



# Strengthening Your Loan Portfolio

October 20, 2016

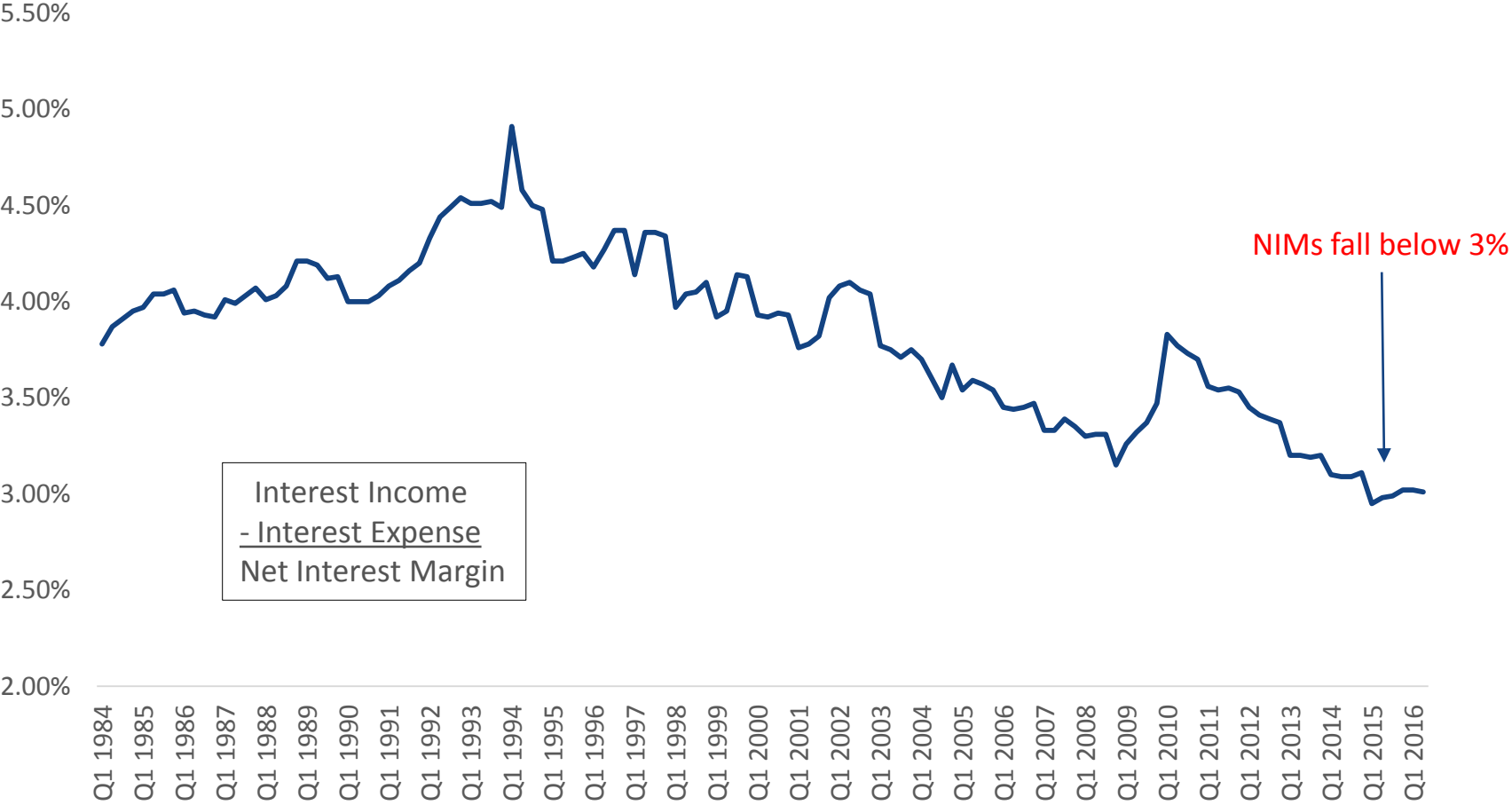
# Agenda

- Financials
- Mortgage Trends
- Home Equity/HELOC Trends
- Loan Acquisition

Financials > > >

# Where's The Profit?

## Historical Net Interest Margins



Interest Income  
 - Interest Expense  
 Net Interest Margin

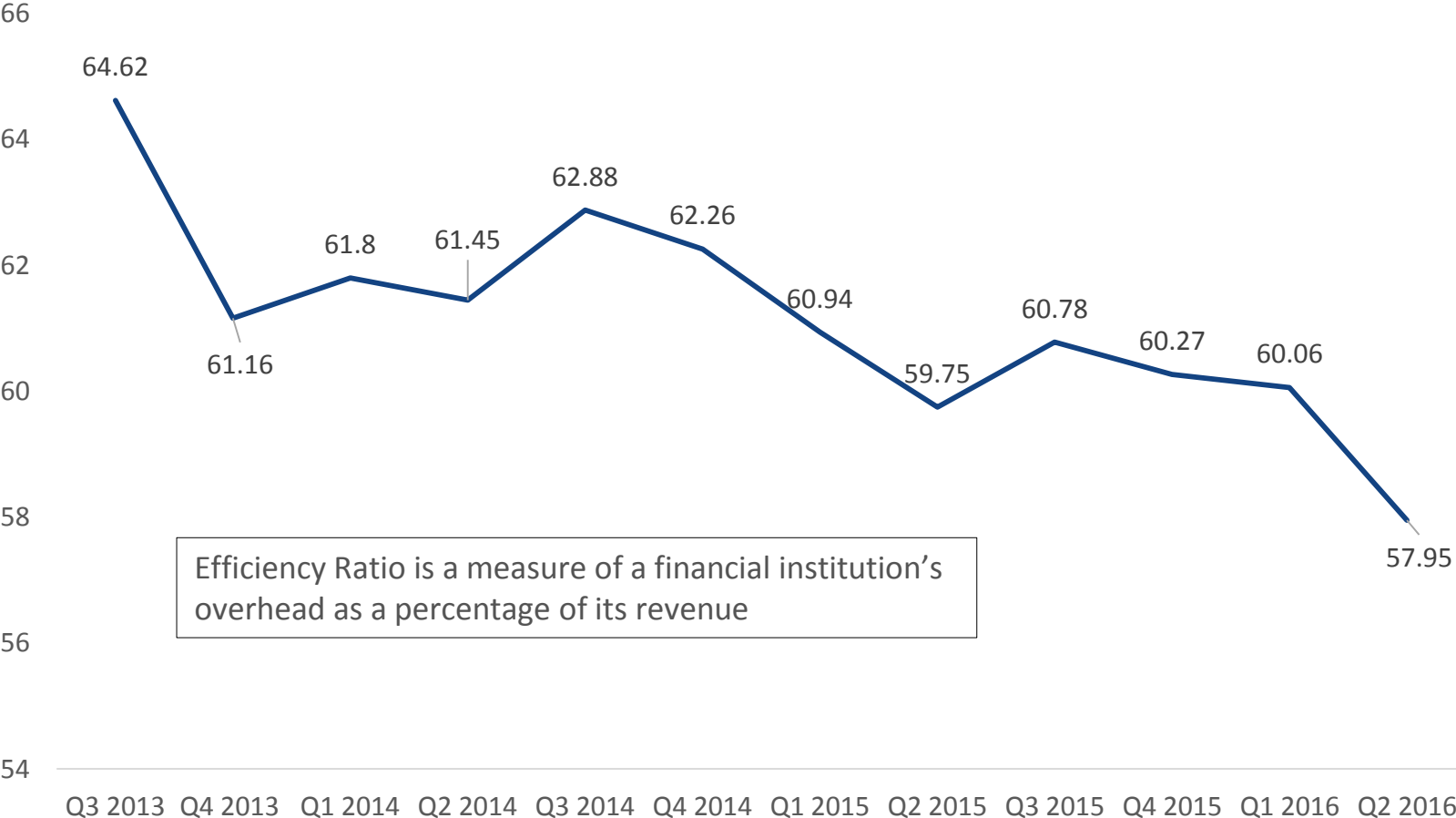
# Where's The Profit?

