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Portfolio Sale In The Cards? What CUs Should Consider...

By Lisa Freeman, *Associate Editor*

SANTA FE, N.M.–As more credit unions consider selling off their card portfolios, one expert in portfolio analysis discussed compelling reasons to keep or sell such a portfolio–and the keys to making the decision to keep or sell successful.

"There are really two choices: either you have to really commit to doing what it takes to keep your credit card program successful, or you have to sell off the portfolio. But most credit unions take a third road and keep the portfolio, but do little with it," suggested William Koo of Asset Exchange, a company that specializes in helping financial institutions determine whether they should keep or sell their portfolio. Koo offered his expertise at the National Association of Community Credit Unions' annual meeting, here.

According to Koo, the first step is to look at the portfolio to determine its strength. If the balances are steady or are growing, then that's a good sign the portfolio is healthy.

Another factor: the amount and type of delinquency. A healthy portfolio still has some delinquencies, but those delinquencies will be in the first cycle, rather than in the second, third, fourth or fifth cycles. "When you've got more delinquencies in the first cycle, that means you're doing a good job of collecting," Koo explained. "As you get into the later cycles, you're much less likely to collect those dollars."

A weak portfolio, then, would be one where the balances are shrinking, and while there may be fewer first-cycle delinquencies, there are more in the later cycles.

"You have to understand what you have," Koo advised. "Ask your processor to generate charts based on all that data they are collecting for you so you can see what you have. Going through transaction reports just doesn't give you a good picture of what you have."

Underestimating Value

And although most credit unions think of credit cards as being much less important than, say, a first mortgage, they are underestimating the relationship-building value of a credit card, Koo said.

"I think about my credit card every day because I probably use it several times every day," Koo commented. "I don't think about my mortgage. I've got that on automatic withdrawal, so I don't even have to think about it once a month."

Koo noted that two credit unions his firm worked with kept their portfolios–much to his surprise. "It wasn't that the portfolios were particularly weak, but it just didn't look to me like they were strong enough that the credit unions would want to keep them. But what they said to me was that when they looked at the charts we generated, that was the first time they had looked at the portfolio from a long-term perspective, a strategic perspective, and it pointed out the potential that was there," he related.

Koo said that if a credit union decides to hang on to its plastic, the first thing it needs to do to ensure its success is commit a manager to the portfolio. Making one person accountable for the portfolio is the key, he suggested. Other steps to take include establishing a budget for staff, marketing member service and enhancements; establishing quarterly objectives, and monitoring trends and results.

There are generally two parts to credit card portfolio management – getting new cardholders and keeping the ones you already have, Koo said. Just as is the case with getting new members versus keeping the ones you already have, it's much more expensive to bring in new cardholders, so the real money is in retention.

"You want to nurture the cardholders you have now," he counseled. "Offer higher credit limits, match APRs being offered by the competition, offer enhancements. Consider skip-a-payment programs at tax time and back-to-school time–it allows you to build good will without losing a thing. I was talking with someone who was very proud of a new cardholder activation drive they had. But when I asked him how much it cost to do the direct mailing and everything else, it will take six years for that credit union to make any money off the new cardholders gained from that promotion."

Another helpful hint: don't be afraid to "hit up" your processor. "Processors know that a lot of credit unions are considering selling their portfolios, so they are nervous. That means they should be willing to work with you, whether that means negotiating better terms and service or obtaining understandable, usable reports," Koo advised.

With all those good reasons for keeping a portfolio, why are credit unions selling? Several members of the NACCU audience offered a couple of the most compelling reasons: "to us, this is not a core product, it's a passive program. We don't push this," said one attendee. "Our challenge is we don't have the resources to push this program. We can't make it affordable," said another.

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–William Koo

Both of those statements are typical credit union challenges with a credit card portfolio, Koo agreed, but if a CU hopes to compete with the hundreds of other credit cards out there, it has to be ready to commit to promoting the program.

Underestimating Value

"But I think part of the problem is that consumers are a little disenchanted with the [credit card] industry as a whole," said Truliant CEO Marc Schaefer, who was in attendance.

"They're tired of all the mailings and promotions that seem designed to trip you up with the different rates for balance transfers and the convenience checks. Credit unions have a different relationship, we're not trying to trip you up. Consumers get hit with a lot of credit card promotions, but I'm not sure how much sticks."

"If consumers are so jaded and the market is saturated, why do all these other companies want your portfolios? Because no one can replicate what you do," Koo countered. "You inspire loyalty. You have fewer charge-offs and fewer delinquencies. But if you're not willing to promote your card, you're not going to be successful with your portfolio."

