

Drive Up Savings

What is it?

The DriveUp savings product is a savings account, such as a certificate, that is opened at the same time a member closes on their auto loan. The loan officer and member agree on a monthly contribution amount and through automated electronic transfers, the DriveUp Savings is funded at the same time the auto loan payment is made.

Where is the Opportunity?

Studies prove that half the US population lives paycheck to paycheck. The percentage is even higher (60%) for young adults. Many of these people earn respectable incomes, yet they have never been able to save money. They have either never been taught to save or have fallen into poor savings habits sometime in their life and have never been able to overcome the challenges those habits present.

Credit Unions have the opportunity to impact the lives of these people and help them learn that they can save for the future. Studies further show that these members want to save, but the options for them to do so are limited due to a high balances required to earn satisfactory savings rates and/or the non-availability of savings options that fit into their lifestyle. Credit Unions therefore have an opportunity to fill the gap where all other financial institutions have fallen short. By offering the DriveUp Savings Account, credit unions will help members accomplish a savings alternative.

Furthermore, the people who make up the biggest component of this consumer segment are the young adults who will become the core of the credit union membership over the course of the next decade. When taken in that context, *it's more than an opportunity, it's a necessity*

Components of the Program:

- 1. Types of Loans:**
 - a.** Automobile loans for terms of 36-84 months
 - b.** Refinance of an existing auto loan with a remaining term of at least 36 months—A fee and adjustment of interest rate will need to be considered.

- 2. Savings Product:**
 - a.** A member would open of a share certificate that would have a matched term of the loan. Ex.: If the loan is for 48 months, then the term of the certificate will be 48 months.
 - b.** The annual percentage yield on the certificate would match the APR on the loan. Ex: If the loan is at 6.50% APR, the certificate would yield 6.50%APY. There would be a cap of **10%APY** on a share certificate for loans with APR's from 10%-18%.

c. The monthly contribution to the certificate can be no more than 10% of their monthly payment. Ex: If the payment on the loan is \$300.00 monthly, then the most the contribution can be is \$30.00 per month.

3. Direct Deposit:

a. A direct deposit of payroll, government payments, pension deposit is a requirement of the program.

b. Payments on the loan and deposits into the certificate must match the frequency of the direct deposit. Ex: If a member is paid weekly, then the payment on the loan and deposit to the certificate must be made weekly as well. In the example of a \$300 monthly payment, the member would make a \$69.25 weekly payment and deposit of \$6.92 into the share certificate. This is the only way we could automate the process.

4. Fees and Charges:

a. Withdrawals from the share certificate are limited to major auto repairs on the vehicle that secures the loan. The credit union has the right of offset the certificate if the loan defaults or insurance defaults on the loan.

b. If a member wants to make a partial withdrawal from the certificate for any other purpose, there will be a \$50.00 early withdrawal fee and a penalty equal to 180-day loss of dividends.

c. If a member wants to withdraw from the savings program completely, there will be a \$50.00 early withdrawal fee and a loss of all dividends posted to the certificate.

d. Early payoff or refinance of loan—The member will have several choices. They can 1) renegotiate their certificate for a period of no longer than their remaining term at current market rates with no fee or loss of dividends or 2) withdraw the funds and they will not be assessed a fee but it will result in a 180-day loss of dividends or 3) use the funds as a down payment on a newly financed Drive Up Savings program with no fee being assessed and without loss of dividends.