## What Impacts Net Interest Margin?

- Short-Term interest rates
- Geography
  - Less competitive areas means a financial institution may offer low deposit rates and charge high loan rates
- Accountholder growth
  - Deeper relationships
- Loan demand
  - Strong loan demand can improve NIMs due to Loan Yields

# Where's The Efficiency?

## Historical Efficiency Ratios



Efficiency Ratio is a measure of a financial institution's overhead as a percentage of its revenue

# Where's The Efficiency?

## What Impacts Efficiency Ratios?

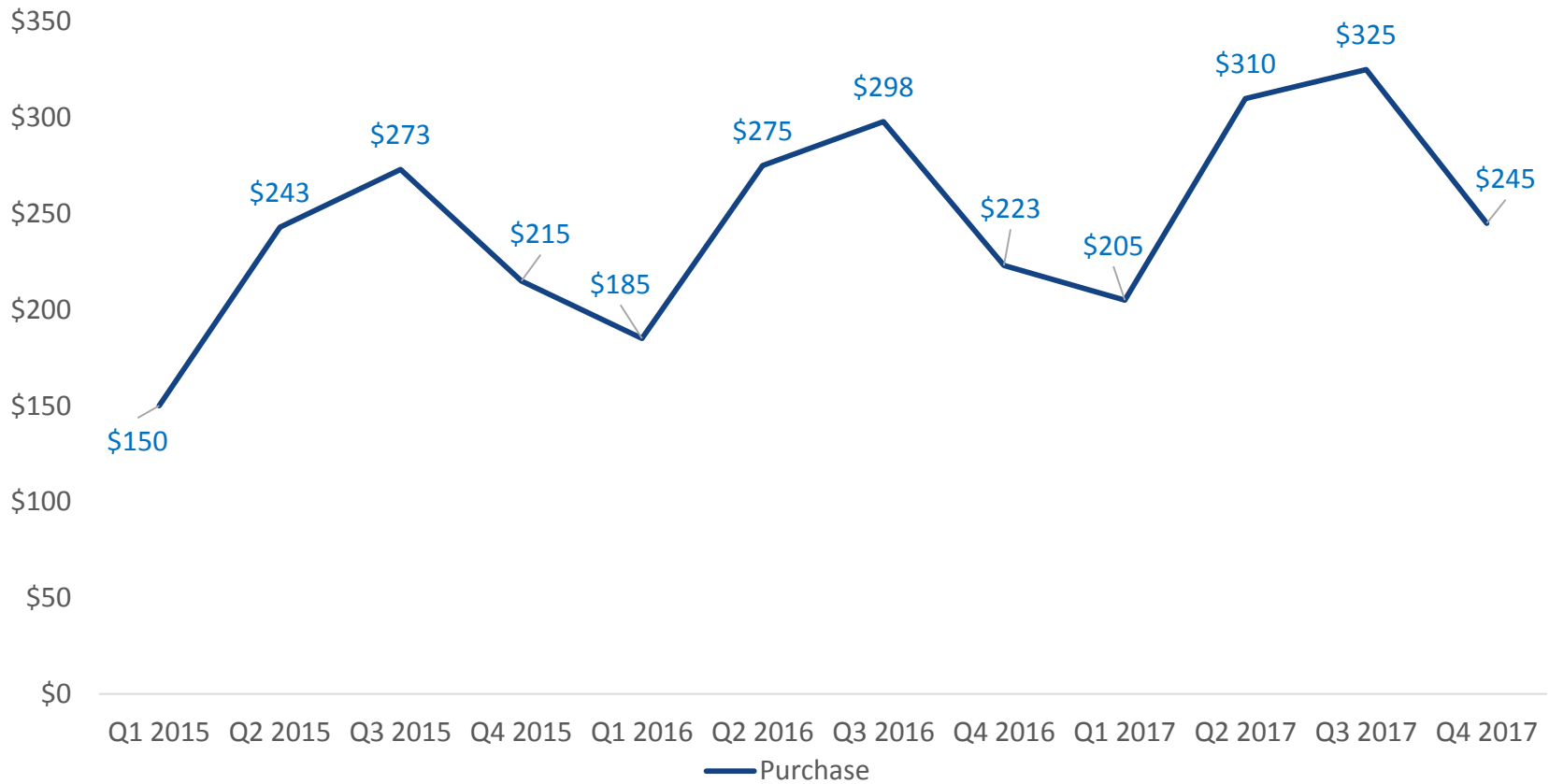
- Decreased costs
- Geographies
- Improved workflows
  - Economies of Scale
    - The cost of producing/servicing goes down while output goes up
- Increased revenue
  - Loan demand
  - Non Interest Income

