



# Two Grand Plan CONCEPT DOCUMENT

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## INTRODUCTION

Half of all consumers in several of the world's developed countries would struggle to meet an unexpected expense, according to a TNS study conducted in 15 countries.

The TNS Personal Risk Assessment and Risk Literacy Study is derived from nationally representative consumer surveys developed in association with professors from Harvard Business School and Dartmouth College. The study analyzes consumers' risk literacy, household financial fragility, and their financial experience and behavior during the economic crisis of 2008-2009. The TNS Personal Risk Assessment and Risk Literacy Study were conducted between June and September 2009.

According to Peter Tufano of Harvard Business School, "These figures include more than just the unemployed or lowest income households. In many countries, there is widespread financial fragility with a significant number of seemingly middle-class consumers extremely vulnerable to sudden financial emergencies." The possibility exists that we have successfully educated middle-class consumers on the importance of retirement savings, but have lost sight of the need for short-term, or emergency savings. The "rainy day" fund of yesteryear has been replaced with the modern credit card, as debt has become increasingly accepted, and expected in today's society.

To measure consumers' capacity for bearing risk, the survey probed if, within the next month, the respondent would be able to come up with enough money (\$2,000) for an unexpected expense. Around half of consumers in the United Kingdom (49%), Germany (47%) and the United States (46%) reported that they would not be able to get their hands on \$2,000 in 30 days

Access to \$2000 could be include savings, use of a credit card, a loan, asking a friend or family member for help, or an activity (working more, selling goods, etc).

Unfortunately more than half of the survey respondents were unable to access \$2000. This kind of unexpected expense negatively impacts the financial lives of those who are ill-prepared for the kind of emergencies that occur regularly. The study illustrates that many households are unaware of their risk tolerance as it relates to their finances.

## EXECUTIVE SUMMARY

The Two Grand Plan concept creates a program that fulfills the demonstrated and growing need for emergency savings. The program assists members with savings earmarked for emergency situations. Members, who participate in the program, are rewarded with access to an affordable rate loan in the event of an emergency during the savings process. The loan amount correlates with the amount of savings at the time of the request. The member sets up a regular savings account with recurring automatic deposits. Members must abide by specific withdrawal scenarios designated by the credit union to discourage any unsubstantiated or frivolous withdrawals and to encourage changes in behavior. If the member chooses to withdraw their money outside of these parameters, they are no longer eligible for the affordable rate loan benefit.

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If the member has an emergency need during the course of the savings program, the affordable rate loan is available so that their savings program is not interrupted. A separate payment plan is established to pay back the emergency loan.

To limit the risk to the credit union, the loan amount is based on the member's savings balance. The maximum loan amount is either twice the savings balance or \$2,000, whichever is less. For example, if the member has \$500 in their savings account, the credit union will loan up to \$1,000. By limiting the loan amount, the credit union's risk is limited to 50% of the total loan amount. The risk decreases after the member reaches \$1000 in savings. Any loan amount for \$1000 and above in savings yields a risk less than 50% (see chart that follows).

The savings balance is frozen and no funds may be withdrawn until the loan is repaid. The risk continues to decrease as the member repays the loan. Once the loan is paid in full, the member continues to maintain the deposit relationship with the credit union. To further mitigate risk, the credit union will set a participation maximum for the number of members in the program at any one time, set a minimum for the monthly deposit amount, limit the number of times members can access the affordable rate emergency loan and state the range of permissible unexpected, or emergency expenses to access the loan.

## OPPORTUNITY

The TNS Study identified low and moderate income families that were unable to come up with \$2,000 in 30 days. The Two Grand Plan creates opportunity for credit unions to serve these members and consumers in these groups by offering a savings opportunity to those who most need it, and at the same time create/enhance member loyalty. This program was created to protect and educate members by providing an alternative solution to high interest payday lending. This is an opportunity to assist members by replacing irresponsible behavior with behavior that builds confidence and pride, and ultimately leads to healthy decisions that lead to long-term financial success. It truly illustrates the credit union difference as we fulfill the credit union philosophy of *People Helping People*.

## ENVIRONMENTAL SCAN

Currently there are a number of credit unions that encourage their members to begin a strict savings plan to prepare for life's emergencies. We were unable to identify any that had implemented an offering like the Two Grand Plan. See below for savings plans we identified:

<http://www.americasaves.org/>

<http://www.save500challenge.org/>

## SOLUTION

The Two Grand Plan Program is two-fold. The savings account is the primary (and long-term) solution to help members gain a \$2,000 savings balance. The loan is the reward/security part of the solution that allows the member to continue saving without interruption when an unexpected

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expense occurs. Credit unions may consider assessing a small fee to members for admittance to and administration of the Two Grand Plan.

