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Targeted Loan Acquisition Webinar Q&A Transcript February 6, 2013

(See also "Offline Questions" at end.)

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SANDEEP: We have about ten minutes left for questions. I'm going to ask Steve, while we're asking for questions, if he has any additional thoughts?

STEPHEN: Sandeep, the programs that you have gone through, I have worked with a number of financial institutions in my role here as a strategist at Harland Clarke and unequivocally my experience has been that there are various successful programs, and I am helping financial institutions really get a lift out of their possible loan-to-loan share ratios. So financial institutions are finding value in each others' programs that you've gone through.

AL: Ok, Steve, Sandeep, thank you. Very good stuff here. So we've got a lot of questions coming across here. I'm going to go ahead and read out the questions so we can hear what the question is and then we can go from there. So, let's see. The first question that we have here is:

QUESTION: The west coast bank that we mentioned, the results with HARP, what was the asset size of that bank and what was the acquisition cost per mortgage if you can share that?

SANDEEP: They have over two hundred branches, so I don't have the exact number with me, but I'm going to say that they are about $20 billion in asset size. The marketing cost per loan was high (I don't recall the specific number but this was pure prospecting and not targeting current bank customers) but the way we calculated ROI for this client was based on net income before taxes they make a little over 100 side basis points on each loan after all expenses, and that's how we calculated that of the $45,000,000 in loans, they netted a little over $500,000 in net income, that was the ROI calculation. So that number is the net of marketing spend.

QUESTION: I think this relates back to the Shopper Alert™ solution, what entices the member to respond for you to get a 7% rate, a 7% response rate is what I think we're asking here?

SANDEEP: That's a good question. The enticement here is that the offer is timely while they're considering a competitive offer, they have an existing relationship with their institution, so a lot of what we hear is that when the phone calls are made, it's an expression of gratitude from members saying "hey, I didn't know my credit union did mortgages, I didn't know my credit union did credit cards, so thanks for the call, and yes, I'm interested in applying and seeing if I can get a better or more comfortable rate than what I have now." The timing is critical and the existing loyalty and brand recognition that you have with the member or customer also helps.

AL: So obviously timing, taking a lot of the guesswork out, targeting and shuffling numbers takes the shopping out of those who maybe thinking about a loan but who may not be in the process of it yet.

QUESTION: We've got another question here about Harp 2.0: are you seeing much activity in this space? Steve, maybe that's a good one for you to answer, if I can put you on the spot?

STEPHEN: Yes, we are seeing some activity and it is really very geographical in nature. A lot of it is dependent on those particular market areas where we're seeing significant impact on local home prices, so while it may not be applicable to all geographies, there are some areas in the country where we're seeing lots of interest in Harp and lots of activity.

SANDEEP: I would say the opportunities perhaps weren't as great as last year, but there's still a sizeable population out there that's Harp eligible that has not taken advantage of the product.

QUESTION: This question relates to channels, so we have here a question that says: have you seen a better response rate by using telemarketing or direct mail (targeting existing members) seems as if a telephone call would result in a higher rate due to quick timing?

SANDEEP: Great question. I'm going to answer this from a solution standpoint within shopper alert. Because this is credit bureau databased solution, meaning the source for this information is credit bureaus, there are certain obligations that the marketer has to fulfill. Of those of you who have done pre-approved marketing, you have to provide opt-out, you have to approve certain disclosures, disclaimers, what have you, and our recommendation is that the direct mail piece is the requirement to deliver and comply with the FCRA, and once we do that, the phone call is a courtesy follow-up, it's a nice friendly call and you may or may not talk about the mail piece. It's a very easy conversation.

If the mail piece does not go out, then to comply with FCRA, the marketer has to read a fairly detailed script which goes in to how the opt-out process works, how we obtained their name and details of offer, basically all the 8 point font print that's on the letter has to be read out on the phone call, and it makes for a very awkward conversation, as you can imagine. That's the most effective way we've found is that the direct mail goes out and fulfills compliance. You're going to get some traffic from the direct mail alone, and then the follow-up phone call, hopefully the same day, further increases the overall response.

QUESTION: This relates to mortgage and home equity lending: the generation of the loan strategy that we discussed here, how is it typically done? Is this a one-time campaign or is this a campaign that you recommend should be done three or four times a year, for example?

