

Webinar 13: **'The Death of Credit Cards for Credit Unions'**



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**The Death of Credit Cards in Credit Unions
and
Ultimately the Death of the Credit Union Industry**

**In the last 4 years, credit unions
have lost over 1,325 credit unions.**

The Death of the Credit Union Industry as of 9/30/06

Asset Size	% of Total	# of Credit Unions	ROA	Member Growth	Loan Growth	Asset Growth
0-20 million	60%	5,220	0.64%	-1.07%	4.24%	-1.91%
20M-59M	17%	1,486	0.68%	0.06%	6.10%	1.04%
50M-100M	9%	782	0.70%	0.95%	6.60%	2.64%
100M-200M	6%	519	0.75%	1.85%	7.90%	4.36%
200M-300M	3%	236	0.82%	1.47%	8.65%	5.02%
300M-400M	1%	118	0.89%	3.86%	10.58%	5.98%
LSCI CU			1.8%	6.34%	20%	23%
400M-500M	1%	84	0.85%	3.65%	10.57%	7.14%
500M-1B	2%	164	0.92%	3.76%	11.48%	5.79%
1B Plus	1%	111	0.98%	4.51%	13.99%	6.73%
Total		8,720				

Working Hard But Not Growing

	2002	2005	Change
Unsecured Loans Outstanding	\$79,510,542	\$68,753,558	(\$10,746,984)
Total Loan Income	\$32,340,778	\$27,955,909	(\$4,384,869)

POINT: Working hard, making less.

	2004	2005	Change
Total Loans	\$420,243,841	\$502,081,180	\$81,837,339
Total Loan Income	\$28,505,983	\$27,955,909	(\$550,074)

POINT: The credit union worked hard, but competed on price only. Indirect loans were as low as 2.99%, plus they were heavy into mortgage loans. The credit union increased loans by \$81,837,339 and gross loan income dropped (\$550,074). Credit unions must pick and choose where to fight their battles. Your new strategy has to be high yielding loan products which means you are going to have to take more risk.

	2005	2006	Change
Dividends Paid Out	\$10,441,900 (+49.2%)	\$16,643,386 (+59.4%)	\$6,201,486
Total Shares	\$651,033,314 (4.4%)	\$653,538,018 (0.4%)	\$2,504,704
C.D.'s	\$364,404,958	\$402,640,512	\$38,235,554
Regular Shares	\$193,123,958	\$157,368,553	(\$35,755,405)

POINT: Depositors are not happy, credit unions are only growing deposits by competing on price, regular shares are turning into CDs.

	2005	2006	Change
Unsecured Credit Cards	\$68,753,558	\$72,054,918	\$3,301,360
Loan Income	\$27,955,909	\$32,528,488	\$4,572,579
Gross Loan Yield	6.06%	6.20%	0.14%

POINT: Credit union has finally started changing mix and growing yield. Credit unions should have a yield of 8 to 8½%, not 6.2%.

Loan yield and loan growth are critical if you are going to grow deposits.

Maximizing Income and Creating Shareholder Wealth

Credit cards outstanding dollars as a percentage of assets and loans.

- **3.67% of total assets (and)**
- **5.95% of total loans**

No wonder we are not making money and growing.

Your GOAL should be:

- **15% to 20% of your total loans should be in credit cards so you can start maximizing income and creating shareholder wealth.**

A Successful Credit Card Program

Total Outstanding Balances	Credit Card Gross Loan Yield \$	Gross Loan Yield %	Interchange Income – Credit Card	Interchange Income – Debit	Fee Income
\$142,512,579	\$11,970,000	9.50%	\$6,587,659	\$2,434,356	\$2,460,032

Total Income	MINUS	Awards Program	Charge-Offs \$	Charge-Offs %
\$23,454,047		\$3,342,056	\$1,910,986	1.52%

Net Income	R.O.A. On Credit/debit Cards Last year	Credit Union's Overall R.O.A
\$4,450,759	3.53%	1.06%

Compare charge-offs to fee income. What are we worried about?

	Total Outstanding Balances	5 Year Growth
2002	\$95,800,555	--
2006	\$142,512,579	49%

	Total Outstanding Balances	1 Year Growth
2005	\$121,783,550	--
2006	\$142,512,579	17%

Credit Unions love to avoid risk and give up income.

