow them to be resilient and pursue opportunities over time. Coupled with the significant disparities in financial health in our country, our research suggests that the time is ripe for innovation to support the financial health of many Americans.

The findings are especially evident in this moment in time, as the country grapples with the enormous consequences of the COVID-19 pandemic on the finances and daily lives of Americans, especially more vulnerable households, lower-income households, and Black and Latinx households.

We hope both emerging innovators and established financial service providers use this report as a tool to guide investments in innovation, creating products and services that are supportive of financial health. We additionally hope that this report shines a light for policymakers and regulators as they aim to foster markets that are fair and equitable. We welcome feedback and partnerships with stakeholders to continue this work in the future.

The Financial Health Network will continue to produce this report on an annual basis, continually seeking new ways to improve our analysis and expand the products covered. We look forward to sharing our work with you and continuing to advance innovation in financial health.

Appendix I EXPANDED SPENDING BY SEGMENT

Table A1: Fees and Interest by Product and Segment

Fees and Interest by Segment		Financial Health			Income		Race and Ethnicity		
	2020 Est.	Healthy Households	Coping Households	Vulnerable Households	LMI Households	Non-LMI Households	Black Households	Latinx Households	White Households
SINGLE PAYMENT CREDIT									
Overdraft	$12.4B	$0.5B	$5.0B	$6.9B	$7.3B	$5.1B	$1.4B	$3.1B	$7.3B
Pawn	$7.5B	$0.4B	$3.2B	$3.8B	$6.5B	$1.0B	$1.9B	$1.2B	$3.6B
Payday	$4.5B	$0.3B	$2.2B	$2.0B	$3.4B	$1.1B	$1.2B	$1.4B	$1.6B
Refund Anticipation Check	$0.9B	$0.1B	$0.5B	$0.3B	$0.7B	$0.2B	$0.2B	$0.2B	$0.4B
Subtotal	**$25.3B**	**$1.3B**	**$10.9B**	**$12.9B**	**$17.9B**	**$7.4B**	**$4.8B**	**$5.8B**	**$13.0B**
SHORT-TERM CREDIT									
Credit Card - General Purpose [36] (Revolving Balance)	$103.6B	$13.2B	$70.4B	$20.1B	$34.4B	$69.1B	$8.4B	$19.9B	$65.1B
Credit Card - Private Label[37] (Revolving Balance)	$12.7B	$0.8B	$8.1B	$3.8B	$5.5B	$7.1B	$2.4B	$2.8B	$6.5B
Credit Card - Secured	$0.3B	$0.1B	$0.1B	$0.1B	$0.2B	$0.1B	$0.1B	$0.1B	$0.1B
Installment Loan[38]	$17.3B	$3.0B	$9.0B	$5.3B	$5.7B	$11.5B	$1.0B	$4.2B	$11.6B
Rent-to-Own	$3.0B	$0.2B	$1.7B	$1.1B	$2.4B	$0.7B	$0.6B	$0.8B	$1.3B
Title Loan	$3.8B	$0.6B	$1.7B	$1.5B	$3.0B	$0.9B	$0.7B	$1.2B	$1.9B
Subtotal	**$140.7B**	**$17.7B**	**$91.0B**	**$31.9B**	**$51.2B**	**$89.4B**	**$13.2B**	**$28.9B**	**$86.6B**
LONG-TERM CREDIT									
Auto Lease	$5.2B	$1.5B	$2.8B	$0.8B	$2.0B	$3.2B	$0.8B	$0.9B	$2.9B
Auto Loan (New)	$26.5B	$7.6B	$16.2B	$2.7B	$8.0B	$18.5B	$2.9B	$7.4B	$14.4B
Auto Loan (Used)	$71.8B	$9.0B	$45.1B	$17.7B	$34.7B	$37.1B	$10.2B	$14.4B	$42.2B
Private Student Loan	$9.9B	$3.8B	$5.5B	$0.6B	$2.0B	$7.9B	$0.7B	$0.9B	$7.7B
Subtotal	**$113.4B**	**$22.0B**	**$69.6B**	**$21.8B**	**$46.8B**	**$66.6B**	**$14.5B**	**$23.6B**	**$67.2B**
PAYMENTS AND ACCOUNTS									
Check Cashing	$1.6B	$0.2B	$0.8B	$0.6B	$1.2B	$0.4B	$0.2B	$0.4B	$0.8B
Checking Account Maintenance Fees	$2.1B	$0.5B	$1.2B	$0.4B	$1.2B	$0.9B	$0.4B	$0.5B	$1.1B
Money Order	$0.9B	$0.3B	$0.5B	$0.1B	$0.5B	$0.4B	$0.2B	$0.2B	$0.5B
Prepaid Cards[39]	$4.0B	$1.2B	$1.9B	$0.9B	$2.1B	$1.9B	$0.6B	$0.6B	$2.3B
Remittances	$7.8B	$2.5B	$3.6B	$1.6B	$3.8B	$3.9B	$1.0B	$3.6B	$1.9B
Retirement Plan Leakage Fees	$6.3B	$1.3B	$3.7B	$1.2B	$2.3B	$3.9B	$1.0B	$1.6B	$3.0B
Savings Account Maintenance Fees	$0.4B	$0.1B	$0.2B	$0.1B	$0.2B	$0.2B	$0.1B	$0.1B	$0.2B
Subtotal	**$23.1B**	**$6.1B**	**$12.0B**	**$5.0B**	**$11.3B**	**$11.7B**	**$3.5B**	**$6.9B**	**$9.7B**
Total	**$302.5B**	**$47.1B**	**$183.4B**	**$71.5B**	**$127.3B**	**$175.1B**	**$36.0B**	**$65.3B**	**$176.4B**
Percent of Total	**100%**	**16%**	**61%**	**24%**	**42%**	**58%**	**12%**	**22%**	**58%**

