

## **Q&A Session for Webinar 13: The Death of Credit Cards For Credit Unions**

Q: Why include the debit card interchange income in the credit card analysis?

Rex: The credit union we contacted to get this information includes it in their analysis. It certainly is significant income in the example. There seems to be a strong correlation between credit unions that do well with the credit card and also have great success with the debit card. Even if you back that income out I think you will see that their ROA is still very, very good. In the end it is your call.

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Q: Do you have updated stats on universal default provisions since Congress had their hearings?

Ondine: I'm unsure what type of stats being referred to. But Citicorp has been the first to eliminate the Universal Default rate on their cards as a result of increased pressure from the congressional hearings. There continues to be increased scrutiny on these "unfair billing practices" by Congress so expect more modifications from the mega issuers in the near future. Unfair billing practices include the universal default rate, double billing cycle, late fee grace periods (sometimes hours, not days), annual fees appearing over 12 months, etc.

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Q: Don't deny for high unsecured debt? What happened to the stoplight theory?????

Rex: We are strongly encouraging credit unions to practice what we call preview of coming attractions. Our stoplight theory still works great and we strongly encourage you to use it. What we are really saying is that if a member has significant unsecured debt and is applying for more unsecured debt (such as a credit card) which could very well lead to bankruptcy, that instead of turning them down show them that they are a strong candidate for bankruptcy. Most of these members will acknowledge that they are in trouble and often will even say that if we cannot help them they may have no choice but to go bankrupt. That is an excellent opportunity to let them know that you understand why they may go bankrupt and that while you are not encouraging it you also wouldn't be surprised. Then let them know that if they do go bankrupt they are going to need a credit card, a car loan, etc. and you are going to be there to help them get it since they will now be debt free and will certainly have the ability to make the payments. In this tight economy we are going to start to see more and more people go bankrupt. We cannot ignore it so therefore let's work with it and continue to maintain the relationship with the member.

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Q: How can we achieve the highest spreads and cover risk when Federal CUs are capped @ 18% interest rate?

Ondine: Risk can be covered in the areas of late fee and overlimit income. Many credit unions have not updated late and overlimit fees in over a decade and still assess \$10 or less. The most common fee for credit unions today is between \$20-\$25. But just as important are the PARAMETERS used in assessing fees. For example, is your credit union still assessing a late fee at 10-15 days past due? If so, it needs to be changed to 5 days. Overlimit Fee Income is often overlooked as well. There is an overlimit fee authorization parameter PLUS and overlimit fee assessment parameter. These should be set completely independent of each other. Many credit unions make the mistake of making these two parameter settings the same, say 10%. Therefore an overlimit fee would not be assessed until the credit line and authorization are BOTH over 10%. A good recommendation is 1% for fee assessment and 5%-10% for authorization (A & A+ Members only...D & E should be set lower).

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Q: Why do you feel Platinum better than other card types? What kind of fees do you recommend we charge for?

Ondine: Offering Platinum is becoming more of a necessity for retention purposes. Eighty percent of all cards in circulation are platinum cards. If you are not offering Platinum, chances are your member is being rewarded with this “prestigious” card from another issuer. In addition, Platinum programs outperform Classic in terms of net income per account, interchange (usage), finance charge income, transaction volume, higher balances, etc.

Credit Unions do not need to bog down their programs with unnecessary fees (sales draft, plastic replacement, cash advance, etc). The program can maintain profit without these fees and cardholders perceive “excess” fees as a barrier to accepting the card. The 3 key fees to focus on are Late Fee, Overlimit Fee and Return Check Payment Fee.

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Q: What do you recommend for a reward program; cash, airline mileage or merchandise?

Ondine: Reward programs can be most beneficial to a card program, but make sure you can afford it. Your existing program should be generating at least \$150 annual net income per account before adding a reward program. I have seen credit unions lose money on reward programs (this is the exception), but more often than not, reward programs only boost overall profitability.

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Cash back tends to be the most expensive program to offer, due to a nearly 100% redemption (pay out) every year, whereas the gift/travel programs hold steady with a 30%-35% annual redemption rate (after 3-4 years).

In addition, please do not apply reward programs to ALL of your card offerings. It is best to give members an option of a rewards or non-rewards option (Platinum).

Q: What's the average rate and fees for platinum credit cards....or ...what rate would you suggest?

