



New Products: Case Studies

Opportunity Fund & Justine Petersen

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Overview



Opportunity Fund – Nonprofit microlender offering a low-cost emergency savings product coupled with financial counseling to better serve the financial needs of low-income consumers in their footprint. Achieving scale by serving new clients and better serving existing ones.



Justine PETERSEN – Nonprofit microlender offering a credit building secured card, in partnership with a national retail bank, alongside financial counseling. Achieving scale by attracting new clients.

Key take-away: These innovations deliver a new product to the organization that meets the needs of underserved consumers and is delivered with unique wrap-around support.



ppportunity Fund working capital for working people



Low-cost emergency savings product coupled with financial counseling

OF sought to develop an innovative product to address a universal consumer need – building an emergency savings account.

Transact



Save



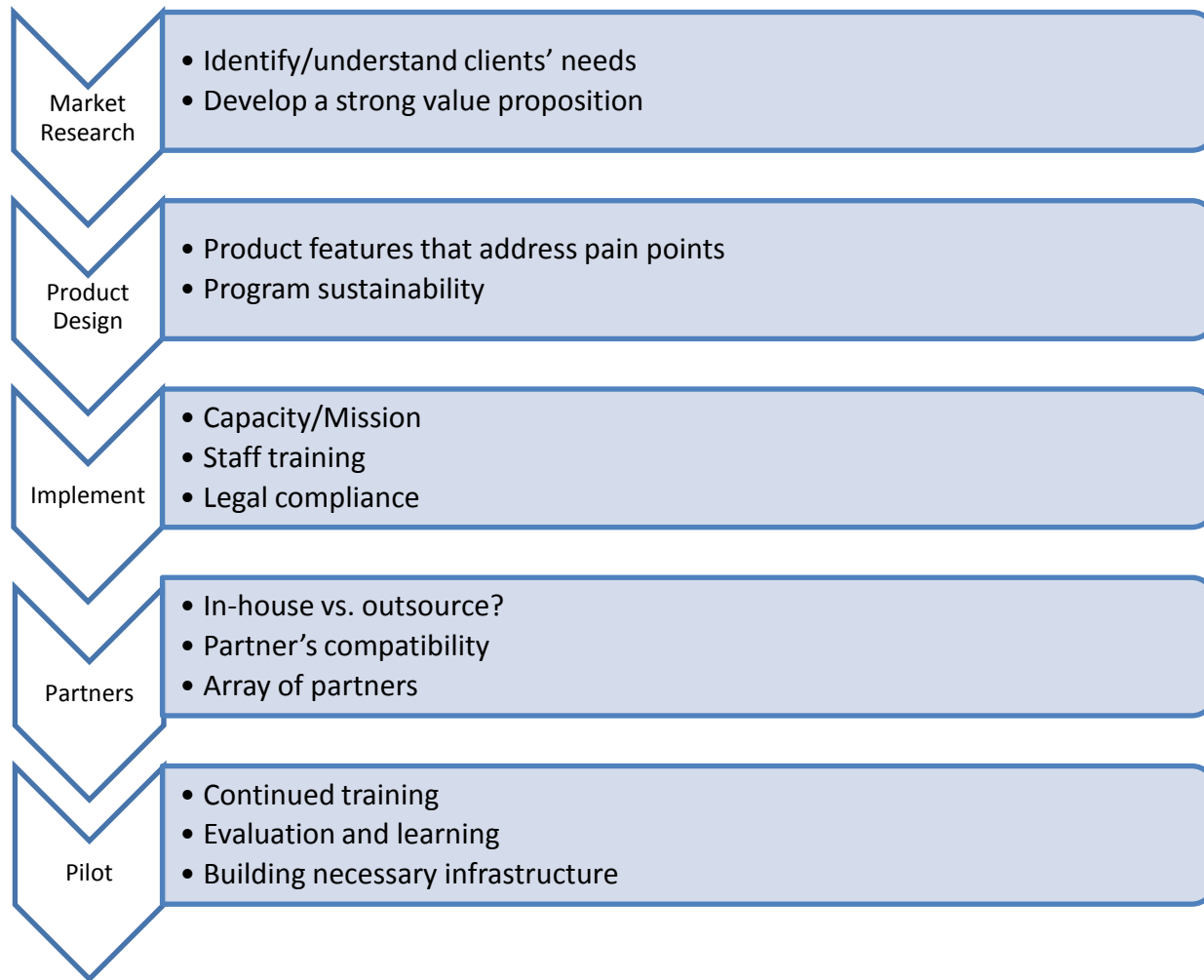
Borrow



Plan



OF's Product Development Journey



Opportunity Fund's Strong Legacy of Working on Savings

Opportunity Fund is a nonprofit microlender helping thousands of California families build financial stability. Its strategy combines microloans for small businesses, microsavings accounts, and community real estate financing.

