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Best Practices and Next Practices for Consumer Loan Growth TRANSCRIPT

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Announcer: Good day, and welcome to the Harland Clarke's webinar. Today's topic is loan marketing best practices. This webinar is being recorded and will be provided to you along with the presentation recording and deck within a few days. If you have questions, please use the chat box located in the webinar control panel. The questions are private and only seen by the presenters. I will now hand the call over to Steve Nikitas, Senior Strategy Director at Harland Clarke. Steve, you have the call.

Steve: Great, thank you very much, and good afternoon, everybody. Welcome to our webinar on best practices and next practices for consumer loan growth, and this must certainly be a topic of interest for people because this is one of the most highly attended webinar that I've been involved with in 2016. Obviously growing the asset side of the balance sheet is tantamount of important among our bankers and many people out there. Let's go to our next slide.

On our next slide, let's take a look at our presenters today. As you heard, my name is Steve Nikitas. That's me at the top on this slide. I am the Senior Strategy Director with Harland Clarke. I have actually better than 30 years of experience in the financial services world. My role at Harland Clarke, among other things, is to help financial intuitions to focus on ways and implement ways to grow their loan portfolios. My colleague, Stephenie Williams, is going to join me today. Stephenie, good afternoon. Would you be kind enough to give our attendees a little bit about your background?

Stephenie: Thank you, Steve. Yes, I have more than 20 years of direct marketing experience in retail and financial services. I'm excited for this opportunity today in particular about ways to generate consumer loans.

Steve: Great, thank you very much, Stephenie. Let's go to our next slide. In our next slide, we're going to go through our agenda and present what we're going to talk about today; here we go. I'm going to talk about the state of the lending market. Just to touch a few of the trends that are going on out there, I'll touch on some of the pain points. Some of those things that I think all of us on the phone call today are familiar with when it comes to acquiring credit products, getting our customers or our members to utilize those products, and then retaining our customers and members so that they turn to us for more credit products down the road.

I'm then going to turn the reins over to Stephenie. Stephenie's going to focus in on acquisitions and retention and share with you best practices when it comes to credit growth. Stephenie will then segue into a discussion about utilization, again, more on retention of getting people, or getting customers and members to actually utilize those products, particularly on the home equity side. Then I'm going to wrap up and talk about the creative approaches that can be employed in order to make sure that we're getting in front of our account holders with messages that will resonate and encourage them to turn to us for credit products.

With that, let's go to our next slide, and let's talk about the trends and what we see going on in the credit market these days. Let's go to our next slide. This is an interesting slide that I wanted to share with everybody on the phone. I know we've got a mix of credit union folks and banks folks. There was a survey done at the beginning of this year, and the survey was conducted among CEOs and presidents of both banks and credit unions. The question was when you look at 2015 and you look at 2016, where are your priorities? The green bar represents 2016 priorities. The blue bar represents 2015 priorities and at the top, we're looking at the top of the slide. We're looking at responses among bank president and CEOs and in the shaded ovals, you'll see that their priorities are retail mortgages, going a little bit further to the right, consumer loans, and a little bit further to the right of that, consumer fee income. If you're a banker on the phone today, it's likely that you're certainly focused on the broad array of retail loan products that your financial institution offers.

If you're a credit union person, focus on the bottom part of the slide. These are the responses among credit union people. You can see on the bottom, first and foremost, what is the focus within the credit union world. It's consumer loans. A little bit further to the right, strong focus on acquiring more mortgages. Then a bit further to the right of that, just like we see with the bankers almost dollar for dollar, if you will, focusing on consumer fee income.

On our next slide a couple of charts I wanted to focus on, particularly when it comes to home loan lending. Left-hand side, the expectation is that refinancing is going to continue to slow down. We did see recently, within about the last three weeks to a month, ten-year treasury yields dropp dramatically, particularly after the Brexit vote. As a result of that, we saw a drop in mortgage rates and as you might expect, an increase in refinances. Many of you on the phone today may have seen that at your financial institutions, although we're looking at some statistics that came out today, and it looked like refinances are starting to dry up a bit as mortgage rates went up last week and also this week.

On the right-hand side, the expectation for purchases continues to be strong. You can see the expectation is that by the end of 2017, we'll see pretty

significant number of home sales taking place; that's a good bit from where we are today.

Auto sales, left-hand side. I love this chart because if you look at the left-hand side, you can see what happens in the 2008 recession. Back in 2007, manufacturers sold better than 16 million new autos. By the way, this is only new autos, not used. You can see the auto manufacturers back in 2007, better than 16 million cars and trucks sold in the US. As the recession hit, things literally fell off the table. In 2009, the number of units dropped by roughly a third.

