


Webinar 40
**WHAT'S IN
YOUR
MEMBER'S
WALLET?**



Hosted by Jack Kelly, CLE

A person in a dark suit is holding an open black wallet. A hand is holding a credit card over the wallet, suggesting a transaction or payment. The background is a light, neutral color.

Credit Cards

A Common Sense Business & Money Making Opportunity

Why does the credit union movement struggle with credit cards?



What to look for:

- What is your penetration of this product?
 - 40,000 members with 20% penetration = 8,000 with your card
 - The remaining 32,000 members do not have your card
 - They have cards in their wallet – just not yours
- What limits (if any) are your loan officers approving?
- Do all your employees carry your credit card?
- How often do you review your portfolio for credit limit increases?
- Are we target marketing to different segments of your memberships?
- Do we judge?



Why do we, as a Credit Union Movement, hesitate to go after this incredibly profitable business?

1. Delinquency and Charge Offs








- What should be analyzed?
 - Penetration of this product
 - Credit Unions are at 15.4%*
 - Charge-offs and net yield
 - What credit card limits tend to be most delinquent
 - Ask your collections department, they know!
 - Delinquency tracking should also include limits of the cards
 - Lenders and collectors need to analyze this report and come up with conclusions
 - *Most likely the most delinquent accounts are members with \$500-1000 limits*

2. *Too much too soon* – Is your staff maximizing the new member experience?



- “We don’t know them well enough.”
- Don’t want to give them too much too soon
- Where is the credit card opportunity in the new member process?
- New account reps just fill the order
- Need to wait the magical “6 months” before lenders will consider offering them a card.
 - For members to earn “the credit union’s trust”

Here is what is in your member's wallets, if lenders say 'No' or don't take advantage of the opportunity:

					
APR	22.9%	36%	10.99%-20.99%	12.99% - 22.99%	10.99%-22.99%
Annual Fee	\$39	\$45 (First year ranges from \$75 - \$125 depending on credit limit)	No	No	No
Balance Transfer Fee	3% of transfer amount	Not listed*	\$10 or 3% of transaction amount; whichever is greater	\$10 or 4%; whichever is greater	3% of the amount
Balance Transfer APR	22.9%	36%	0% for the first 15 Closing Dates; then 10.99-20.99%	12.99%-22.99%	0% first 14 months; 10.99%-22.99%
Late Payment Fee	\$35	\$38	\$25 first late; \$35 subsequent	\$35	\$0 first late; \$35 subsequent
Over Limit Fee	\$29	Not listed	\$10	\$25	No
Credit Limit Increase Fee	-	25% of the amount of increase	-	-	-
Cash Advance Fee	\$10 or 3% of the amount; whichever is greater	\$6 or 5% of amount of advance; whichever is greater	\$10 or 3%; whichever is greater	\$5 or 3%; whichever is greater	\$10 or 5%; whichever is greater

*First Premier has a fee for everything and not all are publicly accessible



Capital One 2014 Domestic Credit Cards

Net Revenue (Domestic)	\$12.2 Billion
Provision for Loan Loss (Domestic)	\$3.5 Billion
ROA	1.48%
Capital	12.6%
Average Yield	14.26%
Net Charge-Off Rate	1.72%
Yield after Charge-Off	12.54%

What is it costing members when they don't have your card in their wallet?



Payment Due Date: 04/01/2015

Minimum Payment Due: \$351.00

New Balance: \$17,595.30

Late Payment Warning: If we do not receive your payment by 5:00 p.m. on the date listed above, you may have to pay a late fee of up to \$25.00.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. The table is based on your standard minimum payment and does not include any past due and overlimit amounts. For example:

If you make no additional charges using this card and each month you pay	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment \$594.00	33 Years	\$38,524.00
	3 Years	\$21,387.00 (Savings = \$17,137.00)

If you would like information about credit counseling services,

Is your staff educating members on what the cost of having high interest rate credit cards in their wallet? What is it costing them in the long run?

National Averages



Average Credit Cards per Individual	3.7
Average Balance on Cards per Household	\$5,700 per household with credit card debt
Current Average Interest Rate paid on Cards	13.02% Fixed 15.75% Variable
Total American Credit Card Debt as of January 2015	\$882.6 Billion
Percentage of Americans with No cards	29% in 2014

<http://www.creditcards.com/credit-card-news/credit-card-debt-statistics-1276.php#ixzz3VLAwhzXg>

<http://www.bankrate.com/finance/credit-cards/rate-roundup.aspx>

A person in a dark suit jacket is holding an open, dark-colored wallet. They are pulling a white card out of the wallet. The background is a light, neutral color.