[36,37] *Credit card totals include interest on revolving balances as well as annual fees, transactional fees, and penalty fees.*

[38] *The installment loan product category measures non-bank, non-credit union installment lending.*

[39] *Spending estimate for prepaid cards includes fees and interest across three sub-categories: general-purpose reloadable cards, payroll cards and government benefits cards.*

Appendix II METHODOLOGY

A. Summary of Process

Market sizing analysis is an exercise of best estimation for quantities that are frequently unknowable or only have ranges of recognized numbers.

Our secondary data analysis relies on sources that are credible, consistent with other estimates, and continuous. In many cases, figures are extrapolated from multiple data sources to arrive at a final estimate for a given product segment. Wherever possible, our analysis includes partial data for 2020. In other cases, we have applied earlier trends to estimate 2020 spending.

Our primary data analysis relies on an original survey fielded in partnership with USC. See Appendix II-C for additional details. The survey examined usage of the products studied for this report and collected supplemental information, where relevant, including frequency, balance, and credit tier. The survey also included questions on demographics and individual financial health.

Total spending estimates rely on secondary sources, while spending proportions are estimated via primary research and overlaid onto total estimates to find the dollar value of spending for each segment. For smaller product categories, and those with a relatively consistent industry fee average, we apply spending based on usage by a given segment (this approach was typically utilized for products with revenues under $10 billion). Where fees are more variable and the product category is larger, we calculate spending based on reported balance and assumed APR based on reported credit tier.

Sources are summarized in Table A3, and we transparently disclose our estimate accuracy – high, medium, or low – for each product segment, based on Table A2. We encourage readers with access to further information to share sources or figures so that we can continuously improve our analysis.

Table A2: Criteria for Estimate Accuracy Categorization

HIGH	• Secondary research estimates are based on high-quality surveys or company-specific information and cited by industry leaders, with source methodology disclosed. **and** • Primary research estimates overlap with secondary research estimates, and 95% confidence intervals for subgroups do not cross zero.
MEDIUM	• Secondary research estimates are derived from credible market data. Sources disclose methodology, but with significant assumptions. **or** • Primary research estimates are based on incidence or primary research estimates do not overlap with secondary research estimates, and 95% confidence intervals for subgroups do not cross zero.
LOW	• Secondary research estimates required significant extrapolations and assumptions and/or no source methodology are disclosed, or they rely on pre-2016 data. **or** • Primary research estimates do not overlap with secondary research estimates and 95% confidence intervals for subgroups cross zero.

