



## CONCEPT DOCUMENT

# Bank on Family

### TEAM MEMBERS

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## PROBLEM DEFINITION

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How might we assist members with informal lending transactions?

Research shows that 75% of consumers have either lent money or borrowed money from family in the past; 62% of those loans were not paid back in full!<sup>1</sup> Sadly, even if the loan is paid back in full the borrower doesn't earn credit for their payments or the family member lending the money has to decide whether their relationship is worth confronting the family member.

According to the Federal Reserve Board Survey of Consumer Finances<sup>2</sup>, informal lending is an \$89 billion dollar market that we currently are not servicing. We conducted a survey with 270 respondents. One of the key insights is that most borrowers didn't look at other options before asking a family member or friend for money. The borrowers are most likely unbanked, which would lead us to the hypotheses that the customer focus would need to be on the lender.

The biggest overall discovery was that the perceptions and responses varied drastically between those that had borrowed money and those that had lent money. This observation led us back to our problem statement because with such drastically varying perceptions, we knew that these transactions cause friction and thus the need for a mediator to service these informal lending transactions. While 84% of the borrowers in our survey reported repaying the debt, only 54% of the lenders said they got their money back.

## INNOVATIVE SOLUTION

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Lending to or borrowing from family members can be a complex process that can be risky for the one lending the money and can lead to hurt relationships. Not only that, but it doesn't help build credit on the person's credit report. Bank on Family takes the awkwardness out of the transaction by making the credit union the "middle man" and reducing the risk for the family lender.

The borrower completes a form online that states how much they are looking to borrow and how much they can afford to pay monthly. They then submit that request form via email to a family member they feel might be willing to lend them the money. The family member that receives the email can simply accept or decline the request. If they accept, they will submit their bank account information and the credit union will initiate a withdrawal from that account. These funds are then used to secure the loan.

Documents that formalize the transaction are generated and sent to both parties for electronic signature. As the borrower makes monthly payments, that portion of the secured funds are released and sent to the family lender. After 12 months of consecutive on-time payments, the credit union will release the remaining secured funds back to the family lender and assume the risk of the loan for the remaining term. This process will stimulate more transactions like this, because family and friends will feel more confident in the transaction.

Of course, family members can stick to the informal way of handling borrowing to family, but then are stuck with the risk of monetary loss as well as the loss of a good relationship with their family member. In addition, doing this the old fashioned way doesn't build their family member's credit history like Bank on Family does and they will not have to rely on family in the future.

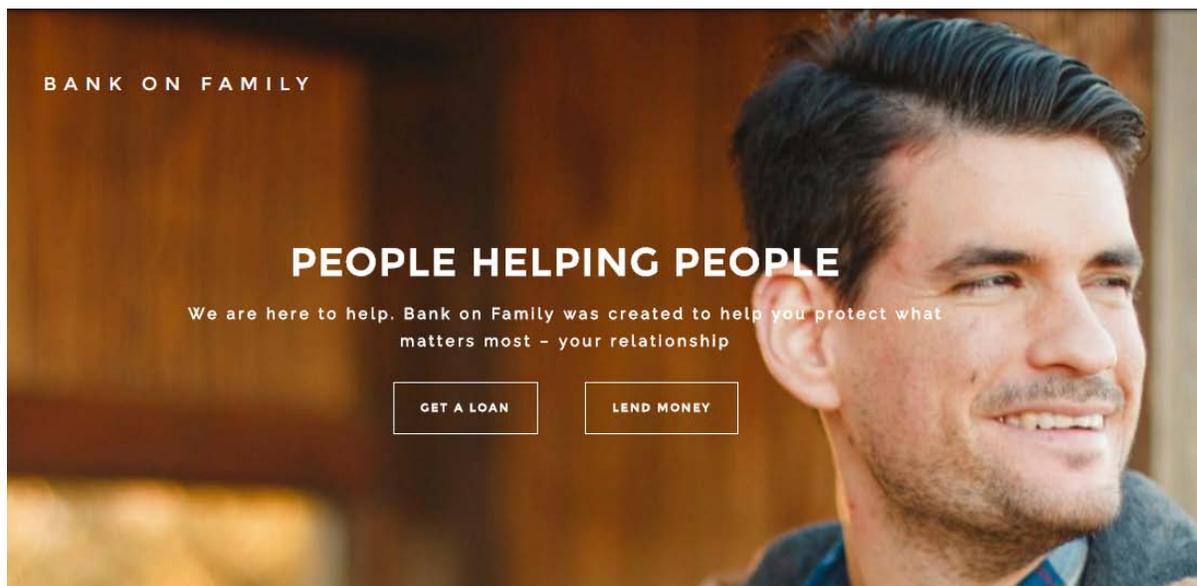
Together and with the help of credit union friendly partners such as PixelSpoke, we have created a solution that will not only assist consumers, but is also projected to have positive cash flow by year two.

