



wintegrity
CONCEPT DOCUMENT



INTRODUCTION

Members invest. A local business grows. Everyone wins. That's Wintegrity.

In today's world of social networking, blogging and web 2.0, credit unions need to rise to the challenge to connect with a generation of investors and borrowers that expect transparency from the businesses they deal with. Credit unions have an opportunity to leverage their model of "people helping people" in a more transparent manner through the internet.

Wintegrity was born out of the idea of making the credit union model an open transaction between borrowers and investors. The idea is that a business owner will have a need, and members of the credit union can fund this need through a special deposit account. The depositor is able direct specific funds from this account to the specific business loan that he or she chooses. They know exactly how their money is being used and may earn a better rate by participating. The business owner's need is met and also may get a lower rate on the loan. Everyone wins.

EXECUTIVE SUMMARY

The opportunity:

There is no doubt these are unprecedented times for financial institutions. Consumers are growing more and more concerned about the safety and integrity of their investments and those who manage them. Alternatively, business owners need new sources of funding now that many of their traditional bank partners have more limited ability to lend. There is no greater time than now for credit unions to take advantage of the growing needs of these market segments.

The credit union model in its simplest form matches the members of the community who need loans with members of the community who have excess funds to invest. When members make a deposit in their credit union, the funds are available to meet loan demands of other members of the credit union. However, the depositors do not play an active role in determining how their funds are used. This responsibility has been given to the Board and Management of the Credit Union. We believe a more transparent model would appeal to a significant population of the market.

In summary, the growing needs of the small business community, combined with the growing push for transparency in the financial system, has produced the opportunity that we now call Wintegrity.

What is Wintegrity?

When a credit union offers Wintegrity, they are giving small businesses opportunities to connect with their community and get the funding they need. The credit union is also achieving greater transparency by allowing the depositor to "control" how their funds are invested. This connection can be achieved directly through an "online" environment that is managed by the credit union. Wintegrity also helps socially conscious investors connect directly with members of the business community, forming a true partnership that embodies the credit union cooperative spirit.

Throughout this document, we sometimes refer to the member that deposits their funds with the credit union as an "investor". Although we use this term to illustrate the transparency of the transaction from the member's point of view, the credit union retains all credit risk. The depositor earns a stated yield that is properly disclosed in a "Truth in Savings Agreement".

Peer to peer lending:

Wintegrity is **not** peer to peer lending. Peer to peer (P2P) lending is an alternative model to traditional financial services, whereby investors and borrowers are matched directly through a website. Investors absorb

the credit risk and earn a higher yield than they would typically earn on a deposit account at a financial institution. Borrowers receive a better loan rate than they might receive at a financial institution. However, P2P lending has not been successful in the United States due to the regulatory environment.

The core values of P2P lending seem consistent with some of the values of the credit union movement, such as “people helping people” and transparency. Wintegrity provides an effective way for credit unions to leverage some of the great features of P2P lending. Unlike P2P lending, though, Wintegrity provides a model that is fully compliant and includes the credit union in the transactions. Investors are protected through their deposit with the credit union but have the ability to “choose” how their funds are used. Borrowers have the opportunity to “tell their story” in the community and form a bond with a pool of potential customers.

Wintegrity Accounts:

When a member wishes to participate in Wintegrity, a special type of deposit account, typically a share certificate, is created once a member “signs up” in the online system. They are able to interact with business members who have been approved for a loan from the credit union, and they are able to assign their deposit to help fund the loan(s) of their choice. Again, this is very similar to peer to peer lending, however the depositor assumes no credit risk and does not participate in the credit decision.

Wintegrity Loans:

Business members who receive approval for a loan can receive a special rate by agreeing to participate in Wintegrity. The business member can interact directly with members of the credit union and offer special incentives to those who decide to “fund” their loan. Unlike traditional peer to peer models, the loan is underwritten and directly funded by the credit union.

The website:

Not only will businesses and investors connect through the website, resources are available to business owners. These include “The Big Idea Evaluator” tool (an earlier i3 innovation), business plan guides and links to local and national resources.

The Credit Union Role:

The credit union manages the Wintegrity website to ensure proper online etiquette is followed by the members when posting messages. Additionally, the credit union will manage the interest rate incentives for those members who participate. Most importantly, the credit union works to promote this new community interface with its consumer and business member base.

