HARLAND CLARKE®

Harland Clarke Webcast 04/05/2016

Best Practices and Next Practices For Consumer Loan Growth

TRANSCRIPT

Presenter: Steve Nikitas, Senior Strategy Director, Harland Clarke

Presenter: Stephenie Williams, Senior Market Strategist, Lending Solutions, Harland Clarke

Jeb: Good day and welcome to Harland Clarke's webinar, Best Practices and Next Practices for Consumer Loan Growth. This webinar is being provided to you, along with the presentation recording and deck within a few days. If you have questions, please use the question box, the chat box, located in the webinar control section. Your questions are private and are only seen by the presenters. I will now turn the call over to Steve Nikitas, Senior Strategy Director at Harland Clarke. Steve, you have the call.

Steve: Great, thank you very much Jeb. Good afternoon everybody and welcome to our Best Practices and Next Practices for Consumer Loan Growth. I am going to be one of the presenters today. Jeb, let's go to our next slide and show who will be presenting at today's webinar.

You will be entertained by two Stephs, Steve Nikitas. I'm a senior strategy director with Harland Clarke. I have better than 30 years of experience in the financial services world, and as a strategist with Harland Clarke, my role is to help financial institutions grow and retain their loan and deposit portfolios.

My colleague, Stephenie Williams, will be joining me today. Stephenie, good afternoon; would you be kind enough to tell our attendees a little bit about yourself?

Stephenie: Sure Steve. Thanks. I'm Stephenie Williams. I am a senior lending strategist with Harland Clarke, and my focus is specifically in the lending arena helping clients understand our solutions and also helping to get the most out of our solutions for their loan origination utilization and activation needs.

I've sat in many shoes within the lending department, from marketing to underwriting, and I am really excited about this topic today; back to you Steve.

Steve: Thank you Stephenie. Let's go to our agenda slide and show you what we're going to be talking about over the course of the next 60 minutes. We've got a

lot of great stuff to present to you. I'll be talking about the state of the lending market, discussing some of the trends relative to different types of credit products. I'll also be talking about the pain points that financial institutions are facing when it comes to acquiring and getting customers or members to utilize getting financial institutions to retain account holders relative to their credit relationship.

I'm then going to hand the reins of this presentation over to Stephenie, who will talk about acquiring and retaining credit products, and Stephenie will also talk about portfolio engagement practices and discuss with you ways that you can strengthen your credit portfolio. I'll then come back with the tail end of today's presentation and talk about the creative approach that financial institutions use in order to grow the asset side of their balance sheet.

Again, just a reminder, if you have any questions, please feel free to type them into the question window on the right hand side in your tool bar, so why don't we get going with our presentation, and to start, we thought it would be a little interesting and kind of fun to do a couple of quick poll questions.

Here's a quick question: Are you currently conducting a preapproved or a prescreened loan campaign? Options are a simple yes or no, so please feel free to answer that right now. As you're answering – here we go. It looks like about four out of ten of you are doing a prescreen or a preapproval type of loan campaign and the majority, 60% roughly, are not doing such a campaign at this time.

That's poll question one. Let's take another question. I'll put another question in front of you if you don't mind. Our second poll question today is if you have conducted a preapproval or a prescreen campaign, were you satisfied with the results? The 41% of you who are currently doing campaigns, if you'd be kind enough to answer yea or nay to that particular question, we'll take a look at the results in a moment. It's a little bit easier of a poll question, Stephenie, today than I think a presidential primary.

It looks like almost half of you were satisfied with the results and a little over half are not satisfied with the campaign. Thanks everybody for responding to both of those poll questions. Let's talk about the state of the lending market. Let's see what's going on here.

I thought it would be interesting to show the result that was conducted among bank CEOs and credit CEOs relative to their priorities for 2016. The bar chart at the top represented the priorities for bank CEOs across the country. You'll see in the shaded area, starting left to right, retail mortgages. The responses for 2015, by the way, in the green and the same poll was conducted in 2015. You can see

that compared to 2015 there was a little bit more focus on retail mortgages. As we go further to the left, a little bit more focus this year than last year when it comes to consumer loans and also change income primarily driven by consumer loan products.