# Mortgage Trends > > >



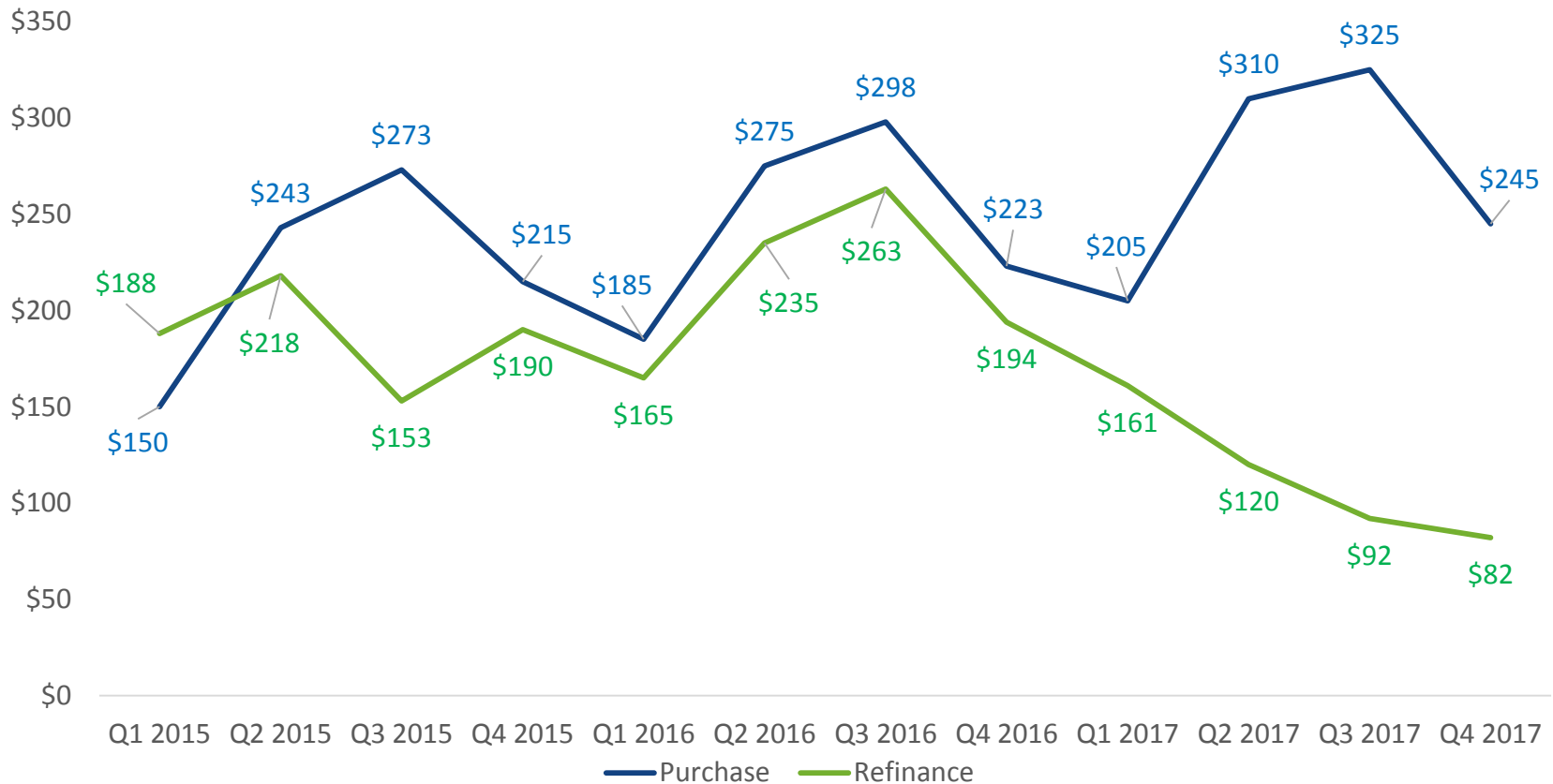
# Mortgage Originations

## Mortgage Originations (In Billions)



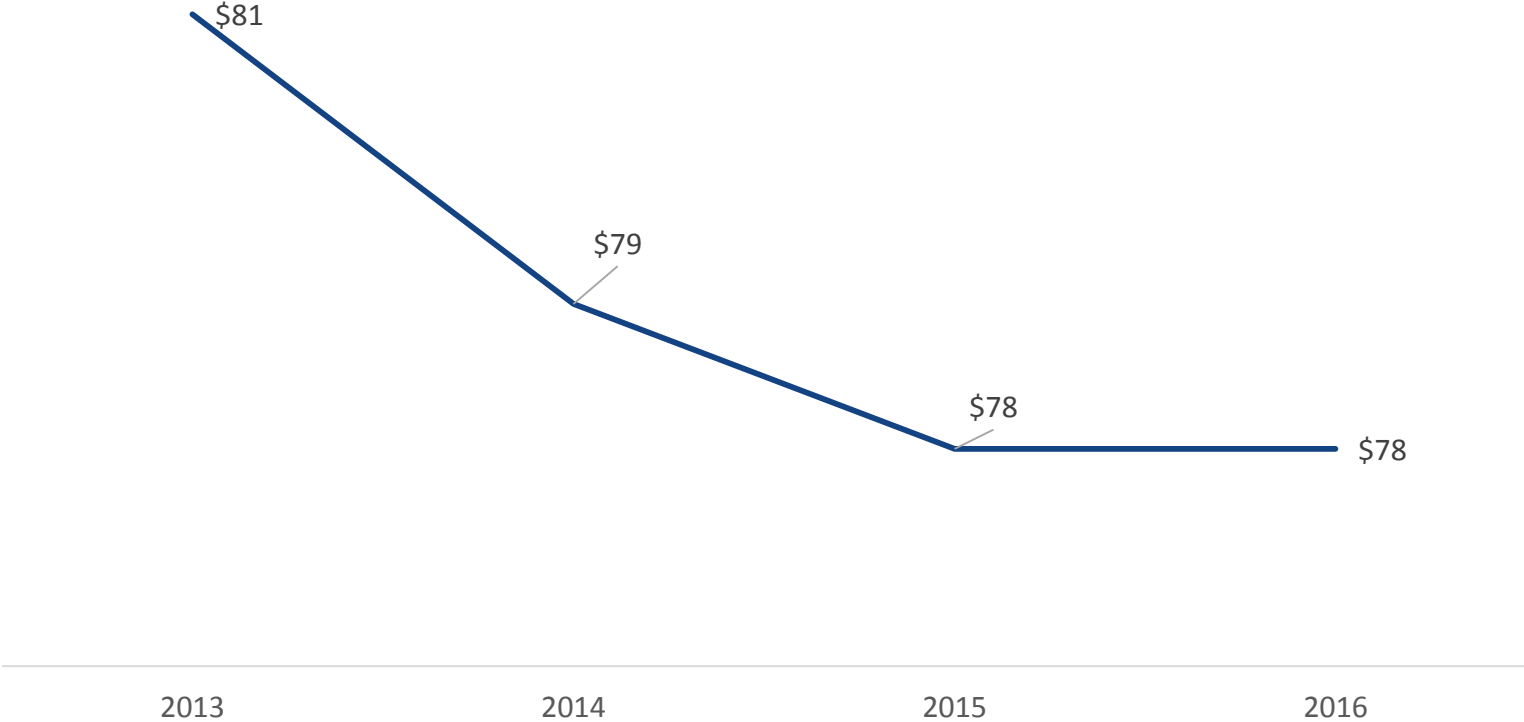
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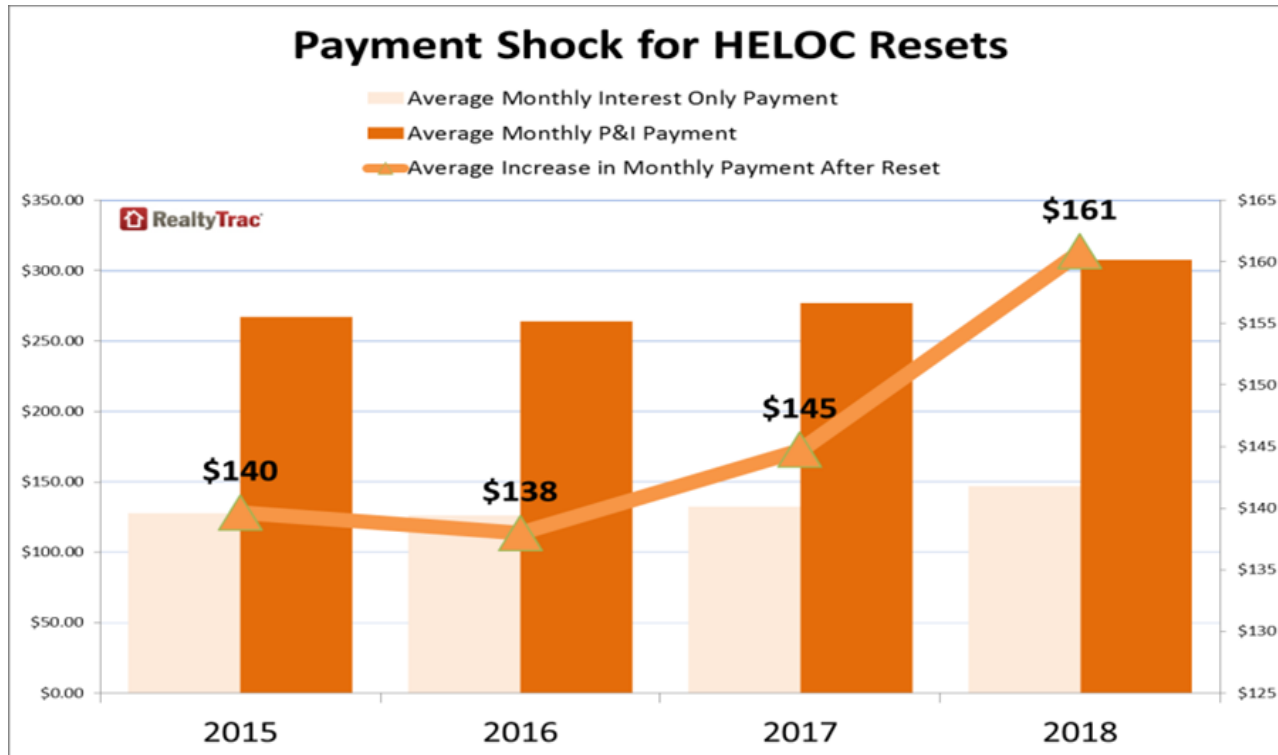


