Credit Union Times

Vol. 13, No. 51 | Weekly Independent Report On Credit Unions | December 18, 2002

OPINION

Thinking About Selling Your Credit Card Portfolio?

How valuable is your credit card portfolio? If you issue credit cards to your members, you've probably been contacted by one of the big credit card companies wanting to buy it. At first it may seem like a good deal, especially if your portfolio is a small part of your loan business or marginally profitable. If you need liquidity, what better way than quickly selling to realize a 15 - 20% premium?

However, when you factor in the value your portfolio has as a bonding agent (strengthening your member relationship glue), you may find it to be an asset of considerable worth. The trick is to know enough about your cardholders and your general membership that you appreciate the current and potential value.

Does having a credit card make a member household more profitable? Research conducted by Raddon Financial Group, a marketing research firm based in Oakbrook Terrace, Illinois, shows how specific cardholder segments differ in terms of household profitability, loyalty and product usage. The chart below illustrates the differences in terms of the member relationship when you compare households with your credit card and households without your credit card.

Card Households vs. Non-Card Households

RFG Credit Card Analysis Average	Card Households	Non-Card Households
Service Per Household	3.27	1.67
Household Deposits	$13,317	$7,610
Household Loans	$12,298	$5,091
Household Profitability	$161	$48

Source: Raddon Financial Group

However, to truly understand the value of your credit card base, you must segment your card households on the basis of how they use their card. RFG segments credit card accounts by finance charge income and purchase volume. Combining these card segments with a credit union's core deposit and loan information, RFG is able to show how credit cards affect the overall household relationship. Seeing this complete picture is the key aspect to understanding the value a credit card brings to a household. A quick look at the five cardholder segments will provide a feel for how credit card usage and other household services relate:

Inactive Cardholders are 12% of card households at a typical credit union. These cards create no interchange or finance charge income, but carry a cost, typically $90-$120 per year. This figure is the average cost per card and includes issuance, statement generation, support and general overhead expense. On average, inactive users lower their overall household profitability by $109 each year. However, annual profit from other products reduces this loss by 78% to a yearly loss of only $23. Here the challenge is simple: get the card out of the member's sock drawer and back into the member's wallet.

Moderate Users (40% of card households) make less than $3,000 a year in purchases and generate less than $300 in annual finance charges. Looking only at their credit card profit, these households are unprofitable, losing $45 annually. When the cross-sale profit is added, household profitability moves into the black (*see Table 2*). On average, Moderate Users represent the most cardholders, and improving their usage will provide the biggest improvement to your bottom line. The challenge here is to increase usage of your card, not somebody else's.

Balance Rollers (16% of card households) carry credit card balances from one month to the next, making minimal-to-small payments. They generate little interchange income, but they are a large source of finance charge income. This is the group most likely to respond to balance transfer promotions. In general, these cardholders are utilizing a higher percentage of their available lines (69% vs. 32% for the average card). There is more risk with this group – on average, 13% of balance rollers will be delinquent in any given year vs. 6% for the card base as a whole. However, their high finance charge income makes this segment very profitable. More surprisingly, they have very profitable deposit and loan relationships as well.

Convenience Users (23% of card households) are power-users and charge purchases frequently, leading to significant interchange income. However, they tend to pay off balances resulting in less finance charge income. Their effect on household profitability is marginal and can be slightly negative if you offer a generous rewards program. Keep in mind, households in this segment have strong relationships averaging 3.6 services-per-household with good loan and deposit balances. In general, Convenience Users are profitable households and the credit card is a daily part of their lives.

Heavy Users are 9% of all credit card households and the most profitable, generating plenty of interchange income as well as finance charges. Heavy Users contribute $394 of annual profit from credit cards alone. Overall, households in this segment generate an impressive annual profit of $624 per year. The challenge with these cardholders is simple: don't lose them.

When considering the complete value of your credit card portfolio, it's important to understand the mix of your segments. Do you have a high percentage of convenience users? Lots of balance rollers? A small number of heavy users? What does your mix mean in terms of strengthening overall member relationships? Where is the potential to grow revenue?

Consider the opportunities for increasing the value and profitability of your credit card portfolio. If implementing a few simple tactics, like an annual credit line review, would grow the profitability of your portfolio, would it be worth your while? Sometimes it's the simple things, done consistently, that work.

The real value of your credit card portfolio lies not only in the value of the card itself – which is substantial – but also in the value of the relationship that these card households bring. This, combined with the low risk nature of your members and the untapped potential, is the bottom-line reason the big credit card companies want to buy your card portfolio.

Bill Handel is Vice President, Research for Raddon Financial Group, Inc., Oakbrook Terrace, Ill. He can be reached at (800) 827-3500.