SANDEEP: Another great question. We recommend at a minimum, quarterly, so sometimes we're reaching the same prospects, other times we're reaching different prospects, but we always recommend an ongoing effort where we're modifying our segmentation, our targeting models, introducing new offers if you're able to. So for loan recapture programs, it's an ongoing calendar-based solution where every quarter you have a product now that you don't have to market all loan products in the same month. One month we could market auto, the other month it could be mortgage, another month it could be home equity, but certainly we would recommend this to be an ongoing campaign. Steve, would you like to add to that?

STEPHEN: If it was the home equity loan program that you were talking about earlier, in some cases, depending on the customer or where the number falls within the segmentation, the communication could be once every six months or so depending upon where they fall in their borrowing patterns, or it could indeed be a minimum of quarterly. Sometimes they have a month.

QUESTION: We've got a question about shopper alert: the 30-day look back report. How much is that?

SANDEEP: If you mean the cost, there's no fee to do that. We would do that at no charge to demonstrate the total opportunities you have and really, what we're hoping to come out of that, is that we will make a better investment to help you make a better business case within your institution to show your executives and your management the size of the opportunity that you're missing out on, so we would do that at no charge.

QUESTION: It says here we find that most members are buying on the spot. You've already hinted that timings are a critical factor, how are you selecting the timings of the calls and contacts?

SANDEEP: This may be referring to auto loans in particular when somebody over the weekend is going shopping and buying a new car. Yes, we do see some members/customers who have already closed their loan. We also have a number of cases where they are open to refinancing right away, and there are also people who may shop for a car but don't buy right away. So, we haven't found from a return of investment standpoint that it's hurt us in anyway, and the auto loans still deliver a pretty strong ROI.

STEPHEN: And also, if I could Sandeep, what we're also finding is that those indirect loans, obviously we know something about our consumer lifestyle, we deal a lot with what may not necessarily be the best rate and so that reach out to the indirect loan customer can be very effective and much appreciated by the member or the customer, as it gives them the opportunity to get a better rate and literally we find that a lot if there's a new car, in order to take advantage of a better rate.

QUESTION: Here's a question about HELOC. What carrot is there to encourage HELOC borrowers to increase draws as described in the demand generation caution?

SANDEEP: That's a great question. Initially we're not recommending any type of special offer for a couple of reasons: one, we want to establish that there is a need for a special offer before we diminish profitability. The second reason is that a lot of our clients, not all, but a lot of our clients are unable to manage offers within their systems. They may be using some third-party systems that do not allow for flexibility in setting up special offers.

So really the carrot is we're reaching out to these segments within a very specific message with a set frequency, and that alone we've seen acts as a significant stimulus to increase usage. Over time we expect that we may need to do special offers like rate discounts, etc, but at this point it's all about analytically determining the segmentation and creating a message that's relevant to that segment.

QUESTION: We've got another question – this one's pretty straightforward: the thirty day look back and analysis report, what is the price to that?

SANDEEP: There is no cost to that at this point. In the future we may have a charge, but at this point we're not charging. Really what we want to do is encourage our clients to help us to evaluate their opportunity and then help them to build a business case that they can take to their executives, marketing managers, for funding, so we think it's a great way to demonstrate what the opportunity is, the missed opportunity, so we're happy to do that at no cost.

QUESTION: Here's a question for Steve. Going back to the beginning of the presentation, you were talking about the state of the industry in the data that you were reviewing; do you believe that this data varies by region?

STEPHEN: The data that I showed, by varying degrees, will vary, obviously, but for the most part, all regions are reporting increased demand for auto and increased demand for mortgages.

QUESTION: This is a great question I think. This relates to shopper alert: if consumers are shopping online for credit, for a loan, direct mail alone is not going to have much of an impact, that's out of the question, that's the first piece. The second part of that question is: how quickly will emails deploy?

SANDEEP: Direct mail goes out same day as we received the trigger; the first attempt at phone call is made the same day, although it may take us a day or so to actually speak to the consumer live.

The way we look at this is, because of the firm offer requirements, the direct mail piece serves as a vehicle to deliver all the legal components and we're going to have response activity coming out of the letter alone, and then the phone call is a courtesy reminder, a very easy call – it doesn't have to go in to any of the details or the restrictions of the offer. So really the objective is to try and take an offer of the application on the phone.

If we don't have the direct mail piece, it makes the phone call awkward because all of the legal disclosures have to be delivered on the phone.

On the email side, again, the deployment happens quickly. Because of the lower cost of the email, what we would recommend is doing a seven day reminder and a fourteen day reminder so it always comes top of mind.

QUESTION: Here is another question and it relates to HARP. Are you seeing much HARP lending activity or programs these days? Steve, are you familiar with that?