# Home Equity/HELOC Trends > > >

## HELOC Annual Origination Trends (In Billions)



# Home Equity/HELOC Trends

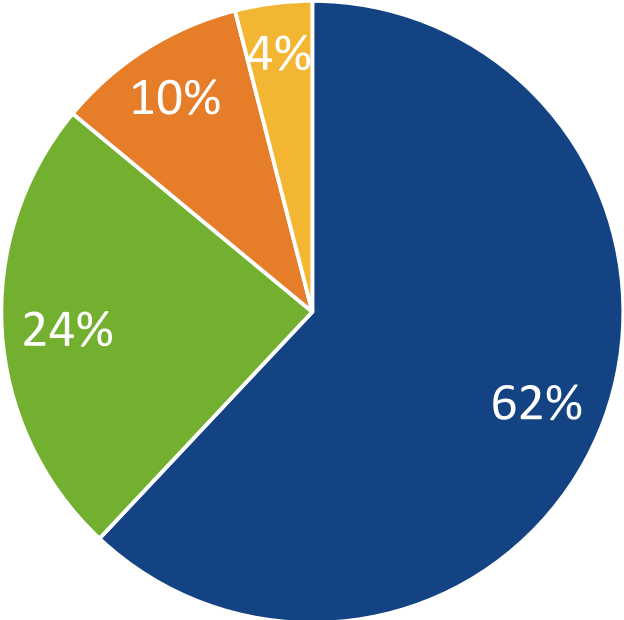


## Equity Returns, Being Used

“As home prices rise, homeowners are wasting no time making use of their newfound, or regained, home equity.”<sup>1</sup>

