



## **CONCEPT DOCUMENT**

# **DEBT DRAGON**

### **TEAM MEMBERS**

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## PROBLEM DEFINITION

The problem of student loan debt puzzles many in the financial world and burdens millions of Americans each year. The amount of student loan debt continues to skyrocket, surpassing all other forms of debt outside of mortgages, even credit card debt. Seven in ten students graduating from college have some kind of student loan debt, owing on average \$28,400.<sup>i</sup>

While the investment in a college education is proven to deliver returns, the increased cost of a college education leaves many graduates burdened with debt many years after graduation. The cost of debt is deep – both to graduates and credit unions. Graduates saddled with thousands in debt struggle to save for retirement, pay for a wedding, grow their families or afford a mortgage. Credit unions depend on mortgages and other loans for income. With graduate debt-to-income ratios too high, they may not be able to meet these milestones and credit unions will pay the price.

**Still, most students graduate from college with regret – 77% of former college students age 40 and younger regret not doing a better job of planning how to manage their student loan debt.<sup>ii</sup>**

How might we help students mitigate the amount of debt needed to achieve their dream of a college degree?

## INNOVATIVE SOLUTION

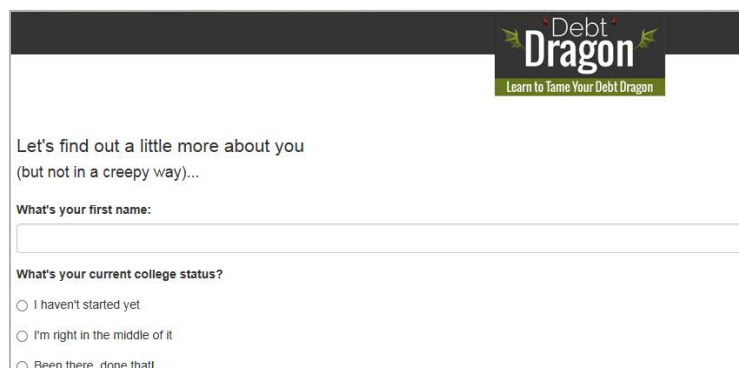
Student loan debt is a fact of life for most college students, but the amount of debt the student incurs is often times in their hands. Debt Dragon empowers students to make choices to reduce this debt - whether it is taking the bus instead of buying a car, attending a few years of community college instead of going straight to University, or using their meal plan instead of eating out at the bar.

To most student loan borrowers, including parents, the process can be enigmatic. Debt Dragon seeks to demystify this process by informing and educating students about their options so they can minimize their debt and live “happily ever after.” Today, very few tools exist for college students and graduates to help explain student loans and how they work. Most major student loan companies offer resources geared towards parents, not the student who is most likely going to carry the majority of the long-term debt.

Debt Dragon is unique because it speaks right to students and breaks down each debt factor in ways they will understand. Each decision demonstrates in dollars and cents how even the little things can affect their final debt load.

## PROTOTYPE

The Debt Dragon prototype is an online tool that walks students through a question and answer process to help determine the amount of student loan debt they could incur during their college experience.



The screenshot shows the Debt Dragon website interface. At the top, there is a logo for "Debt Dragon" with the tagline "Learn to Tame Your Debt Dragon". Below the logo, the text reads "Let's find out a little more about you (but not in a creepy way)...". There are two questions: "What's your first name:" followed by a text input field, and "What's your current college status?" followed by three radio button options: "I haven't started yet", "I'm right in the middle of it", and "Been there, done that".

The team partnered with Trabian Technology, Inc. to develop the prototype. The design was inspired by the simplistic user experience and decision dynamic calculator of TurboTax.

Simple questions about college selection, lifestyle choices and basic

Getting Started **Pre-College** During College Post College

University of Colorado Boulder, here I come!

Ok. Let's look at your report card. We promise it won't be that painful!

What kind of grades are you getting?

**Mostly A's.** Yeah, I'm an honors student.

**Mostly B's.** I work hard and usually do well in classes.

**Mostly C's.** I'm an average student.

**Mostly D's.** I'm probably not doing as well as I could.

**Mostly E's.** Wait. What?

**Mostly F's/Incompletes.** Let's be real. I'm probably not going to graduate.

To Do:

Apply for scholarships. You've got the grades!

Getting mostly A's will help you save an estimated 25% on 4 year tuition, which in your case would be **\$7,672**.

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finances show the user the impact in dollars to their potential student loan debt load.