**The Savings Account:**

The savings account that is established requires either direct deposit or a recurring deposit schedule. No deviation is allowed from a set deposit schedule.

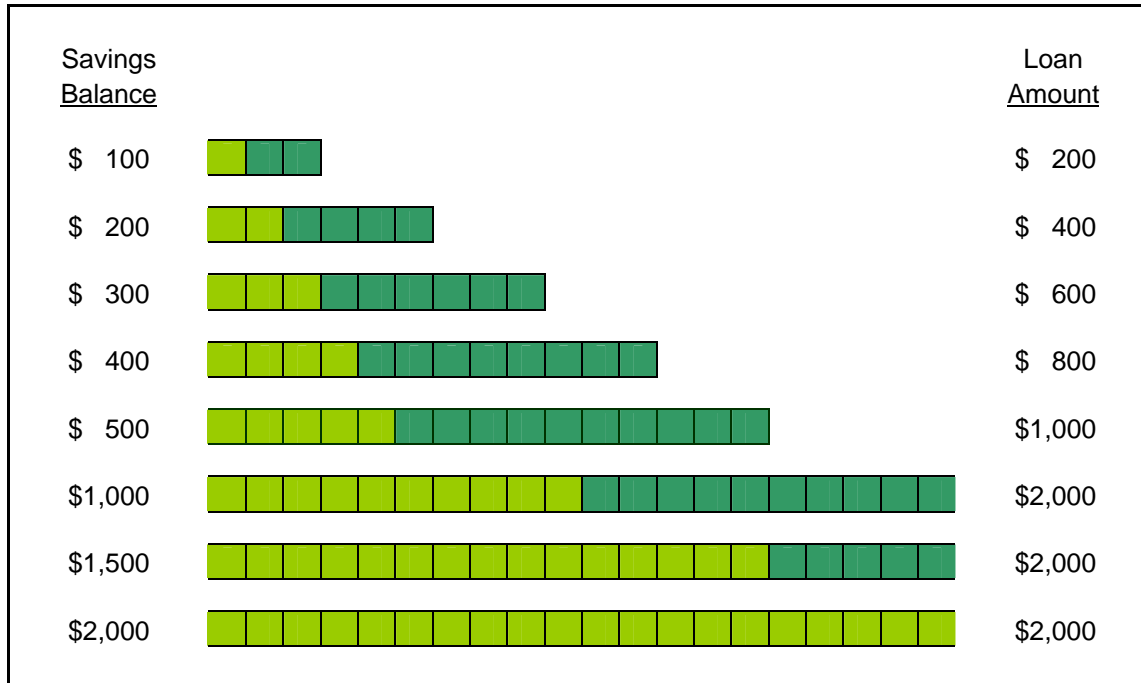
Once the member reaches the \$2000 savings balance, the credit union notifies the member of the accomplishment (the possibility exists to incorporate small incentives along the way to keep the member motivated to save). The member now has a liquid option for any emergency expenses. The \$2000 balance can be moved to a money market or certificate of deposit where the member can reap the benefit of earning higher dividends. The program ends when the member reaches \$2,000. However, credit unions should encourage members to continue saving into this emergency fund.

**The Loan:**

The Two Grand Plan sets up a semi-share secured micro loan to discourage members from withdrawing cash from their Two Grand Plan savings account. To keep members on a steady and uninterrupted track of saving up to \$2000, the Two Grand Plan loan provides an alternative for liquid funds in case unexpected expenses arise. This affordable rate loan is only available if the unexpected expenses match the range of permissible expenses, set by the credit union. (See list under Operational Considerations.)

The loan amount is based on the savings balance and is double the savings balance or \$2000, whichever is less. For example, if a member saves \$1,500, rather than granting a \$3,000 loan, the credit union offers a \$2,000 loan. The \$2,000 cap is to minimize the risk for the credit union. Until the member reaches \$1,000 in savings, the credit union would be granting a 50% secured loan which is why the loan is described as a semi-share secured loan. See example of loan scale below.

Example of loan based on savings balance:



In order to make the loan valuable for the member who's striving to systematically save \$2000, the credit union should consider a 0% or low interest rate loan for this program. Other options to fund the loan balance include grants, gifts, and donations. Each credit union will be able to set the interest rate based on its lending and financial risk tolerance.

