

# Product Spotlight: Neighborhood Credit Union's Prize-Linked Savings Account



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For over a decade, Neighborhood Credit Union in Dallas, Texas has offered a unique sweepstakes-based prize-linked savings (PLS) product called Prize Savings. This PLS product provides an example of how individual financial institutions can independently launch and manage innovative savings products that benefit their business while exciting customers and helping them build their financial security. Neighborhood CU shared some key insights and learnings from ten successful years of operating a PLS product, which we highlight below.

### PLS can help build account balances and attract new members

Neighborhood CU's PLS offering grew out of a common challenge for American families. Neighborhood CU saw that its members often struggled to build and maintain savings and that savings rates overall were at historically low levels. At the same time, the lottery remains hugely popular. In Fiscal Year 2015, the Texas Lottery reached a record \$4.53 billion in sales—\$235 for every Texan—through its footprint of over 17,000 retail partners.<sup>1</sup> Neighborhood CU viewed PLS as a creative way to incentivize saving by using the excitement offered by lottery-style prizes to motivate members to build financial security.

From the start, the unique excitement of a PLS product helped Neighborhood CU attract deposits. Members who may have initially come to the credit union looking for a loan or a transaction account learned about the PLS option and opened an account for savings as well. It primed members' willingness to try out a new credit union offering while enabling the credit union to deepen relationships with its existing members, grow deposits, and better serve their membership with much-needed liquid savings products.

In its first few years, uptake and growth came primarily from existing members learning about PLS from the credit union or via word of mouth. More recently, Neighborhood CU conducted promotional campaigns for the accounts through television ads, paid search, and social media. These efforts provided the additional benefits of increasing the product's visibility and promoting its brand and resulted in an appreciable bump in new members.

### Prizes are exciting for customers and media

Neighborhood CU describes their PLS products as "wildly successful." A critical part of its appeal and success is, of course, the prizes. As Neighborhood CU learns what works for members, it adapts its prize model. At first, they offered a single large annual grand prize. They found that members were more interested around the time of the prize drawing and less engaged at other times. To encourage members to save more consistently throughout the year and to grow the program, they began offering more frequent prizes of varying amounts. They also adjusted the nature of the prizes. They previously offered physical prizes (such as televisions and iPads) in addition to cash prizes. But when the logistics of disbursing these prizes and the complications of reporting their value as interest for tax purposes proved to be one of their biggest operational challenges, they switched to exclusively cash prizes.

## Quick Facts

**Year Launched:**  
2007

**Account Type:**  
Savings Account

**Total Accounts:**  
51,038

**Average Account Balance:**  
\$3,290

**Prize Frequency:**  
Monthly, quarterly, & annually; at least 100 prizes each month

**Prize Amounts:**  
Range from \$5 to \$49,999.99

1. Texas Lottery Commission, "2017 Comprehensive Business Plan and Annual Report." <https://www.txlottery.org/export/sites/lottery/Documents/BusinessPlanAnnualReport2017.pdf>



Today, Neighborhood CU awards at least 100 prizes each month and over \$150,000 a year in cash prizes. In addition to an annual grand prize of \$49,999.99,<sup>2</sup> they offer large quarterly and monthly prizes of \$10,000 and \$5,000, respectively, in addition to many small- and medium-sized prizes ranging from \$5 to \$1,000. Monthly emails announcing winners are very popular and have some of the highest open rates of any of their member communications. Prizes generate excitement outside of Neighborhood CU's membership as well in the form of positive media coverage. Local media, including TV stations, cover grand prize events and reporters are often interested in telling the story of winners.

### **A robust prize model can be sustainable**

Neighborhood CU offers PLS as a core savings product. Neighborhood CU considers the prizes to be a part of their budget for interest they pay out on the accounts. The accounts currently pay .15% interest—a very competitive rate, even without prizes. Factoring in prize amounts, the aggregate effective interest rate on all accounts typically falls somewhere between .25% and .3%. Neighborhood CU operates the prize model out of its income. While each institution must configure a prize model that meets its own circumstances, Neighborhood CU has shown that it is possible to sustainably fund a robust prize pool for over a decade.

### **Sweepstakes-based PLS can be launched anywhere**

When Neighborhood Credit Union became interested in offering prize-linked savings, they started by reviewing their legal options. Texas had not passed legislation to allow financial institutions to offer “savings promotion raffles,” so Neighborhood CU opted for a sweepstakes model. Savings promotion raffles allow institutions to restrict eligibility for entries to those who have made savings deposits. As of summer 2017, 25 states have passed laws to allow financial institutions to offer raffle-based PLS products. Sweepstakes, on the other hand, can be offered anywhere without legislative change but require that sponsors offer a chance to win via an alternate free method of entry, typically mailing in a 3x5 card. As a credit union, Neighborhood CU can offer a “closed sweepstakes” that is only open to its members, thereby diminishing the key risk of sweepstakes: that a winner could be chosen from outside an institution's customer base. While sweepstakes can generally be offered everywhere, they require legal due diligence and official rules. Institutions should consult with legal counsel to ensure compliance with relevant laws and regulations. Neighborhood CU's legal team advises them on program components and reviews compliance periodically.

Legal considerations aside, operating a PLS product requires managing savings data, converting savings into entries, drawing prizes, and disbursing winnings. These processes can be undertaken manually, they can be automated, or they can be some combination of the two, depending on the needs and capabilities of the offering institution. Neighborhood CU manages their data on the back end and works with a third-party vendor to randomize and draw prizes. Over the years they have worked with their processor to customize software in ways that make it easier to track and manage entries. New institutions offering PLS could similarly begin with a more manual process to initially test and run PLS and then move to greater automation—either on their own or in partnership with third parties—as the product becomes more established and grows.

### **Summary**

Sweepstakes provide a viable PLS model for financial service providers seeking to launch PLS products in one or more states that have not passed savings promotion raffle legislation. The ten-year history and success of Neighborhood Credit Union's popular PLS account demonstrates how institutions can take the initiative and launch PLS products that provide multidimensional benefits to their business while exciting customers and helping them improve their financial lives.

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2. The prize size needed to be under \$50,000 to comply with legal requirements