# Home Equity/HELOC Trends

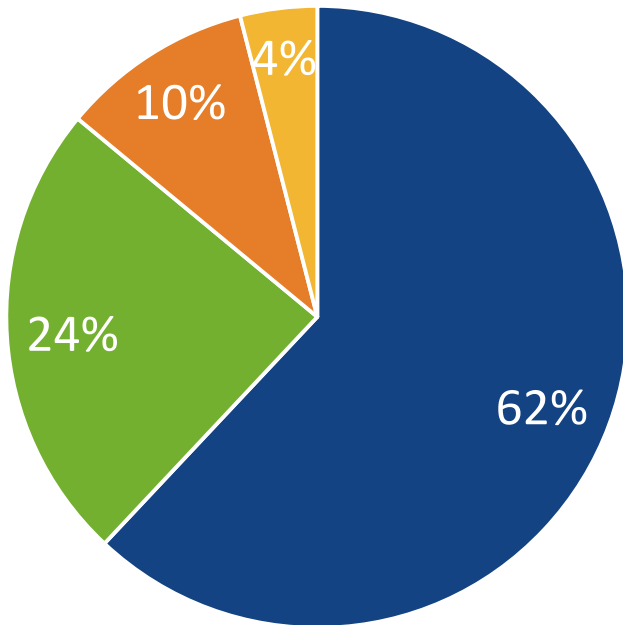
### Number Of Institutions Considered



- One FI
- Two Fis
- Three Fis
- Four or More Fis

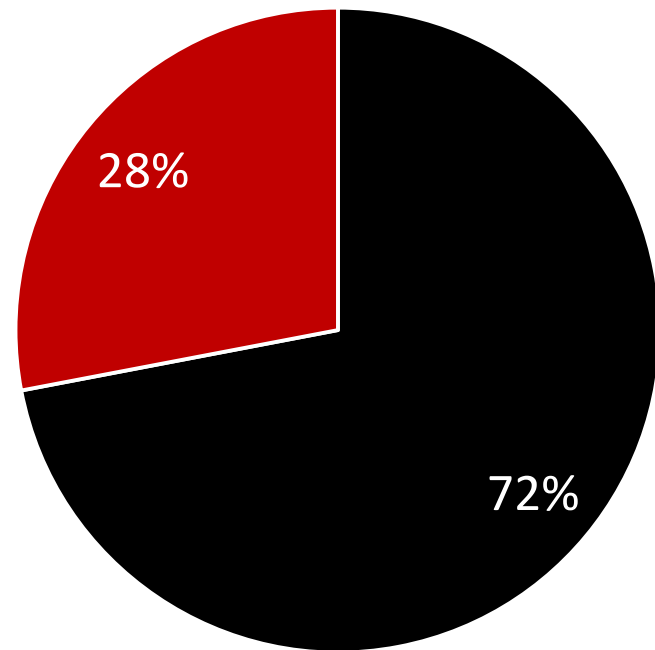
# Home Equity/HELOC Trends

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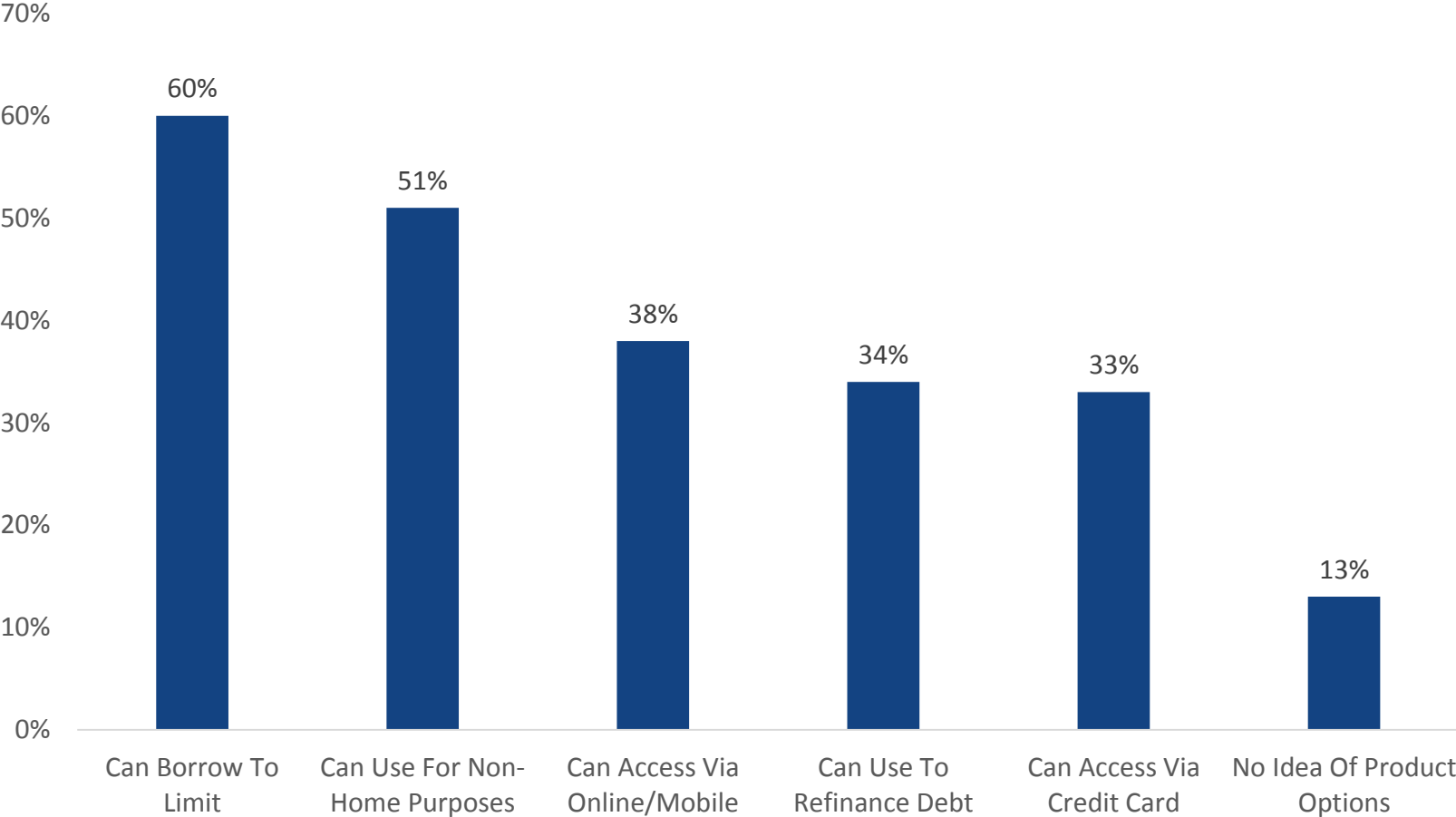
## Percent Acquired At Primary Checking Account Institution



- Primary Checking Account
- Elsewhere

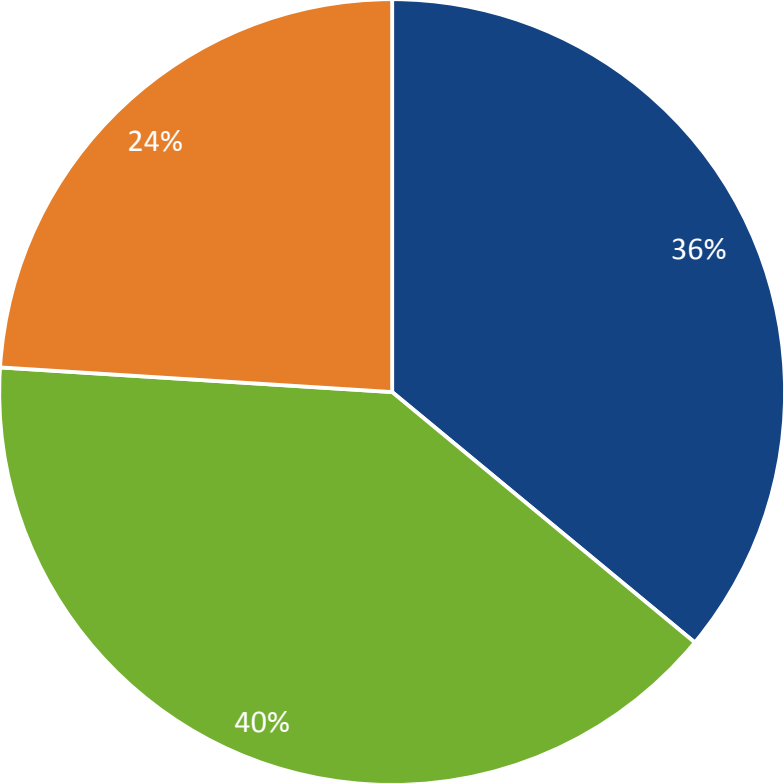
# Home Equity/HELOC Trends

## Awareness Among HELOC Prospective Purchasers





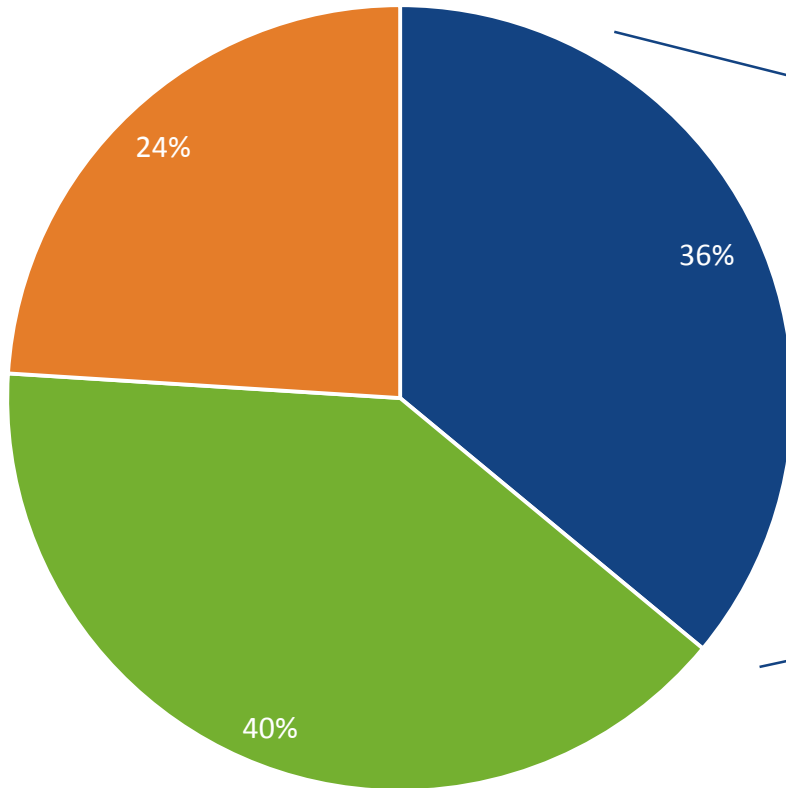
## Reasons For Avoiding HELOC



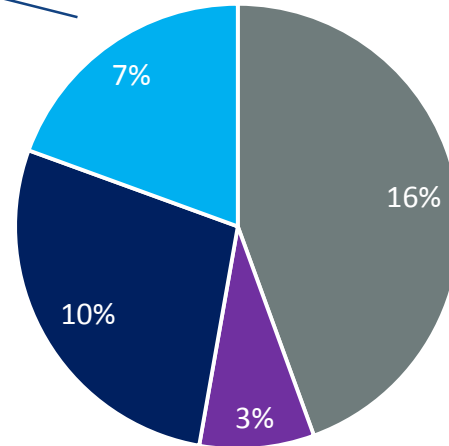
■ Origination Hassles ■ Fear of Losing Home ■ Other