- Since 1999, Opportunity Fund has provided 4,125 households with financial education and matched savings to invest in high-value assets such as higher education, microenterprise, or U.S. citizenship
- The personal savings and earned match funds of these client totals more than \$14 million
- 2,600 savers have successfully met their savings goal and graduated from their programs



Start2Save: An Innovative Approach to Savings

- **Consumer Pain Point:** Very low-income people are unable to build emergency savings.
- **Product Solution:** Launched in Spring 2011, S2S is one of the first programs in the US to offer a micro-savings opportunity to people who are unemployed or underemployed, receiving public assistance, and are on fixed incomes to build emergency savings. S2S is consistent with Opportunity Fund's mission and advances its aspirations to:
 - Provide evidence that short-term savings can have long-term impacts
 - Reaffirm the power of matched savings accounts
 - Make emergency savings an essential piece of the asset-building spectrum
 - Demonstrate that savings account is the asset



Market Research Revealed Demand for Low Monthly Deposit & Flexible Savings Product

- Market research methodology:
 - Survey of social service providers about savings needs of their clientele (2008)
 - Data on savings patterns and emergency withdrawals from other OF savings programs with emancipating foster youth and single mothers living in public housing (2006-2011)
 - Interviews with people who attended orientation sessions but did not apply for the program
- Evidence pointed to strong demand for a product with low monthly deposit and a more flexible use of the matching funds than a traditional IDA.



Start2Save: Product Description

Smaller Account

Savings up to \$500 are matched 2:1 up to a total of \$1,500 for emergencies.

The Savings Account is the Asset

- The account and the savings for a rainy day (car repair, trip to the ER, security deposit, emergency childcare) are the asset.
- The account is owned by individual and not closed upon completion of the program

Between 2004 - 2009, the value of IDA graduates' closed accounts totaled more than \$300,000

Financially Marginal Clients

Wider population served – emergency savings are a universal need; private funding allows individuals without traditional incomes to participate

Start2Save: Innovative and Consumer-Friendly Product Features

Builds on Citi Microfinance Savings System™

- No minimum balance
- Open with \$1
- Minimum \$20 monthly deposit
- \$1,000 Grant (as a match)
- Savings goal: \$500
- No fees
- No mandated account close-out date (not an escrow account)
- ATM cards to deposit anywhere, anytime
- Online access to Citibank account
- Electronic deposit capability
- Ongoing ability to monitor S2S accounts
- No Risk-Your money is FDIC insured with Citibank.



Opportunity Fund working capital for working people

Provided by **OPPORTUNITYFINANCE NETWORK**

Start2Save: Similarities to IDAs

- Savers complete a comprehensive financial education course
- Monthly savings deposits are required - minimum of \$20
- Case managers supports savers to work through problems and meet their goals



Start2Save: Differences to IDAs

- **The savings account is the asset** – so it doesn't need to be withdrawn or spent down within a certain time period. Success is when someone is able to build up a savings balance – and rebuild it after the inevitable emergency.
- **Smaller savings goal and match amount.** Participants aim to save \$500 within 1-2 years, which is matched 2:1 (for a total balance of \$1,500). This makes the product accessible to people with even lower incomes – and makes it easier to scale due to smaller match requirements.
- **No list of “allowed” purchases.** Once someone reaches their \$500 savings goal, they automatically receive the match in their account. OF trusts their savers to make the right financial decisions with their own savings – and monitor the accounts as an added protection.
- **Wider target population.** Rainy day savings is a universal need that is relevant at every stage of life. Because Start2Save is privately funded, we're able to serve individuals without traditional incomes – such as those living on disability or social security income.
- **New improved account features.** Together with Citi, OF is piloting their Microfinance Savings Account which offers no deadline to closeout, an ATM card for easier deposits (rather than requiring in-branch deposits), online and mobile access, ability to set up electronic deposits from other accounts, and easy monitoring for outcome evaluation.