Table A3: Product Definitions, Sources and Survey Measures, and Estimates of Accuracy

Product	Product Definition	Secondary Sources and Notes	Survey Measures	Research Estimate Accuracy
SINGLE PAYMENT CREDIT				
Overdraft	A fee charged for having insufficient funds in one's checking account to pay for a purchase or charge. This could be called an overdraft fee, a non-sufficient funds fee, or a bounced check fee.	Estimate based on Call Report data from the Federal Financial Institutions Examination Council (FFIEC) Central Data Repository (2018-2020), and "The Business Case for Disrupting Overdraft," Oliver Wyman (2019).	Incidence and number of overdrafts	**Medium**
Pawn	A loan with amount set and secured based on the value of items provided by the borrower as collateral. Pawn revenue includes both the cost of the loan as well as revenue from forfeited loan collateral.	Estimate based on publicly traded industry leaders' annual and quarterly report data (2009-2020), market share data, and figures reported by the National Pawn Brokers Association.	Incidence	**Medium**
Payday	Single payment loan offered by nonbank lenders.	Estimate based on data from "Short-Term Lending Update: Moving Forward with Positive Momentum" by John Hecht for Jefferies 2018 and statements by John Hecht for Jefferies, Inc., 2020.	Incidence	**Medium**
Refund Anticipation Check	Fee-based service that allows tax preparation fees to be paid from the eventual tax refund rather than at the time of preparation.	Estimate based on IRS tax return data (Tax Years 2015-2018), RAC fee data reported by the National Consumer Law Center, and National Society of Accountants data on tax industry typical fees (2015-2018).	Incidence	**Medium**
SHORT-TERM CREDIT				
Credit Card - General Purpose	Card-based revolving line of credit for a credit card that can be used at multiple merchants, as opposed to a single store.	Estimate based on data from "The Consumer Credit Card Market" (Consumer Financial Protection Bureau, 2019), "The Effects of the COVID-19 Shutdown on the Consumer Credit Card Market: Revolvers versus Transactors," (Federal Reserve, 2020), and weekly Equifax U.S. National Consumer Credit Trends Reports (2020-2021).	Among cardholders, revolver status, balance, and credit tier	**Medium**
Credit Card - Private Label	Card-based revolving line of credit issued in partnership with a retail outlet. Includes only private label cards, which are limited to purchases made at the issuing retailer or retailer group.	Estimate based on data from "The Consumer Credit Card Market" (Consumer Financial Protection Bureau, 2019), "The Effects of the COVID-19 Shutdown on the Consumer Credit Card Market: Revolvers versus Transactors," (Federal Reserve, 2020), and weekly Equifax U.S. National Consumer Credit Trends Reports (2020-2021).	Among cardholders, revolver, balance, and credit tier	**Medium**
Credit Card - Secured	Credit card that is fully or partially backed by funds deposited into the account and used as collateral for the credit available; also used to build credit.	Estimate based on account volume and fee data in "The Secured Credit Card Market" (Federal Reserve Bank of Philadelphia, 2016), fee data from "2019 Credit Card Fee Study" (U.S. News & World Report, 2019), "CFI in Focus: Secured Credit Cards" (Federal Reserve Bank of Philadelphia, 2019) and interest rate data from WalletHub's "Credit Card Landscape Report" (2020).	Incidence	**Medium**
Installment Loan*	A short-term loan repaid over time through a set number of scheduled payments. This loan may be provided by a storefront or online lender.	Estimate based on quarterly Transunion Industry Insights Reports (2019-2020), publicly traded industry leaders' annual and quarterly report data (2009-2020), and "Do Marketplace Lending Platforms Offer Lower Rates to Consumers?" (Federal Reserve, 2018).	Incidence - non-bank, non-credit union only	**Medium**
Rent-to-Own	Service that allows for the purchase of furniture, appliances, and other big-ticket household items through payments due in regular installments over a period of time. The customer does not own the rented item until all payments are complete.	Estimate based on market share and gross margin data provided in quarterly and annual public reports from industry leaders Rent-A-Center and Aaron's (2009-2020); market share information sourced from the Association of Progressive Rental Organizations at RTOHQ.com.	Incidence	**Medium**
Title Loan	A loan secured with a vehicle in which the auto title is provided to the lender as collateral. While the majority of loan industry volume is based on auto title loans structured as installment loans, some are also structured as single payment loans.	Estimate based on revenue data from the Center for Responsible Lending, "Payday and Car Title Lenders Drain $8 Billion in Fees Every Year," (2019).	Incidence	**Medium**

* The installment loan product category measures non-bank, non-credit union installment lending.