Jeffrey XXXXXXX
123 Main Street
Anytown, USA 12345
RPTD:

SS: xxx-xx-xxxx Date: September 2, 2002
Year of Birth: 1962

RISK SCORE = 542 SCORE FACTORS: 22, 13, 21, 10
22 Account(s) not paid as agreed and / or legal item filed
13 Length of time (or unknown time) since account delinquency
21 Amount past due on accounts
10 Proportion of balance to high credit on bank revolving or all revolving accounts

Credit Unions are far more focused on risk than they are on income.

Subscriber Account #	Subscr# KOB Type	Term ECOA	Date Open Bal Date Last Pay	Amt/Type Balanced Month Pay	Amt/Type Status Date \$Past Due	Acct Status Pymt History In Prior Mos
xxxxxx FC CRC	REV 1		08-9-02	\$1558	11-01	CURwas 30-3 CCC1C1CCC1C CCCCCCCCC
Special comments						
Credit line closed - Grantor's request - Reported by subscriber						
Bank			01-00	\$1217 - L	\$1218 - H	CURR ACCT
xxxxxx BB CHG	REV 1		08-4-02	\$1167	08-02	CCCCCCCCC
07-02				\$36		CCCCCCCCC
Special comments						
Credit line closed - Grantor's request - Reported by subscriber						
Wells Fargo Financial			02-01	\$1629 - O	04-02	PD was 30-2 1CCC1CCCCC CC
xxxxxx FC ISC	12 1		04-8-02			
AMEX			10-89	\$2241 - H	08-02	Paid Satis
xxxxxx BC CRC	3		08-3-02			
Special comments						
Credit line closed - Grantor's request - Reported by subscriber						
Could B-U FCU			03-01	\$1168 - O	02-02	Paid Satis
xxxxxx FC UNS	12 1		02-12-02			CCCCCCCCC CC

Could B-U FCU			10-00	\$500 - O	04-01	Paid Satis
xxxxxx FC UNS 6	1		04-10-01			CCCC
Could B-U FCU			10-00	\$500 - O	04-01	Paid Satis
xxxxxx FC UNS 6	1		04-10-01			CCCC
Chase			01-96	\$9029 - O	02-99	Paid Satis
xxxxxx BB LEA 36	1		02-28-99			NNCCCCCCCC CCCCCCCCC
Federal Sav & Loan			10-94	\$109150 - O	09-98	Paid Satis
xxxxxx FS R/C 360	2		02-12-02			CCCCCCCCC CCC--CC
Tops Appliance			10-91	\$2000 - O	09-98	Paid Satis
xxxxxx FF CHG REV 1			09-25-98			CCCCCCCCC C
Could B-U FCU			07-95	\$6594 - O	01-97	Paid Satis
xxxxxx FC UNS 36	7		02-12-02			CCCCCCCCC CCCCCCCCC
Could B-U FCU			01-93	\$6000 - O	03-96	Paid Satis
xxxxxx FC AUT 33	1		03-31-96			CCCCCCCCC CC
Could B-U FCU			05-92	\$8000 - O	07-95	Paid Satis
xxxxxx FC UNS 38	1		02-12-02			CCCC-CCCC CCCCCCCCC
Discover Financial Svc			07-94	\$3700 - L	\$5916 - H	30 4 Times
xxxxxx BC CRC REV 2			08-20-02	\$3693	08-02	C1C1CCCCC CCCCCCCCC
			07-02	\$146	\$73	

NOTE: Was not closed!!!!!!

NOTE: 1/2 payment overdue

The member was way over the limit plus they were past due. An eight year relationship means something with Discover plus all the income they are making.