Then slowly but surely, the demand for autos among American consumers has really taken off; lots of reasons for that. Certainly there's a lot of old iron on the road these day. The average age of a car out there on the highway today is higher than it's ever been. There's certainly a lot of pent up demand. As you can see from this chart, demand for auto loans is going to continue. If you're not out there hard and fast with auto lending these days, you probably ought to rethink your decision.

Then in the left-hand side, when it comes to unsecured personal loans, again slow but steady increase in demand for unsecured personal loans. At the same time, while we are certainly approving more loans, the consumer has cleaned up their balance sheet and delinquencies continue to go down.

Good things on the lending front, strong on the purchase side for mortgages, continue slow-down relative for refinances unless we see more Brexits going on out there and drops in the ten-year treasury, more demand for auto, and continued demand for personal loan.

Let's go to our next slide. Let's talk about some of those things that you folks over the phone have to deal with day by day. Stephenie and I, as we mentioned, both come out of the banking world. Certainly we're very familiar with your pain points.

On our next slide, let's take a look at what some of those things are. As we know, we set out goals and objectives at the beginning of the year. We've done our new loan growth goals. That's one thing but then we've got to worry about refis. You've got to worry about payoffs. While refis and payoffs are going on, we then have to worry about our net new loan growth goal which makes it doubly hard, so lots of headaches for many of us out there who are in the market of marketing and acquiring credit products.

On our next slide, some of the challenges, some of the opportunities, and some of the solutions when it comes to growing your credit portfolio. I'll run through

a few of these on the challenges side. Currently the economy is not as robust as I believe anyone would like it to be. We see GDP still on the 1 ½, at best, percent range. Nothing like what we've been familiar with before the start of the recession. Lots of volatility in the stock market; that continues to go up and down. We see competition from peer-to-peer lenders and fintechs. Certainly that's not a force as we speak today. The expectation is down the road, increasingly that's going to be an area that we, as bankers and credit union people, are going to need to contend with. We also see continued portfolio runoff, and auto leasing seems to be making a comeback as the price of autos continues to get more and more astronomical these days making it more and more difficult for consumers to afford cars. Leasing is certainly coming back, and in many ways, coming back strong.

Opportunities, as we talked about, more home sales; the demand for autos continues to be strong albeit we see an increase in lending but the expectation is that consumers will continue to borrow for those cars. As we talked about, the demand for those unsecured personal loans is slowly but surely going up and to the right when we look at our graphs.

Our solution, certainly marketing and lending need to work together. We've got to break down the silos, which often times in my role as a strategist and Stephenie, I don't want to speak for you, but you probably see the same thing. Often time when we go into financial institutions, the two disciples are often times not pulling in the same direction. I think in many ways, marketing and lending really need to work together and target on reaching their goals and objectives when it comes to credit. Let's go to our next slide.

One of the things that Harland Clarke recommends and certainly brings to the table is this continuum. Many people call this our learn to loop. Many people call this our strategic planning process, but it is the 4 Ds. With any clients with whom we work, it starts with definition or defining what the objectives are, defining or identifying what those metrics are, from your perspective as a bank or credit union, in order to ensure that any initiatives with which we collaborate with you on are successful.

From there, it moves into the design phase where we create program strategies. That's where myself and Stephenie often times will come in. It's utilizing analytics to identify the right target audience, which in this case would be an audience for our credit products. It's working with creative to make sure that the messaging that we put in front of both existing account holders as well as prospects is messaging and creative that's going to resonate very loudly. It's deploying. It's making sure that we can get programs up and running as quickly as possible because we know that you've gote, obviously, your growth goals and objectives that you need to meet. In this case we want to make sure that

programs get out the door and get out the door in a timely and successful fashion.

Then lastly, our last D in our 4-D continuum here is discovery. It's inspecting what we expect. It's making sure that we're measuring all the time, measuring results so that when we do this all over again, we get better at what we do.

I'm going to ask Stephenie to take the reins here, if you don't mind, Stephenie, and start if you would, share some best practices on what financial institutions are doing in order to achieve loan growth.

Stephenie: Great, thanks, Steve ,and thank you for doing such a nice job really depicting the market conditions as well as what many on the phone listening are faced with. It's a daunting task, and I think the variety of clients we've worked with, as well as our own backgrounds in working in the industry, have some perspectivesprospectives on some things that really work from a best practice perspective.