The team borrowed inspiration from TheKnot.com to develop checklist items along with step-by-step advice leaving

the user with actionable steps on what they can do today, three months and a year from now to reduce their potential student loan debt. Unlike traditional student loan websites, Debt Dragon uses language, advice and links to information that is entertaining and easy for the user to understand.

Beneath the dynamic calculator is a link that expands into a loan calculator that can be adjusted by term and interest rate to give the user a better understanding of what a monthly payment and the total cost of the student loan could look like.

The site has three distinct workflows to help educate students on ways to minimize their student loan debt whether they are pre-college, currently in college or post-college. The tool can be used as a planner so students can change their course of action after fully understanding how their choices may impact their future debt load.

Tuition	\$30,688
Best Scholarship	\$7,672
Savings	\$60,525
Expenses	\$47,336
<b>Total</b>	<b>\$9,827</b>
Years to Repay	
<input type="text" value="10"/>	
Interest Rate	
<input type="text" value="3.5"/>	
Monthly Payment	\$97
Total Interest	\$1,834
Total Cost	\$11,661
<a href="#">Done</a>	

## TESTING AND RESULTS

The prototype was tested in different ways. Friends, family, colleagues and students from our respective credit unions were asked to try the program and provide feedback using the attached survey. The team attempted to obtain users in the targeted demographic of pre-college, in college and post college students. The following summary provides the results of the testing:

**Participants who viewed the survey: 259**  
**Number of individuals completing the survey: 128**  
**Completion rate of those who started the survey: 99%**

### Participant Demographics:

*Pre-College: 71.8%*  
*In College: 8.1%*  
*Post College: 15.3%*

**Overall Satisfaction with Debt Dragon (Satisfied/Very Satisfied): 78.2%**

**Percent of participants who stated that results of the program would impact their future college decisions:** 67.8%

**Percent of participants who would recommend Debt Dragon to a friend or family member:** 71.1%

**Percent of participants who stated that Debt Dragon absolutely impacts their college decisions of the future:** 25.8%; 41.9% said Debt Dragon impacts their future college decisions a little bit.

Other questions asked include: Rating the program's ease of navigation, quality of content, quantity of information, layout/design, running calculator of student loan debt and checklist portion. Participants were asked to determine if the features did not meet, met or exceeded their expectations. All features met each survey participant's expectations.

In trying to determine if the targeted demographic would be willing to pay for such a program, we asked how much they were willing to pay for the opportunity to use this tool. The overwhelming response told us that the majority (59.7%) would not pay for the program. However, there is a small percentage (32.3%) would pay \$0.99 to download a Debt Dragon app.

We also attempted to gauge the stress level of participants after completing the program. The results indicated that although they found the results informative and useful, their stress level about student loans remained the same (55.7%). Twenty seven point nine percent of the participants did feel less stressed after going through the program. This is encouraging in that if this program can relieve the stress of almost 30% of our population, we believe that we've made headway in educating our stakeholders to be in a better position to manage their potential student loan debt.

Finally, the participants also provided some valuable comments that could help improve the tool. If chosen for the alpha lab, it would behoove the development team to consider these comments to make it more attractive to investors and users. *Complete survey results are available upon request.*

## **BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA**

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### **Overview**

Much like Turbo Tax is synonymous with DIY taxes, the goal is to have the Debt Dragon experience be synonymous with the most sought-after resource that Generation Y and Z uses to proactively calculate and uncover concrete means to minimize future student loan debt. Debt Dragon will add value to its users' lives by giving a realistic expectation of the amount of debt that will be waiting for students post-college as well as some viable tips and tricks to minimize this debt before, during and post college.

To accomplish the aforementioned goal, Debt Dragon will take a three-phased journey that starts with white-labeling the Debt Dragon experience and finding 20 credit unions that understand Debt Dragon can be used as a resource to get an early share of Generation Y and Z's wallet. These forward-thinking credit unions will be called upon to form a CUSO and will be counted on to fund the necessary development hours to perfect the current Debt Dragon experience.

### **CUSO Formation**

As the pro forma outlines below, the initial CUSO investment per credit union will be \$10,000 the first year, \$5,000 the second year and finally an annual, recurring \$2,500 expense for years three through five. At the end of the fifth year, as an incentive to become a founding CUSO credit union, Debt Dragon experience (including any supplementary mobile apps) will be free to the credit unions as long as they remain a part of the Debt Dragon CUSO. Additionally, after Debt Dragon capital reserves reach \$250,000 (scheduled to happen at the end of year 5) founding CUSO credit unions will receive .05% of Debt Dragon's net income annually for (you guessed it) as long as they remain a part of the Debt Dragon CUSO.