Sears
XXXXXXXXXXXXXXXXXXXX
XXXXXX DC CHG REV 1

08-83
08-05-02
07-02

\$4370 - L
\$4329

\$4495 - H
05-02
\$94

Curwas 30-3
CCC1CCCCC1
CCCCCCCCC1

PHH Mortgage Svcs Corp
XXXXXXXXXXXXXXXXXXXX
XXXXXX FC R/C 360 1

08-98
08-12-02
07-02

\$155000 - O Cur was 30
\$148465
\$1530

Could B-U FCU
XXXXXXXXXXXXXXXXXXXX
XXXXXX FC UNK 180 1

04-00
08-12-02
07-02

\$25000 - O
\$23344

08-02
08-02

Curr Acct
CCCCCCCCC
CCCCCCCCC

Could B-U FCU
XXXXXXXXXXXXXXXXXXXX
XXXXXX FC UNK 48 1

01-02
08-12-02
07-02

\$6204 - O
\$5580
\$164

08-02
08-02

Curr Acct
CCCCC

CITI
XXXXXXXXXXXXXXXXXXXX
XXXXXX NZ CRC REV 1

10-88
07-31-02
04-02

\$3200 - L
\$3534
\$72

08-02
08-02

Curr Acct
CCCCCCCCC
CCCCCCCCC

AMEX
XXXXXXXXXXXXXXXXXXXX
XXXXXX BC CRC 1 1

03-99
07-14-02

\$1318 - L
\$1045

07-02
07-02

Curr Acct
CCCCCCCCC
CCCCCCCCC

Wells Fargo Financial
XXXXXXXXXXXXXXXXXXXX
XXXXXX FP CHG REV 2

08-00
07-01-02
04-02

\$3500 - L
\$3500 - H

07-02
07-02

Curr Acct
CCCCCCCCC

NOTE: Overlimit, not closed!!!!!!

PROFILE SUMMARY:
PUBLIC RECORDS-----0 PAST DUE AMT-----73 INQUIRIES-----3 SATIS ACCTS-----15
INSTALL BAL-----28924 SCH/EST PAY-----843 INQS/6 MO-----0 NOW DEL/DRG-----1
R ESTATE BAL-----148465 R ESTATE PAY-----1530 TRADLINE--21 WAS DEL/DRG-----5
TOT REV BAL-----15326 TOT REV AVAIL-----21 PAID ACCT-----12 OLD TRADE-----8/83

Same Member 5 Months Later

The member's score went from "E" paper (542) to "A" paper (681) in 5 months. Would you give an "E" paper member a credit card?

Score: 542 - September 2, 2002

Public Records	0	Past Due Amt	\$73	Inquiries	3	Satis Accts	15
Install Bal	\$28,924	Sch/Est Pay	\$843	Inq/6 mos	0	Now Del/Drp	1
R Estate Bal	\$148,465	R Estate Pay	\$1530	Tradeline	21	Was Del/Drp	5
Revolving Bal	\$15,325	Revolving Avail	21%	Paid Acct	12	Old Trade	8/83

Score: 681 February 20, 2003

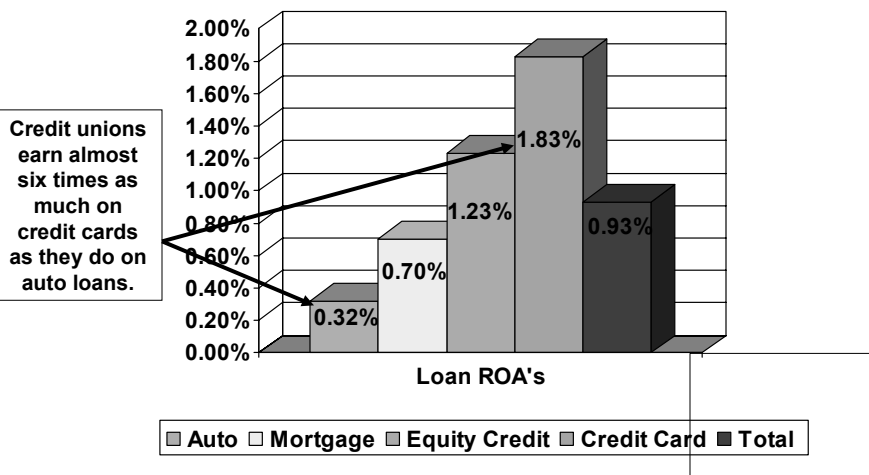
Public Records	0	Past Due Amt	\$0	Inquiries	3	Satis Accts	16
Install Bal	\$43,137	Sch/Est Pay	\$536	Inq/6 mos	1	Now Del/Drp	0
R Estate Bal	\$147,200	R Estate Pay	\$1546	Tradeline	22	Was Del/Drp	6
Revolving Bal	\$971	Revolving Avail	82%	Paid Acct	17	Old Trade	8/83

Why credit unions need to change their strategy and start taking more risk.

Compliments of CSCU

ROA: Credit Cards vs. Other Loans

Credit Cards Are The Credit Union Industry's Highest Earning Asset



Source: Raddon Financial Group 2006; Callahan's.