Let's take a look on the acquisition and retention front at really what components working together can really help deliver on your full loan growth goal. This diagram represents key components that we find in this process working with clients work very well. The first two segments of this pyramid represent the highest performing segments from a response perspective and also delivering on a strong ROI. Those are trigger programs, so we're looking at shopping account holders and shopping prospects. Then we're walk through a little more deeply that third segment which is how to address non-shopping account holders, as well as non-shopping prospects. Then finally we'll talk a little bit about things that are outside of the prescreen space. Those first four segments are really all in the prescreen space. This fifth segment is really looking at people on an invitation to apply basis so that we can expand the overall audience that we're soliciting, trying to get more loans.

Really the top performing segment that we find in working with clients is helping them go out to the marketplace and examine their existing customers or account holders that may be shopping elsewhere. It allows them to be back in front of that particular account holder with a strong value proposition and in the process, hopefully retain that relationship. It can also allow them to maximize their market penetration of a particular geography because we have the ability to monitor prospects that are close to their branch locations that are out shopping for a loan. That's a great opportunity to start a new relationship.

How exactly does this process work? Let's take a look. What we do on a daily basis with many clients, it's really monitoring their credit behaviors. Are they out shopping for a home loan? Are they out shopping for an auto? Are they out

shopping for a credit card or personal loan? All those are trigger types that can be identified through monitoring of the bureau. Monitor those on a daily basis and within that 24-hour period, we work to automate marketing to those consumers, whether they're prospects or existing account holders.

Harland Clarke has a unique approach in order to capitalize on that behavior trigger and then bring it in, send a direct mail piece as well as an e-mail, and provide that list for phone follow-up, either performing phone follow-up on behalf of that institution, or providing it to the right phone resources at that individual financial institution. Something that's unique, and if you've talked triggers before in the past, you might have experienced – you can go direct to any bureau certainly. The only thing is what we've found in working in a multi-bureau environment is that the difference between working from a single source versus a tri-bureau source is you see about a 75% lift in the total number of triggers that you get on a daily basis. This process can really be enhanced of you're looking to maximize your marketing opportunity.

Let's think a little bit about okay, if I were looking at this for my account holder base, what might I expect? What you see here is an example of looking at one financial institution's account holder base and what they might expect in a 30-day period. We call this a look-back analysis. This is very representative of what we see across many financial institutions. You'll see, for instance, a percentage of the file represented by each of the trigger types. As you can see on current market conditions, we're seeing about half of all triggers available for a financial institution are mortgage triggers. Then we're seeing the next largest chunk, about a quarter, are credit card triggers; then the balance of those triggers really fall into the auto and installment, or personal loan category. That installment loan category can be a little bit of a dumping ground simply because working with the bureaus, it isn't always an exact science. They're very dependent on the subscriber codes that individual financial institutions set up. That 12% could including personal loans or perhaps some mis-categorized auto but for the most part, these are very accurate.

What you find, if you're wondering "so how many of my account holders are out shopping in a given month,B what we find pretty consistently, Steve, feel free to chime in, but what we typically see is 3 to 5% of your account holders shopping at any given month. From a credit score perspective, that's the neat part about a trigger program. You're able to apply your prescreen criteria. The triggers that you receive, not only are they people in market, but they're people in market that you're underwriting criteria – that meet your underwriting criteria.

In the sample look back, we didn't apply underwriting criteria but instead are giving you a view of how the FICO score distribution appears. As you can see here, 37% of all triggers are 720-plus from a credit score perspective; real strong

population. If you think about it, you could anticipate that about half or at least 40% of those triggers are going to be a paper. You can see the other credit score ranges as they're listed here as well.

What we find is that on average, we'll see somewhere between 5 to 8% response rate for these trigger campaigns. It really depends on a couple of factors. One of those factors is phone follow-up. Our best programs are those programs where either the institution or Harland Clarke is making the call. The call isn't hey, I see you just triggered but rather the call is, "Hi, Mrs. Williams. I'm calling on behalf of ABC Bank. I was just reviewing your account and wanted to make sure that we're servicing your account in the best way possible. I wanted to make you aware of…" maybe it was a mortgage trigger, so, "wanted to make you aware of our current mortgage rates." By taking that approach, you're making sure that the customer – you're talking a relevant message to that account holder; you're providing additional value, yet it's not received as big brother.

I'm going to pause and ask Steve. I know, Steve, you have a lot of experience talking with folks about how that conversation plays out best.