If we look at the bottom of this particular chart and we look at the credit union CEO responses, we go all the way over to the left and what are the top priorities? Three out of every four credit union CEOs want to grow retail loans; and mortgage loans, about four out of every ten is the same. They want to grow mortgage loans. Again, better than 20% are focused on growing fee income, again partly driven by income loan products. This is good information on what we see when it comes to priorities on the bank and credit union side.

From there, let's take a look at lending market trends when it comes to home loans. On our next slide, we are going to start taking a look at some trends. Here we go. Refinancing on the left hand side; as we go left to right on that particular line chart, we can see that the focus on refinancing is starting to dip. Rates are still low, but it's likely that as rates start to ratchet up a bit, the focus on refinances almost start to slow down. I'm sure many of you have already seen that over the course of the last 18-24 months. Refinancing is drawing up a bit.

At the same time, home sales are remaining relatively brisk. The chart that you see on the right hand side represents home sales in the millions, taking it out to the end of 2017. You can see that the expectation is that home sales are going to continue to grow at an, albeit maybe slow, but relatively steady pace.

When we go to the next slide, let's take a look more on the retail side of the house. Auto sales continue to be strong through the end of 2018 at the very least. I love this slide because it shows what happens to auto sales back in 2008 and 2009 when the recession hit. Fully, over the course of a two-year period from the 16 million autos that were sold in 2007 compared to the 10 million that were sold in 2009, the market dropped fully by a third, but look what's happened since 2009. Auto sales have come literally roaring back, and by the way, these are new autos, not new and used. These are new auto sales, and so new auto sales have come roaring back, driven by a number of different things, but primarily by pent up demand. The average age of a car on the market or on the road today is almost 12 years of age, so there's a lot of old iron on the road these days, and many consumers are making a decision to trade that in and pick up a new set of wheels.

On the right hand side, unsecured loans, expectation is that they are going to grow steady, not dramatically or certainly not as dramatically as we expect they will, but the expectation is that through the end of 2016, we will continue to see

increasing demands for unsecured loans. Certainly good news and even better news the expectation is that the delinquency rates will continue to as loan quality continues to improve.

We've discussed some trends, let's continue to move on and talk about pain points, and relative to acquiring, getting customers or members to utilize or getting us to retain, there are certainly a lot of headwinds out there. When we look at funnel marketing or retail perspectives, as Stephenie mentioned, both she and I were on the financial services side of the house for many years, and as marketing executives, we always had to consider new loan goals. At the same time, as we looked at our goals and how we were going to achieve them from year to year, we had to consider the ongoing refi's regarding whether it was a home loan product or any other consumer loan type product, we also had to factor in ongoing payoffs. While our new loan goal may be X, it's doubly or triply hard when we factor in refi's and payoffs.

Let's take a look at some of those challenges that are out there right now on our next slide as well as some of the opportunities that we're facing. Challenges, certainly regardless of your feeling on the economy, it is still, I guess, we would say in a cautious mode. I don't think anybody is out there waving flags that the economy is doing gangbuster. Stock market volatility certainly has to do with consumers' buying attitude. Today is Tuesday. The market might be up 100. Tomorrow or Wednesday, the market might down 120. It's always very volatile.

We're seeing increased competition – competition not only from banks and credit unions, but also peer-to-peer lenders and Fentech. We'll talk more about those in later webinars, but income figures of Fintechs are really beginning to rear their head and slowly but surely becoming more of a competitor, particularly among younger consumers.

HELOC resets, the expectation is that over the course of the next year, more than three million home equity lines of credit will find themselves in a reset mode relative to rates, representing about $150 million dollars in outstanding lines that are in the process of resetting with the expectation that consumers, if they do not do anything, are looking at significantly higher monthly loan payments.

Continuing to go down the list, auto leasing is certainly a challenge. We see the appetite for auto leasing versus purchasing starting to increase a bit, but as we've talked about, there are opportunities out there. We took a look at the home sales chart, and the expectation is slow but steady growth. We took a look at auto sales expectations with continued strong growth, and personal loans, unsecured loan activity continued slow but steady growth. All in all, in

© Harland Clarke 2016

general, on a 30,000-foot level, what's the solution to all this? Certainly, at the very least, it's marketing and lending working together. It's both disciplines within the financial institutions collaborating on initiatives to ensure that we're strengthening our loan portfolios versus working in silos where one discipline doesn't know what the other discipline has planned.