# Home Equity/HELOC Trends

## Reasons For Avoiding HELOC



## Origination Hassles

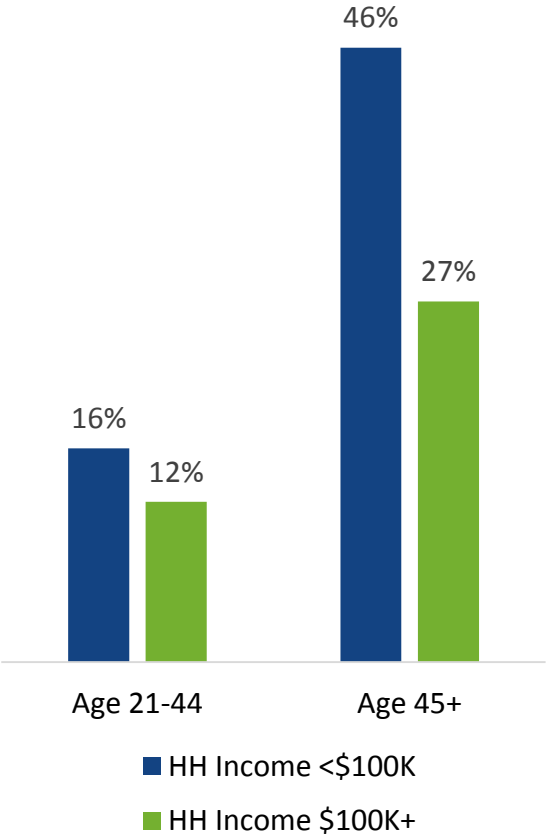


■ Origination Hassles ■ Fear of Losing Home ■ Other

■ Paperwork ■ Pushy Fis  
■ Confusing/Complex ■ Delays

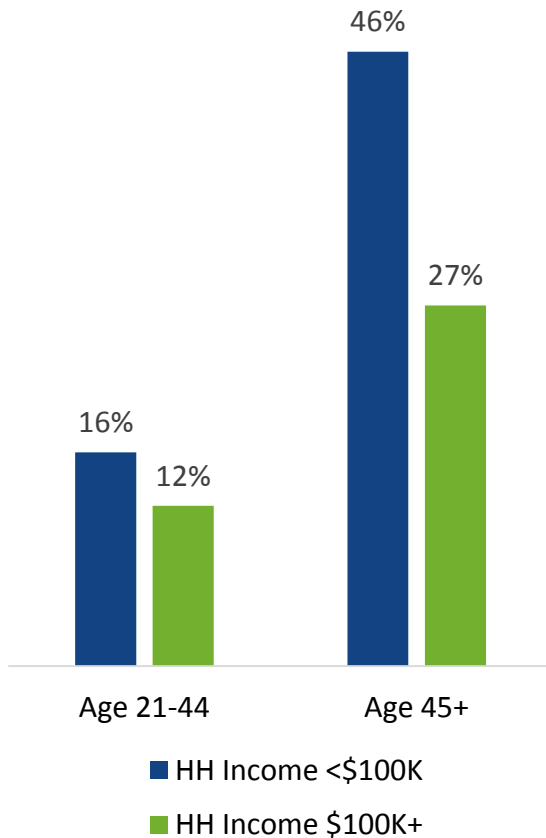
# Home Equity/HELOC Trends

## HELOC Owners



# Home Equity/HELOC Trends

## HELOC Owners

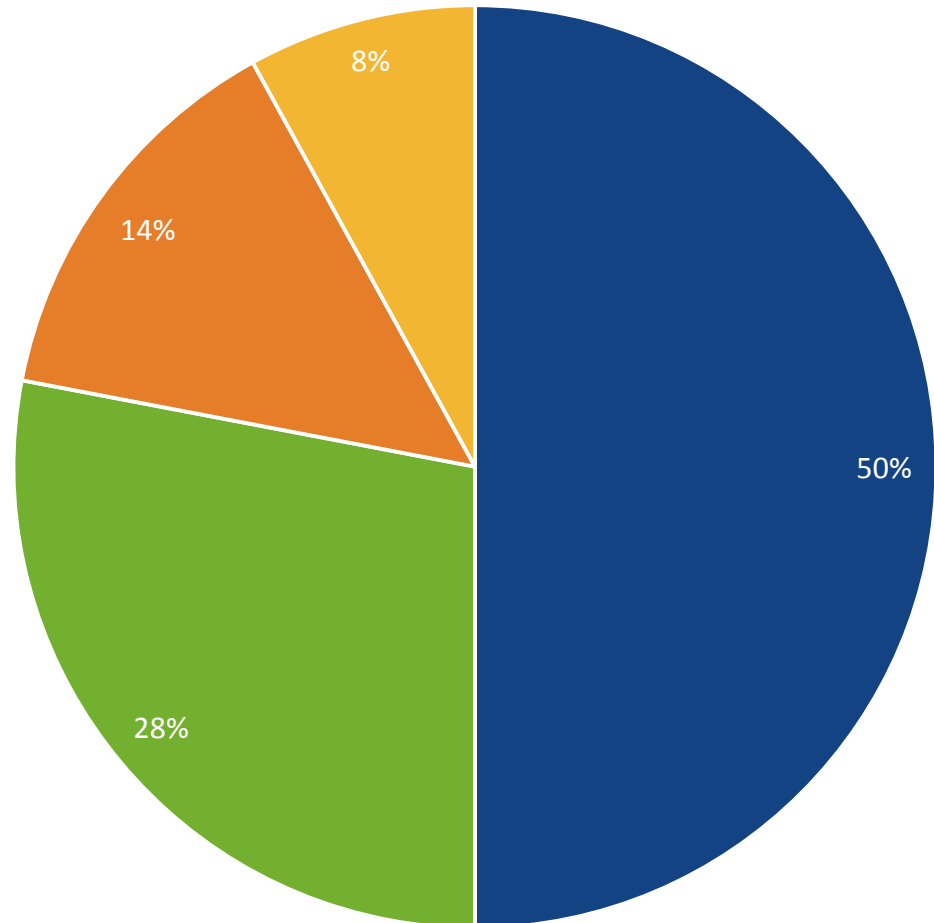


## Demographics vs. Tenure Of HELOC Owners

	HH Annual Income	Own HELOC > 3 Years	Own HELOC 1-3 Years	Prospects
21-44	<\$100K	7%	23%	<b>28%</b>
		↓	↓	↓
21-44	\$100K+	5%	19%	<b>13%</b>
		↓	↓	↓
45+	<\$100K	56%	37%	<b>45%</b>
		↓	↓	↓
45+	\$100K+	32%	22%	<b>14%</b>

## HELOC Behavioral Segmentation

- Periodic Borrowers - Older, borrow more for home renovations, branch-oriented. Profitability - Good
- Revolvers - Younger, cash management oriented, price sensitive. Profitability - Good
- Emergency Only - Older, limited knowledge or need, insensitive to price. Profitability - Negative
- Pay-Downs - Tenured customers/members, focused on balance reduction. Profitability - Marginal



# Home Equity/HELOC Trends





## The Competitive Edge

- Competitive pricing
- Innovation – shorter and customizable terms and draw periods
- Much higher LTVs
- Aggressive life-cycle marketing
- Cross selling to your mortgage portfolio

# Loan Acquisition > > >

# Harland Clarke's Loan Marketing EcoSystem





## LOAN MARKETING SOLUTIONS

Solution	Target	Qualifications	Universe Size	Response Rate
	Loan Shopper	Trigger	Small	Very High
	Loan Eligible	Perpetually Prescreened for Multiple Products	Large	High
	Loan Holders	Refinance Eligible	Medium	High
	Loan Eligible	Credit Criteria or Demographic Proxy	Large	Medium