Compliments of CSCU

Visa CU Study of Credit Card Profitability

	2006 CFI Study			2006 Industry	Industry Average vs. Credit Union
	Average	Low	High		
Revenue					
Finance Charges	9.50%	7.91%	10.62%	12.24%	29%
Interchange Fees (Gross)	3.91%	2.72%	5.41%	3.25%	-20%
Other Fees	0.54%	0.17%	1.15%	3.40%	530%
Total Revenue	13.95%	11.17%	15.99%	18.89%	35%
Expense					
Net Credit Losses	2.25%	0.87%	3.10%	3.91%	74%
Cost of Funds	2.05%	1.39%	2.43%	4.17%	103%
Direct Expense	4.13%	2.71%	6.33%	3.52%	
Other Expense**	1.44%	0.51%	4.49%	2.14%	
Total Expense	9.88%	7.62%	12.29%	13.74%	39%
Pre-Tax Net Income (ROA)	4.07%	2.30%	5.55%	5.15%	40%
Net Income Per Active Account	\$93.81	\$53.13	\$118.30	\$131.46	

*Source: Visa Bankcard Outlook, Volume 11, September 2006

**Includes Net Fraud Losses, Rewards and Rebates, Interchange Fees Paid, Visa/Mastercard Association Service Fees & Corporate Overhead

Compliments of CSCU

2005 Visa/MasterCard Issuer P & L/ROA

Revenues:	\$'s (Bil.)	% Total	CU's
Finance Charge	\$71	65%	73%
Interchange	21	19	23
Penalty Fees	8	7	
Cash Advance Fees	5	5	4
Annual/Other Fees	4	4	—
		16	
Total	\$109	100%	100%

Expenses:			
Cost of Funds	\$27	25%	
Ops./Mkt.	27	25	
Charge-Offs	35	32	
Fraud	1	1	
		83%	
Pretax Profit	\$19	17%	3.1% ROA

Competition spends big money on marketing.

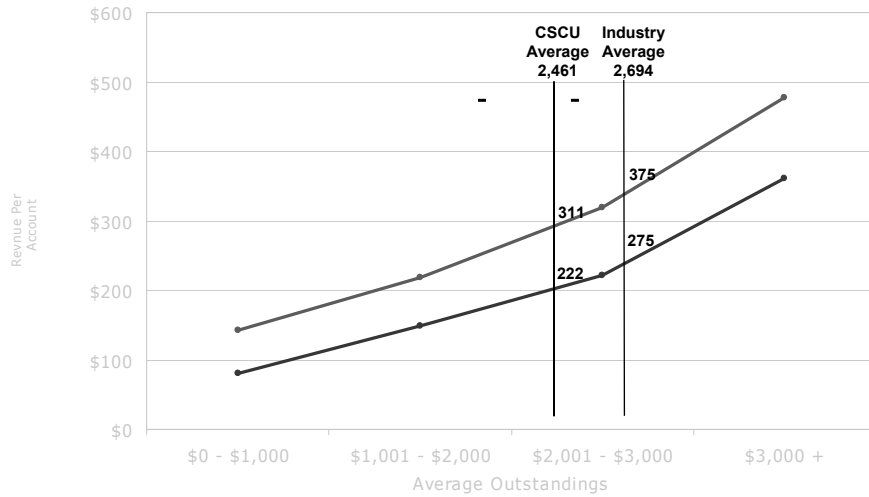
Much larger losses than credit unions experience.

Note what they are making by taking risk.

Source: Cards and Payments May 2006

Compliments of CSCU

Balances Drive Finance Charge & Total Revenue



10% increase in outstandings =
20% increase in revenue.

— Finance Charge Revenue
— Total Revenue

The larger the balance the
greater the revenue.