## PROTOTYPE

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We worked with Cameron Madill of PixelSpoke to create a website for lead generation. Our prototype can be found at [bankonfamilylending.com](http://bankonfamilylending.com). The website, which is optimized for multi-channel use, was created with customer experience at the forefront. The faster and easier it is for both the borrower and lender to complete the transaction, the greater the completion rate will be as there is less friction and thus, fewer consumers that drop out of the transaction channel.

Being as simplistic as possible is vital, as borrowing from a friend or family member is a simple transaction. Our goal was to keep the transaction simple, while limiting the awkwardness for both parties.



*Above: Homepage for BankonFamilyLending.com*

## GET A LOAN

### GET A LOAN

Your Name

Email \*

Enter Email

Confirm Email

Phone

How much do you need to borrow?

How much can you pay back each month?

(Must be at least \$80/month)

Loan Sponsor Name

First

Last

Loan Sponsor Email \*

Enter Email

Confirm Email

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*Above: Screen Shot of the Get a Loan Form Submission page from the Bank on Family Lending website.*

## TESTING AND RESULTS

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To show feasibility of this product, we surveyed 270 respondents and in addition reviewed the prototype with members in our branches. We also had an attorney review and help write up all but one of the lending documents that would be needed to ensure compliance. We received the revised documents near the end of the cycle, delaying live testing.

However, we have shown this to multiple credit union executives and two that have agreed to move forward with testing when the concept advances. These credit unions were anxious to pilot because of the responses that we received from the survey, which included:

- Nearly 50% felt that having a bank or credit union as a third party could have made the situation easier to manage
- 80% of borrowers willing to pay interest were willing to pay up to 5% for this service – well within the range for share secured lending.
- Lenders stated that the amount of tension was/is twice that of the borrowers
- 24% of the lenders reported receiving none of their money back
- Nearly half of the borrowers voiced that it would be helpful to have these loans reporting on the credit bureau reports
- 78% of respondents that were lending money didn't consider a third party as an option or solution
- Nearly 67% did not set up specific terms when lending to family or friends

As the program is piloted within natural person credit unions, we feel that key metrics to review will be as follows.

- Approval ratio of applicants
- Delinquency Rates of Applicants
- “Charge-Off” Ratios of Applicants
- Traffic/CTR to the platform for requests
- Percentage Change in Credit Score/FICO
- Utilization of product (dollar volume, number of loans)
- Changes to Membership Profitability
- Stronger member engagement measured by products/HH and tenure

## BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA

We have recognized that the majority of the consumers that would use this product are under-banked. Bank on Family lending will allow us to bring in more credit union members and more engaged members. Those that are currently borrowing from family and friends would be more likely to become a member because of our outreach and those that are already members would become more engaged. Based on an analysis of 208,414 members across the United States and Puerto Rico, engaged members generate \$449.40 more annually than non-engaged members.<sup>3</sup>

Our business to business model of this prototype is based around marketing the website for leads and servicing these credit unions well. The more successful they are, the more likely they are to stay with the program.