Ondine:

Suggested Pricing and Program Structure						
Score	Tier	Card Type	APR	Rewards	Suggested Credit Limit	Aggregate Unsecured Maximum
730+	A+	Platinum	12.25%	14.25%	3 x GMI	\$15,000
680-729	A	Platinum	12.75%	14.75%	3 x GMI	\$15,000
640-679	B	Platinum	13.75%	15.75%	2 x GMI	\$10,000
600-639	C	Platinum	15.75%	17.75%	2 x GMI	\$5,000
550-599	D	Platinum	18.0%	None	1 x GMI	\$1,500
549 or Less	E	Platinum	18.0%	None	1 x GMI	\$500

Note: No Rewards Rates as recommended by [www.rexcuadvice.com](http://www.rexcuadvice.com) as of December 2006. Reward Rates proposed based on analysis of fee versus higher rate for offering rewards.

Please refer to other responses which cover fees...what to charge and what to avoid charging.

Q: What is the cost of the card analysis?

Ondine: The cost is \$3,500 and includes a complete evaluation of your current card program including expense audit, income and expense analysis, net income, portfolio activity, active and inactive account analysis, regional program comparisons, overall strengths and weaknesses, marketing, program structure, rate and fee structure. In addition a 90 minute conference call is included to discuss the report and help get the credit union on the right track. More details can be found at [www.cardanalysisolutions.org](http://www.cardanalysisolutions.org) or give me a call at 866-602-9777.

Q: Are you going to have a credit card school in Chicago?

Rex: If there is sufficient demand we will have it anywhere you want to have it. We chose San Francisco because most people love San Francisco. If you have not been there you have to go. On the other hand, if the credit unions in the Midwest want to stay in Chicago we will certainly have one in 2008 in the Windy City.

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Q: Do you have any language to offsetting the shares for payments making the direct deposit valuable?

Rex: I don't really have any language however I use this feature offered by my credit union. They give you basically two options as far as making the payments via direct deposit. Option one is they can draft the minimum amount required and option two is they can draft the entire balance but those are the only two options I am aware of. I think that is due to the limitations of the data processing system.

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Q: We currently give our members a 1% rate break if they have direct deposit, but do not risk score. If we risk score, should we drop the 1% for direct deposit?

Rex: If you are using the rate structure that we propose which is risk based pricing and your rate will be determined by your score there is nothing wrong with agreeing to discount your rate 1% for any member who gives you direct deposit provided it does not become too labor intensive. It is always a good idea to encourage direct deposit and while I am not sure that you have to discount a full 1% I applaud your efforts in getting direct deposit. Even if you don't risk rate it is still acceptable to offer a 1% discount but make sure that you are not discounting it so low that you are not making money.

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Q: What are the recommended rates for Credit Cards? We have pulled your rate sheet off the web site and it is not clear to us for VISA rates.

Online: It is based on the Unsecured Loan Rate matrix, Please see below.

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Q: Please repeat the recommended rates based on Tier and income?

Ondine:

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Q: We agree with everything from today and want to grow our card program 15% per year. . The only reason we entertain a thought of selling is fraud losses-increase in bond deductibles or loss of insurance. Please respond w/your thoughts

Ondine: The increase in insurance is a concern with many credit unions. However, in the analysis I prepare for credit unions, on a "per account" basis, the recent increases have had very little impact on card program profitability. Fraud will always be a concern, not only with credit cards, but identify theft, new accounts, etc.

I have often found within credit unions the card program is not always managed on a "daily" basis and fraud prevention is sometimes neglected by the credit unions. Many processors are offering ongoing training and enhancing their fraud management programs to ease the minds of their issuing credit unions. But credit unions need to continue their part in the management process as well.

I have had several credit unions that sold their card programs 5 years ago (at the height of portfolio sales) now come back as they are re-entering the credit card market. They were not at all happy at the member reaction and loss of control of the program after they had sold.

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Q: Do you advise using the same short application for ALL members?

Rex: For credit cards, yes. Having said that you need to contact those members who are marginal and develop the application and the credit report. Make sure you write on the credit report any notes that would help you with your loan decision such as: previous employment, assets, etc. But start out with the shortest possible application and just develop it. Don't make your good members fill out a loan application.

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Q: What are your thoughts regarding overdraft protection to a credit card?

Ondine: Some credit unions offer this service, most often the pass through/in-house credit union clients. I cannot say whether or not it really makes the program more or less profitable, but I would imagine it can make the program more complicated to manage and increase the member service calls. You are potentially creating a disservice to the member since an ODPROT advance on a credit card would posts as a cash advance and interest begins to accrue the date of cash advance posting. This would not seem very "credit union friendly" in my opinion. It could be perceived as "deceptive". I think there are better alternatives for ODPROT for members.

