What Goes Down, Must Come Up:

Preparing for Rising Interest Rates

By Steve Nikitas, Harland Clarke Senior Marketing Strategist

HARLAND CLARKE® | MARKETING SERVICES

... data analytics serve as a highly reliable, insightful guide, showing exactly how to target marketing dollars to generate the biggest return.

What's going to happen with interest rates? When are they going up? These questions have been the subject of endless discussion in financial circles for the past few years. Well, no one has a crystal ball, but one thing is sure: Interest rates can't get much lower. So, whether it's tomorrow or a few months from now, at some point, rates are going up.

This is mixed news for financial institutions. On the earnings side, as interest rates rise, financial institutions will enjoy increased margins on loans and higher return on investments. On the expense side, financial institutions will pay higher interest on deposit accounts. This increased interest expense is particularly daunting, given the huge numbers of account holders who were spooked by the stock market in 2008 and have kept their investments in low-risk deposit accounts.

How can financial institutions prepare for the inevitable rise in interest rates? Don't wait for rates to increase. Act now — before interest rates go up — to position your organization to take advantage of the new rate environment.

Start with Analytics

The importance of business intelligence cannot be overstated, especially when change is in the air. As competition increases and consumers become more sensitive to rate changes, data analytics serve as a highly reliable, insightful guide, showing exactly how to target marketing dollars to generate the biggest return.

Predictive analytics help marketers to evaluate account holder bases and identify purchase propensity, so as to spend marketing dollars more wisely. Predictive modeling can:

- Identify which account holders have the propensity to purchase a specific product
- Predict the product a household is most likely to purchase next

Armed with this information, marketers can customize offers based on individual households' particular profiles.

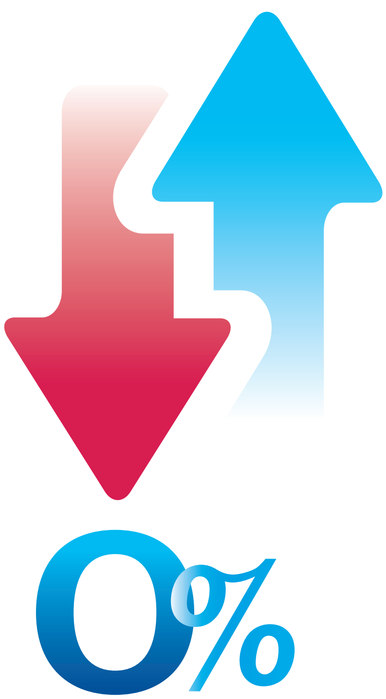
Note that as rates rise, account holders will be more willing to shop for a better deal with another institution. Predictive modeling can help financial institutions stay ahead of them — and top of mind — as they shop.

As rates rise, account holders will be more willing to shop for a better deal.

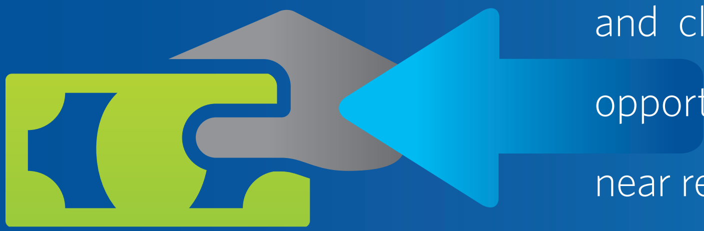
Maximize Loan Opportunities —NOW

Generally, rising interest rates dampen the market for new loans and eliminate opportunities to refinance. Competition stiffens as account holders shop for the best rates.

Expect Demand Shifts



- Consumers could return to banks and credit unions for automotive lending when captive finance companies can no longer offer zero percent deals.
- Mortgage loan prospects could increase as consumers rush to buy homes before the rates go too high.
- There may be additional opportunities to sell and refinance credit cards and personal loans in order to enable account holders to lock in low rates before rates go up. This applies to both purchases and balance transfer opportunities.



With demand shifts looming, it's imperative to act quickly to attract and close new loans and refinance opportunities while rates are still near record lows. There are proven solutions available to tackle this challenge in three distinct ways.

1

Reach "most likely to buy" prospects for various products. By analyzing account holder and local market data, financial institutions can:

- Identify those with high propensity to respond to a loan offer
- Assess which type of loan account holders are most likely to be interested in – mortgage, auto, credit card or consumer loan
- Send them a credit-screened, personalized offer with a compelling interest rate or dollar amount
- Eliminate unqualified account holders and prospects based on specific credit underwriting criteria

Remember, the goal is to target those account holders and prospects with the highest propensity to say yes to an offer. This not only reduces wasted efforts and unnecessary cost, but also increases the likelihood of closing more loans.

2

Intercept account holders as they shop for loans. Advanced loan acquisition services can send alerts, identify qualified targets using specific underwriting criteria and trigger a communication with a competitive offer at the time when existing account holders are shopping for new loans.

Sixty percent of loan shoppers will make a decision and commit their loan to a financial institution within one week of their credit bureau inquiry. By monitoring all three major credit bureaus daily for account holder applications for mortgage, auto, credit card or personal loans, financial institutions can know precisely who's shopping for which type of loan product and at what interest rate.

3

Capture refinance opportunities from competing institutions. Many account holders have mortgages or other loans at competing institutions. Financial institutions that want to take advantage of refi opportunities should identify and reach these potentially rewarding consumers with refinance offers of lower payments. Strategies of this type generally increase the likelihood of the targeted account holders accepting the offer and achieve higher campaign response rates.

Promote Investment Services

Most financial institutions are awash in deposits – a result of investor reluctance to re-enter the stock market after the downturn in 2008. One way to diminish the impact of rising interest rates is to move these deposits toward other investments. Cross-selling investment services builds business and loyalty, and reduces the financial burden of deposit re-pricing. Account holders with investment services relationships often have more accounts and higher balances compared with other account holders.

As a trusted financial advisor to account holders, investment services are a natural extension of the banking relationship. Use predictive analytics to identify account holders with a propensity for an investment relationship and approach them with a message promoting available investment services.

It's really a question of "when," not "if" rates are going to rise. Data analytics can help eliminate wasted time, effort and money, as well as streamline efforts to send the right message to the right buyer at the right time.

Remember, account holders want to hear from their financial institution about products and services of real interest to them. Financial institutions that take the time to prepare will enjoy the results of that work when interest rates rise.

Harland Clarke's data analytics services helps financial institutions make the most of marketing budgets. Our Stratics® product suite provides predictive modeling intelligence that increases the effectiveness of marketing and relationship strategies for individual account holder and market segments. Our comprehensive approach to loan marketing uses data-driven insight to develop customized strategies for loan acquisition and cross-selling.

To learn more, call ***1.800.351.3843****,*
email us at ***ContactHC@harlandclarke.com***
or visit ***harlandclarke.com/LoanMarketing****.*