With that, let's go to our next step. We're going to come back to this slide again later on, but with everything Harland Clarke does, we take what we call a learn-do loop approach. Let me start, if I could, at the very top of this slide at 12:00 o'clock. Our approach is helping financial institutions utilizing analytics to determine the right target for the right product at the right time through the right channel. That is first and foremost what we do. It is then devising personalized omni-channel reach out campaigns to ensure that we're capturing the attention of not only customers and members but prospects as well. We help financial institutions complement their reach-out campaigns with high-value incentives that help to catch the attention of the target audience that we're looking to reach out to in order to help ensure that the success rates are high.

Continuing to go through the learn-do loop, it's inspecting what we expect. It's constantly measuring the results of every campaign with what's involved to make sure we learn what worked and what didn't work. Lastly, it's analyzing all those results and developing ongoing strategies before we conduct the next campaign to ensure that initiative after initiative gets better and better.

That's my piece of the introduction today's webinar. At this point, I am going to hand the reins, as I said I would, over to my colleague, Stephenie Williams. Stephenie, take it away.

Stephenie: Thanks a lot Steve. Clearly, the environment for lending has some pitfalls, but there is also some very fertile ground. Let's take a look at a comprehensive strategy that has multiple prongs that can really support your success in generating and meeting and exceeding your loan volume.

As I mentioned, any successful approach to meeting your loan volume targets really requires multiple tactics. I wish that there was a silver bullet. It sure would make all of our lives a lot easier, but what we've found in working with a variety of clients, is that there are about five primary areas or levers, if you will, that we can adjust in order to assist in meeting those goals. I'm going to go through a little bit more in detail each of these segments as we walk through the best practices.

Segments one and two really talk about shopping, those customers, account holders, or prospects. Section three and four really address account holders and

prospects that are not shopping, and then section five is not just non-shopping, it's also an invitation to apply types of offerings.

It's important to note as we walk through these, our greatest success with any of our clients is in the preapproved, prequalified space. Under FCRA, it really stands out as a firm offer. If you remember in those first poll questions, about half of you have run prescreened campaigns and there's about half of you that have not. Please just keep in mind as we walk through this process that the segments I'm going to refer to as one to four here, are in that FCRA category firm offer of credit or preapproved space.

Let's dive a little bit deeper on the next slide, looking in particular at the shopping prospects and account holders. The best way to get to this population is really by leveraging what we call a credit trigger process. Let's look a little bit more on the next slide of what is that credit trigger process.

That credit trigger process is a function of looking at either account holders or prospects. Prospects would be identified in a particular geography, and you monitor their credit file daily. What you're looking for is trigger activity. Trigger activity is simply the act of their credit being pulled by a financial institution and their underwriting evaluation of that consumer for a loan product.

Trigger activity that we typically track falls into a few categories: Home loans; auto loans; credit cards; and personal loans. When you run a trigger program, that trigger program generates triggers on a daily basis, and it's very important to have timely responses to those triggers. Your timely response typically will include a letter that defines any offer that you're hoping to provide to that consumer. That offer includes a firm offer of credit, including information on the credit limit you would be willing to offer, information on the interest rate you'd be willing to offer, as well as any criteria you used to evaluate the credit worthiness of that consumer. One thing I should mention, with credit trigger programs in the prescreen space, you have the ability to screen out based on a number of your credit attributes any of those consumer's triggering that you would actually want to take constructive receipt on, so you're not obligated to provide to all triggers; you have the ability to screen based on your credit criteria.

You receive them, and then you want to contact them. One, definitely with a letter, but we know a letter is not the fastest means. We also have clients we work with that deliver an e-mail communication outlining the offer they are willing to make to that consumer, but the most effective programs we find when we work with clients include telemarketing.

Calling out to the client and having a conversation, more in an account review type of approach rather than a, "Hey, I noticed you're applying for a mortgage loan." We find that that type of call generally does not yield great results. We work with clients in order to help script some of those practices, but generally it's an account review. It's calling and indicating to that account holder that you're calling just to make sure things are all right on their accounts and to make them aware of some current loan rates that you have available, in a very general environment, is received best by account holders.

What we also find in this space as a best practice is many of our clients started out doing one opt trigger programs perhaps with their bureau of preference, but we find to get the most out of a credit trigger program, it's best to engage all three credit bureaus. We find by engaging all three credit bureaus you can see up to a 75% list in the number of triggers that you receive on a daily basis.