Seeing Demand for the Product

Since the S2S launch:

- 143 accounts opened
- \$51,940 saved by individuals
- \$90,958 matched by OF
- \$142,898 total new savings

Flexible saving appeals to all ages

- Start2Save has been especially popular with at-risk young adults (18-24) and seniors (65+).
- These are two groups that have been underserved with traditional matched savings products which do not address someone's most basic savings needs.



Early Data on Product Usage is Promising

- About 25% of graduates use all their Start2Savings within one month of graduation and close their account. Of these:
 - 80% use Start2Save funds to cover “pent-up” emergencies
 - 20% to move to another account
- Qualitative research found positive reactions to the product
 - Value the opportunity to save money for emergencies, even though limited resources; first “real” opportunity to save
 - Improvements in outlook on life and motivation to save
 - Increased uptake in the use of ‘new’ financial services or products
- Goal: 80% of Start2Save graduates:
 - Maintain their Citibank microsavings account open
 - Continue to save regularly

Dip into emergency savings as needed, replenish and rebuild



Learnings on Outreach & Enrollment

- “Selling” emergency savings, even with a match is tough
 - Anxiety and negativity associated with “emergency savings”
 - New messaging to focus more on flexibility and less on emergency element
- Need to develop better outreach methods to achieve greater scale and impact
 - Directly to clients through community Events, Referrals, Website, Flyers, Facebook
 - Indirectly through partnerships



Creating an Efficient Ecosystem of Partnerships

Successful execution required OF to develop and maintain several key partnerships to reach scale and achieve greater impact with the program.

- Depository Institution: Citibank
- Broad-based Distribution Channel: Community VITA sites
- Technology Vendor: Juntos Finanzas



Roles and Responsibilities

Citibank

- Develop online savings portal to allow for remote account opening
- Branch staff open S2S accounts and house the accounts through their Microfinance division (once online portal is created, this role will be limited)
- Share data on S2S account performance with OF

Opportunity Fund

- Screen clients (ChexSystems, eligibility, adequacy, etc.)
- Assist clients with account opening and application process
- Provide financial coaching & case management
- Deliver orientation and graduation ceremony
- Provide additional case management/support to savers (e.g., follow-up/status calls on savings goals)
- Provide free credit scores and reports
- Manage and share information about client progress with accounts
- Provide match funding

Community Partners

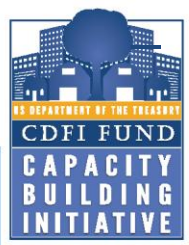
- Selected community organizations that have a demonstrated track record of providing strong and deep support to underserved populations
- Recruit clients
- Provide financial literacy seminars
- Provide additional support services that complement Start2Save's savings focus



Partnership Lessons Learned

- Working with a large, multi-faceted financial institutions on innovative projects requires patience and time.
 - **Challenges:** There has been some difficulty around scaling the Start2Save program to scale, mostly due to the fact that the account opening process has been restricted to just three branches in the area of outreach.
 - **Potential Solutions:** Opportunity Fund is diligently working with Citi to find additional ways to increase the speed of the account opening process and to expand to other outlets, including online and at other locations throughout the community.
- Partnerships with community organizations can help OF achieve scale more effectively
 - **Opportunity:** Partnership with social service agencies (focus on housing, tax services, and workforce development) already serving LMI consumers and embed S2S product in partners' program delivery methods

Challenges: the message can get muddled/ lost in translation

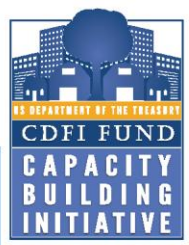


Achieving Sustainability & Scale

Major Cost Drivers	Mitigants
Outreach and enrollment	VITA pilot & other nonprofit partnerships Fresh Start2Save: ChexSystem Repair
Account opening/processing	Online account opening
Disbursement of funds	Automatic transfer
Case management/Financial coaching	Juntos Finanzas Savings Coach Pilot

OF believes in continuing to subsidize the product, especially the match

- Start2Save is fully funded by philanthropic support and does not generate revenue
- Goal: serve 300 families in 2 years. Offering a product that is more responsive to savings needs of the community will build OF's brand in Bay Area low income communities.