LONG-TERM CREDIT

Auto Lease	Consumer car lease	Calculation based on risk segment and annual lease amount reported in "State of the Automotive Finance Market," Experian quarterly reports (2009-2020); and Nada and Edmunds data on interest rates, new vehicle sales, percent leased (2009-2020).	Incidence	**Medium**
Auto Loan (New)	New consumer car loans	Estimate based on risk segment, interest rate and loan volume data reported in "State of the Automotive Finance Market," Experian quarterly reports (2009-2020).	Incidence, balance, and credit tier	**High**
Auto Loan (Used)	Used consumer car loans (inclusive of Buy-Here-Pay-Here auto loans).	Estimate for used auto loans based on risk segment, interest rate and loan volume data reported in "State of the Automotive Finance Market," Experian quarterly reports (2009-2020) and National Alliance of BHPH Dealers Industry Benchmarks (2016-2019).*	Incidence, balance, and credit tier	**Medium**
Private Student Loan	Private loans provided to individuals for the pursuit of higher education and related costs.	Estimate based on interest rate data from publicly traded industry leaders (2011-2020) and volume data from MeasureOne reports (2013-2020).	Incidence, balance, and credit tier	**High**

*Effective January 1, 2018, NIADA purchased the assets and operations of NABD and merged the two organizations.

PAYMENTS AND ACCOUNTS

Check Cashing	A service to quickly convert checks to cash or electronically available funds.	Revenue estimate from Marketdata Enterprises, Inc. report: "Check Cashing & Money Transfer Services: A Market Analysis" (2013), average customer usage and fees charged by small providers and franchised or co-located providers sourced from company data and "2013 FDIC National Survey of Unbanked and Underbanked Households," FDIC (2014), the 2015 and 2017 installments of the "FDIC National Survey of Unbanked and Underbanked Households," FDIC (2016, 2018), and "How America Banks: Household Use of Banking and Financial Services," FDIC (2020).	Incidence - non-bank, non-credit union only	**Low**
Checking Account Maintenance Fees	Monthly service fees that financial institutions charge checking account holders who don't meet certain requirements (typically a minimum balance or a minimum monthly deposit). Exclusive of overdraft fees or ATM fees.	Estimate based on survey data collected for this report on account possession and fees charged (2020); typical fees from sample of banks; and number of household checking accounts sourced from the Federal Reserve Board's Survey of Consumer Finances (2019).	Among account holders, incidence of fees	**Medium**
Money Order	A service that converts cash to a paper check equivalent with stated amount of funds guaranteed by the issuing institution	Estimate based on US Postal Service Data (2009-2020), fee data from MyBankTracker.com (2020), and money order purchase location data from survey data collected for this report (2020).	Incidence - any location	**Medium**
Prepaid - General Purpose Reloadable (GPR) Card	An open-loop card that serves as an account for consumers to load, store, and spend funds electronically.	Estimate using "13th Annual US Market Prepaid Cards Market Forecast 2016-2019," Mercator Advisory Group (2016) and fee estimate based on NetSpend and Green Dot operating revenue and gross dollar volume reported in quarterly and annual public reports (2009-2020). Customer usage data sourced from "General Purpose Reloadable Prepaid Cards: Penetration, Use, Fees, and Fraud Risks," Kansas City Federal Reserve Bank (2014).	Incidence of nonbank, bank, or friends and family card	**Medium**
Prepaid - Government Benefits Card	Prepaid card used to access, manage, and spend federal government benefits including TANF, SNAP, Unemployment, Social Security, Disability, etc. for all recipients who do not receive benefits by direct deposit.*	Estimate based on Federal Reserve Board's annual "Report to the Congress on Government-Administered, General-Use Prepaid Cards," (2011-2020) and "13th Annual US Market Prepaid Cards Market Forecast 2016-2019," Mercator Advisory Group (2016).	Incidence	**Medium**
Prepaid - Payroll Card	An open-loop card that serves as an account for employers to deposit employee salaries, wages, or other compensation on a regular basis for employees to store and spend electronically.	Calculation using "15th Annual US Market Prepaid Cards Market Forecast 2017-2021," Mercator Advisory Group (2018) and fee estimate based on NetSpend and Green Dot operating revenue and gross dollar volume reported in quarterly and annual public reports (2009-2020).	Incidence	**Medium**

