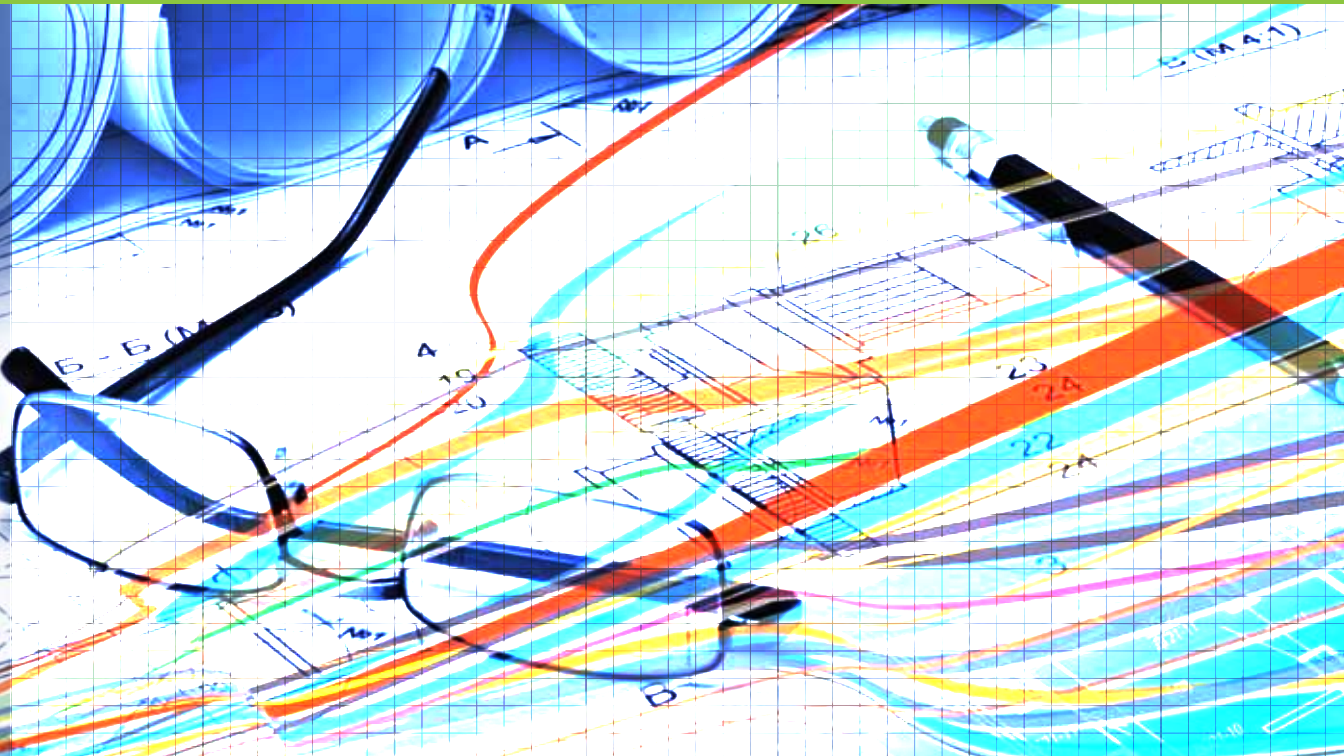


BLUEPRINTS FOR INNOVATION

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IDEAS • INNOVATION • IMPLEMENTATION



Key Findings

BLUEPRINTS FOR INNOVATION

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Prize-Linked Savings

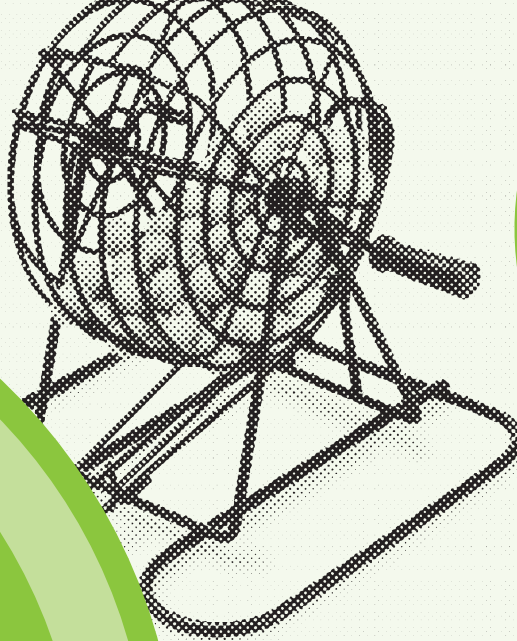


Prize-Linked Savings adds excitement and suspense to the discipline of saving. Prize-Linked Savings pays out regular interest plus offers a chance for additional returns in the form of prizes awarded to account holders through periodic drawings. Consider that the average household spends \$514 a year on lotteries, according to Peter Tufano of Harvard Business School.³ If this amount of money was instead deposited into a Prize-Linked Savings account, household members could save and earn interest on their \$514, *and* could potentially win a grand prize or one of many smaller prizes each month.