Now that we've talked about triggers, let's move on and take a look at what you might expect specifically in a trigger program. If I didn't already mention it, what we find in trigger programs is that on a monthly basis, about 3-5% of consumers nationwide are shopping for a credit product; of those 3-5% that are shopping for a credit product, about half of those shopping are shopping for a mortgage. Another 25% are shopping for a credit card, and then 11-12% each are shopping for auto or some other type of installment loan.

We also find that from a credit profile perspective, about 73% of those consumers have a FICO score greater than 640. Overall, there are a decent number of opportunities of credit-qualified consumers. In this example, which is a very representative sample of what we see for a variety of clients, this client on a monthly basis was looking to receive 7,320 triggers. What we might expect as an outcome from that, is probably about 571 new loan applications. Based on our data, typically for account holder programs we see between 7-9% as a response rate. On prospect programs, if you haven't run many prospect programs, the response rate on those are typically much less. They are typically between 1-2% for a trigger campaign.

Now that we have a general understanding of how trigger programs operate, what we might expect in terms of results in the profile of those borrowers, let's move forward and take a look at the other segment of opportunity that we have in achieving our entire loan growth goal. The next segments that we're looking at, again in that prescreen space, are perpetually prescreening our account holders, but we're also looking at campaign-based opportunities. Let's look first at the campaign-based opportunities.

When you're looking at campaign-based opportunities, there are really two types. The first one we should look at is refinance. When we look at conducting refinance, and we have clients that are conducting refinance campaigns, the best opportunity for those refinance campaigns are typically with auto and home equity loans. The value proposition in these campaigns is totally about monthly payment savings. How are you improving the cash flow of that account holder or prospect? By taking in data in the prescreen environment, you can get a sense of what their current monthly payment is, and do a comparison, looking at either a rate or a term refinance as an opportunity.

When you're showing those monthly payment savings, the response rates are very significant. For example, we have a large credit union that runs a refinance campaign, because of showing that monthly payment savings, they are achieving a response rate of more than 6%. An important finding that we've had in working on these refinance campaigns, there is a tipping point, quite honestly, of consumers not believing necessarily kind of the "too good to be true" complex, and there seems to be a sweet spot between $25.00 and $99.00 of payment savings. Once you get above that $100.00 mark, consumers tend to dial back in their responsiveness – it's just something that we've found.

Those campaigns are also the volume available. Those campaigns are really dependent on a couple of things – the competitiveness of your rates as well as your underwriting culture. We have some clients that are willing to extend terms on certain products that allows more refinance offers. We have other clients that are unwilling to extend a term on a consumer's existing debt. Those are factors to consider as you go through this refinance type of a program.

Now that we understand refinance, let's talk about the other component, which is really what the bread and butter is for institutions that are running a typical prescreen program you might run perhaps seasonally. These campaigns are more of a product push. I think we've all, as consumers, been the recipients of spring home improvement season – get a home equity loan or even spring, a great time to buy a new auto. Financial services are famous for going out in those regular cycles. September is another good example – winterize your home and all of those back-to-school messages around home equity. That's what we're talking about here, is this kind of seasonal prescreen campaigns.

In that process, you can look at a geography of prospects or your entire account holder base. We look to see that they are meeting your specific underwriting criteria that we can leverage response modeling as well as product propensity modeling to make sure that you're giving the offer to the right people to give you the best shot at the best response rate. What we find in this space for traditional prescreen product pushes, like I mentioned, there was a difference in

the trigger program between the responsiveness of account holders and prospects. We see a similar phenomenon in the product prescreen space in a campaign environment.

What we find typically for prescreen of prospects, somewhere between 0.11% and 0.55% response rate, which seems kind of low compared to the other response rates we've been talking about, but then for your account holders, it gets a little bit better, and in general, working with a variety of clients with a variety of offers, we see somewhere between 0.75% and 0.225% response rate. Again, this is for more of a product push or seasonal push, if you will, in a prescreen environment for a loan product.

Now that we've kind of covered what are some traditional programs you might have heard of before, let's move on to some next practices that we're seeing in this space. Something that we've seen come to market that is very exciting, was trying to address the challenge that most financial institutions face when conducting quarterly campaigns, if you will, for prescreen lending.