Steve: You're right, Stephenie. What I see from the clients with whom I work is that that touch point revolving around how can we help you further, or we're calling today because we may be able to save you money if you happen to be in the market for a refinance or maybe a new car, that goes a long way toward helping to facilitate that conversation with the customer or the member. At the same time, what I hear unequivocally among the institutions with whom I work that have implemented a program like this is that that conversation goes a long way towards strengthening customer and member satisfaction because it's an opportunity for the bank or the credit union to reach out to the account holder and do something good for the account holder while they're in the process of trying to fund something suited against their lifestyle.

Stephenie: Great, let's go ahead and move on. After talking about triggers and understanding, as we showed on that last slide, 3 to 5% of your account holders might be shopping in any giving month, 3 to 5%, and then you reduce that by those that are credit qualified. I don't know about your institutions, but for me, that never fed the bulldog; that never satisfied our loan growth goals in and of itself. I always needed more. Let's look at other ways to get some of that more.

The way to get some of that more is really this Section 3 and 4 where we're looking at non-shopping account holders. We're looking to find ways to provide them a unique value proposition. We'll talk a little bit about prescreen campaigns and perpetually prescreening campaigns. Then in the same section, really thinking about non-shopping prospects; how do you make a relevant offer

to those non-shopping prospects?

One of those ways, I think something that many people are probably familiar with, is running a rate and term refinance campaign. That's really what this is designed to depict. You look at your existing account holders, or you can look at even prospects that are currently with high rate loans. Perhaps their payment is high. We have a process that we work with to go ahead and prescreen individuals, leveraging some of that prescreen date to identify those that either have a high payment and/or a high rate. Depending on your financial institution's credit policy, we can look at either maybe flat out you just have a better rate for that consumer, or perhaps you're willing to extent their term by maybe 6 months or 12 months in order to find them a more palatable payment.

By identifying those opportunities, the best practices that we have found is identifying consumers where you can save 25 to $100 a month in their payment. What we find typically is that those below $25, pretty irrelevant. It doesn't move the needle much and once you get over $100, uncertain if it's a too good to be true issue with consumers, but we find that the response rates trail off after you get north of $100 savings per month. The calculation in order to identify this process is we look at the dollars that were the opening balance, or the origination balance, as well as we take in information around the remaining balance and loan devalue, as well as home values. On the auto side, from a value perspective, we don't include that in the equation.

Then ultimately we calculate savings. Using all that pieces together we provide, direct mail piece and/or e-mail to those consumers trying to get their conversion. What we find in those programs, depending on the payment savings and the offer, the response rate came be very attractive. You'd see 3 to 5% on those type of programs. Primarily when I say 3 to 5%, I want to be clear, that's typically on customer programs. On refi, you can achieve greater response for prospects than on a normal product offer because there's true value there. However, prospects, traditionally, won't perform as well as your existing customers.

Let's look next at the other type of just a regular, non-shopping account holder and prospect campaign. Typically working in a market when you're trying to maximize the offers that are going out – let's say you're running a campaign, thinking spring and fall for home equity. You're looking at non-shopping account holders and prospects. You're looking to make sure that they meet your underwriting criteria, and we work with clients to apply propensity models Not only for the product being offer, but propensity models of their likelihood to respond to a financial services marketing offer.

Using that information along with other demographics, sending that offer out

on a campaign basis again, like I mentioned probably like home equity spring and fall, auto in the spring, looking to maximize the peaks of origination for those product types. That's a good filler, but really what we find in working with clients, and some of the new technology that we have available, is a new solution that really creates a paradigm shift. Let's go ahead and take a look at that.

As I mentioned with those traditional campaigns, this calendar represents when you might typically see; might see in March an auto campaign, in maybe June or July ,a HELOC campaign. Then maybe you're doing a credit card campaign to capitalize on that holiday business around November. What that creates within financial intuitions is a lot of constrained resources. You've got the same people kind of migrating from campaign to campaign in general, a prescreen campaign running anywhere from 8 to 12 weeks of commitment of your precious resources. It also only goes out to that consumer offering them a single product. For instance, if you're going to the Williams household in March trying to sell an auto loan, "Yeah, I didn't really need an auto loan, but I was looking perhaps to consolidate some debt."

As in individual consumer, might not think, "Oh, they approved me from an auto; maybe they would approve me for something else." Usually because it's a single product, consumer mindsets are, bankers know their stuff. This is the only product they would preapprove me for. I'd still have to apply for something else. It definitely leaves a gap in what it promotes and the opportunity it represents to your account holders.