Due to the semi-share secured nature of this loan, the loan approval is not based on creditworthiness.

## MEMBER BENEFITS

- Build wealth
- Increase liquid funds
- Increase risk tolerance
- Experience the peace of mind and confidence that comes from having savings available for an emergency

## CREDIT UNION BENEFITS

- Increase deposit balance



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- Increase member loyalty
  - Generate fee income
  - Increase/enhance member relationships
  - Increase new member growth
  - Impact member retention rates
  - Leverage community relations
  - Serve the underserved

## TARGET MARKET

Individuals who need/want to start a savings plan, especially those who are unable to access \$2,000 in case an unexpected expense occurs. Based on the findings in the TNS Study, low income individuals are a target, in addition to those with a household income up to \$125,000. Since women are responsible for, or have a say in 83% of all household financial decisions, a program targeted to women in the 2 income categories is necessary.

Most consumers are unsure about how much they should be saving on a regular basis, and as a result, tend to put-off the decision regarding short-term savings. The Two Grand Plan provides a concrete and justifiable goal to begin to alter behavior regarding short-term saving.

## OPERATIONAL AND OTHER CONSIDERATIONS

The Two Grand Plan is designed to give credit unions the freedom to customize the savings requirements that best fill the needs of their field of membership. The rewards, deposit requirements, interest rates on dividends and loan rates can all be set by each individual credit union based on their member demographic or market environment. The following are guidelines for credit unions to consider in determining the permissible range of withdrawals of funds from the Two Grand Plan accounts.

Suggested range of permissible withdrawal scenarios:

- Repairing an automobile to get to work/school;
- Buying a child school supplies/uniform;
- Repairing a home HVAC when above 95° or below 60°;
- Visiting a doctor or purchasing medicine when your child is sick;
- Purchasing dental services to relieve pain;
- Handling a family funeral expense;
- Traveling to take care of a sick parent/family member;
- Purchasing necessary items to begin a new job;
- Repairing a home for safety or health reasons;
- Paying a bill to prevent loss of home or disconnection of utilities
- Any others deemed appropriate by the credit union.

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The specific account information for the savings and loan provisions of the Two Grand Plan would be set up as any other product on the credit union's core processing system.

Potential loan terms:

- Signature or other personal loan
- Loan subject to normal underwriting rules unless waived
- Interest rate variable or fixed and/or premium rate (even 0%)
- Funding variable depending on the balance in the savings account
- Full or partial share-secured loan

An educational component could also be added to the product at the credit union's discretion. A requirement to complete some level of financial education or go through some debt analysis like *Debt in Focus* could be required.

## PROOF OF CONCEPT

At this time several credit unions are evaluating the implementation of the Two Grand Plan. The concept has yet to be piloted. Due to the low loan ratio that credit unions are experiencing, it was difficult to find a credit union that would pilot a program that emphasizes deposits in to a savings account, within the allotted time frame.

The risk of the program can be modified by the number of members who participate in the Two Grand Plan. Credit unions were unable to contribute the resources to set up the program for the limited gain.

## GETTING STARTED

1. Establish a savings account for the Two Grand Plan
2. Specify the terms of the loan for the Two Grand Plan

## MARKETING TACTICS

For credit union participation:

Primary message – Be part of the solution to improve the financial well-being of Americans! More than half of Americans cannot access \$2000 within 30 days. Make a positive impact to reduce the financial stress of American consumers.

For member participation:

Primary message – If you had the need for money to cover an emergency, could you come up with \$2,000 in 30 days? Join the Two Grand Plan and build a \$2,000 safety net for your family.

Secondary message – Get fit, get confident. Join the Two Grand Plan Revolution and protect your family.

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## FINANCIAL PRO-FORMA

		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3 and Ongoing</u>
Average CU Membership For Credit Unions		43,310	43,635	44,070
New Accounts from Current Members and Members Joined From Previous Year	0.50%	217	2	2
New Memberships Opened	0.25%	108	109	110
<b>Total Accounts</b>		<b>325</b>	<b>436</b>	<b>384</b>
Average Deposits at Year End	\$20/W Dep.	520	1,560	1,560
<b>Total Deposits</b>		<b>\$168,909</b>	<b>\$679,436</b>	<b>\$598,811</b>

## PROJECT TEAM

Filene i<sup>3</sup> 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](http://filene.org/home/innovation) or email [innovation@filene.org](mailto:innovation@filene.org) to learn more. The team members who developed this idea are:

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