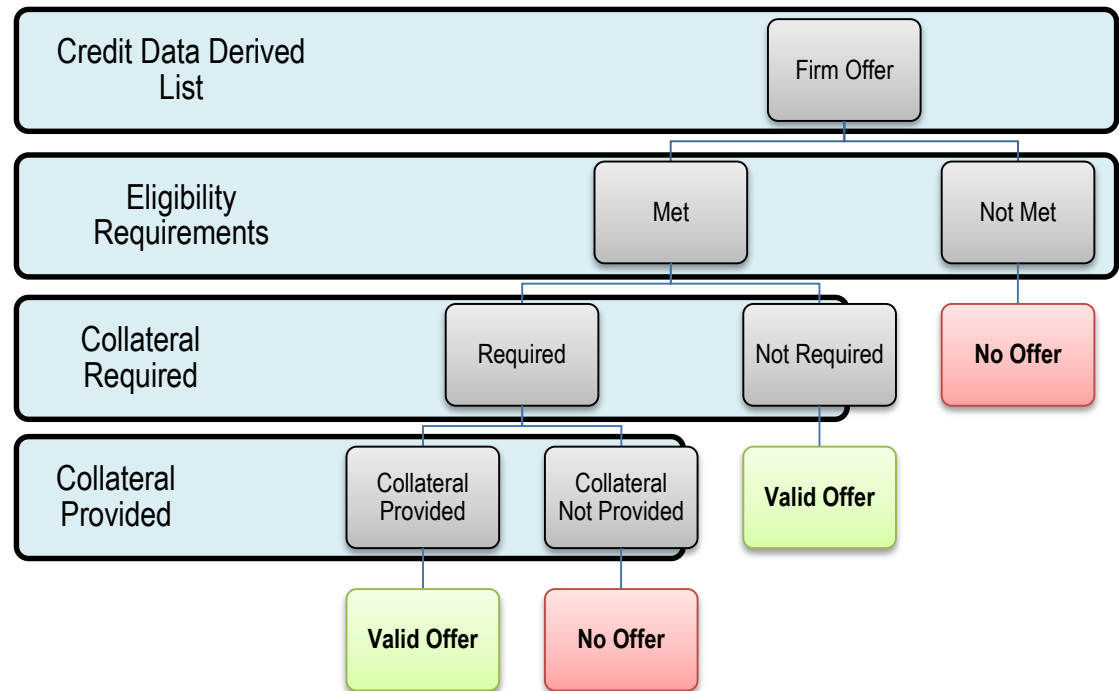
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# Firm Offer Of Credit

*An offer that must be honored if the consumer who responds to the offer still meets the criteria used in the selection process and meets other credit criteria that was established prior to making the offer, including providing collateral, if that is part of the criteria.*



# Firm Offer Of Credit

## Mnemonic Device: OT

To avoid working OT, remember your alphabet: O-P-Q-R-S-T.

Offer Requirements	
<b><i>Opt Out Notice</i></b>	Consumer has to be given a reasonable means to discontinue advertisements of this sort.
<b><i>Product</i></b>	Product which the consumer is being presented.
<b><i>Qualification</i></b>	A statement of “pre-qualified”, “pre-approved”, “pre-selected”.
<b><i>Rate</i></b>	The rate the consumer can pay. When the term “as low as” is used, a maximum must also be provided.
<b><i>Sum of Money</i></b>	The <i>minimum</i> loan amount. A range is fine, so long as there is a minimum.
<b><i>Terms and Conditions</i></b>	<ol style="list-style-type: none"><li>1. <u>Terms</u>: The length of time that the offer is valid. Typically greater than two days.</li><li>2. <u>Conditions</u>: The eligibility conditions that must be met for the offer to be valid. If collateral is required, it must be mentioned.</li></ol>

# Strategies for Success



# Successful Loan Acquisition Requires Multi-prong Approach

## Initiatives Prioritized Based on Response Rate & Return on Investment

### 1 Capturing Shopping Customers

Monitoring customers to identify shopping activity to maximize share of wallet

### 2 Capturing Shopping Prospects

Maximizing marketplace opportunities based on geography

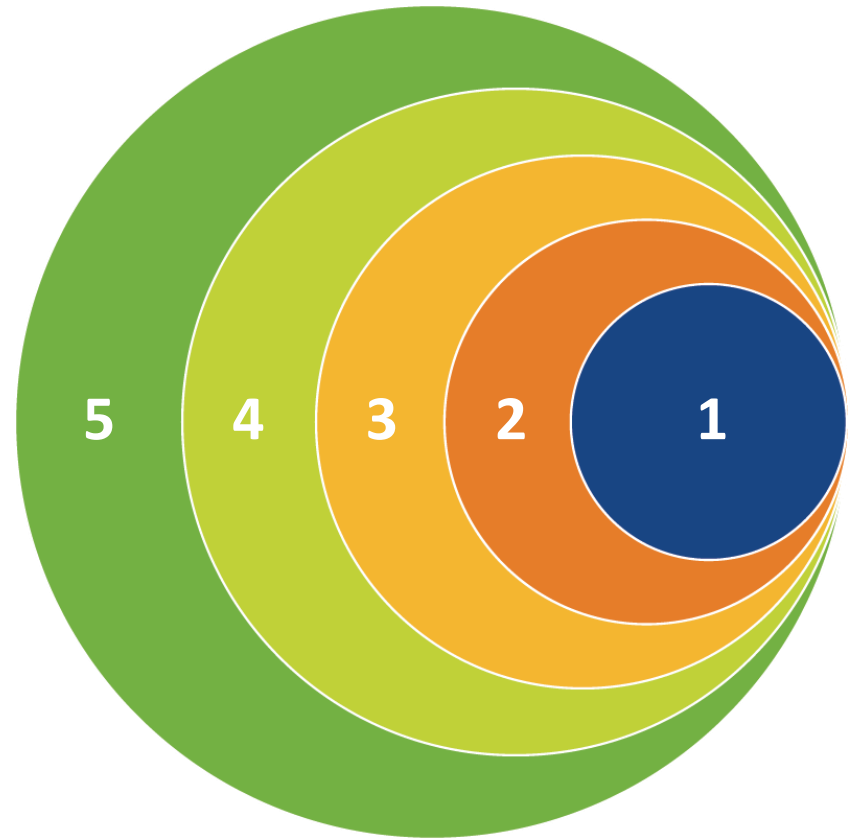
### 3 Educating Customers on Borrowing Options

Regular pre-screening of customers to offer a full variety of options, over time becoming top of mind for any customer borrowing need

### 4 Pre-screen Campaigns

During key demand windows, pre-screen customers and prospects with a focus on single products or refinancing for payment savings opportunities