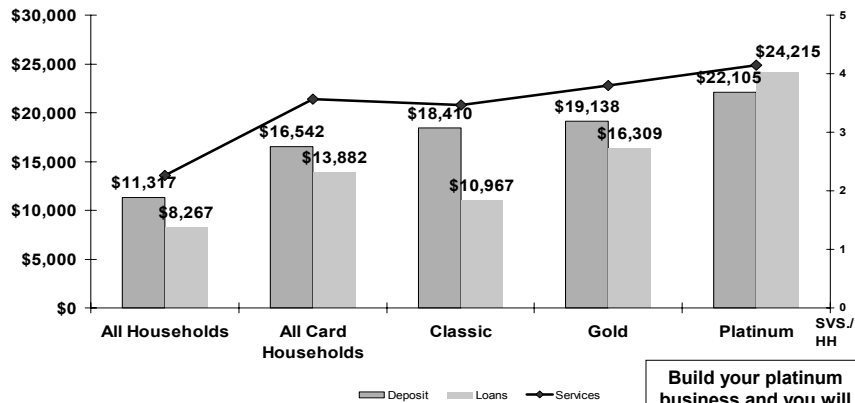
Compliments of CSCU

2006 Classic vs. Platinum

	Classic	Platinum	Difference
Finance Charge Revenue Related Items:			
% of Accts w/ Finance Charge	65%	66%	1%
Avg Credit Line	\$3,465	\$8,507	\$5,042
Avg Outstanding	\$1,547	\$3,439	\$1,892
Cash Advance Volume/Account	\$189	\$638	\$449
Finance Charge Revenue	\$158	\$292	\$134
Interchange Revenue Related Items:			
% Accts Billed (Active)	57%	65%	8%
Usage	4.6	6.7	2.1
Annual Sales Volume/Account	\$3,460	\$6,678	\$3,218
Interchange Revenue	\$52	\$96	\$44
Fee Revenue	\$16	\$12	(\$4)
Total Revenue	\$226	\$400	\$174
Gross Revenue Yield	14.9%	11.7%	(3.2%)

Compliments of CSCU

Credit Cards Drive Relationships Deposits/Loans/Services Per Household



Build your platinum business and you will build your relationship business with the members including deposits.



Source: RFG Credit Card Analysis

If you lost money due to bankruptcy,
get over it.

Bankruptcies are nuggets of gold!

Newly bankrupt apparently good risks

Reuters
Posted Tuesday, December 06, 2005

Bankrupt? Want a credit card? You're golden.

A record number of Americans filed to wipe out their debts this year ahead of the autumn implementation of a tough new bankruptcy law. That surge in filings forced U.S. credit-card issuers like Citigroup and Capital One Financial to record a huge jump in uncollectable debts in the third quarter and to warn the losses would bleed into the fourth quarter.

The bankruptcy bubble has forced the card issuers to set aside big amounts to cover the unprecedented surge in charge-offs. It's also forcing them to scramble to rebuild their diminished loan portfolios, which are already under stress because of new federal guidelines on minimum payments requirements that are cutting into receivables and interest income, according to analysts at Citigroup Global Markets.

As they consider their options, some in the industry are reportedly mulling a strategy that concerns consumer advocates — signing up the consumers who just had their debts discharged.

Sound crazy? It's not. For starters, the new bankruptcy law requires debtors to come up with a payment plan to satisfy unsecured creditors like the card companies. So the newly bankrupt are actually pretty good credit risks.

But that's not all. In a world where the average creditworthy American already has more than four general-purpose credit cards and where response rates to direct-mail solicitations touting zero-interest loans have fallen below 1 percent, experts say the newly bankrupt have much to recommend them.

Among their attractions: a tendency to engage in behaviors that generate hefty



finance and penalty fees and bring fat profits to the issuers.

"The credit-card companies can't afford to lose these people," said Robert D. Manning, a professor at the Rochester Institute of Technology and author of the book "Credit Card Nation." "They've really come to count on them."

According to Lundquist Consulting Inc., of Burlingame, Calif., nearly 2 million Americans filed for bankruptcy from Jan. 1 until the Oct. 37 implementation of the new law, up nearly 50 percent from the same time last year.

In the old days, burned card issuers would have treated the people behind those sour statistics like untouchables and either denied them credit for up to seven years or steered them into secured cards. No more.

Lenders are going to go after them again and offer them more. "Capital One Vice President Mike Rowen told listeners at a recent 'State of the U.S. Consumer' conference hosted by CIBC World Markets.

During the conference, Rowen checked off for his listeners the things that make the newly bankrupt so attractive to some lenders.

For starters, they are debt-free, which means they're in a much better position than the average U.S. consumer to pay off any new bills in the face of rising interest rates, higher fuel prices and a slowdown in the real-estate market.

What's more, Rowen said, because the new U.S. bankruptcy law that went into effect in mid-October forbids anyone who declares bankruptcy from doing so again for anywhere between two to eight years, the newly bankrupt are customers who will — by law — have to pay a substantial portion of their new debts.

"The people that get discharged are going to get access to credit right away," Rowen said, "because once they're discharged, you know, they can't file for bankruptcy for a long time again."

The newly bankrupt are also card-free and keen to re-establish credit, making them much easier targets for direct-mail solicitations than their overcarded, nonbankrupt peers. And because they're so grateful to get their mitts on plastic again, the newly bankrupt will swallow the comparatively high interest rates that the credit-card companies will charge them because of their so-called subprime status.

"It's diabolical," said Travis Plunkett, legislative director of the Consumer Federation of America, a nonprofit watchdog group in Washington. "They'll hit them with terms that will give the word 'onerous' a new meaning."