STEPHEN: Yes, the HARP lending will vary by region of course, depending on the impact that falling house prices have had. In some areas we're finding that where prices have held relatively steady, the consumer has maintained equity in their mortgages. We don't see as much HARP activity in some areas where prices have dropped by a greater degree. So, it will vary from region to region.

QUESTION: Here's another question about response rates, that 7% response rate we were talking about with shopper alert. Any ideas why that's so high? What drives such a high response rate?

SANDEEP: A couple of things: one, we're serving a consumer that is in need, they're actively shopping, they've raised their hand and said "I am in the market for a loan", and we're reaching them in a very timely manner. The second thing is, that with your existing accountholders you have affinity, you have brand recognition, which helps, at least, with them wanting to consider your offer before they make a final decision.

STEPHEN: Sandeep, if I could just weigh in on that also, studies tell us and experience tells us that when you reach out to your accountholders, members and customers with a way for them to make money, save money and make their lives more convenient, they are all over that approach and very appreciative of the financial institution reaching out to them.

QUESTION: We've got another question relating to Shopper Alert programs and creative messaging. This is a kind of interesting question – we're essentially asking about what you should communicate for the trigger program if you know that they're shopping for a loan. What is the best way to approach that without really, I guess, scaring the customer into thinking we are Big Brother or something. That's an interesting question.

SANDEEP: That's a good question. We do not allow specific content in the letters that indicate that we're aware of their shopping activity. We don't think that's best practice. The letter would look like a traditional pre-approval message that tells them that they're credit qualified, that they have an offer, the rate terms associated with the offer, and then have a strong call to action to encourage them to respond and apply.

Basically in their minds, in the consumers' minds, it will look like coincidence in terms of timing. We don't think it's a good practice to overtly portray that we're aware that they're shopping, and the phone script works the same way. We are basically calling to remind them that their bank or credit union has great loan products, great interest rates, an easy process, and we're happy to help them on the phone.

QUESTION: I've got another question and this relates to Shopper Alert and the look back report-- would the report filter out any trigger that was initiated by our F.I., i.e. we have 50% of our members looking for auto loans but we pulled credit for 60% of the members that were applying?

SANDEEP: That's a great question. The way that we would ask for that is when we receive your initial accountholder file, if you're able to exclude those accountholders where you've taken an application within thirty days, so we would screen them out on the frontend.

The credit bureaus do not share with us who the inquiring lender is for obvious reasons. They are protective of their information, they don't want a situation that allows one bank or credit union to actively mark another bank or credit union's trigger, so that's a great question. What we find as we've done some backend analysis, less than 10%, more like 7% or 8%, are applications within their institutions, so the vast majority is happening externally.

QUESTION: Ok, let's move on to our next question. Stephen, I'll put you on the hook for this one. I think that this is a really good question and for someone like you that has been a SVP in a bank and has worked with these issues. So the question here is, to paraphrase a bit, working in a marketing department, aside from incentives, how can I assist our employees in promoting our products and services including loans, credit cards and so forth?

STEPHEN: Great question and thank you to whoever asked it. I'll share with you in a former life any marketing promotions I was involved with: we would work very closely with retail to make sure that retail was fully aware of everything that marketing was doing. We'd advise them of any direct mail pieces, any advertising, anything that we were doing to promote a particular product. Then we would work hand-in-hand with retail to set branch goals.

So, for example, if it were a credit card that we were promoting, we would work with retail and set targets for each particular branch to meet in order to help us reach our overall goal. And then we would work with the branches on a weekly basis to help them understand where they were relative to progress for reaching that particular goal.

So we didn't necessarily have to incent every particular employee in the branch, but when all was said and done at the end of the day, maybe something as simple as pizza for the branch or the marketing department would usually go a long way to help in ensuring that the promotions were successful and that the organization met its overall goals.

QUESTION: One last question since we're over time. This is a question about channels: do you find that using emails and telemarketing is that much more effective (I guess that's what they're asking) than just direct mail?

STEPHEN: A couple of studies that I saw recently, one from the Direct Marketing Association, one from Epsilon Technologies, point out that direct mail, postal mail, that stuff that we get in our box at the end of our driveways, is still very effective, consumers appreciate it, consumers trust it, consumers act on it, it carries a lot of weight with the consumer when they get postal mail and they like getting postal mail from with whom they're doing business.