Next Steps to Improve Product Flow and Achieve Greater Impact

- **Break down barriers to enrollment:**
 - Citibank: online account opening, new branches
 - Design and test FreshStart2Save: ChexSystem repair
 - VITA site pilot to streamline client screening process
- **Incorporate features that build relationship with Citi and address client needs**
 - Citibank Online Banking and AutoSave
 - Co-brand marketing materials with Citibank
 - Start2Save Graduation = Welcome to Citibank
- **Use mobile technology to encourage saving before, during and after Start2Save with Juntos Finanzas Savings Coach**
 - Helps users make saving part of their normal routine through text message reminders and encouragement.
 - Juntos' technology changes dynamically as clients succeed or struggle with building a savings habit, with the ultimate goal of supporting regular and habitual saving.
- **Develop a Start2Save Graduate Program combining savings and credit**
 - Low-Cost Secured Credit Card: Community Financial Resources / Coop Federal Credit Union

Q&A



Gwendy Donaker Brown, Director of Policy & New Initiatives

- Has been with Opportunity Fund for nearly 9 years



Staff Training & Buy-In is Critical

In your experience, what has worked best to train your staff, get them to believe in the value of the program and feel comfortable 'selling' it to clients?

We have been fortunate to hire several program graduates to fill outreach positions on our savings team. These staff know first-hand the benefits of participating in our programs, and while they may not use their personal experience as the sales pitch in most cases, their fluency with program details from a user perspective and confidence they feel in the product is very strong.

Short of hiring program graduates, we try to make sure staff have early, direct experience with the "happy" moment for clients – handing them their check or explaining how to request funds or congratulating them on being successful. Because there is a long time lag between the sales pitch and the "happy" moment, staff need to experience the program benefits up front so they can clearly and enthusiastically sell them to potential clients.



Legal and Regulatory Challenges

Did you have to overcome any legal or regulatory challenges in launching the S2Save program? If so, how did you overcome these issues?

Our Program Agreement (the “contract” signed between Opportunity Fund and the client) was reviewed by Citi’s legal department.

Because of KYC concerns, currently bank staff must open all Start2Save accounts. To address this issue, we schedule all account opening events with significant advance notice to accommodate branch staff, and have also expanded our partnership from 1 branch (Sunnyvale) to 3 (Fremont, San Mateo). However, we are working on establishing an online account opening process and are seeing some progress on this front.

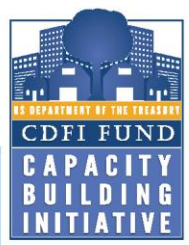
Another challenge has been ChexSystem activity. Because the Citi Microfinance account requires that a potential client be clear in ChexSystem in order to open an account, we have instituted a revised screening process in which we require potential clients to bring a copy of their ChexSystem report with them to the program interview.

Advice to Other Microloan Funds

What advice would you give another microloan fund interested in offering a product like Start2Save?

The expertise and infrastructure that you need to launch a microsavings product is somewhat similar to microlending, but there are numerous differences to be considered, so the decision to launch a savings program should not be entered into lightly.

You should have the organizational commitment and a funding plan for at least 3 years before considering investing in the infrastructure. However, offering a product such as Start2Save will enable your organization to serve many members of your community who you could not serve with a microloan. This may open new doors for partnership with other community organizations and/or funders. By providing an entry level product that can be customized to appeal to numerous demographics, many more people can begin work on financial stability and capability.





Secured Card to Address Consumer Needs and Create a Pipeline

An innovative product to address a universal consumer need and serves as a pipeline for other JP products



