

TURN KEY



An Innovation Exchange

Summer 2011



Helping Young Members Safely Establish Credit

When It Comes To Establishing Credit, You Have To Start Somewhere. Destinations CU Says, "Why Not Here?"

Credit unions have long held the high ground on protecting young members from predatory lending practices. And members need to establish their credit rating so they will be ready when it's time for an auto or home loan. Protecting members while preparing them for future credit responsibilities can be a tricky balancing act. At Destinations Credit Union in Baltimore, they've established a credit card program designed to do exactly that.

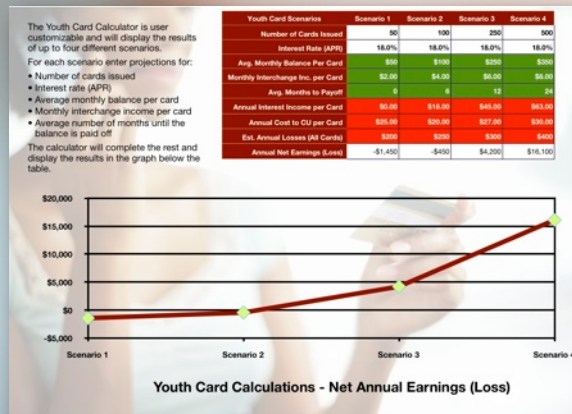
Destinations' "Credit Builder MasterCard™" was developed for young members without a credit history. The program combines a low credit limit, no annual fee, and a competitive rate to help members establish credit while avoiding excess debt. And to sweeten the deal, Destinations includes a rewards program that allows users to use accumulated points for gifts and travel while they establish credit. It's a new program, and one worth sharing.

Members begin the application process online and once established they can view their Credit Builder activity and balances via Destinations' website.

A Q&A with Destinations CU's Marketing Director Carol Szaroleta appears on the reverse of this sheet. Visit the Foundation's Resource Page for tools and marketing ideas on this and other great programs. Go to www.cufound.org/resources.htm

Want to view projections for your own youth credit builder program?

Go to the Foundation's free Resource Page: www.cufound.org/resources.htm and download the projections calculator.



Q&A

DESTINATIONS CU'S CAROL SZAROLETA



What was your motivation to create the Youth Credit Builder Program?

Long before the credit card reforms of last year, we were concerned about the easy access to credit for young adults. In most cases, they don't truly understand getting and keeping a good credit rating, and the ramifications throughout their lives. College students were graduating with enormous amounts of credit card debt in addition to student loans. The credit card reforms have gone a long way toward limiting access to credit for students and we felt it was an opportunity to offer a product that will help them establish credit reasonably and responsibly.

How do you control the credit limit on the card?

We set the initial limit at \$500. We will review that periodically (at their request) to see if they qualify for more under our standard underwriting guidelines.

What will happen if the young member doesn't show responsible use of credit?

We counsel them at the time they apply for the card. They clearly understand that access to the credit card is tied to responsible use of the card. If they are late on a payment, we will restrict use of the card immediately.

How will you promote the new program?

We have plans to send a postcard to our young adult members and will target a segment of our membership who are likely to have children in that age group. Parents are the key to influencing where their children do their banking. We will also send out e-mail blasts and statement inserts. We have material available on our website, in our lobby (Inlighten screens, posters, take ones) and our MSRs/loan officers are trained to offer the product if appropriate.

What challenges have you faced?

In structuring the program, we wanted to make sure that the young adult received some education about responsible use of credit prior to issuing the card. We struggled with how to accomplish that and ensure that the applicant had indeed read the information. We finally decided to use our young adult financial literacy site, "On Your Way," (a service offered through the Credit Union Foundation of MD & DC) to provide the educational component. We selected specific articles and videos from that site and require our applicants to read/view those and comment on the article or video. They can print out their comments (or we can check online). Once they have completed the education, we will issue the card.

Any advice to credit unions planning a similar youth credit card program?

My number-one piece of advice is that if you plan to offer a similar program, you need to make sure it is compliant with all the new credit card regulations. It has gotten a bit trickier to offer credit cards to those under 21 years old – if they are a student, they will need a parent to cosign. The card should be attractive to the young adult – studies show that these people will be loyal to the institution that gives them their first credit card. We offered our very best rate and a rewards program (available on all of our credit cards).