A final reason the credit-card companies will welcome back the recently bankrupt with open arms? The companies really miss them. Their bankruptcies aside, these customers were pretty profitable, said Ed Groshans, a specialty finance analyst at Fox-Pitt, Kelton in New York.

Those were the ones who were getting late fees, over-limit fees, and probably bounced a check every once in a while, allowing the card issuers to hit them with one lucrative change after another, Groshans said. "Those were like nuggets of gold on a company's top line."

Members go bankrupt to get out of "undesirable" debt, mainly credit cards. They quickly find out how much they used and enjoyed their credit cards once they no longer have them. They are willing to pay almost anything to get another chance which plays right into the hands of sub-prime lenders.

They take advantage of these members because:

- They believe no one wants their business.
- They feel like they should be punished and sub-prime lenders are more than willing to accommodate them. The question is what are credit union doing about this.

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- Account Access / 24-hour by phone ☒ INCLUDED ✓

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Complete and return the form below by 2-23-07
OR
Visit us online at: www.PlatinumOffer.com

You can choose to stop receiving "prescreened" offers of credit from this and other companies by calling toll-free 1-888-567-8003. See PRESREEN & OPT-OUT NOTICE on the enclosed insert for more information about prescreened offers.

*The APR for purchases may increase if you do not make your payments by the due date. See enclosed insert for information.
**Pre-approved means that a credit reporting agency has verified that you have met our pre-screen credit criteria for this offer. However this offer could be modified or withdrawn if you no longer meet these or other criteria bearing on your creditworthiness.
***See enclosed insert for Pre-Approval conditions.

Please complete this Form for our records. Please use blue or black ink. All your answers must be at a P.O. Box, you must provide your physical street address below.

Please enter employer information here


Do you desire an additional card?

Please Read Then Sign Below

Optional PRESREEN Credit Protection*

*By signing your name, you are not only applying for credit, you are also agreeing to be added to the First PREMIER Bank's credit card mailing list. This is a fee-based product. If you are assigned the minimum credit limit of \$250 your initial available credit will be \$72. If you choose for additional card, please sign with your name and address. You consent to receive correspondence electronically from First PREMIER Bank and its affiliates, including but not limited to, First PREMIER Bank, First PREMIER Bank, etc. * Before signing your application please see insert for required information about the First PREMIER Bank Customer Identification Program.

If you are assigned the minimum credit limit of \$250 your initial available credit will be \$72.



APPLIED CARD BANK, Wilmington Delaware

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\$750* CREDIT LIMIT**

Congratulations
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ACCEPT YOUR CARD NOW!
Activation Number: [Redacted]
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Reply with postage-paid envelope
Call Toll Free 1-888-842-6993

Dear [Redacted]:

You have been pre-selected* for a Clearly Superior Visa Card with an initial \$750* credit limit!

Don't miss out on this opportunity - We are making this offer to you regardless of your past credit history! Accept your card today and enjoy:

- Immediate cash access at over 80,000 ATMs nationwide
- Free Auto Rental Insurance
- \$0 Fraud Liability

For 60-second processing, visit us online at www.visaclearcard.com - It's fast and secure! Your Activation Number is: [Redacted]

Be sure to have it available when you accept your card. Or simply complete and return the Acceptance Certificate below in the enclosed postage-paid envelope.

Sincerely,
Roger Valino, Vice President

P.S. Remember, you were pre-selected to receive this card. Accept your card today and discover the convenience of your new Visa Card.

"You have passed the initial screening. You will receive a Visa Card if you continue to meet our selection criteria and meet our income requirement. See the enclosed 'Terms and Conditions of Offer' which includes credit limit and availability information. If you continue to meet our selection criteria your initial available credit will be \$689 after the Account Origination Fee and Monthly Maintenance Fee are charged. Any charges for Optional Card Benefits will further reduce your initial available credit."

Note: You start with \$750.

You get \$689.

Fees

\$50 account origination fee.

\$10.95 monthly maintenance fee.

\$20 to ship overnight

Applied Advantage = \$39.95

You can choose to also receiving "pre-screened" offers of credit from this and other companies by calling toll FREE 1-888-842-6993. Please read the "Terms and Conditions of Offer" insert for more information.

Pre-Selected Acceptance Certificate

Please provide all requested information below to receive prompt processing of your Credit Card Application.