Get Multiple Offers

And that, Koo suggested, is the primary reason credit unions sell them off. Credit unions look at a shrinking portfolio and know it's expensive to reverse that trend, and even with a healthy portfolio, it can be expensive to compete, requiring direct mailings, telemarketing and enhancements. "If you keep your program, develop the competency and commit staff to it," Koo said. "If you sell your program, make sure you obtain multiple offers and look beyond the immediate money to ensure you've got a strong partnership." ■

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CU That Sold Cards Itself Now Wishes It Had Used A Broker

SANTA FE–When credit card portfolio analyst William Koo suggested credit unions shouldn't try to sell their portfolios on their own, there was one person in the audience who couldn't agree more: Arrowhead CU Director Robert McDonald, whose credit union went that route.

McDonald was among the credit union reps in the audience during Koo's presentation at the National Association of Community Credit Union's annual meeting and told the audience that although his credit union's sale of its credit card portfolio was a success, if it had to do it all over again, Arrowhead CU would have sought out a broker to facilitate the sale.

Koo said there are four ways to sell a credit card portfolio:

1) Sell it yourself. "If you do this, there's a lot of learning and work involved," Koo advised. "Have you done this before? Probably not, but the buyers have. They do it every day. This is NOT a level playing field. They're not going to gouge you, but you want to make sure you're getting the best deal."

2) Go with an affiliated broker. This a broker that is tied to a specific buyer, and that means the buyer gets first right of refusal before the broker will go out and find other offers for the portfolio.

3) Use a closed broker. This is a broker that solicits several offers, but the broker selects the deal for the credit union and the credit union often doesn't even get to see the other offers.

4) Work with an open broker. This, Koo said, is the best way to go. An open broker works with all buyers and presents all offers to the CU. That means the credit union decides the price, the terms and the partner, instead of the broker. Some such brokers may make recommendations, but AssetExchange doesn't, Koo said.

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>
> – William Koo

"You want to avoid exclusivity in your negotiations, this bars you from looking around," he observed. "Do your due diligence, listen in on some of their customer service calls, see how they treat delinquent members, look at their ability to grow the program."

– Lisa Freeman

...And How To Avoid Pitfalls If Plan Is To Proceed With Selling Portfolio

SANTA FE, N.M.–There are benefits to be had for some credit unions in selling off their card portfolio–but only if the credit union avoids certain pitfalls.

AssetExchange CEO William Koo told credit unions at the National Association of Community Credit Unions' annual meeting how to make the most of selling off the plastic portfolio, but only after discussing the reasons to keep and nurture it.

Just as Koo said his firm, which helps credit unions analyze their portfolios so they can make an informed decision about keeping or selling them, has seen CUs he expected to sell their card program decide to keep it, he's also seen some he thought would keep it end up selling it.

"I know a large credit union in California that had a very healthy credit card portfolio. I would not have expected them to decide to sell it," Koo related. "But they sold it anyway because it's just not a core competency for them and they wanted to build a new branch. They used the premium from the sale to build the branch and invest in technology."

Look Beyond The Money

While that can be a major boon, Koo urged credit unions to "look beyond the money" being offered by would-be buyers to find a valuable partnership.

"Because that's what it really is, it's a partnership. Most buyers do not expect you to just walk away, most partners do not want you to just disappear, they want you to help design offers and promotions and the marketing," Koo noted. "When you sell your portfolio, your partner owns and manages the portfolio and pays for all the marketing, and they will seek permission to use your logo and want you to help them design the card."

Koo debunked some of the myths–and fears–about selling off a portfolio:

* The buyer will cross-sell other products and services to your membership. Koo said that's easy to deal with–simply insure the agreement prohibits cross selling. In fact, the buyer could actually help the CU increase its own FOM penetration, because the buyer will market new card products not only to members but to the entire population eligible to join the credit union–something most credit unions can't do as effectively because they don't have comparable marketing resources.

* The buyer will hike rates, leaving a bad taste in your members' mouths that reflects on the CU. "These guys know they're competing with 0% offers and the like, so usually they don't hike rates," Koo insisted. "The partner sets the APR, the fees, the enhancements, but they know people will drop the card if they hike rates. They've just spent a whole lot of money on your portfolio, they are not going to turn around and try to kill it."

Membership Revolt

* Members will revolt if it's no longer "our" program. "There are benefits to the member when you sell your portfolio. Your partner is in a better position to offer an array of national caliber cards with all sorts of member-matched features," Koo suggested. "I see credit unions that offer a credit card program as an afterthought, something they think they ought to do but don't really commit to. The people buying your portfolio, this is all they do, they know credit cards. Your member can benefit from that."

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