



60-Day Loan Guarantee CONCEPT DOCUMENT

INTRODUCTION

The events of the past few years have greatly diminished consumers' trust in financial institutions. This is a concern since trust is consistently identified in consumer behavior research as one of the more important components for customer satisfaction and engagement. Fortunately, credit unions have always scored well in the category of "trust" when compared to all other financial institutions. Our pursuit was to innovate a product in a way that could build trust for the member, so they would feel confident and secure and thus, do more business, resulting in positive outcomes for the credit union.

EXECUTIVE SUMMARY

One of the core missions of a credit union is to meet the loan needs of its membership. We know that members want to make sure that the loan they take is best for them, and we know many less reputable lenders over the past few years have diminished trust in this area. Unlike any offer in the marketplace, we propose that providing a "money back" guarantee on a loan could build trust with consumers and lead to more success in loan campaigns. We developed the "60-Day Loan Guarantee", which would give members a refund on paid interest in the first 60 days if the loan was "returned" (i.e. paid back), regardless of the reason. In essence, by issuing a loan with a refund policy, members trust that the terms advertised will be delivered at loan closing, and this provides members the flexibility to enter and exit the transaction in a short period of time without any financial risk.

OPPORTUNITY

One of our inspirations was the full, money-back guarantee that the car dealers offered in the Fall of 2009. It was one of the more bold return policy offers seen outside of normal retail establishments. It made us think, "Why can't loans have return policies too?"

ENVIRONMENTAL SCAN

There was no evidence of the loan interest refund guarantee idea already being used in the marketplace. Other offers that employ some facet of our idea include:

- Credit cards offer a "grace period" on purchase transactions before interest is owed.
- Some institutions offer a rate match guarantee.
- Others offer simply a satisfaction guarantee (i.e. US Bank's 5-Star guarantee), but not specifically to product features.

SOLUTION

Our primary assumption is that sales results and member satisfaction are positively correlated with trust. Our solution is very simple. Upon loan closing, a member would have the right to pay back the loan within 60 days for any reason and receive a refund of any interest paid.

MEMBER BENEFITS

- Increases trust
- Provides flexibility
- Improves peace of mind (reduces buyer's remorse)

CREDIT UNION BENEFIT

- Build and leverage trust with membership
- Differentiator among other offers in the market
- Build loan volume

TARGET MARKET

- Both current and potential membership

OPERATIONAL AND OTHER CONSIDERATIONS

Some of the primary operational considerations include:

- Determine target market
- Determine loan products covered in offer
- Create disclosure language for marketing and the agreement disclosed at loan closing
- Ensure staff is trained and a process exists to facilitate refunds

PROOF OF CONCEPT

Three credit unions agreed to pilot this concept. Each credit union approached the testing in a unique way, with their results provided below.

Pilot #1

UMass Five College Credit Union decided to use direct mail to test this concept. A direct mail offer was scheduled in early February. The idea was to send a credit card offer to two groups with half getting the 60 day loan guarantee and the other half receiving the standard offer as a control. The offer was a letter and an insert explaining the terms of the program. A sample of which is included. One group was made up of new members who joined the credit union in the past six months, and the second group was recent mortgage holders which could have been either new or existing members. A total of 300 offers were mailed for each group.

The hope was the loan guarantee would motivate members to apply for this risk free offer. By having a group of new members who probably had minimum interaction with the credit union it was felt they might find the guarantee more valuable. Because of the relatively small size of the test any tracking would be manual with a daily check of new card holders against the direct mail lists.

Similar to our first pilot, this mail test did not result in any responses. In fact there were no applications from the control group either. In the past, even the control group has received modest results. This suggests the trend of caution with regards to borrowing seems to not only be continuing, but may in fact be strengthening. The fact that no existing members responded also reinforces the theory that we have a high level of trust with this group already and no additional trust building may be necessary through a promotion such as this one.

Pilot #2

West Community Credit Union offered the 60-Day Loan Guarantee on its Home Equity Line of Credit to a group of non-member prospects in early February 2010. The credit union hypothesized that the offer would encourage a better response rate to the loan marketing campaign than a campaign without the guarantee. To test this, a promotional mailing containing the guarantee was sent to 4,000 potential borrowers, while a separate mailing not containing the loan guarantee was sent to a similar number of prospects.

Here is an example of the agreement offered to members if they closed a loan under the offer:

60-Day Interest Refund Guarantee

This loan comes with the following guarantee: If you pay off your entire loan balance by the offer expiration date as set forth below, West Community Credit Union (“Credit Union”) will refund to you any interest you paid on the loan and waive any and all accrued interest up to and including the day of payoff. The Credit Union will not, however, refund any taxes or fees associated with items you purchased using the loan proceeds, and the Credit Union is not making any guarantees with respect to the collateral or items you are purchasing whatsoever.

Refinancing or paying off this loan advance with a West Community loan are not eligible re-payment sources under this offer. If the balance is paid off under the terms of this offer, we will require that the line of credit be closed and no additional lines may be opened for six (6) months unless the refunded and waived interest is paid and all other loan qualifications are met at that time. Except for this guarantee, all terms and conditions shall remain unmodified and in full force and effect. All scheduled payments must be made as agreed.

This Guarantee applies to:

Loan Number _____ Loan Date _____

Offer Expiration Date _____

Borrower _____

The marketing materials contained some of the key points disclosed in the agreement to make sure the potential borrower understood the terms.