Transact



Save

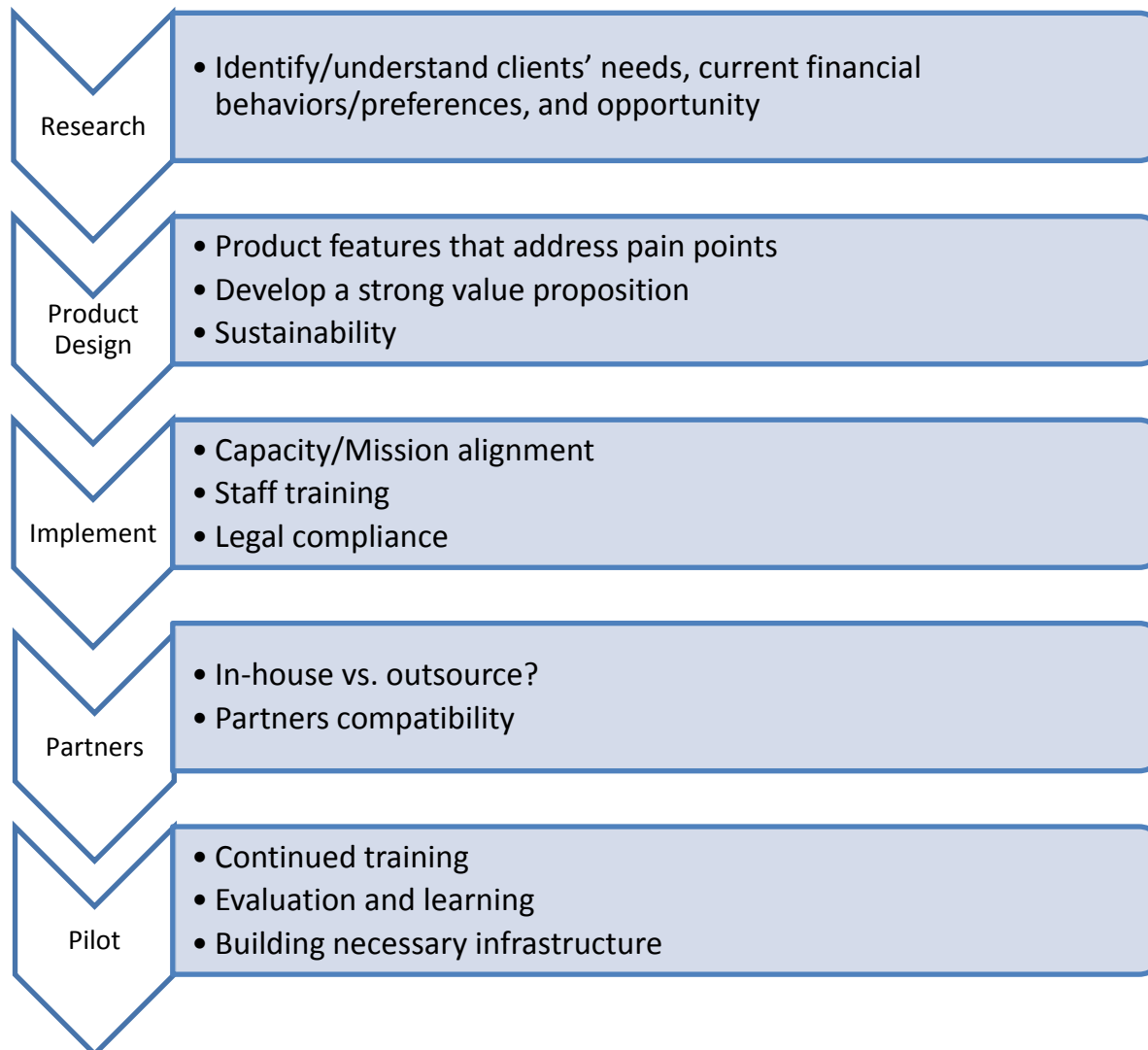


Borrow



Plan

JP's Product Development Journey



JP's Mission & Objective

Mission: Increase the number of low- and moderate-income families who have access to safe and affordable capital

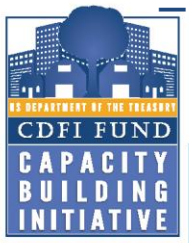
Objective: The credit building program is designed as pipeline for microbusiness and home loans.