Recognizing the Opportunities and Going After the Business

NEW MEMBERS

The New Member Opportunity



1. Every new member is presented and given your credit card immediately
2. Analyze your new member/credit card penetration ratio
3. No more \$500 or \$1,000 limits
 - Only exception is young members just starting out but even then I prefer a share secured visa (a.k.a. 'skin the in the game').
4. Don't worry about if the member carries a balance *(yes, capacity is king but hang in there I will get to it)*
5. How does the credit union earn income
 - Members who carry balances
 - Not all of your members pay their balances off every month
 - Interchange income
6. When reps look at the member's account and they actually use the product, a judgement is made.
 - If the member is looking for other loan products with the credit union while carrying a balance on the credit card, typically the answer is going to be "no" to whatever the request is.

Solution



- Give reasonable limits upfront
 - A good guideline is one month gross income (MGI) but always reserve the right based upon the interview and the member's credit worthiness to give a higher limit or possibly a lower limit.

For example:

Income	Limit	
\$60,000	\$5,000	1 x Gross Monthly Income
\$18,000	\$1,200	1 x Gross Monthly Income

This is where we, as decision makers, earn our money. Depending upon the interview, you may decide to go a few thousand dollars higher or lower.

Capacity



- Here's the question we must all ask ourselves: Are limits of \$500 to \$1500 adequate when life happens?

For example: If your member needs four new tires, does \$500 or \$1500 cover it. If the answer is No, what is Firestone going to offer them?

A credit card – “I want to use my CU credit card, but they didn't give me enough”. The credit union is setting the member up to fail by giving them too low a limit.

- Reasonable limits allow members to use their card and still have good capacity.
 - When a \$5,000 limit is given and the member needs 4 new tires = \$1,000 they have 80% capacity left over, and their FICO score does not change.
 - When a \$1,000 limit is given and the member needs 4 new tires = \$1,000 they have 0% capacity left over, and their FICO score drops considerably.

Question?



- I know you're all saying right now, "Well, but what happens when they max the card out?"
- Fair question. This is where we, as a credit union movement, tend to drop the ball. Instead of looking at this as an opportunity to increase your penetration, and generate more interest and interchange income, we typically shut the member down.
- This must change. If the member has always made at least the minimum payment and always paid the credit union on-time, the opportunity is right in front of us to raise their limit.

Touch Points



Touch Points



- Whose credit card is at the top of your member's wallet? In other words, what credit card is getting the most touch points.
 - What card is in the #1 slot?
 - What card gets used the most?
 - What card gets paid first?

The answer is simple: The card that has the highest limit, lowest fees, best interest rate, and typically the best rewards program. You may qualify on three out of these four touch points but where you typically lose the game is not having the *highest or reasonable limit*.

Touch Points *(continued)*



- Where do you think a \$1,000 limit credit card ranks?
 - If the National Median credit limit is \$18,000*, then your limit of \$1,000 is going to be at our near the bottom.
- Who earns your members' interest and interchange income?
 - The cards with the most touch points and typically this is not us.
- If you give the right limit upfront you have a chance to move to the top of their wallet. If you use the one times month's gross income formula you are now in the game.

How do you increase your Touch Points?



- When is the last time the credit union reviewed its portfolio's current limits?
- The credit union's attitude about balances being carried must change. If average portfolio yield is 14%, why do you want the member to pay off their credit card every month?
- If the member makes only the minimum monthly payment, but pays the credit union on-time every month, why would you *not* consider raising their limit?

This isn't a credit card, it's a LOAN card



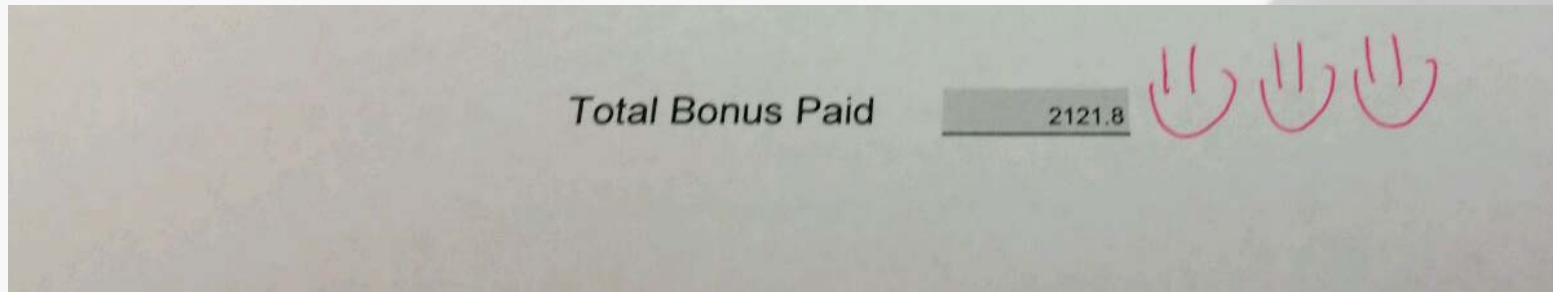
- Do we all realize that every time a member swipes a credit card, it is a loan? And it's a very unique loan in that it has no end-date. The majority of our other products that we offer have beginning and end dates.
- This is an unsecured high-yield loan that every time the member swipes whether it's a \$2 pretzel at the mall or an \$800 iPad, we're going to earn income until the member pays that specific item off. Plus, we still continue to earn interchange income.
- We must change the way we think about this incredible product.