Compare this to the new approach that we'd like to share with you today, which is perpetual pre-approvals. We're trying to get a more efficient use of marketing resources, having to develop a standard set of criteria for loan products so that standard set of criteria perhaps can capture loans across your product spectrum rather than really the top two with auto and home equity. Those tend to be the heroes that always get product dollars Where as whereasyou might have other products in your quiver such as unsecured loans, or boat/RV/travel trailer. Those are never substantial enough to earn their own campaigns.

What if there was a way, in this new approach of perpetual pre-approvals, to get greater return on investment, get better customer loyalty, better overall experience, and ultimately really reassuring them by providing them a per-approval so they don't have to go through that anxiety of, oh, should I apply? Will I be approved?

Here's the next practice. This next practice is actually already in market being used by a number of financial institutions and driving tremendous results. This image depicts what a quarterly process might look like in order to have

perpetual pre-approvals in front of your account holders. It starts with your customer file, each quarter looking at a refresh of that customer file, and a set of default credit criteria. Default credit criteria is really credit criteria for a product that an account holder's likely to have more than one of with your institution.

For instance, it's also for a secured product. The best product for default credit criteria is typically auto criteria. We take your account holders, your customers, take those to the bureau along with that default credit criteria, find out who passes that criteria. What we typically see, about a third of your account holders are going to pass your prescreen criteria. We bring those that passed along with about 20 standard attributes back in and evaluate those account holders for additional credit products. This diagram depicts them coming back in and getting the auto, and then as you can see, the sideways funnel shows us evaluating them for other products; in this example, credit card, boat, personal loans. We evaluate them based on your existing criteria for those products, and ultimately derive an offer file. That's what the, "Offer! Offer! Offer!" depicts.

We now are in a position with all of your approved account holders and all the products that they've been pre-approved for to then begin marketing to them. We can market to them that the top conversation bubble is for in-person conversations. We have a tool that can assist your salespeople in understanding what is available to the account holder in front of them from a pre-approval prospective. We also support this type of omni-channel campaign with direct mail and e-mail, communicating those offers to your account holders, as well as the same solution that can inform conversations in person can also inform conversations for your telephone banking center or for outbound calling.

Then finally, and perhaps one of the most unique delivery components of this solution, is populating those offers with an on-line and mobile banking. Each time your account holder logs in, they have the ability to see what they're already pre-approved for, making it easy for them to do comparisons and be that informed shopper.

Because of this omni-channel delivery, what we're finding is quarter after quarter, clients are achieving, in more cases than not, 3 ½% response rates to these campaigns. Of the customers that are provided with offers, 3 ½% are raising their hand and saying, "Yes, I want to redeem. Yes, I want to book a loan." Very strong because it's consistent campaign after campaign. It really runs in the background like an engine in order to drive more value. Being able to put those offers in front of your account holders, it changes the dynamic of your relationship. They begin to say, "Oh, I have a borrowing need. Oh, of course, my bank, they're always telling me they're willing to originate for me." It's an important paradigm shift.

In order to make sure that this is a value, at the end of each campaign window or each quarter, we work with your team, get a loan application file to not only look at just the response, but to look at the real value the program drove, look at the balances that were booked, and where there was any fallout in that pipeline, those that maybe were withdrawn or declined. What we find on average is that the pull-through from application to booking for most of our clients exceeds 85%. What we're finding is the greatest origination is really direct auto loans. Most of those balances are north of $18,000. It's a strong program and really good to run in the background for your account holders.

Finally, in this pyramid that's designed to, in the most efficient way possible, drive your loan volume. The last segment here is non-shopping account holders leveraging a tool, "Invitation to apply." Leverage invitation to apply needs to be entered a little cautiously because what we find in working with clients and the clients that use it most effectively understand that it's a way to uncover additional bandwidth or additional audience size. We recommend when you enter that space, working in gathering some summarized credit data and good demographic targeting in order to make sure that you're optimizing the use of your underwriting resources. I'm sure if any of you have done invitation to apply campaigns in the past, you might've experiences a surge of application volume and then only a trickle of approved applications. It's really important that when you run an invitation to apply program, you take those things into consideration in order to better your chances of success.

That really covers the full pyramid in terms of loan acquisition and the variety of tool, none of these stand alone to solve all of your needs but working together, they really work in harmony to solve for retaining your customers and maximizing your opportunity to grow new loans. Let's move on and take a look at really engaging those new loans.

In terms of portfolio engagement, when we had this discussion with a few other clients in the past, we did a poll to see how many were working actively on portfolio engagement. We're really quite surprised to see a little bit less than 50% were actively working on portfolio engagement. What we categorize as portfolio engagement really starts with segmenting your population, really trying to identify specific targets.

