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How Even the Smallest Card Portfolio Can Attract a Buyer

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Today, small to midsize banks considering selling their card portfolios have a wealth of opportunities.

In the past large issuers had little interest in smaller card programs. But times have changed. Many buyers are now actively seeking smaller bank partners.

Here are some reasons to consider selling your card program.

Running a card program is expensive and distracting. Card products may have higher gross interest rates than other loans, but they also have high expenses: chargeoffs, marketing, labor, servicing fees, float for convenience users, and technology. The net return is often poor for smaller portfolios that lack economies of scale.

Additionally, a well-run card program requires continuing management attention, which may divert you from opportunities and core competencies that play to your strengths better.

Competition against bigger card issuers is fierce. Your customers are flooded with direct mail card offers: low APRs, high credit limits, zero-rate balance transfer offers, and a myriad of enhancements like miles and product giveaways. And they offer the latest technology.

Are you offering your customers the best card on the market? If not, you and your customers might benefit from partnering with a company that can.

Lack of portfolio growth. It is hard to continually increase portfolios. Such growth requires a large marketing budget, expertise, and people. And you are competing against the bigger issuers with economies of scale and massive marketing budgets. Marketing costs can easily exceed \$200 just to get one new account.

Adverse selection degrades your portfolio. The big issuers know who your best cardholders

are, and they try to pick them off with their best offers. Over time, this loss of the best accounts degrades the quality of your portfolio, leaving cardholders with low use and those with higher chargeoff risks.

To reduce risk. In uncertain economic times, unsecured credit card loans can go unpaid. Chargeoff rates can climb very quickly. Though the card portfolio may be a small portion of your asset base, it could make up the majority of your losses.

You need liquidity and capital. Banks that are tight on liquidity or capital can use a card portfolio sale to quickly improve their balance sheets by collecting an attractive premium and continuing to share revenue. The bank holding even a modest-yielding portfolio may be sitting on a pile of cash.

You may have better investments. With the card portfolio sale proceeds (face value plus premium) you might be able to get equal or better net returns from investment products with less rate and chargeoff risk and less management attention.

CRITICAL FACTORS FOR SALES

Get offers from multiple buyers. Competition will motivate buyers to make more aggressive offers and will help you find the best match. We often see offers improve by 20% to 50% when buyers know they are competing for portfolios.

The lesson is clear: Even when you already have one or two attractive buyers, you should get more offers. And after obtaining broad exposure and multiple bids, you, your board, and regulators can feel confident that you have found the best offer.

Experience and guidance. Perhaps this is the most obvious consideration, but make sure you work with someone who knows the secondary

market for credit card portfolios and can guide you through the process.

Check the reputations, credentials, and references of organizations and individuals who assist you. Knowledge in one area of loan portfolio sales may not extend to credit card portfolios. And, of course, ask about their fees, exclusivity period, and other terms.

Efficient presentation of portfolio data. Dealing with multiple buyers on your own can create tremendous work for your team. Each buyer will have his or her preferred data requirements and format. Responding to multiple buyers' requests just to get a preliminary bid can create weeks of headaches.

Brokers and organizations such as AssetExchange can help alleviate this problem by providing a standard template that has been accepted by buyers as comprehensive and complete. That way, data on your portfolio can be provided just once.

A RECEPTIVE MARKET

Once bidding starts, it is not unusual to receive offers of 115% and higher even for small portfolios. In addition, buyers are offering continued revenue sharing, such as payments for new accounts and percentages of net sales, of interchange, and of finance charges.

Most buyers are aware of your close relationship with your customers, so they will continue to promote the your name and brand in the card programs they purchase. Though the buyer will be responsible for the costs of obtaining new cardholders and increasing their balances, your input in these activities is encouraged. It is also common for buyers to agree to not cross-sell noncard products.

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