Remittance	Service that transfers cash funds converted into electronic funds between two private individuals across international borders. This study includes only funds remitted from senders in the U.S. to recipients abroad.	Calculation based on the World Bank 2017 Bilateral Remittance Matrix; World Bank estimates of remittance prices worldwide (2009-2020) and Knomad remittances inflow data (2019-2020).	Incidence	**Medium**
Retirement Plan Leakage Fees**	Fees charged to release and maintain ownership of funds previously dedicated to a retirement plan as a loan or withdrawal to the account holder.	Estimate based on U.S. Department of Labor statistics; Vanguard industry data (2020); "Defined Contribution Plan Participants' Activities," Investment Company Institute (2019, 2020); and IRS Publication 1304 (Tax Year 2018).	Among retirement account holders, incidence (any reported loan/ withdrawal other than COVID related)	**Medium**
Savings Account Maintenance Fees	Monthly service fees that financial institutions charge savings account holders who don't meet certain requirements (typically a minimum balance or a minimum monthly deposit).	Estimate based on survey data collected for this report on account possession and fees charged (2020); typical fees from sample of banks and bank deposit volume data from the FDIC (2019); and data on number of household savings accounts from the "February 2012 Spending & Saving Tracker," prepared by Echo for American Express (2012).	Among account holders, incidence of fee	**Medium**

*All federal government benefits not accessed through direct deposit are legally required to be provided by prepaid cards as of March 2013. 2020 estimates precede the 2020 CARES Act and any increase in government benefits recipients as a result of the COVID-19 pandemic.

**Interest payments made on funds borrowed from a retirement account are paid back to the account itself and result in no net loss to the consumer. For loans, this report measures only the additional fees paid by the consumer to access the loan option.

INSURANCE

Auto Insurance	Property/casualty insurance coverage for private (i.e. non-commercial) passenger vehicles that protects the driver from property, liability, and/ or medical costs in the event of a accident or theft; most states require by law that drivers possess, at minimum, bodily injury liability and property damage liability coverage.	Volume estimate based on private passenger auto net written premiums from the Insurance Information Institute (iii) "Insurance Factbook" (2019); average premium estimate from the National Association of Insurance Commissioners (NAIC) "Auto Insurance Database Report" (2016/2017).*	Among auto owners, incidence of 1+ insured autos, calculated yearly premium	**Medium**
Home-owners Insurance	Property insurance coverage for losses and/or damage to an individual's owned home and their belongings in the event of a destructive event such as a fire; coverage is typically required by mortgage lenders.	Volume estimate based on aggregate written premiums and average premium estimates from the National Association of Insurance Commissioners (NAIC) "Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report" (2019).**	Among homeowners, incidence, calculated yearly premium	**Medium**
Life Insurance	Individual life insurance coverage (i.e. not employer-sponsored) meant to cover lost wages, funeral costs, and estate taxes in the event of death, exclusive of annuities.	Volume estimate based on direct written premiums for ordinary (i.e. individual) life insurance policies from the Insurance Information Institute (iii) (2017-2019).	N/A	**Low**
Renters Insurance	Property insurance coverage for losses and/or damage to a renter's personal belongings in the case of a loss event such as a fire; increasingly, proof of renters insurance is required by landlords.	Estimates based on aggregate written premiums and average premium estimates from the National Association of Insurance Commissioners (NAIC) "Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report" (2019).	Among renters, incidence, calculated yearly premium	**Low**

*Net written premiums is the sum of the premiums written by an insurance company in a given period of time, less any premiums turned over to reinsurers.

**Aggregate written premiums, or direct written premiums, is the sum of the premiums written by an insurance company in a given period of time before considering deductions for reinsurance.