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Q: What is your opinion of going with only one Card Association versus both of them? For example going with only MasterCard Platinum only.

Ondine: There is nothing wrong with being a "Dual Issuer" (Visa and MasterCard) other than increased program management responsibilities, dual fees, dual quarterly reporting, etc. It would really depend on the size of your expected card portfolio (number of accounts...ie 10,000+ yes, consider it). MasterCard has quarterly minimum transactional volumes that must be attained, or you will be assessed fees (and these can be hefty). So you must be confident of the volume you expect, before splitting out the program among to brands.

Visa continues to maintain higher market share than MasterCard. If it were my program, I would consider maintaining one brand for simplicity of operations and avoiding unnecessary fees.

On the flip side, if you consider REMOVING a brand (either MasterCard or Visa), be sure to check on any PENALTY fees before phasing out a brand altogether.

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Q: We want to know the limit for tier and income.

Ondine:

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Q: It does not seem fair that all credit unions should pay the same for the credit card analysis. Should we pay the same as Navy FCU?

Ondine: The process is the same whether there are 500 accounts or 50,000 accounts and takes the same amount of time to complete. However, please contact me directly and let me know exactly what your situation is....we'll see what we can do. I would rather see that you get the help you need, than none at all. Thanks!

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Q: Ondine, What is your turn around time for the analysis. We are in the process of receiving contracts to purchase out portfolio from both Elan & TNB.

Ondine: YIKES! It seems you may have an urgent situation. Typically the turnaround time is 2 weeks, but I have been known to work nights and weekends to accommodate these types of situations. A credit union I just completed last week actually changed their mind after receiving my analysis. Please give me a call at 866-602-9777. Thanks so much!

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Q: We are on 'Permanent Security' documents with CUNA Mutual and have apps on file. Do we still have to get another application for the Visa?

Rex: I believe getting another application just makes good sense as things can and will change. The application is a short form app and easy to complete. Legally whether you have to do it or not does not matter as much as the fact that it just makes good sense. Even if you don't have to I would still do it to help with decision making.

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Q: What percent of balance do you recommend for minimum payment?

Ondine: The typical minimum payment for credit unions is 2.5%-3% or \$20/\$25. The mega issuers have recently been required to increase the min pay to 4%, yet this has yet to be mandated for credit unions.

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Q: We use CSCU and XP2 is our DP. We can not take payments via payroll deduction or automatic payment per our IT department. This makes it very difficult to offer cards to D and E members. Any suggestions on how to we can get an auto payment for our cards?

Ondine: CSCU through FIS (Certegey) offers ACH Autopay as a payment option. You must sign up for this, but it basically allows the card account to be set up for a monthly recurring payment (min pay, set pay or full balance) from a pre-assigned savings or checking account. So although this is not a direct payroll deduction, if the payroll can be automatically deposited into the members checking/saving account and the ACH Autopay is set up via FIS, it should accomplish the same end result. Check with your client relations rep at Certegey/FIS for the paperwork.

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Q: What percentage of the available credit can members typically access for a cash advance?

Ondine: The members credit line should be able to be used however the member chooses. 100% with a caveat that system parameters are established with the processor to perform further verification for large or excessive advances and be followed up by the credit union. This is for the members protection as well as the credit unions.

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Q: What is your recommended fee for cash advance?

Ondine: There should be no need for a cash advance fee or a separate cash advance rate. Why? You don't need the fee income as much as you need the balances that the cash advance (balance transfer) represents. Banks love these cash advance fees 3%-4% and \$10 minimums. Why would we want to mimic banks? Truly, a cash advance rate or fee is not going to do any good for your outstandings, except prevent the member from PAYING to transfer a balance to your card.

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Q: 46.9% of our lending portfolio is our Visa Credit Cards. Rex said that 20 - 25% of your lending portfolio should be compromised of credit cards. Are we being realistic in thinking that we can still grow our portfolio??? Our credit card penetration for is at 54% of our membership.

Rex: You have probably the highest penetration in dollars outstanding as a percentage of your total portfolio of any credit union I have ever heard of. You are already in the Hall of Fame. Having said that if 46% of your members still don't have your credit card, which by the way is an outstanding penetration, I believe you still have many opportunities. I would really be curious to see what your gross loan yield is as it should be off the charts if you priced it right. The other concern would be your level of delinquency and charge-off. If I get an opportunity I will take a look at your FPR ratios and give you a call. Let me know what would be a good time and who I could talk to.

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