11 Steps to *Holistic Loan Marketing*

Loan marketing has changed dramatically over the past decade.

Following a period of declining demand for consumer loans triggered by the 2007 mortgage-backed securities collapse, consumers are borrowing again. In 2014, total outstanding consumer loans grew five percent to $1.4 trillion led by auto loans, credit cards and home equity lines of credit.[1] ***U.S. consumer credit rose at a seasonally adjusted annual rate of 5.6 percent through February 2015.***[2]

This is good news for financial institutions, 75 percent of which cited loan growth as a top three goal for 2015.[3] Now may be a great time to review your company's loan marketing tactics and adopt strategies that embrace a holistic management approach to loan acquisition, including adherence to tighter regulatory standards. The following are some best practices to consider when developing loan marketing strategies.

1 Commit to an annual plan. Neither a one-off email promotion nor a singular direct mail campaign makes a loan marketing "plan." Effective loan marketing requires total organizational commitment over a period of not less than a year. Superior results can only be achieved when multiple aspects of a cohesive strategy operate in sync. Ask yourself the following questions:

- Are separate bank branches prepared to support corporate goals?
- Is your online platform able to accept applications and generate leads?
- Are marketing messages targeting the right people?
- Are you communicating through proper media channels?

2 Learn from the past. Raise your marketing game to a higher level by using consumer data that helps predict future purchasing patterns. A well-rounded loan marketing plan should include the technical and management structure to compile and analyze raw information gathered from each promotional effort. Nurturing a test-and-learn culture helps your marketing team learn from the past and build on the strengths of prior sales activities.

Nurturing a test-and-learn culture helps your marketing team learn from the past and build on strengths of prior sales activities.

[1] *Federal Advisory Council and Board of Governors Report*, May 8, 2015
[2] ibid
[3] Harland Clarke, *Staying Ahead. Remaining Relevant*, 2015

3 Get all hands on deck. The success of your marketing initiatives requires a collaborative approach. It's important to coordinate planning with product managers, who provide technical expertise, as well as branch staff who interact with account holders and prospects daily. You'll also want to include members of the technology, underwriting, compliance and legal departments to ensure your plans are feasible and effectively communicated throughout the organization.

Typically, the annual planning cycle is between July and September. During early sessions, discuss yearlong goals, evaluate training, branch support and other needs, and then map out a timetable to pursue specific customer acquisition and retention targets.

4 Ask questions. Year after year, your growing pool of consumer information may be used to enhance testing methodologies, improve results and manage time and money more efficiently. A thoughtful loan marketing plan should ask questions that boost sales with each action. These might include:

- Which consumer credit-score range generates the best response rates?
- When is the best time to promote certain lending products and services?
- Do certain communication channels deliver more cost-effective results?
- What in-branch tactics are necessary to support ongoing campaign goals?

5 Carefully test prospecting strategies. The ultimate goal of any loan marketing program is to acquire quality customers as cost-effectively as possible. One way to do this is to narrow the number of qualified prospects needed to meet acquisition targets.

Hypothetical example: Let's say your product manager wants to acquire 1,000 new mortgage accounts. Based on past experiences, you know that certain loan campaigns have produced response rates around two to four percent when targeting *existing customers* versus response rates of 0.15 to 0.35 for *cold prospects*. With that in mind, you can then develop a multi-faceted campaign including several communication channels to as few as 25,000 high-quality recipients to 10 times that many, depending on the statistical model you choose. The model may be based on multiple factors, such as budget and timeframe.

Let's say you decide to send a direct-mail piece to 100,000 recipients. While pursuing this target, you may also experiment with distribution models and messaging themes. You could, for example, split your mailing 50:50 – sending half your list with a tagline or incentive printed on the envelope and the other half with a different call-to-action or no copy. Results from this data can help shape future marketing formulas.

6 Establish a control baseline – then beat it. You'll want to establish a control standard that identifies your best loan marketing results to date. Then, measure each subsequent loan marketing campaign to determine if it beats the previous standards. You may, for example, mix distribution channels — phone, email and mobile, to different age groups — and then compare results. A process of systematic refinement can help augment each campaign's performance objectives with an eye toward surpassing earlier response rates.

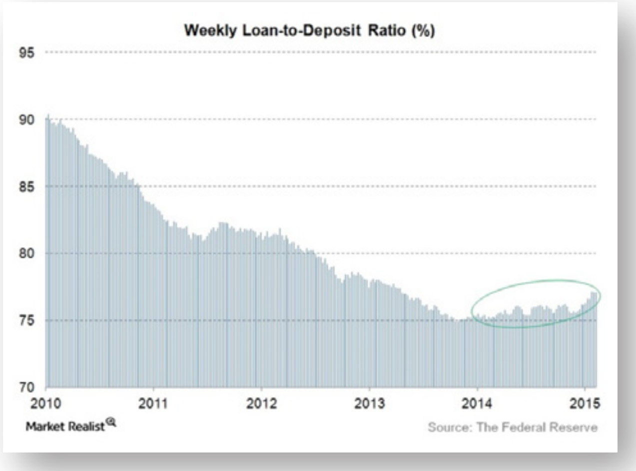
7 Perform leapfrog testing. Timing is a major factor. If, for example, you launched a home-equity campaign today, it could take 14 months or longer to fully age out and produce desired results. To broaden testing diversity, consider a leapfrog strategy. Leapfrogging involves testing an element in Campaign One, then using those findings to refine Campaign Three. Similarly, you would test a different element in Campaign Two and apply those findings to Campaign Four. This approach enables continuous program improvement, while maintaining a 90-day tracking window.

