THE EFFECT OF BALANCE TRANSFER AUTOMATION ON CREDIT LINES

National brand credit card issuers have developed rewards programs that smaller financial institutions cannot duplicate profitably. As a result, credit unions struggle to grow card portfolios. However, giving cardholding members the ability to transfer balances online, without direct human assistance and paperwork, is a proven and powerful way to grow sticky relationships and increase credit usage.

A SimplyCredit Case Study

A SIMPLYCREDIT CASE STUDY

Many credit union executives wrestle with how to grow credit card portfolios. The battle for balances is not only taxing, but never-ending. This is due, in part, to the inability of most credit unions to match the richness of competing rewards programs. Given the important role rewards play in card usage, this poses a significant disadvantage.

One growth option is to campaign for balance transfers, but the exercise is almost universally unprofitable. The reasons include the following:

- The costs of prescreen development and direct mail are sometimes prohibitive.
- Balance transfer rates are often deeply subsidized and do not cover program costs.
- Consumers are aware of alternative financing options and increasingly pay off their balances prior to special rate expiry.
- Balance transfers rarely result in increased transactional card use, since the vast majority of consumers will return to their favorite rewards programs at the next point of purchase.

As a result, most efforts to grow credit card balances waste tactical dollars and do not deepen member relationships. Processes and tools are needed, therefore, that:

- Enable consumers to use the rewards programs they love, but take advantage of the credit union's lower rates.
- Target borrowers who need—but will not abuse—credit provided to them.
- Reduce the cost of marketing campaigns and reliance on deeply subsidized APRs.

SOLUTION

SimplyCredit, a San Francisco-based Fintech company, has developed automation that enables borrowers to consolidate high-cost credit card debt and sweep the balances to participating credit unions. This is done on an ongoing, dynamic basis without need for paperwork or direct human assistance. The company also provides analytic and marketing support to uncover and tap product demand.

The balance transfer automation is available in two ways:

1. **<u>As part of an End-to-End Online Lending Platform</u>**—Available through co-branded online tools and dashboards, this solution enables members (and eligible members) to apply for personal lines of credit. Applications are pushed into pre-approved, pre-declined and manual review queues according to the lending partner's requirements.

Approved applicants enroll high-cost credit cards and schedule balance transfers to the line.

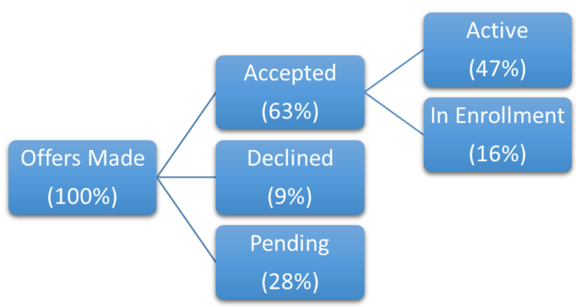
2. **Through a Plug-in to Home and Mobile Banking Platforms**—Embedded in the credit union's home and/or mobile banking portal and available through Single Sign-On, this solution enables members to enroll high-cost credit cards and schedule balance transfers to cards the credit union has already issued.

Since the tools are only as good as the traffic and new business they generate, SimplyCredit provides robust analytics—based upon raw trended credit bureau data—to evaluate targets in marketing campaigns. Ongoing support, through promotional events and direct mail, drive potential applicants to the platforms. Once fully enrolled, users either return to the tools to schedule transfers on an ongoing basis, or turn on functionality to automate the process.

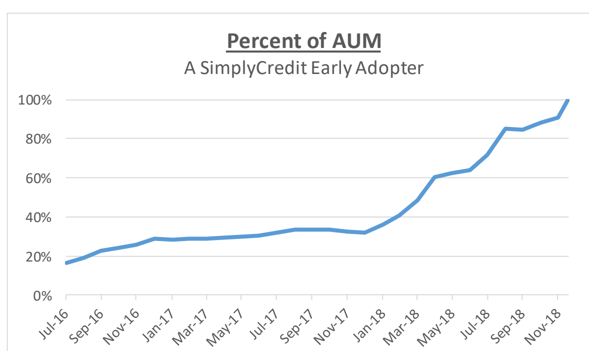
RECENT RESULTS

Application Activity

Demand for the ability to self-direct balance transfers is considerable. As a point of comparison, the typical balance transfer campaign conducted by large credit card issuers results in a less-than 50 basis point application rate. In contrast, SimplyCredit achieved a 5.25% application rate in response to a direct mail campaign recently conducted for multiple credit unions. This result is not atypical and has been exceeded, at times, for credit unions with high member engagement.



