Case Study: Enhance Credit Card Portfolio Profitability Start with a “Graduation” plan.

Convert members to business cards when logical, and ‘graduate’ starter cardholders to standard products. Do your members who own small businesses use the business credit cards you issue, or are they still stuck on consumer cards? Do you have a plan to “graduate” members from starter cards to traditional products? Have you re-evaluated members’ credit limits on your cards within the past year? Here are some quick tips, from Brad Wylie, Advisors Plus Consultant, that can help you avoid compromising the profitability of your credit card portfolio.

Maximize Business Card Use

This product offers a better return than consumer cards because of higher interchange fees. At a $5,000 spend level, a business card will generate approximately $28 more in interchange income than a basic consumer reward card – which represents a ROA gain of 0.93% based on a $3,000 average account balance. The credit union faces no additional risk, and the CARD Act doesn’t cover business cards, so you maintain flexibility on pricing. Members won’t notice a difference on their end, so long as your business card offers the same rewards. Yet many small-business owners have stuck with consumer cards out of habit—or in many cases, because they embarked on a second career. Find these members and advise and incentivize them to switch.

Graduate Starter Card Users

Despite the strong market for this product, especially among consumers with no, little, or bad credit, Wylie cautions that credit unions should cap issuance of starter cards at 10% of new account volumes because the product loses money. On an account with a $1,700 credit line and a $600 balance, he cites a return on assets of minus-4.91%, compared with 4.3% to 4.4% for standard cards in a mature product line.

Advisors Plus | PSCU

"Unless you're charging an annual fee, you cannot make money on it," Wylie says. "The balance isn't high enough at the rates you can charge or want to charge to cover operating expenses." It's equally crucial to employ a "graduation" strategy for these cardholders, with a defined date for shepherding them into standard credit cards or other lending products, according to Wylie, who recommends exploring the Discover card's site as a guide. "That still gives you a place to help members but ensures you don't get hurt," Wylie says. Branch staff like starter cards because heavy consumer demand helps them hit incentive goals, he notes.

Card Product Tips

Wylie touched on several other aspects of credit card portfolio management, such as:

- **Increasing credit line assignments.** These retreated during the recession and haven't bounced back. At least once a year, evaluate whether you could increase cardholders' limits.
- **Creating attractive premium card credit lines.** It's critical to have a large enough credit limit for members, because you need high sales volume, and thus interchange income, to reach your desired profitability. Set your main earn and redeem points ratio at 1.25% to 1.50% per point value, with a forfeiture after 12 consecutive months of card inactivity.
- **Monitor "special arrangement" impact.** Many financial services organizations have felt the impact on interchange revenue from members using "special arrangement" cards at retailers such as Amazon and Costco.
- **Website upgrades.** Does your website effectively generate new credit card business? Does it say what you want it to say? Do you have to read long paragraphs to find out what the product is? Remember that people often scout products online before they initiate conversations with you.

Advisors Plus

Founded in 2004, PSCU's Advisors Plus offers consulting services for credit unions to help fuel growth and achieve financial and business goals. From project analysis to implementation and management, Advisors Plus offers an end-to-end portfolio of consulting services including business strategy, business and affinity cards, credit and debit cards, contact center optimization, risk and collections analysis, branch sales training, marketing services, and B2C campaign execution. Whether your credit union is looking to expand its offerings, build a legacy of community involvement, create the strongest possible capital footing—or all of the above—Advisors Plus consultants bring the strategic vision, deep industry expertise, and proprietary data analytics needed to help credit unions better serve their members and their communities. For more information, visit advisorsplus.com.