Filene’s LIFT (Lower Interest For Timeliness) program offered interest rate reductions to borrowers who made timely loan payments. Five credit unions enrolled over 1,000 subprime auto borrowers in the LIFT program, which rewarded every three on-time auto loan payments with an APR reduction of 0.25%. Filene monitored the impact of this positive incentive on repayment behavior over the course of a year. Through LIFT, Filene also investigated the relationship between lower interest rates, reduced delinquency and customer relationships.

The project received funding from the Center for Financial Services Innovation’s Financial Capability Innovation Funds. A partnership with a collaborative of funders led by the Citi Foundation, the Funds provided support to innovative projects designed to help low-income and underserved consumers adopt positive financial behaviors.

Filene asked:

» Are positive incentives (e.g. lower interest rates) an effective tool for encouraging more consistent repayment behavior?

» How does LIFT affect the relationship between borrower and lender?

Filene learned:

» LIFT borrowers at three of four participating lenders had lower rates of making a late payment than the control group; this was statistically significant at two sites where reductions were 12% and 16%, respectively.

» Rate of missing two or more consecutive payments was slightly lower among LIFT borrowers at all sites; these results, however, were not statistically significant.

» LIFT borrowers had stronger positive attitudes toward their lender, even controlling for loan terms, fees and penalties.
Future Applications

By rewarding consistent repayment behavior among borrowers, LIFT and similar programs have the potential to improve borrowers’ credit scores and overall financial health. In addition to attaining the cost benefits of lower delinquency rates, participating financial service providers can also improve relationships with their customers by providing positive incentives for timely repayment. A survey of borrowers indicated less than half (approximately 40%) of borrowers who had LIFT loans were aware of the interest-rate incentive, creating an opportunity to increase impact with a targeted marketing approach aimed at sustained consumer awareness.

These early findings should prompt other financial services providers to experiment with the power of positive incentives to improve borrower behavior. For its part, Filene added the LIFT concept to its Accessible Financial Services Incubator based on the program’s initial success. The organization notes that there are several aspects of the program that are worthy of further exploration. For example, it is unknown how borrower behavior might change over longer periods of time or in the context of different types of loans. Collecting more detailed information on borrowers and their loans would also help to aid future targeting efforts and clarify the extent of LIFT’s effect.

Filene Research Institute

For over 25 years, the Madison, WI-based Filene Research Institute has been dedicated to analyzing the most important issues facing the credit union and consumer finance industry. As a dynamic think tank committed to serious inquiry and original thinking, Filene has published hundreds of pieces of research and currently averages over 30 releases annually. In line with its “Think. Do. Change.” motto, the organization also offers market-tested products and services to interested credit unions.

One of the institute’s most important ongoing projects is the i3 (Ideas, Innovation, Implementation) program, which brings together up-and-coming credit union executives to develop creative approaches to some of the industry’s toughest problems. The program has produced over 150 industry innovations, including LIFT, since its start in 2004.

To learn more, visit filene.org.


The Financial Capability Innovation Funds

The Financial Capability Innovation Funds were supported by a collaborative of funders led by the Citi Foundation and also including Bank of America, the Capital One Foundation, Charles Schwab Bank, Charles Schwab Foundation, Experian, Morgan Stanley, NYSE Euronext Foundation, US Bank, and Visa. From 2010-2012, the Center for Financial Services Innovation selected thirteen cutting-edge projects to receive $4 million total in grant support, from among 373 applications totaling more than $107 million in requests.

To learn more, visit cfsinnovation.com/Financial-Capability-Innovation-Funds.

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