As you see from this diagram, kind of a traditional approach is to map out your marketing calendar and establish months that you're going to promote certain products. This one, for example, shows late February early March auto; July doing a HELOC campaign; and then November into December doing a credit card campaign. While this is a very traditional approach, it's also very labor intensive.

When you have resource constraints and you're thinking about dealing with a credit bureau, you might be looking at perhaps six to eight weeks to acquire your list, and then doing any of your channel marketing, direct mail, e-mail, phone, in branch, those all take additional manpower in order to manage. Because you're essentially replicating the process just with different criteria, that approach seems rather inefficient, and ultimately for these programs to continue, you have to cost justify each program. All you see on this calendar is just auto, HELOC, and credit cards. Think of the other products you offer in your portfolio that never gets the shelf space to be promoted simply because the volume is too small or the targeting is too hard. Think about trying to target somebody for a motorcycle loan or perhaps a snow mobile loan, given the snow that we had in the northeast today. It's difficult and the volumes tend to be small so the payback is small. There's got to be something better.

Let's take a look next at a potential solution. We're seeing a paradigm shift to a solution that allows you to more efficiently use your marketing resources by developing a comprehensive set of criteria to prescreen for multiple loan products. It also allows you to promote those products that usually you usually

don't see today in terms of marketing spent. Think of motorcycle, boat, RV, travel trailer, ATV, snow mobile, and some personal loans, depending on your institution.

Ultimately, by being able to promote all those products, you can achieve a greater return on investment and if you promote all those products together in more of a menu to your account holders, you're essentially reviewing in advance your account holders credit criteria or their credit profile, shall I say, and saying, "Sure, these are all the type of loan products you're qualified for and we'd be happy to partner with you on." Ultimately, that delivers a better consumer experience and they know that they can count on you as their financial institution when their next borrowing need arises.

Now that we have some general idea of this paradigm shift, let's take a look next at how we would accomplish something like that. This diagram illustrates the perpetual preapproval process that we've delivered to some clients and they're seeing tremendous results. This diagram depicts what happens on a quarterly basis to help our clients deliver a menu of loan offerings in a preapproved space to their account holders. Each quarter it begins with their full member file or account holder file. We take that account holder file along with default credit criteria. Typically, that default criteria is for an auto loan. The reason it's for an auto loan is because an auto loan is something that an account holder is likely to have more than one of with a financial institution and it's secured, so the FICO score range is broader for that particular product type.

We take the account holder file, that default auto criteria to the bureau, we identify account holders that pass that criteria and then we bring them back along with additional credit attributes for things like home ownership, loan to AVM, perhaps their raw FICO score are attributes we bring back that we can put into our decision engine in order to create additional offers for those consumers. As you see depicted on this slide, it starts with the auto, but because of the attributes that we've brought back and the information that we know about products that consumer already owns with your institution, we can make incremental offers. For illustrative purposes only shows credit card, boat, and personal loans.

Once we've identified all those offers for each of your account holders, then we can begin marketing. We have solutions that will allow you to market those in face-to-face conversations, through direct mail and e-mail, even for your telephone banking center, and then also populating those offers in an online and mobile banking space. We know that many of our clients are really challenged.

As Steve said earlier, part of the challenge is definitely attracting those new, younger customers. Many of them prefer to fulfill through digital channels. This type of solution allows them to see those offers online and in mobile banking. Because of all the channels, we are seeing significant conversion and redemption rates. For this particular solution, on a quarterly basis, quarter after quarter, we're finding that clients see about 3-3½% of account holders that are provided with offers come in and redeem those offers. It's a pretty strong response rate when you compare that to the traditional campaigns that I was quoting before where account holders are somewhere between 0.75% and 2%, so let's move forward.

The last segment, again those first four being all in the preapproved space, and just to be clear, that preapproved space, depending on your institution, for consumer loans, preapproved and prequalified, those are interchangeable terms. In the mortgage space, there are stipulations around that, but in the consumer loan space, preapprove and prequalified, at the end of the day, it needs to be a firm offer of credit, but the word choice, definitely defer to your compliance team. Every institution has a different take on what wording they are going to use.