Social Security Number: [Redacted]	Date of Birth: [Redacted]	<input type="checkbox"/> Overnight Express I want my card to be shipped overnight and I understand the overnight shipping fee of \$20.00 will be charged to my account. See insert for details.
Home Telephone: [Redacted]	Business Telephone: [Redacted]	<input type="checkbox"/> Applied Advantage* I want to enroll in Applied Advantage. I understand that the Annual Maintenance Fee of \$39.95 will be charged to my account. See insert for details.
Cell Phone: [Redacted]	In past Year: Very Good \$10,000 or more / Good \$5,000 or more / Fair \$1,000 or more / Poor less than \$1,000	<input type="checkbox"/> Credit Protection I want to enroll in Credit Protection. I understand that the Annual Maintenance Fee of \$10.95 will be charged to my account. See insert for details.
Personal Email Address: [Redacted]		

PLEASE INDICATE ACCEPTANCE BY SIGNING BELOW

I, [Redacted], do hereby accept the terms, conditions, and disclosures on this card and the enclosed cardholder agreement. I understand that my card will be shipped to me by overnight express and I understand that the Annual Maintenance Fee of \$39.95 will be charged to my account. I understand that the Credit Protection fee of \$10.95 will be charged to my account. I understand that the Applied Advantage fee of \$39.95 will be charged to my account. I understand that the Cardholder Agreement is attached to this card and I agree to read and accept the terms, conditions, and disclosures on this card and the enclosed cardholder agreement.

Signature: [Redacted]

Signature For Credit Protection: [Redacted]

*If your mailing address is International or Incomplete (P.O. Box, etc.), please make changes here.

What Bankrupts are Being Offered?

	Applied Card Bank	First Premier Bank	Household Bank
Annual percentage rate	23.99%	9.90%	21.99%
Application fee	\$50	\$29+\$95	
Annual fees	N/A	\$48	\$0
Limits	\$750		\$2,500
Monthly maintenance fee	\$10.95	\$6	
Late Fee Charges	\$32	\$25	\$39
Late Payer APR	29.99%	19.90%	29.99%
Miscellaneous Fees		\$11 ea autodraft pymt \$3.95 internet access fee \$25 per limit increase	

NCUA's Report on Asset Growth and Credit Card Growth

	Number of Credit Unions	Change	Assets	Change	Cards	Change
2002	9687		\$556,306,192,595		\$21,522,183,501	
2003	9367	(3%)	\$609,153,786,120	9.50%	\$21,694,367,735	0.80%
2004	9015	(3%)	\$646,855,083,496	6.19%	\$22,498,893,187	3.71%
2005	8695	(4%)	\$678,521,020,515	4.90%	\$23,903,904,623	6.24%
2006	8363	(4%)	\$709,954,750,785	4.63%	\$26,536,760,663	11.01%

Note:

1. We have lost 1,324 credit union in the past four years.
2. The number of credit unions is down 15% in only 4 years.
3. Assets have grown less than 5% in 2005 and 2006, now subtract dividends and there is no growth.
4. Credit card growth was very flat from 2002 to 2005. Its time to get serious.

**What happens to your members
when you sell them to the banks?**

Story on a Major Credit Union Who Sold Their Very Large Portfolio

- The credit union has 330,000 members.
- They sold their portfolio to MBNA.

Quote from a credit union CEO: "We believe that our card portfolio can be grown, but we are not sure that we are the best people to do it."

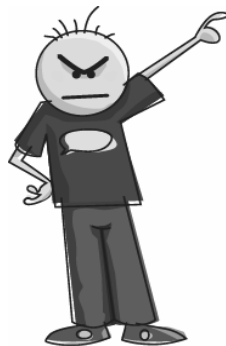
- MBNA bragged that they had grown the credit union's card portfolio from 60 million when they purchased it to over 100 million today or 67%.

Quote from a CEO: "We chose to deploy resources into areas where we had more expertise and let the credit card company (a.k.a. bank) do what it does best."

- When you sell your portfolio, you remove yourself from decision making on which one of your members will not get cards, the decision is no longer yours, you sold out.
- As credit unions, we should be ashamed that a bank can outperform us this way, growing our portfolio 67%, and we admit we can't grow it.
- **When is enough, enough!?**

Sources: Credit Union Times and Credit Union Magazine

Well, I Don't Know About You But...



**I'M MAD
AND I'M NOT GOING
TO TAKE IT ANYMORE!**

WHY?