B. Product Methodology Updates

Product Methodology Changes

Auto Loan and Lease: Previous reports measured only the subprime portion of these markets (consumers with FICO credit scores less than 600). The 2020 report measures interest and fee revenue from auto loans and leases across all credit tiers. Additionally, Buy-Here-Pay-Here (BHPH) loans have been bundled with used auto loans due to the small number of BHPH borrowers in our survey sample.

Checking and Savings Account Maintenance Fees: Previous reports estimated transaction account volume and total fee revenue (exclusive of overdraft) for checking and savings accounts held by underbanked households (as defined by the "FDIC National Survey of Unbanked and Underbanked Households"). The 2020 report estimates maintenance fee spending, specifically, for all household checking and savings accounts regardless of banked status.

Credit Cards (General Purpose and Private Label): Previous reports measured only the subprime portion of this market (i.e., consumers with credit scores less than 620). The 2020 report measures spending on interest and fees across all credit tiers.

Installment Loan: Our prior methodology for this product category limited installment lending interest and fee revenue to those from traditional finance companies. Our current methodology includes unsecured installment loans from both traditional finance companies and fintech providers.

Money Order: Previous fee estimate was based on money order purchase location data from CFSI's Consumer Financial Health Study (2015). The current methodology replaces that with purchase location data from the survey data collected for this report.

Overdraft: In our prior methodology for overdraft revenue, we sized only the market of frequent overdrafters, those overdrafting more than 10 times in a year. This year's overdraft product category includes all overdraft fee revenue. Additionally, in prior years we used reporting from Moebs Services as a baseline estimate of revenue. This year, we utilize Call Report data on FDIC-insured banks compiled by the Federal Financial Institutions Examination Council. This data is then scaled up to represent the whole market, including smaller banks and credit unions that are not required to report overdraft fee revenues through the Call Reports. We chose this change in methodology because we believe that the Call Report approach better reflects the true size of the overdraft market.

Payday: Our prior methodology separated out online payday and storefront payday into two separate categories. This year's approach combines all payday interest and fee revenue into a single category.

Remittance: Previous remittance outflow volumes were derived from the migrant remittance outflows data reported to the IMF by the World Bank. The 2020 outflow volume is estimated by summing across all receiving countries in the World Bank Bilateral Remittances Matrices.[40] Additionally, previous fee estimates were based upon underserved consumer remittance usage by provider type (bank/nonbank), sourced from the "2017 FDIC National Survey of Unbanked and Underbanked Households," FDIC (2018). The 2020 fee estimate is derived from the World Bank fee averages, which better represents the market at large.

Retirement Leakage: In our prior methodology, retirement leakage only included the fees associated with a loan against a retirement account. This year, retirement leakage includes both loan fees as well as tax penalties for early withdrawals and cashouts. COVID-related withdrawals have been excluded, as they are exempt from tax penalties.

Products No Longer Included

In order to best account for changes in the financial services landscape and data availability, we have opted to retire the following product segments:

- In-person money transfer
- Tax preparation
- Walk-in bill pay
- Nonbank small business loan

Additionally, Personal Marketplace Loans are now captured under Installment Loans in order to improve the quality of our estimates.

Furthermore, previous reports included estimates of consumer usage volume (dollars borrowed, transacted, saved, or managed through the use of a financial service, exclusive of fees and interest paid to access these products and services). The 2020 report omits volume estimates in order to further highlight the consumer experience.

[40] *For more information on these data sources, see KNOMAD FAQs.*

C. Survey Details

The Financial Health Network collaborated with researchers at the USC Dornsife Center for Economic and Social Research to design and field a survey of financial decision makers within households. We utilized USC's online panel, the Understanding America Study (UAS), a nationally representative probability-based internet panel.

In our survey, all the information on financial product and service use is collected at the household level (i.e., we ask each respondent how much their household owes on new car loans, used car loans, etc.). If all respondents in our survey belonged to different households, we could assume each response in our sample represents a number of households in the U.S. population and estimate the values for the population using the entire response set.

Because there were approximately 500 respondents in our sample sharing a household unit with another respondent, (with both self-identifying as a household financial decision-maker,)[42] we decided to randomly select a respondent in those households to represent the household, leaving us with 4,090 responses from the total set of 4,656. Trimming the sample in this way ensured we did not overestimate fees and revenues for the U.S. population. We then assumed that each of these 4,090 responses represent the roughly 120 million U.S. households. We applied post-stratification weights to this sample to make it nationally representative with respect to gender, race/ethnicity, education, age, and Census region.