Flexibility:

This “open” model can be used by credit unions in many ways. For instance, this product might be the more “hands on” approach that a credit union needs to enter the market for business lending. Additionally, it can be used as a way to attract additional depositors if liquidity is not sufficient to meet the growing demand for business loans. It might also create a “buzz” in the small business community and lead to more loan referrals.

Wintegrity can be extended to other types of loans, not just business accounts. For example, depositors at the credit union might also enjoy the opportunity to help fund student loans in their community through this online interface.

ENVIRONMENTAL SCAN

Initial Research

We vetted the Wintegrity idea through an online survey that was given to over 30 small business owners. From this research we learned that the concept should include an emphasis on social networking and business mentoring. It was a natural fit to include the “Big Idea Evaluator” from the Filene i3 concept “*What’s the Big Idea*” into the Wintegrity website.

We also talked to our local Small Business Administration and Economic Development offices about the idea. We decided to include links and helpful information from these groups on the website. We researched existing P2P models, such as Kiva, Lending Club, Loanio, and Zopa. We conducted a deeper dive into the two most relevant models, Zopa and Lending Club, focusing on the technical, regulatory / legal, and branding / marketing aspects of their programs. We even had the opportunity to speak with the CEO of Zopa, Doug Doulton, and discuss the challenges Zopa experienced in entering the US market. We found that credit unions have a vital role to play due to the regulatory challenges, but some of the values of P2P lending could be leveraged in this product.

Micro Business Lending Environment Scan:

Member business loans are declined for a fairly limited number of reasons. They are:

- **Credit History of owners/guarantors:** Member business loans carry additional risks as compared to consumer loans. Therefore we require positive and established credit histories for the owners/guarantors. Applicants with poor credit histories or very limited credit histories are usually turned down.
- **Equity in Business/ Collateral:** Commercial real estate deals require a 20% equity position to be considered for financing. Other MBL applications require a substantially lower loan to value (LTV) ratio. For instance, inventory, equipment, and accounts receivable loans might require an LTV of 50%. Therefore, some business members might be required to provide a large down payment or seek additional support from the Small Business Administration (SBA).
- **The small business owners are the most underserved.** Banks are no longer willing to take the time to meet the needs of small businesses and they concentrate on the mid to large business segment. It takes almost as much time to put together a \$100 thousand loan as it does for a \$500 thousand deal. Therefore, the banks are going after loans that exceed \$500 thousand.

Peer to Peer Lending Scan

We found that higher-income and Gen Y consumers are the most active users (of P2P lending sites). Approximately 36% of borrowers said they used the service for the better interest rate. Some (33%) turned to P2P to avoid using credit cards. Others (27%) go that route because they do not qualify for a loan from a bank or credit union.

The concept and technology supported by one of the more successful P2P lenders in the US, Lending Club, are really rather simple. Lending club acts as an intermediary and servicer. It accepts the application, pulls credit and calculates a credit grade. The credit grade is based on score, the number and utilization of revolving accounts, amount requested and term. It offers the loans to Lender Members who lend to one or more people at a variety of rates. Lending Club earns 1% from each transaction to cover the cost of the technology to match the borrowers and lenders and cover the costs associated with servicing the loan.

We first asked “Why couldn’t a credit union just offer a similar program to Lending Club?” This would be appealing because the Lending Club model transfers credit risk to the investor. This addresses the challenge many credit unions face when trying to manage the credit risk associated with small businesses that may be

“start-ups” or have less desirable collateral. The Lending Club model would allow us to serve more of our members’ needs without carrying the credit risk.

Unfortunately, we found that there was a substantial amount of regulatory burden with the P2P concept:

- It is not clear that a natural person credit union could provide P2P lending under the rules regarding incidental powers. It might require the formation of a CUSO, but this concept could not be easily tested in six months.
- Additionally, there are issues regarding registration and disclosure to investors who participate in P2P lending. This activity falls under the purview of the Securities and Exchange Commission (SEC), and this has been a prohibitive process for Zopa and Lending Club. The “prospectus” offered by Lending Club which describes risk is 136 pages long. Lending Club is unable to register in all 50 states.

ZOPA is also a successful P2P servicer in several countries, including England, Italy, and Japan. Zopa attempted to enter the market by partnering with credit unions. Zopa recognized the philosophical similarities with credit unions. Due to the regulatory burden, Zopa has suspended operations in the United States, and their US website is merely a deposit and loan referral source to credit unions that had been participating previously. There is no social networking functionality on the US Zopa website.