Example, I think Steve mentioned in the beginning, maximizing your home equity portfolio. Really to do that, you identify consumers based on existing trends in your portfolio to identify those that are likely to be frequent users, be revolvers, those that are likely to be one-time users, and then identify those that use it as a ready backup. By identifying those audiences, you can then identify – you can target them for specific treatments and incentives. Also as

you continue in a test and learn environment, you can identify more specific nuisances. Perhaps you identify an incentive that's – maybe it's a rate incentive, a special rate for six months on a particular balance. You can identify not only those over time that take advantage of that incentiv, but also those that payoff early versus those that maintain the balance. Those are all important data points in order to roll back into subsequent campaigns.

At the end of the day, that takes you to a place of optimal targeting where you have statistical models that you allow you to drive specific behaviors and match the right offers to the right targets at the right time. To think about activation, really can't think of activation and utilization on their own. You really need to think of it as this three-legged stool as depicted. It all begins with onboarding. The importance of onboard, most of our clients, you'll think of onboarding and think of onboarding a new household. Onboarding an openend revolving line of credit is just as important. Establishing that draw behavior early in order to be that first card, if you will, out of the wallet, onboarding provides an opportunity to remind the account holder of the benefits, and also provide them multiple access tools, whether that's a plastic, whether it's a check, whether it's an online transfer; really important to establish that information early in the account holder relationship.

Then that's combined with ongoing activation and utilization campaigns as well as end of term retention. What we're seeing in the marketplace right now, Steve mentioned it earlier, is a situation where a lot of home equity lines really in 2017, the greatest number of balances are looking to come due the end of term. The end of the draw period is happening on home equity lines of credit in great numbers. A lot of balances will become in jeopardy, if you will, for your financial institution. It's important to have a process in place in order to manage that risk. We have some clients that we're working with right now to have those communication strategies out early and often. Others are more just in time approaches. Really deploying it in a test and learn environment is, what we have found with client work, going to generate your greatest success. Putting all your eggs in one basket and hoping for the best isn't necessarily yielding the greatest results. Generally, if we're running a campaign, we have multiple test segments in order to identify really that best approach.

Steve, with that, now that we understand both about the acquisition as well as the utilization, let's take a look at the role creative place.

Steve: All right, thank you very much, Stephenie. Before I talk creative, just a reminder for everybody, if you have any questions, feel free to type them into the question screen on your toolbar. It should be on the right-hand side of your GoToWebinar page. Stephenie, we do have a question that's come in. Maybe you can help with this. The question is can you provide an average cost per

member to generate the perpetual prescreens?

Stephenie: A cost per member in terms of cost per new loan?

Steve: No, cost to conduct a prescreen exercise.

Stephenie: We're looking at under $2.

Steve: Under $2 per number?

Stephenie: That's for that omni-channel delivery approach.

Steve: Great, and we'll talk more about omni-channel in a little bit. Again, just a reminder, if you have any questions feel free to type them in and we'll do our best to make sure that we address them before we hang up.

With that, I want to talk creative, and in particular I wanted to stop here for a moment and talk about prescreens. Often times when I am working with clients, there's a bit of, I think, confusion, misunderstanding out there about prescreens. Often times I'll meet with people who say, "Hey you know what We did an auto pre-screen program a few years ago. We ended up making an offer to somebody who turns out they lost their job after the mail piece went out the door. We had to make the loan. We were obligated to make the loan. As a result, a short time later we were chasing after that customer or that member because they stopped paying the loan because they couldn't pay the loan."

In reality, the Fair Credit Reporting Act provides financial institutions with options. In a nutshell, those options are we only know a certain amount about the consumer for whom we are conducting the prescreens. What we know is what we see off of that credit report. Congress, in its infinite wisdom, and that may be an oxymoron, but nonetheless, Congress when it wrote the Fair Credit Reporting Act years ago said, look, financial institutions, banks and credit unions, we are going to allow you to put a credit opportunity in front of your customers and your members. We know, however, that you do not know everything about that particular customer or member. Again, you only know what you see on the credit report. The Fair Credit Reporting Act allows us to underwrite that loan. In fact, on the creative sample that you'll see in a moment, in the disclosure copy we always make hard mention of the fact that the consumer is going to be required to submit a formal loan application. We, the lender, are going to look at that application as we go through the underwriting exercise.

We're going to look at job status; we're going to look at income; we're going to look at collateral. If we see anything that does not coincide with our lending

guidelines, then we reserve some options. Those options can be a different rate from what we might be communicating to the consumer, a different dollar amount. When all is said and done, we do have the right to outright deny the loan if the consumer does not meet all of the requirements relative to our underwriting guidelines.