Outside of that space, what we call invitation to apply, it's a great way to expand your audience. In some recent research that I reviewed from the consumer financial protection bureau, shares with us that about 20% of the US population is credit invisible. While there is a significant percentage of that credit invisible that is young, 18 and 19 year olds, there are more than 5 million credit invisible consumers from 25-39 years old. That population isn't just the financially challenged group. Many of those 5 million are in moderate to high-income categories. They simply don't have enough data in order to be credit scored, so leveraging programs where you're going out and promoting a product in an invitation to apply to that type of audience can deliver a strong response rate. It's important to know that when you're using that as another alternative within your overall mix of solutions, that it's a little bit old. You'll get a lot of responses, but recognize that you might have to do a good bit of underwriting to find those that you can originate. That really concludes the acquisition portion of what it will take to help you achieve your loan goals.

Before we move on, I'd really like to go through a quick poll. Great, thanks so much Jeb. We're interested in understanding, beyond acquiring loans, do you conduct regular loan activation and utilization campaigns? We'll give you a couple of minutes to respond to that please.

We keep dancing a little bit in the middle here today Steve. It looks like about four out of ten are currently conducting activation and utilization campaigns.

That's what we really want to talk about. It's great to acquire those new accounts, but it really important, especially in light of what Steve mentioned around home equity lines of credit converting from interest only payments to principal and interest payments. It's really important that we think about how we're going to go and help increase the utilization and retain those types of accounts.

Let's take a look at an approach that you can start with as a best practice that we work on with some of our clients. For portfolio engagement, which is ultimately accomplished by increasing utilization and retaining your customers, it all starts with the targeting portion of that, and it requires the engagement of not only the marketing folks but credit risk and finance to really look at what makes sense. That begins with the segmentation of your account holder base.

Will you look to identify the right targets based on behaviors and also look at an assortment of incentives that can work for those consumers? It can be things such as fixed rate opportunities, so when you're looking to fix a rate on a line of credit, giving them that special interest rate incentive, an introductory interest rate, or perhaps a promotional interest rate for a period of time to some of your less than active credit cards, it can also work on home equity loans and installment loans.

You might be saying, "How do I inspire activation and utilization on my installment loans? We work with a lot of clients that do regular skip-a-pay programs, so identifying the suite of incentives for your institution is a part of that identification process, and then targeting specific accounts that you want to apply those incentives to. Running those first couple of campaigns, the best practice approach that we've identified is really grading the respondents. Not only do you see that somebody responded to a promotional interest rate on their credit card, some of them are going to respond – and they're going to respond – maybe they increase their balance $500.00, there are going to be others that increase it $2,500.00. It's important to take in that data and classify those consumers so you can use it to optimize your targeting.

An important part of developing your approach is also developing the solicitation itself. Are you going to implement a campaign using direct mail? In some campaigns it might make sense and there might be some segments that you need to get a hold of on the phone. Perhaps you can do a low-cost delivery. Maybe you do it in a statement message, or perhaps you even do it with an e-mail. As you test through your first campaigns, it's important to consider those additional channels of delivery in order to collect as much data so that at the bottom of this funnel it is depicting that you can leverage that data for optimal targeting.

You can develop statistical models that will identify consumers that should be included in the next interest rate incentive or if you're conducting skip-a-pay twice a year, maybe you identify characteristics that show that a particular consumer is only going to purchase to pay in a summer skip-a-pay, so you save your marketing dollars and only provide that incentive to them once a year and ultimately optimizing timing in that mix works as well.

We've found that for different clients, things work better with their account holder base. Some find that skip-a-pay for installment loans just before the holidays and doing it in November makes sense. Others find that January is far more beneficial for their overall portfolio and fee income goals.

That's a quick walkthrough of really how to engage your portfolio, but I think it's important as we talked about this loan acquisition and portfolio engagement to think about how we take this to market. I'm going to pass it back to Steve, who is going to walk us through. Jeb, you can go ahead, we've addressed this. Pass it back to Steve to walk through how we take this to market.

Steve: Thank you, Stephenie, and you know what Stephenie? I'm not going to talk about what looks good when it comes to creative. Heaven knows, my wife constantly tells me that my checked shirt doesn't quite go with my striped pants or vice-versa. She doesn't know whether I'm coming or going, but what I want to talk about right now are those components that you need to include in any credit campaign, particularly a prescreen campaign.

It was interesting when we looked at the survey results early on about how many have conducted prescreen campaigns and how many have not. I get involved on a weekly basis, I would say, with financial institutions who want to go out and capture credit opportunities, and what I find quite often is that there seems to be a bit of misconception out there. If I use preapproval, am I then obligated to grant the loan to that member or to that customer even after I find out that maybe they've lost their job or maybe they're not making as much money as I thought they would? The answer to that is no. You are not obligated to make the loan.