JP Has a Robust Portfolio of Credit Building Products & Services

- **Individual Credit Building Consultation and Planning. Assistance with:**
 - Opening a bank account
 - Budgeting
 - Disputing Errors on the Credit Report
 - Negotiating Settlements with Creditors
- **Financial Education Classes**
 - FDIC Money Smart
 - Citibank Credit Modules
 - Credit Building Workshop
- **Access to Credit Building Financial Products**
 - Credit Building Loan
 - Business Builder Loan
 - Banamex USA Secured Credit Card

Delivery channel: One-on-one counseling and ongoing client management



Conducted Market Research to Understand Consumer Need & JP Impact

2003-2005 St. Louis University Study

- Result: JP work had impact, but not as much as desired
- 80% under 80% of the median income
- 81% percent minorities
- 68% female-headed households
- 575 Median Credit Score
 - Thin File (0-1 active lines of credit)
 - Collection debt (\$3K – 4K)



Product Design Informed by Consumer Need and Market Availability

Consumer Need:

- Many products require a consumer to be denied unsecured products in order to qualify for a secured card.
- Minimum deposits are around \$500, which can be an obstacle for clients

BUSA Value Proposition:

- Lower security deposit and more flexible underwriting.
- Does not require clients to be denied for unsecured product first.
- Provided training on underwriting guidelines so that the applications submitted through JP are almost always approved.
- Web-based portal—a one-stop shop that enhances the client experience.



Other Strategic Drivers

A valuable credit building tool: A secured card allows clients to demonstrate a longer trajectory of on-time payments and improve their credit scores.

- Allows JP to eventually expand lending
- Important for client relationship development
 - A client with a low/thin credit file will be turned down for a home/microbusiness loan, but a secured credit card is a tool to engage with the client to improve their credit score.
 - Clients with stronger credit profiles are more bankable and enables JP to create a credit path for clients with thin/low credit profiles.
- Secured card was not designed to be a standalone product. This is just one tool as part of a comprehensive credit building program, but an important starting point.



Best Option on the Market:

BUSA Secured Card

- One financial education class is required to open an account
 - Note: This is a JP requirement, not BUSA or Citi
- \$300 security deposit
- 2% yield on the savings account
- 20.99% interest rate on purchases
- \$35 annual fee (reimbursed by JP if client pays on time for 12 months and takes two 1-hour financial education modules)
- After one year of on-time payments, Citi Banamex will review client file and may switch the client to an unsecured credit card, with a higher credit limit. Clients who are switched to an unsecured card will receive their \$300 deposit back plus interest.
- \$15 late payment charged (after 15 days late)



JP Considered Other Partners, But Landed with Citi Banamex

- Partnership Options
 - Large retail bank (e.g., Citi, PNC, Capital One, etc.)
 - Local Credit Union/Thrfts
- Factors in Selecting Citi Banamex
 - Interest in developing an online portal
 - Product value proposition
 - Sought a national partner to facilitate scale
 - Existing relationship with Citi



Partnership was a Win-Win-Win

Justine PETERSEN	Citi	Clients
Program aligns closely with the organization's mission of credit building	Product and services to the underserved and good corporate citizenship	Access to one-on-one credit-building counseling
Tangible product that engages customer to commit to long-term credit-building program with JP	Increased penetration and reach	Responsible access to safe and affordable capital, with the opportunity to build credit
Alternative revenue stream for Justine PETERSEN	Expansion of footprint	Access to better financial products and services as credit profile improves
Innovative financial education webinar platform with minimal expense and ability for scale	CRA eligibility	Most competitive product for this population in the St. Louis market and innovative card features (low security deposit, interest rates, late fees, guaranteed approval to unsecured card after on-time payments)
Partnership with an established brand	Cross business partnership	Relevant, timely, and actionable financial education component to learn credit card best practices





STEP 1 Justine Petersen counselors review credit report with their clients. They create a Credit Action Plan to help improve their credit in short- and long-term.



STEP 2

If client is well-suited for the Banamex secured card, the JP counselor helps the client understand the product and terms, and helps the client complete the application.



STEP 3 JP collects money and app and sends to Citi for processing

STEP 4 Client receives secured card and JP counselor provides three key pieces of advice to help them achieve success:



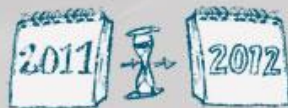
a) Keep three active lines of credit going



b) Pay your bills on time



c) Maintain credit card balances under 30% of your credit card limit



STEP 5

Citi- Banamex reviews card performance in 12 months and determine if clients are eligible for upgrade to unsecured card.