### **Phase I, II and III Breakdown**

Founding CUSO credit unions can expect to have access to Phase I of Debt Dragon within 8 months after their initial \$10,000 investment. Phase I of Debt Dragon will include a fully functional, compelling online experience built in responsive design and customized to each individual credit union's product mix, allowing for general design changes such as logo, select copy, and color palette - all managed through a hosted admin tool.

Part of the funds raised in Phase I will also be used to build out the user To-Do List (i.e. Phase II) within the Debt Dragon experience. This phase will focus on creating compelling reasons for users to revisit, update and share their Debt Dragon experience, which will increase traffic on the site and also boost value for the credit union investors. Throughout Debt Dragon's second year of existence, the expectation is that Debt Dragon will be signing up 10 other credit unions to raise additional capital to help pay for staff and maintenance expenses as well as the funding of Phase III, App Creation.

As the pro forma below points out, creating compelling Android and iOS apps is not going to be free. Credit unions that have signed up for Debt Dragon in Phase I and II however, will receive the apps at a discounted rate. It is important to note that from the get-go, Debt Dragon will be built with an open API so credit unions can choose to pull the Debt Dragon experience into their own branded online banking or mobile app if they so desire.

Post-Phase III activities will include increased sales efforts to credit unions as well as reinvesting profit into the Debt Dragon experience. The pricing model breakdown can be found as a sub-section to the pro forma below.

### **Selling Debt Dragon**

Credit unions participating in Debt Dragon will be able to brag to their members about their commitment to educating their owners on how to minimize the fastest growing debt within the United States. It will be Debt Dragon's Operations and Sales Director's primary function to help credit unions understand that making a financial commitment to educating this younger generation on ways to minimize student loan debt via Debt Dragon is a long-term investment in the credit union's future borrowing base.

It makes financial sense to make this commitment now so that when these future borrowers are ready to buy their first car or home they are (1) not overburdened with an overly large amount of student loan debt and therefore do not qualify for a loan and (2) committed to their credit union that made a commitment to them. While each credit union will view this expense differently, we believe it is best thought of as a Marketing Expense where the ROI can be measured via driving new Gen Y and Z memberships and a bigger deposit and loan share of wallet of current Gen Y and Z members.

As you can see from the pro-forma, this would be a reasonable marketing investment for credit unions with some giveback to founding investors in future while educating an upcoming population through the challenges of higher education.

Debt Dragon Pricing Breakdown							
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6-10	Total 10-Year Investment
<i>CUSO Credit Union</i>							
Asset Size \$200 million and under	\$ 2,500.00	\$ 1,250.00	\$ 625.00	\$ 625.00	\$ 625.00	\$ -	\$ 5,625.00
Asset Size \$201 million-\$500 million	\$ 5,000.00	\$ 2,500.00	\$ 1,250.00	\$ 1,250.00	\$ 1,250.00	\$ -	\$ 11,250.00
Asset Size \$501 million - \$1 billion	\$ 10,000.00	\$ 5,000.00	\$ 2,500.00	\$ 2,500.00	\$ 2,500.00	\$ -	\$ 22,500.00
Asset Size over \$1 billion	\$ 15,000.00	\$ 7,500.00	\$ 3,750.00	\$ 3,750.00	\$ 3,750.00	\$ -	\$ 33,750.00
<i>Gold Level Credit Union</i>							
Asset Size \$200 million and under	\$ 2,500.00	\$ 1,250.00	\$ 625.00	\$ 625.00	\$ 625.00	\$ 3,125.00	\$ 8,750.00
Asset Size \$201 million-\$500 million	\$ 5,000.00	\$ 2,500.00	\$ 1,250.00	\$ 1,250.00	\$ 1,250.00	\$ 6,250.00	\$ 17,500.00
Asset Size \$501 million - \$1 billion	\$ 10,000.00	\$ 5,000.00	\$ 2,500.00	\$ 2,500.00	\$ 2,500.00	\$ 12,500.00	\$ 35,000.00
Asset Size over \$1 billion	\$ 15,000.00	\$ 7,500.00	\$ 3,750.00	\$ 3,750.00	\$ 3,750.00	\$ 18,750.00	\$ 52,500.00
<i>Silver Level Credit Union</i>							
Asset Size \$200 million and under	\$ 3,125.00	\$ 1,562.50	\$ 781.25	\$ 781.25	\$ 781.25	\$ 19,531.25	\$ 26,562.50
Asset Size \$201 million-\$500 million	\$ 6,250.00	\$ 3,125.00	\$ 1,562.50	\$ 1,562.50	\$ 1,562.50	\$ 39,062.50	\$ 53,125.00
Asset Size \$501 million - \$1 billion	\$ 12,500.00	\$ 6,250.00	\$ 3,125.00	\$ 3,125.00	\$ 3,125.00	\$ 78,125.00	\$ 106,250.00