In fact, the Fair Credit Reporting Act in their infinite wisdom – I'll stop there for a moment and let you all nibble on that comment for a bit – but in their infinite wisdom, they said that looking at consumers' credit reports gives a benefit to both consumers and financial institutions. Financial institutions are able to put credit opportunities in front of consumers under the auspices that they only know a bit about the consumer. They know the FICO score. They know what kind of monthly payments are out there, and that's pretty much all they know.

At the same time through the Fair Credit Reporting Act, Congress said that consumers are going to benefit as well, because they will have in front of them opportunities for them to turn to should they need to borrow money for any high-ticket item.

Congress said, "What we know through the Fair Credit Reporting Act is that while the financial institution only knows a limited amount about the consumer, when we conduct prescreen campaigns, we tell the consumer that we are still going to put them through the normal underwriting exercise. We are going to take a look at their income. We are going to take a look at their employment. We are going to take a look at their collateral, and then and only then once we've acquired all that information, can we make a clear decision on whether we're going to grant the loan or not."

We might grant it at a different rate, maybe a higher rate than what we promoted in the letter. We might grant a different dollar amount, maybe a lower dollar amount than what the consumer is looking for, or we might not grant the loan at all, depending upon our underwriting process. I wanted to get that out there for everybody, because I think there is a little bit of misconception out there relative to what we can and cannot do.

Now what I really want to talk about are those components that have to go into a prescreen offer, so let's go to the next slide. What we need to make sure that we are communicating to the consumer when we conduct a prescreen campaign are what I call the alphabet. It doesn't really spell anything, but just some letters to keep in mind.

We need to make sure that we let the consumer know how to opt out of prescreen campaigns going forward. That opt out is not directed to us, the bank, or the credit union, but it goes to the credit bureaus and the credit bureaus maintain that information.

We need to make sure that we're telling the consumer, customer, or member what product they are being prescreened for. It might be a mortgage. It might be a home equity. It might be a car loan. It might be a credit card. We have to tell the consumer that they are prequalified, preapproved, or preselected for the offer. In effect, each of those terms really mean the same thing and trigger all of the necessary disclosure requirements.

We have to put in front of the consumer a rate, a rate that is as low as or a rate that is stated as starting at, but with a prescreen campaign we have to put a rate in front of the consumer. Obviously, we want that to be our best rate.

We also have to put in front of the consumer the minimum dollar amount for which they would be granted, and by the way, when we talk about rate, while we have to put a rate in front of the consumer, we also need to make sure that we tell the consumer the maximum rate that they might get that loan for. Again, the maximum rate we might grant the loan after we go through the underwriting exercise. The minimum dollar amount after we go through the exercise.

We have to, of course, convey all the terms and conditions that accompany any prescreen campaign dictated by the Fair Credit Reporting Act. I'll share you a sample of that in a minute. Let's go to the next slide and take a look at how all of these components get put on a letter that is sent to a customer or a member through a prescreen channel.

Let's take a look at the left hand side. Here's the far side of a sample letter. This particular letter, from what I can see, might be letting the consumer know that they have been preapproved for an auto loan. We know it's an auto loan because you can see the image of the keys in the Johnson box in the upper right hand corner.

As we mentioned, we've got to give the consumer information on how they opt out of prescreen campaigns. We have to at the very bottom of the front side of that letter provide the short-form opt out – information on who that consumer can call in order to say, "Hey, I don't want to be part of these prescreen campaigns anymore." When we go to the disclosure copy on the back side of the letter on the right hand side, there is our long-form opt out at the very top. There is more detail on what the consumer can do in order to opt out of anymore of these types of campaigns. All the necessary terms and conditions are under that, telling the consumer that we're going to put them through the normal underwriting exercise.

We may require them to complete a loan application. There may be a maximum rate that we may grant that loan for. There is a minimum amount of dollars that we may grant the consumer, and at the same time, we're going to let the consumer know that when all is said and done, we night not grant the loan at all.

When we conduct prescreen campaigns, what are the channels that we want to use? Let's take a look at that on the next slide. At Harland Clarke, we will always espouse an omni-channel or a multichannel approach to every marketing campaign that we're involved with. What does that comprise? Direct mail, online, as you heard Stephenie mention earlier; it's utilizing your online banking platform, for example, among other things. If we have e-mail addresses, we

want to make sure that we're communicating with that member or customer via e-mail as well.