How do we get our front-line and loan officers to get this card into your member's hands?



- Every employee in the credit union should know about what a great product we have. The only way this happens is through ongoing education.
- All employees should have our credit card. How can we expect them to talk about it if they don't use it?
 - A good guideline is to give all employees a \$1500 card with no credit pull.
 - If the employee wants more than \$1500, then normal underwriting must occur.
- Incentivize
 - \$5 does not motivate *anyone* anymore.
 - If the majority of our cards are \$1000 limits, and we're paying \$5 per \$1000, see above for motivation.
 - So, what works? \$75-\$100 per card approved. Limits must be at or near the 1x gross monthly income. No \$500 or \$1000 limits.
- This sounds like a tremendous amount of money. But you must ask yourself a very simple question:
 - If I pay \$100 per card, and the yield on that card is 13%, how many months in finance charges will it take for me to recoup that \$100 that I just paid out. This is where you **MUST** keep in mind that this is a loan product that never ends. The typical response that I hear wherever I go is "that will only take a couple months for me to recoup".

It Works



- In case you can't see the number above, it is **\$2,121.80**. And that is for only 2 weeks.
- Of that \$2,121, 11 credit cards at \$100 a piece equaled more than half of the total incentive.
- By re-structuring their incentive program and putting the \$100 incentive for approved credit card applications, you can see how the whole picture is affected:
 - As a whole the credit union completed 225 loan applications equaling \$1.7M
 - 55 GAP policies sold
 - 39 Warranties sold
 - 30 credit cards **This is just in the first 13 days of March.**

Update: After the first 3 weeks of March, this loan officer's incentive was already at \$5,300.

- These might be typical results for you, but this is a \$50M CU in the middle of Nebraska. If your results AREN'T equal to this and you're larger than this CU, you've signed up for the right Webinar.

Bottom Line



Bottom Line



- Example: Credit Union XYZ has 40,000 members. They currently have 15% credit card penetration. Their outstanding balances are right around \$10M with an average yield of 10%. So, with 15% penetration, this means 32,000 members do not have XYZ Credit Union's credit card. Now, let's be realistic and say 5,000 of those should probably never have a credit card with *anyone* let alone the credit union. That still leaves 27,000 members that have something else in their wallet. If we double our penetration from 15% to 30%, we would add slightly more than 4,000 members with an average new limit of \$5,000. We could possibly add up to \$20M in new balances at an average yield of 10-14%.

Caveat: We realize the math would be more sophisticated, we just want you to see how many more loans you could put on the books and what your potential income could be.

Bottom Line



- The impact on the bottom line is dramatic. Income brings new buildings, new equipment, new personnel, etc...
- The cost in incentives for employees – 27,000 new cards at \$100 a piece, equals a pool of \$2.7 million available to your employees. Now, THAT's motivation, and this is just one product. Try it; it works!!!
- Credit unions are starved for income. We cannot grow as a movement if we do not maximize the opportunities that are laying right in front of our eyes.
- The fact is, credit union credit cards are the best in the business. The opportunity is there and the things that we have to do to maximize those opportunities are not significant, but they *are* game-changers.

A person wearing a dark suit jacket is holding an open black wallet. The wallet is open, revealing a white card inside. The person's hands are visible, and the background is a plain, light color.

What Are the Next Steps?

Next Steps:



- We must change our attitude towards credit cards.
- We must change our attitude about credit card limits.
- We must change our attitude about members' carrying balances at or near their limits.
- We must review our portfolio at least once a year to seize upon the opportunity to raise limits.
- We must analyze our portfolio on a monthly basis and break it down by paper grade, yield, demographics, and penetration.
 Then do the same analysis broken down by loan officer.
- We must re-think our incentives program to create the highest level of sustainable motivation.