Once approved applicants begin the online enrollment, a majority quickly complete the process. During a recent launch of SimplyCredit's personal line of credit solution, one lending partner experienced an acceptance rate of 63%. Most of these completed enrollment and scheduled balance transfers within days of receiving the offer.



SimplyCredit's support is far more than a once-and-done exercise. Credit unions that were early adopters of the solutions have continued to experience balance increases as a result of ongoing analytic and marketing efforts that drive online traffic and balance growth. As an example, one credit union doubled its lending volume in 2018 after having been on SimplyCredit's platform for the prior year and a half.

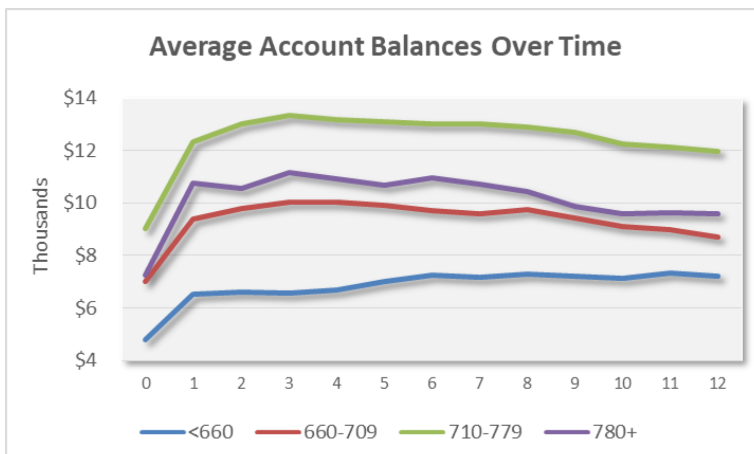
Furthermore, due to SimplyCredit's attention to user experience, applicants are able to understand enrollment requirements and complete the process quickly. After a recent product launch, engagement statistics were measured. Bounce rates came in at 17%, an indication that the overwhelming majority of applicants fulfill enrollment expectations. In addition, the average session duration was less than six minutes, during which time members enrolled their high-cost national cards and scheduled transfers of balances.

The applications were fulfilled all online, without:

- Direct human support,
- Deeply subsidized APRs,
- Or costly marketing campaigns

<u>User Behavior—Payment and Delinquencies</u>

SimplyCredit's tools are demonstrably sticky. In an average month, one-third of users return to the platform to schedule additional balance transfers. While the repeat usage is appealing from loan growth and member engagement perspectives, some credit union executives worry that the functionality encourages members to go deeper into debt. The data, however, does not support this notion.



Analysis of SimplyCredit's user behavior indicates that members opportunistically take advantage of lower rates and use the resulting savings to decrease their line balances at the credit union. As can be seen from the graphic above, the average user, post enrollment, takes three months to fully utilize the available line. Thereafter, the balance gradually diminishes and after a year, the member has reduced the debt by 10% from its peak. Another indication of the tool's low risk to lenders is observed from average credit performance. Across all lending partners for all of SimplyCredit's assets under management, the most recent 60-day delinquency rate stands at less than 37 basis points.

CONCLUSION

Credit unions have had difficulty growing credit card balances due primarily to their inability to match the rich benefits of national brand rewards programs. Since rewards are a powerful incentive to use a card, growth strategies that demand a change in primary card usage have been largely unsuccessful. In addition, balance transfer campaigns that rely on costly marketing support and deeply subsidized APRs are also mostly unproductive.

To facilitate growth, one proven strategy is to implement automation tools that give members the ability to schedule balance transfers conveniently and without outside assistance. SimplyCredit's tools have led to:

- High adoption
- High repeat usage
- Significant balance growth

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