Debt Dragon Pro Forma				
Expenses	Year 1	Year 2	Year 3	
<i>Phase I - White Labeling Current Debt Dragon Experience</i>				
Finalize Prototype	\$ 30,000.00			
Development and Design of Backend architecture	\$ 45,000.00			
Testing	\$ 15,000.00			
<i>Phase II - Creating Compelling Reasons for Return Traffic</i>				
Finalize Prototype	\$ 15,000.00			
Development and Design of Backend architecture	\$ 30,000.00			
Testing	\$ 7,500.00			
<i>Phase III - Creating Droid and Apple Apps</i>				
<i>Droid App</i>				
Finalize Prototype		\$ 15,000.00		
Development and Design of Backend architecture		\$ 15,000.00		
Testing		\$ 15,000.00		
<i>Apple App</i>				
Development and Design of Backend architecture		\$ 15,000.00		
Testing		\$ 15,000.00		
<i>Annual Maintenance of IR's</i>	\$ 21,375.00	\$ 32,625.00	\$ 32,625.00	
<i>Debt Dragon Operations and Sales Director</i>	\$ 50,000.00	\$ 75,000.00	\$ 100,000.00	
<i>Miscellaneous Expense</i>	\$ 15,000.00	\$ 22,500.00	\$ 30,000.00	
<i>Ongoing Development Expense</i>		\$ 50,000.00	\$ 52,500.00	
<b>Total Expense</b>	\$ 228,875.00	\$ 255,125.00	\$ 215,125.00	
Revenue Stream	Year 1	Year 2	Year 3	
<i>Phase I - White Labeling Current Debt Dragon Experience</i>				
CUSO Investment Average of \$10,000 x 20 credit unions	\$ 200,000.00			
<i>Phase II - Creating Compelling Reasons for Return Traffic</i>				
CUSO Investment Reduced to Average of \$5,000 x 20 credit unions		\$ 100,000.00		
Gold Level Average of \$10,000 x 20 credit unions		\$ 200,000.00		
<i>Phase III - Creating Droid and Apple Apps</i>				
CUSO Investment Reduced to Average of \$2,500 x 20 credit unions			\$ 50,000.00	
Gold Level Average Reduced to \$5,000 x 20 credit unions			\$ 100,000.00	
Silver Level Average at \$12,500 x 15 credit unions			\$ 187,500.00	
<b>Total Revenue</b>	\$ 200,000.00	\$ 300,000.00	\$ 337,500.00	
<b>Net Income on Investment</b>	\$ (28,875.00)	\$ 44,875.00	\$ 122,375.00	

## COMMENTS, NEXT STEPS, AND CALL TO ACTION

Debt Dragon has the potential to revolutionize how an entire generation of students and graduates handle their student loan debt, while giving credit unions more control and unique inroads to reach Millennials.

Feedback from our target audience was very positive. One student said, “This is unique,” and another said, “I really enjoyed going through the information and seeing how it affects my student loan debt was very informative.”

## How You Can Help

We’re looking for 20 seed investor credit unions to partner with us to bring this prototype into development. Each participating credit union will be able to white label this solution and bring it to their field of membership, getting first crack at marketing Millennials for student loans, credit cards and other products, while building trust and educating members about reducing their student loan debt so that they can be valuable, productive members.

Will you be one of them? Help bring this unique product to life and tame the Debt Dragon.

# ABOUT FILENE

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We’re governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: “Progress is the constant replacing of the best there is with something still better.” Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) nonprofit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at [filene.org](http://filene.org).

*“Progress is the constant replacing of the best there is with something still better.”*

—Edward A. Filene



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<sup>i</sup> The Institute for College Access & Success, “Student Debt and the Class of 2013,” <http://ticas.org/sites/default/files/legacy/fckfiles/pub/classof2013.pdf> June, 2015

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ii Time Magazine “You’ll Never Guess College Students’ Biggest Regret,” Nov. 27, 2014  
<http://time.com/3608266/student-debt-regret/>