Table A4: Survey Characteristics

Study Overview	
Population	All noninstitutionalized U.S. residents age 18 and older
Sample Selection	Active respondents from the nationally representative "Understanding America Study"
Language(s)	Respondent choice of English and Spanish
Field Dates	November 2, 2020 - November 30, 2020
Length	10 minutes (median)
Selection Overview	
Number of panelists invited to complete the survey	6,660
Did not begin the survey	1,580
Started but did not complete the survey	41
Dropped because not a financial decision-maker in the household[41]	383
Dropped because multiple respondents came from the same household	566
Total Study Sample	**4,090**

Margin of error for survey is 1.548%

Defining Low- to Moderate-Income (LMI) Households

Categorizing households as LMI hinges on accurate information on their household income, geographic location, and household size. We used the midrange values of a categorical income variable as a close approximation of household income in this study because of a lack of sufficient response to the continuous income variable. Moreover, for participants on whom we did not have detailed geographic information, we used the average area median income for the state in which they are located. Partly due to these two reasons, the percentage of LMI households is higher than the expected 40% nationwide. Another possible reason for the discrepancy is that LMI status is not one of the factors along which we align our survey with the national benchmarks. As a result, it is possible that LMI households are overrepresented in our sample.

[41] *We define a financial decision-maker in a household from responses to UAS314 sc001. This is an individual that is (a) the primary financial decision-maker or (b) shares equally in the financial decision-making.*

[42] *We exclude individuals that are not financial decision-makers in the household. These respondents indicated that, "someone else is more involved in the decision-making than I am" (sc001).*

D. Race and Ethnicity Definitions

Within this report, we discuss findings across race and ethnicity. We define race and ethnicity using a single, mutually exclusive variable and use this single variable given the current lack of consensus over how to categorize survey respondents based on their Latinx status in addition to their racial identity. For example, there is currently debate over whether race and Latinx ethnicity should be viewed as the same concept, or treated as separate facets of an individual's identity. In lieu of consensus, we follow the typical race and ethnicity definition conventions and treat race/ethnicity as a single variable, acknowledging the difficulty and complexity in doing so.

Respondents answer two questions that are used to determine their race/ethnicity categorization. Respondents who answer "yes" to the question, "Are you Spanish, Hispanic, or Latino?" are categorized as Latinx, regardless of their answer to an additional question asking them about their race. We use the term "Latinx" to be inclusive of those who identify as nonbinary, agender, queer, or gender fluid and because the term includes individuals who may not identify as "Hispanic."

Respondents who do not indicate that they are Latinx are categorized based on their response to the question: "Here is a list of five race categories. Please choose all that apply." Response options were: "White," "Black or African American," "American Indian or Alaska Native," "Asian," and "Native Hawaiian or Other Pacific Islander."

Individuals who select multiple races are categorized as "Multiple Races," regardless of their specific responses. While there are inherent challenges in grouping all people that selected multiple races together, we have elected to do so in the absence of a consensus on how to subdivide this group further.

In order to analyze the spending of households of different demographic segments, we classify a household's race/ethnicity based on the response of the household respondent. For example, a Latinx household is one in which the survey respondent identifies as Latinx. A Black household is one in which the survey respondent identifies as Black.

While there are clear limitations to this approach, including misidentifying households composed of people from varying races/ethnicities, we follow a common approach used by the U.S. Office of Management and Budget (OMB) and the Federal Deposit Insurance Corporation (FDIC).[43] Black and Latinx households have been highlighted in this report given their differential experiences from White households, as well as their large sample size. We welcome feedback on how to improve upon our approach in future reports.

[43] *See Federal Deposit Insurance Corporation, "How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey," October 2020.*

FINANCIAL HEALTH NETWORK

The Financial Health Network is a trusted resource for business leaders, policymakers, and innovators united in a mission to improve the financial health of their customers, employees, and communities. Through research, advisory services, measurement tools, and opportunities for cross-sector collaboration, we advance awareness, understanding, and proven best practices in support of improved financial health for all.

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