Email is very effective, but primarily as a compliment to direct mail; a compliment to the postal mail that ends up in our mailboxes. So, what we find to be the most effective way to utilize the two channels is to communicate by postal mail, replicate that communication via email, complimenting everything, echoing the call to action, providing the appropriate link to the bank or credit union's website where the consumer can act on whatever it is we want them to do. Infotrends did a study last year and found that an email compliment to the direct mail piece carries about a 28% lift on the call to action.

AL: Great information. It's great to put numbers to that because I think intuitively as markers we all understand what channel is better, it's a question of how much better, so that's really good information. Ok, well we are way over time here so I want to go ahead and wrap this up.

OPERATOR: We do have a phone question:

QUESTION: You kind of answered my question a little bit. We're having some challenges making sure that employees are excited about sharing promotions with our members and I guess to help us fulfill our overall goals, aside from incentives, what are some ways that we can get our employees excited about current promotions and upcoming promotions?

AL: That's always a challenge. I think in any business, especially in banking when you're engaging people in talking about complex financial products at times, you're talking about money so it can be a difficult conversation and for our employees, getting people to do that is difficult. I think that's a great question, and we talked a little about that.

QUESTION: So basically keeping them informed of all the promotions so that they're more aware of all the details and that way they can be more aware of what the promotions are and what they entail, so that they can be more educated to share with members.

STEPHEN: I'll use a credit card promotion as an example: our credit card promotion is going out on March 1 so leading up to that date, standard operating procedure in my former life was ten days before the promotion was due to start, we would make sure that we got in front of the retail group, got in front of all the branches, walk through the promotion, what does it entail, what complies the marketing pieces that our current holder base were going to see. As we got a little bit closer to the promotion, it was working with the branches to help them come up with scripts that they could help to convey to the accountholder what the promotion was, but even more importantly, what the benefits of the card were that we were promoting, what were the benefits of the credit card, what makes our credit card different to anyone else's credit card, why should you have that credit card from me, versus another financial institution? Maybe a week or so in to the promotion, we'd come back at it again and conduct objection clinics. So, from the branch standpoint from point of sale, what are you hearing from your accountholders? What kind of pushback are you getting? Why are they telling you that they are not necessarily interested in opening up that credit card that we're promoting? Use those objection clinics to come up with responses so that if they do come up in the future, our retail path has a better way to overcome that objection and help the sale of a particular product.

AL: One other thing comes to mind too which is mystery shopping – I don't know if you've ever used it before? It's something we do here, but you don't have to be a commercial for our services, but mystery shopping is used a lot in banking and retail. What it is, a person walks in to your bank, conducts some kind of a transaction and then that mystery shopper gathers information about that experience. They would be able to tell you on a real structured basis exactly what happened: "I was presented a credit card offer, I primed up auto loans and got a response or I didn't." The great thing about mystery shopping is not so much to check on your employees, but to use it for your training program to get feedback and metrics to measure it, that gives you a great understanding of the amount of selling that you're doing in your bank and your branch. So that's another thing to consider.

With that, we're going to wrap it up as we're way overtime, not that that's a bad thing, but we do want to be respectful and mindful of your time. I want to thank all of you for attending and sitting in with us today. We do appreciate the opportunity to talk to you and hope that you found this really helpful. I think that was a great presentation. Just one final reminder, remember we will send out an email to you, just following up on this podcast in the next couple of days. In that email you will find links to be able to download the presentation and recordings in case you want to do that.

Again, thank you, we appreciate your time, and we hope that you have a great rest of your day here.

Offline Questions

QUESTION: Do you have similar strategies to drive business lending activity?

We are in the early stages of building out a trigger-based program for business lending. At the current time we are able to deliver a solution based on targeted business lists with direct mail and telephone follow up to secure appointments with business bankers.

QUESTION: Wouldn't you consider $15,000 for 300 new credit cards (15,000 offers x 2% = 300 cards x $50 cost per card = $15K) overly expensive?

Average credit card balance is $2,700. At a 3 percent net interest margin, the interest income on that card is $81. A $50 one-time charge to bring in ongoing balances with consistent cash flow is not a lot of money.

QUESTION: What type of messaging or offer was included in the credit card cross sell offer?

Not sure specifically about the mailing that Sandeep was referring to, but typically you would promote a low rate (teaser rate) and an opportunity to transfer balances from other cards in order to take advantage of the teaser rate... the message is all about saving money.

QUESTION: If this was a Visa preapproval, why was the approval rate 2% VS the 3% response rate? I thought a preapproval could not be denied

This was a traditional preapproval offer but there was no special offers such as a teaser rate or bonus rewards points.