JP Client Flow

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Roles and Responsibilities



JP is Scaling the Product Beyond St. Louis Market Through Web Portal Platform

- Secured Credit Card Web Portal Platform
 - Streamlines and improves efficiency
 - Doesn't require client to visit Citi branch
 - Volume and scale is key for this platform to work; if not intending to scale, maybe referral is better.
- Two Pilot Programs
 - Aspen Institute FIELD "Asset Building Through Credit Program"
 - Chicago Credit Building Coalition



Financial Sustainability Considerations

- Generates \$25 in revenue per card
 - Covers counselor time to walk client through the process of opening a card (~20 minutes)
- Secured card does not generate income to support other programming, rather it serves as a pipeline for other revenue-generating products
- Credit building and reaching customers they would otherwise turn down helps achieve scale
- Scale and sustainability approach is to grow the number of high-performing partners (through portal) and increase volume rather than change fees for clients



Timeline: 4 Years from Product Development to Pilot

- Pre 2003 ~ Alternative Credit
- 2003-2005 St. Louis University Market Study
- 2006 Product Development & Testing
- 2009 Multiple Product Offering
- 2009-2010 Pilot
- 2010 Evaluation and Scale



BUSA Secured Card + Counseling is Positively Impacting Client Credit Scores

(As of May 2012)

- 50 points – Average increase in client credit score as a result of secured card, average 7 months after opening (controlled for zero score)
- 147 maximum point increase in credit scores
- 32 clients denied to date – Fraud and ChexSystem activity is the primary reason for denial (JP cannot pull client ChexSystem reports.)
- 91.6% clients have never paid late



Q&A



Sheri Flanigan-Vazquez, Chief Operating Officer, Justine PETERSEN

- Has been with JP for 14 years
- Operational champion for this program



The Product is Not a One-Size-Fits-All & Requires Screening

How do credit counselors know whether a client is ready for a Banamex USA secured card?

JP trains counselors to identify clients with thin credit files that will most benefit from the secured credit card. JP counselors complete a household budget with each client to make sure that s/he can afford to make a monthly payment on the account. In addition, counselors assess clients for the following:

- No bankruptcy in the last 24 months
- No fraud – ChexSystems and credit report
- Debt to Income is $\leq 50\%$
- Budget - has some excess income*
- Debts owed (collections, charge offs, public records, etc...) $\leq \$10,000^*$

Clients must attend two financial education modules on credit prior to opening the secured card.



*Not BUSA requirements



Staff Training & Buy-In is Critical

In your experience, what has worked best to train your staff, get them to believe in the value of the program and feel comfortable selling products?

To be effective, staff has to internalize that credit is an asset and that adding small lines of credit to thin credit files is the most efficient and effective way to build credit. Once staff sees the impact of one or two small lines on increasing the credit score, they understand and want to share it with the clients.



Regulatory Hurdles Were Lower Since JP Is Already Lending

Did you have to overcome any legal or regulatory barriers to distribute the secured card? If so, how (e.g., Know Your Customer/Customer Identification Program, privacy regulations, etc.)?

One benefit to working with a large corporation is the depth of their legal and compliance team. JP does not have in-house counsel, but were able to rely on Citi's legal and compliance team to review materials.

Counselors trained on Fair Lending practices, to comply with Citi's requirements.

Any wording change to marketing materials requires Banamex legal and compliance team approval.



Lessons Learned

What have been the biggest lessons learned from this endeavor?

On the counseling side, we learned the importance of keeping our messaging simple and direct. Many of our clients were unfamiliar with secured cards and confused them with prepaid cards, which have different rules. We introduced our requirement of two financial education modules prior to card opening after the initial pilot phase to make sure the clients fully understood how to use the card prior to opening. We also simplified our messaging to focus on key points. On the program development side, we've gained a better understanding of the nonprofit/ financial institution relationship and have been able to bring forth the best of each to create an awesome product and process for low-income, under-banked individuals.



Advice to Others

What advice would you give a Microfinance CDFI interested in going down this path?

A few things to think about are:

- Do you currently offer credit-building services or are you willing to invest the time and resources to offer them?
- Do clients (and staff) understand the importance of credit building?
- Do you have the ability to pull credit reports?
- Are staff comfortable with selling products?
- What secured credit card products are in the marketplace? Are you familiar with their terms?
- Are you willing to incorporate credit building in all your core programs?
- Are there mechanisms to assist clients to build/acquire their security deposit?