There are two business models. The business to business (example: Filene to natural person credit union) and the credit union to consumer model. Below are projections for the natural person credit union business model:

Business model for Credit Union offering this program to their membership.					
MeowFish Credit Union / Family-2-Family	Year 1	Year 2	Year 3	Year 4	Year 5
New Loans (#)	245	350	525	630	840
Loan Originations (\$)	\$ 374,238	\$ 534,625	\$ 801,938	\$ 962,325	\$ 1,283,100
Interest Income	\$ 13,375	\$ 21,324	\$ 31,828	\$ 39,143	\$ 51,558
Fee Income	\$ 7,656	\$ 10,938	\$ 16,406	\$ 19,688	\$ 26,250
<b>Total Income</b>	<b>\$ 21,031</b>	<b>\$ 32,261</b>	<b>\$ 48,234</b>	<b>\$ 58,831</b>	<b>\$ 77,808</b>
Start Up Costs	\$ 5,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
<b>Fixed Expenses</b>	<b>\$ 5,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>	<b>\$ 1,000</b>
Salary/Benefit Expense	\$ 17,014	\$ 24,306	\$ 36,458	\$ 43,750	\$ 58,333
Marketing Expense	\$ 1,225	\$ 1,750	\$ 2,625	\$ 3,150	\$ 4,200
Cost of Funds	\$ 265	\$ 417	\$ 623	\$ 764	\$ 1,007
<b>Variable Expenses</b>	<b>\$ 18,504</b>	<b>\$ 26,473</b>	<b>\$ 39,706</b>	<b>\$ 47,664</b>	<b>\$ 63,541</b>
<b>Net Income</b>	<b>\$ (2,473)</b>	<b>\$ 4,789</b>	<b>\$ 7,528</b>	<b>\$ 10,167</b>	<b>\$ 13,267</b>

Business model for the company managing the Bank on Lending program.					
<b>B2B Business Model for Running Bank-on-Fa</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Revenue</b>					
Application	\$ -	\$ -	\$ -	\$ -	\$ -
New Credit Union Start-up	\$ 50,000	\$ 125,000	\$ 375,000	\$ 375,000	\$ 375,000
Annual Reoccurring Subscription	\$ -	\$ 8,000	\$ 28,000	\$ 88,000	\$ 148,000
<b>Total</b>	<b>\$ 50,000</b>	<b>\$ 133,000</b>	<b>\$ 403,000</b>	<b>\$ 463,000</b>	<b>\$ 523,000</b>
<b>Variable Expenses</b>					
Salary Expense	\$ 50,000	\$ 75,000	\$ 75,000	\$ 100,000	\$ 100,000
Marketing (To CU's)	\$ 15,000	\$ 37,500	\$ 112,500	\$ 112,500	\$ 112,500
Website Maintenance	\$ 50,000	\$ 50,000	\$ 25,000	\$ 25,000	\$ 25,000
<b>Total</b>	<b>\$ 115,000</b>	<b>\$ 162,500</b>	<b>\$ 212,500</b>	<b>\$ 237,500</b>	<b>\$ 237,500</b>
<b>Net Income</b>	<b>\$ (65,000)</b>	<b>\$ (29,500)</b>	<b>\$ 190,500</b>	<b>\$ 225,500</b>	<b>\$ 285,500</b>

## COMMENTS, NEXT STEPS, AND CALL TO ACTION

We are already working with two natural person credit unions to begin piloting with their members. We will use these pilots to continue to tweak and refine our model. We will need to work with Filene or a CUSO in order to have the resources to distribute this prototype to other credit unions. By working with Filene or a CUSO, we will be able to utilize their business development, marketing and sales resources to reach out to the broader credit union movement. We will also be able to cross utilize their IT teammates to keep the Bank on Family website up to date while keeping our operations lean and efficient.

We expect to need an additional \$50,000 to move forward. This money will go towards the costs of human capital and infrastructure expense. Through your contributions towards Bank on Family, we can continue to move our prototype forward. Bank on Family will help ease the friction caused with informal lending between family and friends and will help natural person credit unions gain share of an \$89 billion market that is currently under-banked while building credit for a loan well paid.

<sup>1</sup> Bank on Family Lending Survey Results September 2016

<sup>2</sup> <https://www.debt.org/credit/loans/friends-family/>

<sup>3</sup> BCU Membership Analysis Report 2016

## 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).

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—Edward A. Filene