Firm offer of credit, we do have to honor that loan if the consumer meets the credit criteria and the credit criteria that we have established in our guidelines. However, if we see a change in income, if we see a change in, or we see a job status situation that signifies the applicant is not working, or if we see an issue with the collateral, we do as the institution reserve the right to deny the loan. Let's go to our next slide.

In our next slide, some things to consider with creative. We call this the alphabet. You'll see the acronym on the left-hand side, OPQRST. Some things to consider when we create creative to coincide or to support a prescreen campaign. First off the opt-out notice. We have to give the consumer an indication on how they can opt out on any future prescreen campaign.

Secondly our P for product. We have to make sure that we tell the consumer the specific product for which they are prescreened. If it's a mortgage, we've got to let the consumer know that they have been prescreened for a mortgage product. If it's a car, we have to do the same thing. We cannot be nebulous about what we are communicating to the consumer.

Our Q for qualification, we have three different terms we can use when we conduct the pre-screen program. We can either let the consumer know they're pre-qualed, pre-apped, or preselected. In reality, all three traders, or all three terms I should say, trigger the same requirements. Whether you use one or the other, for the most part, you're legally bound when it comes to the disclosures to communicate the same things to the consumer.

We have to communicate a rate. It could be a fixed rate in, this is the rate you have been pre-apped, pre-qualed, or preselected for. If that's the case, you have to abide by that rate. If we want some flexibility in the rate we put in front of the consumer, we want to let them know that they have been pre-approved for a rate starting at or as low at. If we approach it that way, we have to make sure that in the disclosure copy, we communicate to the consumer what that maximum rate would be after we go through the underwriting process. We also have to let the consumer know the minimum amount of money for which they could be granted the loan.

Then lastly, we've got to obviously address the terms and conditions. We've got to make sure that we're communicating to the consumer the timeframe in

which the offer is valid. That has to be more than two days. Typically, this offer is out there for 30 days, let's say. Then if there are any other conditions, as I mentioned like collateral, like job status, like income, those two must be communicated to the consumer. Typically, that's in the disclosure. Let's go to our next slide.

In our next slide, putting all of that information together that I just went through, let's take a look at the left-hand side. On the left-hand side out statement of qualification all the way at the top in the [Johnson] box on the upper right-hand corner. There's the right side of our letter communicating to the consumer that they have been pre-approved for, in this case, a car loan. Again, as I mentioned, we have to either tell that consumer they're pre-apped, pre-qualed, or preselected. In this case, they're pre-approved for a car loan.

If you go to the bottom of the letter on the left-hand side, there's our short form opt-out. By law, per the FCRA, we have to communicate a way for the consumer to opt out of anymore of these prescreened campaigns. On the back side of the letter, which appears on the right-hand side of this slide, there's our long form opt-out. Now often times, I'm asked by financial institutions conducting pre-screen campaigns, what do I do if the consumer doesn't want any more of these types of offers coming to them? Although you can't see it on this slide, that long form opt-out directs the consumer to an 800 number and also to a website where they can opt-out of prescreen offers so they don't receive any more letters like this, or credit card offers coming to them through the mail, whatever it happens to be That 800 number is monitored by the credit bureaus, not the financial institution. During the prescreen process, if a consumer of yours, an account holder, a member, or a customer, has contacted the 800 number or the website and opted-out of prescreen campaigns, it is the bureaus that maintain that information, not the financial institutions.

The terms and conditions underneath as I mentioned we've got to mention the maximum rates. If we communicate in the [Johnson] box, "And as low as," or a starting rate, we've got to communicate the minimum dollar amount for which that loan would be granted, and then of course, any other terms and conditions. We are going to have the consumer submit a loan application. We're going to underwrite that loan application when it comes in. We're going to look at things like income, job status, collateral. All of that has to be communicated in the disclosure copy that you see on the back side of the letter. Let's go to our next slide.

On our next slide, we at Harland Clarke will always espouse communicating to your account holders to a multitude of different channels because we know there is no a silver bullet when it comes to marketing. Our recommendations, certainly utilize postal mail. There's a study that came out from the Direct

Marketing Association that I saw last week, that postal mail, snail mail, whatever you want to call it, still carries response rates close to 3 to5%. Still direct mail, postal mail gets read. We want to communicate through online channels. As Stephenie mentioned earlier with the perpetual prescreens. Consumer logs into on-line banking, we want to communicate with them that way. Certainly email, and we always want to encourage financial institutions to do whatever they can to acquire and obtain email addresses from their customers and account holders.