Two years after Filene i³ product inception, Prize-Linked Savings is growing in popularity. It is now offered by a number of credit unions across the country, including:

- Centra Credit Union (\$790 million) in Columbus, IN
- CES Credit Union (\$114 million) in Mount Vernon, OH
- ELGA Credit Union (\$264 million) in Burton, MI
- Envision Federal Credit Union (\$66 million) in Bossier City, LA
- FORUM Credit Union (\$1.1 billion) in Indianapolis, IN
- Members Credit Union (\$209 million) in Winston-Salem, NC
- Neighborhood Credit Union (\$254 million) in Dallas, TX
- Tower Federal Credit Union (\$1.8 billion) in Laurel, MD
- WEOKIE Credit Union (\$654 million) in Oklahoma City, OK
- Xceed Financial Credit Union (\$800 million) in El Segundo, CA

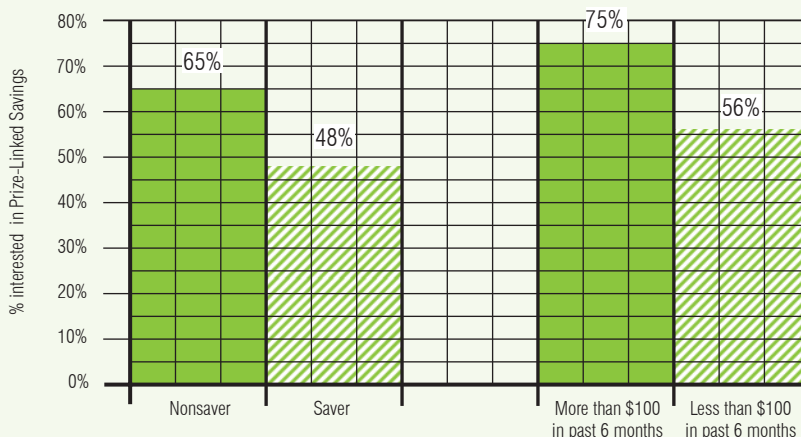
³ Interest in prize-linked savings is greatest among people who do not have regular savings habits, who have little actual savings, who play lotteries extensively, and who are optimistic about their future. Nick Maynard, Jan Emmanuel De Neve, and Peter Tufano, "Consumer Demand for Prize-Linked Savings: A Preliminary Analysis," (February 8, 2008). Harvard Business School Finance Working Paper No. 08-061.



Prize-Linked Savings continues to evolve. Credit unions such as Neighborhood Credit Union and WEOKIE Credit Union have designated Prize-Linked Savings as their basic membership share accounts. At WEOKIE Credit Union, a member must add \$50 to the average daily balance during each month to be eligible for one of 30 prizes totaling \$5,000. Neighborhood Credit

Union uses this account to manage its cost of funds by paying a lower-than-average dividend rate. Its Prize Savings Account consists of 10 monthly, one quarterly, and one annual prize drawing worth a total of \$35,000. The grand prize of \$15,000 is awarded at the credit union's annual meeting.

Prize-Linked Savings Demand by Savings Habits and Lottery Spending



Source: Results from the Clarksville Centra Credit Union branch survey in Clarksville, Indiana, November-December 2006 as reported by Nick Maynard, Jan Emmanuel De Neve, and Peter Tufano in "Consumer Demand for Prize-Linked Savings: A Preliminary Analysis," (February 8, 2008). Harvard Business School Finance Working Paper No. 08-061.

PROFILE: CES CREDIT UNION (\$114 million)

The Wealth Builder Savings Sweepstakes is offered by CES Credit Union to entice savings among credit union members and the community as a whole. Entry into the sweepstakes starts with every dollar on deposit in a CES Credit Union basic share account counting as an entry into a monthly drawing. One random winner is awarded \$5,000 at the end of each month.

