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OPINION

Should you sell your credit card portfolio?

Has your credit union ever considered selling its credit card portfolio? Take a closer look at this option to managing your credit union's balance sheet. The benefits may be surprising to many CFOs.

Today, credit unions willing to sell a card portfolio face a wealth of opportunities that were not previously available. Until recently, buyers who are large issuers did not consider the purchase of a credit union card program to be an attractive option. But times have changed. Bigger credit card players are now aggressively looking for credit union partners willing to enter into agent relationships, and are making compelling offers along with commitments to promote the credit union brand.

Five Good Reasons for Selling a Credit Card Portfolio

Sometimes it's wise to give your card program a checkup. Is the card program pulling its weight and contributing to the health of your organization? Here are five reasons why it may be time to consider selling:

1. Running a Card Program is Expensive

While the card products often have higher interest rates than other loans, when marketing, servicing, and technology costs are factored in, the portfolios are often not profitable. Why? First, it's very difficult to achieve economies of scale with smaller-sized credit card programs.

Next, for most credit unions, running a credit card program is not a core competency. While card portfolios make up a small percentage of assets, they can account for a large percentage of loan losses.

2. Competition Against Bigger Card Issuers is Fierce

Most of your members get flooded with direct mail from credit card issuers with enticing offers-lower APRs, higher credit limits, low interest rate balance transfer offers, and a myriad of enhancements such as air miles, product giveaways and other enticements. These offers make it less and less likely that your credit union's card will be the primary credit card for your members. Consequently, your member's credit union card is either not used or carries a low balance in comparison to other cards in the member's possession.

3. Lack of Portfolio Growth

Most credit union card portfolio balances are relatively flat. To grow your cardholder base and increase usage, it takes a large marketing budget, expertise, and people. You are competing against the bigger issuers with massive budgets and firmly entrenched marketing infrastructures. Marketing costs can easily exceed $200 just to get one new account.

4. Adverse Selection

The bigger issuers know who your better cardholders are. Yielding to a constant bombardment of offers, many of your best customers will eventually take their offers. Over time, this will degrade the quality of your portfolio, with the remaining cardholders representing a population of lower usage and higher charge-offs.

5. Need for Capital Infusion

Many credit unions wish to add new technology, enhance services, and offer new products to their members. This can take significant capital. The credit union holding an unproductive portfolio may be sitting on a pile of much-needed cash.

Critical Factors in the Sale Process

If you've examined your portfolio and found reasons to sell, what's next? Unless you are familiar with selling a credit card portfolio, the process can be confusing and create a tremendous amount of work for your credit union, such as personal networking, countless phone calls, reams of additional paperwork, and more. (To avoid this, be sure to work with someone who can guide you through the process.) Most importantly, if you don't know and explore your options, you may not get the best offer.

Getting Strong Offers from Multiple Buyers

It is important to get multiple offers. You must maximize the exposure of your portfolio to as many qualified buyers as possible. Buyers will make more aggressive offers if they know that others are bidding for the same portfolio. You may want to consider using a resource such as a secondary market exchange to help you. They can notify hundreds of potential buyers efficiently using proprietary databases and Internet technology.

After obtaining broad exposure and multiple bids, you, your Board, and regulators can feel confident that you have obtained a competitive and attractive offer.

Efficient Presentation of Data

Dealing with multiple buyers on your own can create tremendous work for your team. Each buyer will have his preferred data requirements and format. Responding to multiple buyers' requests just to get a preliminary bid can create weeks of headaches. Organizations like AssetExchange can help alleviate this problem by providing a standard template that has been accepted by buyers as being comprehensive and complete. That way, data can be filled out just once.

Anonymity and Confidentiality

It is usually best to retain anonymity for your credit union as you move through the initial stages of the sale process. Your position is stronger if you reveal your identity only to the final buyers. You'll remain in control of the process if you have the ability to control what information is shared, and who sees sensitive detailed data.

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 credentials of those organizations and individuals assisting you, and know their track record. (Some wisdom can only be gained by experience.) Knowledge in one area of loan portfolio sales may or may not extend to credit card portfolios.

Selling is No Longer Just for the "Big Guys"

In the past, "smaller" portfolios of less than $50 million received little attention from buyers. When working with traditional brokers, the fees on smaller portfolios made the transactions prohibitive. Now, even card programs in the $5 million range are attracting multiple buyers. That, coupled with the ability of secondary market exchange companies to provide wide exposure and assistance in the sales process, makes even small transactions practical and cost-effective.

110% - 120% Offers, Plus On-Going Revenue Sharing

It is not unusual for credit unions to receive offers of 110 – 120% for their credit card balances. In addition to the high premiums, buyers are offering on-going revenue sharing. Such revenue sharing can combine payments for new accounts, a percentage of net sales, a percentage of interchange, and/or a percentage of finance charges. Sellers are finding the quarterly payments, plus the premium on the sale, to be quite compelling.

Strengthen Your Portfolio's Credit Union Brand

Most issuers are aware of the close relationship between credit unions and their members, and for that reason, issuers will continue to promote the credit union name and brand in the card programs they purchase. While the responsibility and costs of obtaining new cardholders and growing balances will be the new issuers' responsibilities, credit union input in these activities is encouraged. In fact, if executed well, many credit union members will not even be aware of the new card issuer. It is also assumed that the buyers will not cross-sell non-card products.

When Selling Makes Sense

Selling your credit union's card portfolio can make sense. Sometimes, the financial rewards of selling, added to a renewed ability of the credit union to focus on other core services, outweigh the benefits of keeping the credit card program. When that happens, choose to sell with confidence, knowing it's one of many ways to manage your credit union's balance sheet well.

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