I'm Mad We're Not Growing

Members	=	-1.07%
Deposits	=	-1.91%
Earnings	=	0.64%
R.O.A.	=	0.64% and falling every year
Courtesy Pay	=	We're relying on that to make our bottom line look half way descent.

I'm Mad That We're Subjecting Our Members To:

Universal Default

The banks figured out another way to make money on credit cards.

Universal default occurs when card issuers raise rates for those who made a **late payment** to **some other company**. They can also **raise your rate if your overall debt has increased**. 45% of banks use universal default in 2005, according to Consumer Action, an Advocacy Group. The credit card issuers defend this practice by arguing if you have trouble with other debts, you will have trouble paying your credit card.

Double Billing: I'm mad we subjected our members to this.

The banks use a customer average daily balance over 2 months to calculate interest. You have a \$1,000 balance, you pay \$900 by the due date, your interest would be based on the entire \$1000 instead of the \$100s.

I'm Mad Because...

We are turning our members over to the banks.

I'm Mad That We Have CEOs Who Admit

"We believe that our card portfolio can be grown, but we are not sure that we are the best people to do it."

AND

"We chose to deploy resources into areas where we had more expertise and let the credit card company (a.k.a. bank) do what it does best."

I'm Mad That We're Afraid To Take Risk and Bankrupt Challenged Members Have No Choice But To...

- Pay 29.99%
- Pay \$39 Late Fees
- Pay \$99 Application Fee
- Pay \$90 Annual Fee
- Pay \$25 For Increasing Their Limits

Plus, we no longer decide who gets a credit card.

So what are we going to do, getting MAD is the first step, then:

Adopt our High Yield Loan Strategy (a.k.a. HYLS).



"Captain HYLS" Will STOP Denials. No More Denials for the Following Reasons:

- Delinquent credit obligations with others.
- Excessive debt in relation to income.
- High debt to income ratio.
- High unsecured debt.
- Potential bankruptcy.
- Past bankruptcy that caused you a loss.
- Public records, repossessions, foreclosures, collections.

Strategy not to just get MAD but to show the competition we are coming after them. How?

Simplify what you are going and adopt a sales culture, HYLS can help, how?

1. All new members automatically get your credit card unless they simply don't qualify. Don't ask them if they want it, tell them it comes with the membership. Make it easy. How?

- **No application to fill out.**
- **Write their name and information on the mini app provided below.**
- **Assign them an attractive limit.**
- **Advice them their card will arrive in 10 days and how it benefits the credit union every time they use it.**

Name	Social Security Number		
Street Address	City	State	Zip Code
Date of Birth	Home phone		
Employer	Work Phone		
Monthly Gross Income			

2. Get a list of every member who has direct deposit and issue them a credit card. Let them know it is free and it will improve their risk score. Plus they will be helping the credit union by using it which will enable the credit union to pay higher dividend rates and charge lower loan rates.
3. Divide the credit union staff (all employees) into teams headed by senior management. Have a 30 day blitz to enroll as many members as possible with big rewards to the winning team. Create internal competition by having marketing play a very active role by keeping score and letting the employees know daily who is ahead. Every employee on the winning team gets \$500 plus dinner with the CEO to include spouses and significant others. Employees also get \$5 for every card they issue.
4. Profitability. Have a monthly staff meeting to go over the following:
 - **Finance income (change your pricing see our recommended rates)**
 - **Interchange income**
 - **Fee income**You must re-examine what punitive fees you currently have and change them to the maximum allowed in your state.

5. Start taking risk. Market to your bankrupts by:
 - **Issuing a new credit card to all bankrupt members regardless if you took a loss or not,**
 - **Make sure you get them on direct deposit.**
 - **Give them a limit consistent with their qualifications, but with a minimum of \$500.**
6. Go to one card only, the platinum card and risk rate the card.
7. Set a goal to get your penetration up to 75% of your members.
8. Change the organization structure for a least the first 6 months by having the credit card department report directly to the CEO.
9. Get a credit card portfolio analysis done by contacting Card Analysis Solutions, Ondine Irving, at 1-866-602-9777. Ondine will look at your profitability of your current program, your expenses, and usage by the members and send you an in-depth report plus arrange a conference call to go over the results.
10. Attend the first credit card school offer by the University of Lending in San Francisco, CA, October 23-25, 2007. Take advantage of the early bird special and if you sign up by May 31st you will be entitled to a \$100 discount per attendee.

**The final and most important step is to call
MBNA Bank and tell them you would like to
buy their credit card portfolio.**

Next Webinar: TOPIC AND DATE TO BE ANNOUNCED