CES Credit Union CEO Kelly Schermerhorn reports that growth in savings from the Wealth Builder Savings Sweepstakes allowed the credit union to cover the cost of the program and produced a positive return on investment (ROI) within the first five months of operation. The program's average net yield is 5.45%, resulting in a break-even point of approximately \$1 million. As of May 31, 2008, CES Credit Union's base

share accounts grew over \$1.7 million—more than enough to pay for the program.

Although Schermerhorn initially wanted to offer a \$10,000 monthly prize, the current \$5,000 monthly prize appears large enough to capture the community's attention because the winner of each drawing has been covered by the local newspaper and radio station. Schermerhorn concludes, "With the national trend of funds moving out of share accounts into CDs [certificates of deposit] and MMAs [money market accounts], we are ecstatic to see any positive growth in core deposits, and to have already grown enough to claim a positive ROI in five months is stunning to me. Our members are saving, and it becomes a win-win."

PROFILE: MEMBERS CREDIT UNION (\$209 million)

What Are You Saving For? (WAYSF) was introduced in April 2008 by Members Credit Union (MCU) as a way to reframe the U.S. personal savings dilemma from a negative to a positive. "Americans need positive reinforcement," suggests MCU president and CEO Jack V. Braswell, Jr. "If the national goal is to create a society of better savers, we need to stop telling each other 'you can't' and start encouraging each other that 'you can.'"

WAYSF combines the basics of Prize-Linked Savings with social media and financial education. Rather than using a lower-than-average dividend rate to manage the cost of funds and cover a portion of program expenses, MCU incents members to save by paying a higher-than-average dividend rate on WAYSF accounts. In fact, accountholders who make a commitment to save at least \$25 each month receive double their MCU regular savings rate. And for every \$25 in average daily balance in the WAYSF account, members receive a chance to win monthly cash prizes.

The credit union has also developed a Web site for social networking and online support (whatareyousavingfor.com). The site encourages members to share their savings goals, the steps they are taking to achieve their goals, and the pain and joy they experience along the way. As an added incentive to participate in the online

community, MCU will hold semiannual Biggest Saver contests that will allow users to select winners of \$2,000 share certificates. According to Eric Stiff, vice president of marketing, "The online component educates, celebrates, and congratulates savers, and empowers them to reward the people who have shown the most dedication to developing this new savings paradigm."

» MCU's What Are You Saving For? program was included in the September 2008 issue of *Fast Company* as an example of how credit unions are promoting savings, attracting new members, and "making banking fun."



Credit Union Results

	Centra Credit Union (\$790M) Columbus, IN	ELGA Credit Union (\$264M) Burton, MI	FORUM Credit Union (\$1.1B) Indianapolis, IN	Neighborhood Credit Union (\$254M) Dallas, TX
Product Name	Super Savings	Sweepstakes Savings Account	Weekly 5 Club	Prize Savings Account
Months in Market	19	12	12	12
Number of Accounts	1,692	2,623	697	5,186
Average Savings Balance	\$492	\$364	\$1,153	\$872
Total Balance on Deposit	\$832,864	\$955,762	\$803,641	\$4,524,283
Core Data Processing System	USERS (Fiserv)	Open Solutions (OSI)	USERS (Fiserv)	IntegraSys/ CUBE (Fiserv)

Results as of 6/30/08


NEW DEVELOPMENTS

In June 2008, the Doorways 2 Dreams Fund (D2D Fund) in partnership with Filene received a grant from the Center for Financial Services Innovation (CFSI) enabling them to further test Prize-Linked Savings as a 2009 pilot project in Michigan.⁴

This collaboration between the Michigan Credit Union League and a consortium of credit unions allows each credit union to offer monthly prizes to its Prize-Linked Savings accountholders. In addition, one grand prize of \$100,000 will be awarded to a member drawn from all participating credit union entries.

Pilot project objectives include the following:

- Further document and better understand consumer demand for a Prize-Linked Savings product.
- Demonstrate the financial viability of a Prize-Linked Savings product for financial institutions and establish a business model to offer Prize-Linked Savings on a larger scale throughout the credit union system.
- Demonstrate that the product attracts low- to moderate-income consumers, especially nonsavers and the underbanked.
- Demonstrate that the product generates new savings dollars.
- Identify legal and regulatory hurdles, if any, and develop remedies.



**\$100,000
grand prize**

⁴ D2D Fund in Roxbury, MA, seeks to expand access to financial services—especially asset-building opportunities—for low-income families by creating, testing, and deploying innovative financial products and services. CFSI develops and distributes real-world tested research and strategy, provides funding to promising companies, and facilitates cross-sector business collaboration to transform industry practice and the lives of underbanked consumers across the economic, geographic, and cultural spectrum.