Zopa relied mainly on “word of mouth” and online forums to advertise their product in the United States. The CEO of Zopa said that it was hard to convey the concept in mass media; however, if he could do it over again, he would have put more money behind general advertising in their launch in the US. There seemed to be slower adoption in the US and this could be due to more risk aversion by consumers here.

SOLUTION

Members must first go through a simple enrollment process to have access to the information in the Wintegrity website.

Depositors: Members who wish to “fund” approved business loans are set up with a special share certificate account. The member receives a base rate on the certificate; however, if the member participates in Wintegrity within a certain amount of time, the rate could be increased and re-disclosed.

To enroll, the member enters the Wintegrity website and enters their name and e-mail address. The credit union has the opportunity to approve the enrollment by verifying that the member has already established the special deposit account. Once the member’s enrollment is approved, the member can post questions and interact with the business members who have received a loan with the credit union. Ultimately, the member can “assign” their deposit to help “fund” the business loan(s) of their choice.

Borrowers: Business members, upon underwriting of their loan request, are given the option to participate in Wintegrity and receive a special rate. Prior to loan closing, the business member must establish their account on Wintegrity and demonstrate active use (as defined by the credit union) to receive the rate incentive at the loan closing. For instance, the member could receive the rate discount once their loan is “fully funded” by Wintegrity investors. Perhaps the business could “appeal” to investors by offering them coupons and incentives to help them “fund” their loan. It would also promote usage of their business, if they are a retail company.





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Any participation in opportunities promoted or referenced by this site are subject to our [terms and conditions](#).

This is the page where a business member can set up their profile that investors will view.



RSS Feeds [What is RSS?](#)

- Opportunities Feed
- Comments Feed

Doug Williams, ent.

Posted by Doug Williams on January 5th 2009

Expand Soda Distributorship   [View signups \(1\)](#)

- [Leave a comment](#)
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- [Recommend to a friend](#)

Needing to grow my soda distributorship new market opportunities in 2009.

When?

01/05/09

Where?

10/11/09

Leave a comment

Name:

Email:

Comment:

Investors would read information on the business member and their plans for using the loan proceeds. They could further make comments or interact with the member. All postings can be reviewed by the credit union prior to displaying them on the website.

MEMBER BENEFITS

A quick glance at the headlines today reveals that there are many challenges for both consumers and small business owners. The economic landscape is bleak for both groups. Additionally, trust and confidence in financial institutions has suffered tremendously. Now, more than ever, consumers and business owners need the financial benefits and transparency that credit unions can offer through Wintegrity.

Consumers should expect higher rates on deposits when participating in Wintegrity and business owners should expect lower rates on loans. Additionally, business owners can take advantage of better awareness by networking with potential customers. Consumers can also receive discounts and other incentives directly from the business owners.

Wintegrity also provides better transparency regarding the financial transactions that take place, and consumers can “choose” how their deposits are used in the community. This is truly a “Win-Win” situation.

CREDIT UNION BENEFITS

Credit unions have been faced with declining profitability over the past several years. Although the dislocation in the mortgage market has caused increased loan losses for many credit unions, one of the longer-term concerns is the narrowing of net interest margins and rising operating expenses. While loan losses should normalize when the economy improves, it will be much more difficult for credit unions to improve net interest margins. Increased competition for both deposits and loans has benefited consumers with better prices; however, this has reduced the return on assets (ROA) for most credit unions. To cover growing operating expenses, credit unions have had to find ways to increase overall asset size and find alternative revenue streams. Wintegrity can be a powerful solution for credit union asset growth and revenue generation.

Credit unions have had to resort to higher cost products, such as share certificates, over the past several years to grow their deposit base. While pricing incentives are effective in attracting deposits, they are less successful in building long-term loyalty. In fact, according to Datatrac share certificate retention has dropped from 85% to 55% the last few years. This suggests that credit unions have not been able to build a relationship with members who have joined for the high-rate share certificates. Unless this occurs, this type of growth can lead to significant reductions in ROA.

Wintegrity provides a unique way for credit unions to deepen relationships with members who may at first be attracted to the credit union for the great rates that are offered. The product introduces to the member the value propositions of the credit union movement that are not tied to pricing alone. This should increase the likelihood that the member will utilize more credit union products, increasing the member’s contribution to profitability.

As auto loan demand declined over the past decade, credit unions have had to increase their real estate lending to continue to grow loans. The National Credit Union Administration has documented concern regarding increased interest rate risk through the growth of mortgage loans on credit union balance sheets. Also, the long-term outlook for home equity loan growth is unclear given the large decline in home values. Business lending is clearly an opportunity to attract additional loan demand and grow the membership base.