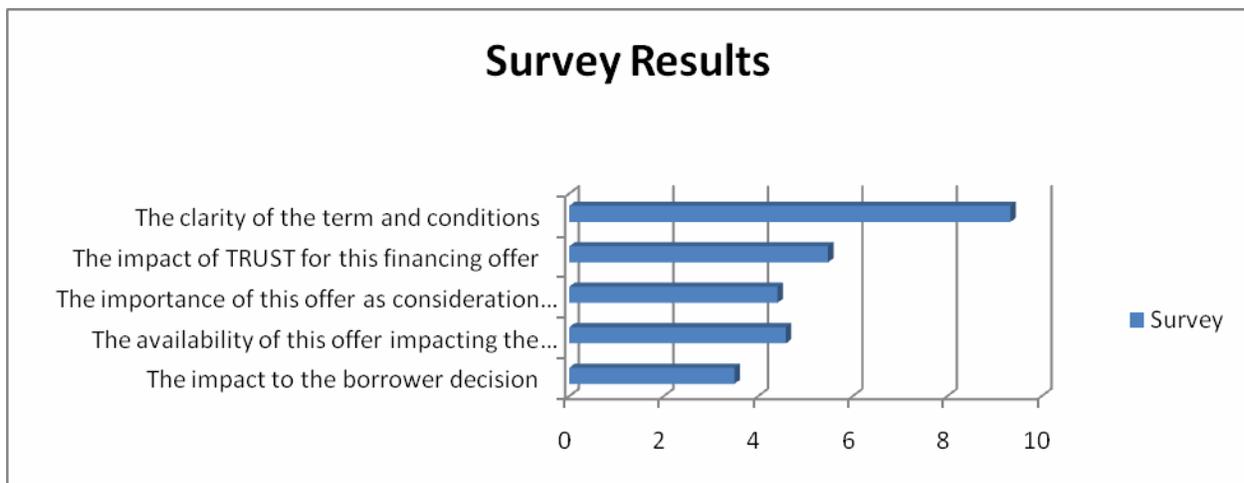
Unfortunately, there were no responses from the group of prospects that were identified. Although overall loan demand was low during this time period, this demonstrated that the loan guarantee did not cause an increase in loan applicants.

Pilot #3

NorthCountry Federal Credit Union piloted the interest refund guarantee loan program for 60 days from January 15th – March 15th 2010. We offered the interest refund guarantee on auto, other secured loans (i.e. motorcycles, snow machines, etc.) and unsecured loans. The pilot was marketed both on our web-site and in branch displays in the retail areas.

The pilot was simple to implement and we found no need to create new system codes. During the sixty day time frame we made more than 110 loans with the interest refund guarantee, and loan officers surveyed all borrowers at closing to gauge their opinions of the program.

The responses of the members are summarized by the graph below....



We reviewed survey results of 103 participants. Each borrower rated five areas about their perception of the 60-Day Loan Guarantee. Each question or statement was rated from zero to ten. Zero had the least agreement with the statement or question, five was neutral and ten has the most agreement. The five statements/questions we reviewed are listed below:

- Did the offer impact the financing decision?
- Did the availability of the offer make the financing decision easier?
- Was this offer important in the consideration of the financing?
- Did the offer impact the level of trust with the individual credit union?
- Were the terms and conditions of the offer clear?

In general, the program reinforced trust (as many of the respondents said that they already trusted NCFCU before the loan.), but the surveys also indicated that the feature was not very important as a factor in making the decision to borrow from NCFCU. It reinforced the existing decision and was appreciated by the membership, but did not have an appreciable effect on changing behavior.

Out of the total number of loans that were granted we had only one that paid off in the first sixty days (refinanced with another financial institution) and was refunded the interest paid on the loan. Therefore, the “return rate” was less than 1% and the feature did not have an adverse affect on NCFCU.

GETTING STARTED

1. Select target market and loan products
2. Design marketing and include disclosure language
3. Create disclosure that member signs at loan closing
4. Train staff and design promotional efforts
5. Ensure process in place for refund requests

MARKETING TACTICS

- direct mail
- website
- posters and banners in branches
- radio or tv
- contest (external or internal)

FINANCIAL PRO-FORMA

- difficult to measure financial benefit of growth in trust in membership
- no significant correlation to loan campaign response due to loan guarantee
- due to terms required to exercise the loan guarantee, there appears to be little financial risk to the credit union in offering this feature

RESOURCES

Overall, very few resources are necessary to begin the program. A determination of loan products that would be included for the credit union would be needed by the leader of lending. Marketing resources would be needed to update website and create any marketing materials. Leaders and employees would need to be informed that this opportunity is available to the members, so a resource for communication would be needed.

PROJECT TEAM

Filene i³ is a creative group of insightful and energetic credit unions professional who develop new ideas, innovate, and implement for the benefit of the credit union system. Please visit filene.org/home/innovation or email innovation@filene.org to learn more. The team members who developed this idea are:

Jenny Casselman

Greater Nevada Credit Union
Carson City, NV
jcasselman@gncu.net

Julie Cosgrove

Affinity Plus Federal Credit
Union
St. Paul, MN
jcosgrove@affinityplus.org

Bob Morgan

North Country Credit Union
South Burlington, VT
bmorgan@northcountry.org

Jason Peach

West Community Credit Union
O'Fallon, MO
jpeach@westcommunitycu.org

Jon Reske

UMass Five College FCU
Hadley, MA
jreske@umassfive.org