Mail Period 1	Mail Period 2	Mail Period 3	Mail Period 4	Mail Period 5
Audience Offer	Audience Offer	Audience/ Model Build	Audience Creative	Audience/ Model Rebuild

8 Develop and mine rich data sources. At the end of each marketing initiative, results may be measured in a variety of ways. If you contacted a portion of your test population by phone, you could further differentiate response rates based on, say, contacts actually spoken to versus contacts who only received voice messages. Perhaps a small percentage of contacts received follow-up texts on mobile devices. With such immediate raw data in hand, you could then determine whether higher response rates justified the costs of follow-up messaging. This dynamic source of customer behavior data can help you develop more efficient ways to achieve desired results in future loan acquisition campaigns.

9 Evaluate your loan-to-deposit (LTD) ratio. To help determine whether it's time to update your institution's loan acquisition strategy, consider one key litmus test: loan-to-deposit ratio. Calculated by dividing a financial institution's total loans by its deposits, the LTD ratio — expressed as a percentage — is commonly used to assess liquidity versus revenue potential.

Loans/Deposits = LTD Ratio



If the LTD is too low, the institution isn't making as much money as it should. An LTD that is too high could indicate exposure to unforeseen risks. In recent years, however, the gap between available deposits and loan conversion has widened. Since 2010, the LTD ratio industrywide had declined from about 90 percent to below 75 percent in 2013.[4]

That means for every deposit dollar a financial institution took in, only 75 cents was used for loans. A low LTD ratio might be a sign that an institution is not earning as much interest income as it potentially could. But that downward trend may be easing. According to the Federal Reserve, the LTD ratio for U.S. commercial banks rose to 77.1 percent in May 2015. While your institution's specific LTD ratio is influenced by your business model, as a general rule, banks and credit unions that fall below 80 percent

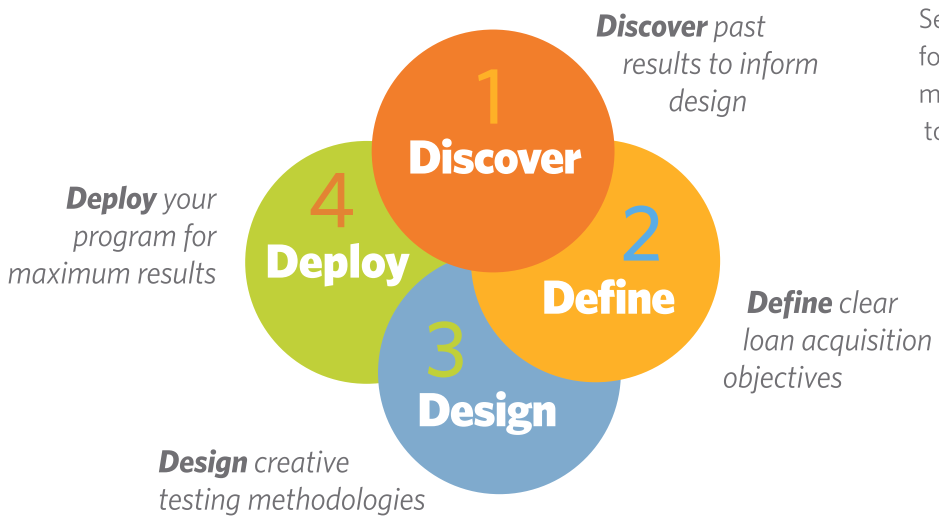
[4] Market Realist, *Loan-to-Deposit Ratio for Banks Is Headed in the Right Direction*, May 19, 2015

Establish a control standard that identifies your best loan marketing results to date.

Financial institutions whose LTD ratios fall below 80% may want to revisit their loan acquisition plan.

today may want to revisit their current loan acquisition plan to keep up with changing market conditions.

10 Consider a four-step strategy. As demand for loans increases, financial institutions prepared to learn from the past and act decisively may be better positioned to gain customer share in the future. To improve your loan marketing program, consider a "4D" process.



11 Use targeted, compliant creative. Effective campaigns require more than just clever words and slick images. They require in-depth understanding of target audiences, the products they want and the mediums they prefer. In the tough regulatory environment of financial services, they also demand comprehensive knowledge of FCRA and other requirements to ensure they are met at each touchpoint.

Seek loan marketing expertise. Fallout from the recession forced many financial institutions to lay off experienced loan marketing personnel. The ill effects of those actions are still felt today. Well-executed loan marketing campaigns require extensive organizational effort. If your bank or credit union does not have a complete loan marketing strategy in place, consider resources with the expertise to provide turnkey solutions that include strategy, data analytics and modeling, creative and reporting.

As the U.S. consumer credit market picks up speed, don't get left behind. Our strategic, data-driven loan marketing programs are designed specifically for financial institutions. For more information, please call **1.800.351.3843**, email us at **contactHC@harlandclarke.com** or visit **harlandclarke.com/LoanAcquisition**.

RELATED RESOURCES

How to Thrive in a Fierce Lending Environment

Marketing Toolbox: 10 Creative Best Practices to Boost Loan Marketing Results