TARGET MARKET

The target market for Wintegrity is divided into two groups:

1. Socially conscious generation Y and X investors who would find value in the transparency of the transaction
2. Entrepreneurs and established small business owners who need an alternative source of funding and who are interested in connecting in a unique way with their community

OPERATIONAL AND OTHER CONSIDERATIONS

The concept of a credit union being the intermediary between an investor and a borrower is nothing new. However, trying to create and manage a social networking platform for investors and the business community is a new spin. Although there are a host of opportunities, there are many operational considerations and risk factors to consider. The most significant issues are:

3. Credit unions need to create the connection between investor and business borrower without giving any implied endorsement of that business. Setting up an objective process within the credit union will be essential. Training and communication from both an external and internal point of view is extremely important.
4. Each credit union will have a different tolerance level for risk associated with underwriting business loans. This program may or may not move them to change underwriting standards for participants of this program.
5. Business owners sacrifice privacy in exchange for a better rate and the ability to promote the business to potential investors through a social networking site. To minimize risk, a strong privacy disclosure would need to be reviewed by legal counsel and signed by the business owners prior to participating.
6. Disclosure of the investment rate would be covered in Truth in Savings. Each credit union should have its legal counsel review any interest rate incentives offered for its depositors who participate in the program.
7. There could be potential servicing challenges for some credit unions who attempt to service business loans "in-house" with less sophisticated data processing systems.

PROOF OF CONCEPT

The technology for the online interface was not available until mid-March. We have the ability to initiate testing of the concept immediately with some of the members of the project team. This would require another six month commitment to this concept.

GETTING STARTED

The following are the key elements required to get started. However, beta testing will provide a more thorough outline, if this project is continued another six months:

- 1) Established business lending program
- 2) Subscription for the Wintegrity web tool
- 3) Key marketing and lending/sales personnel assigned to implement and oversee the program

MARKETING TACTICS

Promotion

Creating momentum for Wintegrity will at first require a “grassroots” effort, combined with general awareness advertising. This is a great way to differentiate your credit union from the competition as well as a way to grow deposits and business loans. We have provided many customizable materials enclosed.

We recommend that a credit union either use a promotional rate or incentive to generate initial interest in the account to build up a base of depositors and investors into the system. We also recommend promoting this to non-members to promote healthy growth for the credit union.

Jumbo Postcards to community to target investors:



**You invest.
A local businesses grows.
Everyone wins.**

When you invest in your credit union, your deposits go to help area businesses right here in our community grow. With a winvest account, not only will your money go directly to a local business, but you get to choose which business venture gets help.

Here's how it works:

1. Go to www.winvest.com/callfcu
2. Open a winvest account
3. Decide which area business you want to help
4. Start earning wintrest!

**earn more
wincome!**

4.01% APY*

*APY - Annual Percentage Yield. Rate as of 1/1/2009 and is subject to change \$5,000 minimum balance.




winvest in Kenny & Zukes...

Alexander Zuke opened his popular downtown restaurant in 2001. There's something about those sandwiches that the locals love. Many say it's the best Patrami sandwich you can find west of the Mississippi.

But due to urban sprawl, Kenny & Zuke want to bring their famous meats to folks in the burbs.

Let's help them succeed. Your investment helps locals entrepreneurs win. Open a wintegrity account today.



**bank with
wintegrity**

Flyers & Statement Stuffers for potential investors:

Community billboards / outdoor advertising:



bank with wintegrity

www.wintegrity.com/callfcu



earn more wincome

www.wintegrity.com/callfcu



winsulate your portfolio

www.wintegrity.com/callfcu

On-boarding / promotional materials for businesses:



You grow your business
Members see their investment at work
Everyone wins

We know you want to grow your business and find new ways of connecting with the community. What you may not realize is that there are investors right here in the community that want to help you. With a winvest loan, not only will local investors find you, you'll earn a better interest rate. It's what we call winvest and we want to help you become winfamous!

declare your
windependence!

rates as low as

6.99% APR*

*APYR=Annual Percentage Yield. Rate based on creditworthiness. Ask a loan processor for your qualifying rate.



Here's your winroduction:

Here's how it works:

1. Contact your credit union with your business need. Once approved for the program you'll receive a logon ID and password.
2. Go to www.winvest.com/callfcu and log in using the code
3. Set up a profile for your business
4. See the community winvest in you

are you a
winnovator?

User ID: _____

Password: _____



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:

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