What I find in many campaigns is that an outbound telephone call to the member or customer can go a long way toward getting that consumer on the telephone and engaging them in conversation about the opportunity that we want to talk to them about, and, of course, if we can we want to use mobile channels to either text message or get in front of the consumer the offer, the call to action, and what they can do to take advantage of what we want to talk to them about. Let's go to the next slide.

When it comes to creative, things to keep in mind: First off, with any direct marketing campaign regardless of the channel, and we've just gone through all the channels that we strongly urge financial institutions to incorporate into any direct marketing program, it starts with making sure that we're targeting the right people. Any direct marketing campaign starts with targeting. Who do we want to talk to? Pitch the offer. It's the product. It's the rate. It's even the incentive. Lastly, it's the creative. It's creative that will capture the attention of that particular customer or member so that when they go to their mailbox at the bottom of their driveway, they open up that e-mail that falls into their inbox, or they get that message via online banking we want it to be something that will resonate as loudly as possible with the target. Those are three things to keep in mind when it comes to complementing the ingredients to keep in mind that can help dispel a successful direct marketing campaign. Let's go to our next slide.

In putting all of this together, there are 11 things to consider when we look at the real estate that's provided to us on any form that we want to send relative to postal mail pieces to a particular customer or member when we're talking about prescreening. As we go down the list, we want to make sure it's branded in the upper left hand corner of the letter. As we've talked about, we want to make sure we get a strongly competitive rate offer out there with a rate starting as low as or starting at. We want to make sure that we're conveying the fact that we are preapproving, prequalifying, or preselecting that consumer for that particular loan product.

When we get into the body copy, again we want to spell out the details of the offer; if we have some sort of incentive, whether it's $100.00 when you open up a car loan, maybe shaving $200.00 off of closing costs for a home loan product; we also want to make sure that we've got that information in front of the consumer.

As we go to the bottom of the letter, things like the preapproval – again, a message for that personalized consumer, because as we know, there is not sweeting sound than hearing your own name, so we always want to do what we can to get the consumer's name out there in whatever way we communicate. We want a strong call to action, preferably call, come in, or click.

Point number seven: We want to make sure that there is a timeframe on how long this offer is going to be good for. As we talked about earlier, we want the short form opt out on the bottom of the front side of the letter and then when we talk about all the terms and conditions, we start with our long-form opt out. Let's go to our next slide.

Wrapping it all up, I told you early on that we would come back to this, and here we are again. It's the Harland Clarke learn-do loop. These are our ingredients for making sure that campaigns are as successful as possible. It's targeting the right consumer with the right product, at the right time, through the right channels. It's making sure that when we communicate, our communications are omni-channeled and personalized. It's to ensure that, if possible, we can attach high-value incentives that are going to get the consumer to pay attention to what we're doing. It is always inspecting what we expect, because we do that to make sure going forward that we analyze the results, and we develop ongoing strategies to make sure that the next campaign is even more successful than the one we just conducted.

That, Stephenie, takes us up to about two minutes of the hour. I do see a couple of questions that are out there. Let me address one of them. Someone has asked, "Will we be sending the copy of this presentation?" The answer to that is absolutely. Be on the lookout for a copy of the presentation today recorded. You should see that within the next week. Stephenie, do you want to talk about the difference between prequalification or preapproved?

Stephenie: Sure Steve. Prequalification and preapproved, as I mentioned earlier, those are interchangeable within the consumer loan space. They still both trigger a firm offer of credit as per the Fair Credit Reporting Act, but I suggest that you speak with your compliance officer at your particular institution, as each officer in each institution by its very nature, its culture has a different take on which terminology they feel more comfortable with, but know from a marketing perspective, the tenants around a firm offer of credit remain intact with either term utilization.

Steve: Great. Stephenie, thank you very much. I'm sorry I called you Sandy for a moment. The person who asked that question was named Sandy, so I apologize for that. Stephenie any last words before we wrap up?

Stephenie: Nope, make it a great one. Thank you, Steve.

Steve: Thank you everybody for attending. Thank you, Stephenie. Again, be on the lookout for a recording of this presentation within the next week. Thanks everybody.

© Harland Clarke 2016