Outbound calling, always very effective. Can be a little expensive in some cases. We know that the response rates when phone calls are made are high, so outbound calling certainly makes a lot of sense; and mobile messaging, particularly as consumers continue to gravitate towards their smartphones and carry those with them throughout the day. Communicating via text messages can be very, very effective.

Let’s go to our next slide. So on our next slide, when it comes to creative, here are the ingredients to ensure that any direct marketing campaign is effective, particularly when we’re employing direct mail. Certainly, it starts with the audience and making sure that we’re utilizing the analytics to get the right message to the right person at the time with the right product. And so when we’re looking at direct marketing campaigns, first and foremost we want to focus on the targeting to make sure we’re reaching out to the right people. Secondly, it’s the offer. What’s the product we want to communicate? Is it a product that will resonate? What is the offer? Are we going to put an incentive in front of the account holder? Harland Clarke has access to services that can look at what is going on in your market footprint so that should you decide to embark on a program like this, we can share with you information on what others are doing who might be marketing to maybe your customers and members, or maybe to prospects, and make sure the offer you put in front of consumers will one that will basically play in Peroria. And then thirdly, it comes down to the creative. We want to make sure the creative is attractive, that it is direct, that it is readable, that it is attention getting. And with that, let’s take a look at our next slide.

Here’s a sample of creative and some things to consider when it comes to creative. Let me start on the left-hand side. As I go through these list of items on the left, take a look at the letter on the right. First of all, we want to make sure, item number one, that our creative is clearly branded to you the financial institution. Point number two on the Johnson box, upper right-hand corner, we want to make sure that we’ve got a competitive rate out there. As I mentioned, we’ll help identify what’s going on in your market footprints to make sure that your rate is competitive and that you’re offer is competitive. Thirdly ,we want to make sure that we're letting the consumer know that they’ve been either pre-

approved, or prequalified, or preselected.

Item number four, that first body paragraph, that's where our offer is. "Congratulations you've been pre-approved for a car loan with a rate starting as low as 2.75%. This offer expires in 30 days, etc, etc." Any deal sweeteners in item number five, so there might be our offer, "Come on in. Apply for a car loan today, and we'll give you $125." Our thought starters, what are some of the features about our car loans or about the product that we're putting in front of the consumer. Item number seven, we want to make sure that there's a time frame on when we expect the consumer to act. Item number eight, our call to action, how do I take advantage of this? Typically call, come in, or click.

Now item number nine, what are those channels? Again, I can go online and do this. I can walk into a branch. I can pick up the phone and call you. As we talked about earlier, item number ten, there's our short form opt-out at the bottom of the front page of the letter. That's where it has to be by law. Then item number eleven, where it has to be by law, there's our long form opt-out at the top of the disclosure copy on the back side of the letter. Next slide, please.

I know we only have a minute or so left, so we wrap it up. There are our 4 Ds again relative to all the campaigns that we're involved with. It's defining the objectives. It's making sure that we know how we're going to measure and determine whether the program is successful when all is said and done. It's making sure that we're designing a program that will resonate loudly with the consumer to whom we're reaching out. It's deploying; it's making sure the programs get up and running as quickly as possible.

Lastly, it's discovering; it's measuring; it's making sure that we understand everything we need to know about the customer's needs and behaviors. It's utilizing analytics to make sure, again, we know who we're going to be reaching out to so that when we do test an interest, we know that our program is going to be successful.

That brings us up to 2 o'clock. I know we said we would get off by this hour. I know we've got a couple of questions that all look like they've come in after the fact. Stephenie, can we take another minute maybe and folks, if you can hang on, please do. Maybe another minute to go through some of these questions? I'm going to assume that that's the case. First question, will the seminar be posted somewhere afterwards so we can review?

Stephenie: Certainly.

Steve: Absolutely. You will be getting a recording of this presentation within a week. So hang in there, you'll see this very shortly. Next question, which credit bureaus

do you work with to obtain the information for triggers and prescreening and those bureaus – I'm sorry, Stephenie.

Stephenie: We work with all three bureaus, TransUnion, Equifax, and Experian.

Steve: With that, that was our last question. Folks, thank you. Sorry, Stephenie, for some reason, I was not able to hear you on that one. I think we got both of us answered the questions so that'll work well. With that Stephenie, thank you very much. Stephenie, any last words before we wrap up? All right, everyone thank you very much for attending today's webinar.

Stephenie: Thank you for your time today.

Steve: We hope this has been helpful. We look forward to working with you in the future. Thank you and goodbye.

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