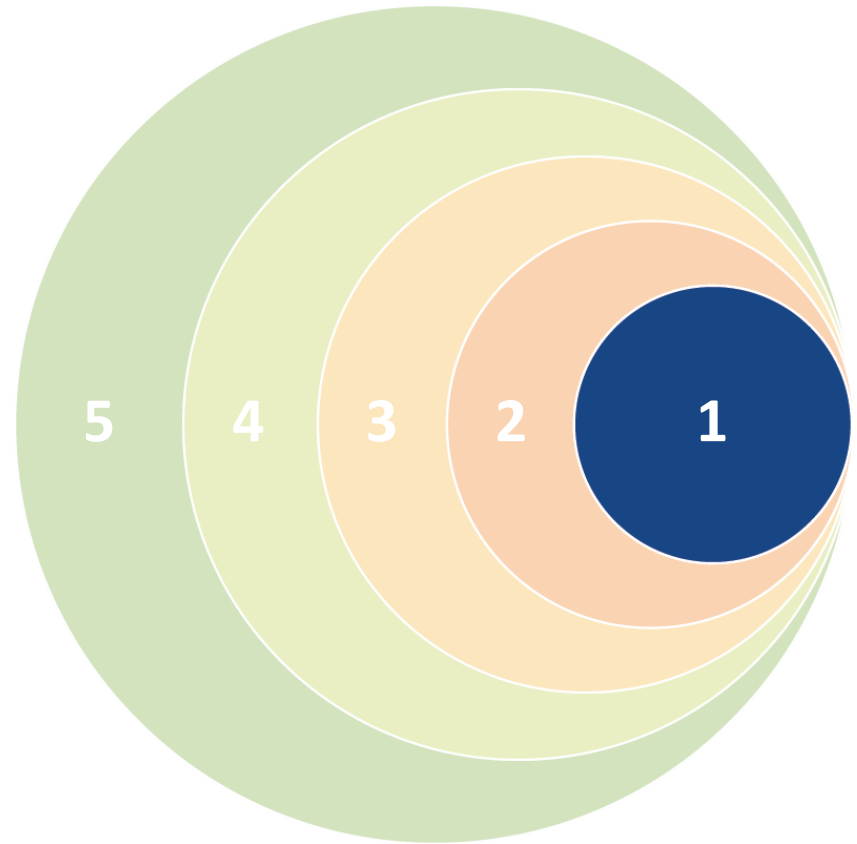
### 5 Invitation to Apply Campaigns



## Initiatives Prioritized Based on Response Rate & Return on Investment

### 1 Capturing Shopping Customers

Monitoring customers to identify shopping activity to maximize share of wallet

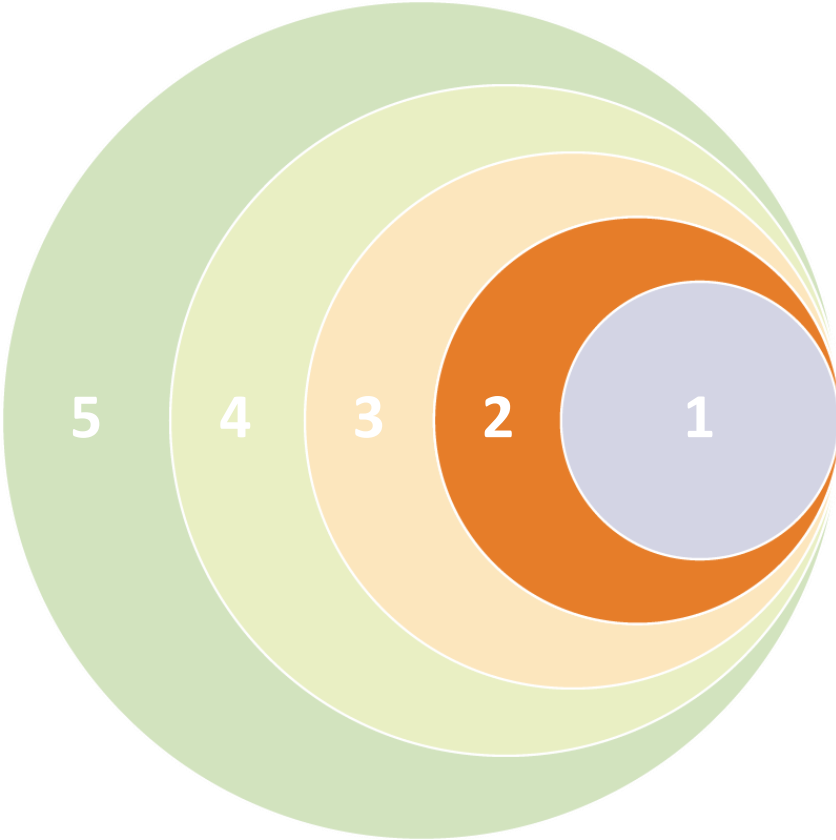


# Shopping Prospects Great Opportunity for New Relationships

Initiatives Prioritized Based on Response Rate & Return on Investment

## 2 Capturing Shopping Prospects

Maximizing marketplace opportunities based on geography



# Identifying and Marketing to Loan Shoppers





# Benefits of Retaining and Expanding by Monitoring for Accountholder Loan Shopping

Midwest & Mid Atlantic Financial Institution~ \$480 Million Assets

Pacific Northwest Financial Institution~ \$1 Billion Assets

Month/Year	Offers Made	Applications	Application Rate	Month/Year	Offers Made	Applications	Application Rate
Feb '15	417	45	10.8%	Feb '15	1,358	103	7.60%
Mar '15	480	51	10.60%	Mar '15	1,498	93	6.20%
Apr '15	506	58	11.50%	Apr '15	1,251	63	5.00%
May '15	489	51	10.40%	May '15	1,202	87	7.20%
Jun '15	548	60	10.90%	Jun '15	1,586	135	8.50%
Jul '15	487	49	10.1%	Jul '15	1,615	144	8.90%
Aug '15	371	26	7.00%	Aug '15	1,453	138	9.50%
Sep '15	313	29	9.30%	Sep '15	1,637	139	8.50%
Oct '15	298	20	6.70%	Oct '15	1,386	118	8.50%
Nov '15	272	17	6.30%	Nov '15	1,366	141	10.30%
Dec '15	245	13	5.30%	Dec '15	1,394	134	9.60%
<b>TOTAL</b>	<b>4,426</b>	<b>419</b>	<b>9.40%</b>	<b>TOTAL</b>	<b>15,746</b>	<b>1,295</b>	<b>8.22%</b>

**\$3.7  
Million  
Funded**

Included Trigger Types:  
Auto, Credit Card, Mortgage & Personal

**\$16.3  
Million  
Funded**

Source: Harland Clarke client data

Many variables impact campaign success. The information on earnings or percentage increases contained within this case study is provided for demonstrative purposes only. Harland Clarke does not guarantee or warrant earnings or a particular level of success with a campaign.



# Cost Effective Marketing to Shopping Prospects

## Midwest Financial Institution~ \$3 Billion Assets

Month/Year	Offers Made	Applications	Application Rate
July '14	116	3	2.59%
Aug '14	387	8	2.07%
Sept '14	327	7	2.14%
Oct '14	258	2	.78%
Nov '14	304	6	1.97%
Dec '14	250	1	.40%
Feb'15	438	13	2.97%
Mar '15	496	7	1.41%
Apr '15	548	8	1.46%
May'15	496	7	1.41%
June'15	454	5	1.10%
<b>TOTAL</b>	<b>4,074</b>	<b>67</b>	<b>1.64%</b>

**\$5.7  
Million  
Funded**

Included Trigger Types:  
Auto, Mortgage & Personal

## Midsouth Financial Institution~ \$6.6 Billion Assets

Month/Year	Offers Made	Applications	Application Rate
Jan '15	4,183	43	2.59%
Feb '15	4,551	56	2.07%
Mar '15	5,443	65	2.14%
Apr '15	5,040	57	.78%
May '15	5,112	59	1.97%
Jun '15	5,334	60	.40%
Jul '15	3,916	43	2.97%
Aug '15	2,683	26	1.41%
<b>TOTAL</b>	<b>36,262</b>	<b>409</b>	<b>1.13%</b>

**\$4.5  
Million  
Funded**

Included Trigger Types:  
Auto, Consumer, Mortgage  
& Personal

Source: Harland Clarke client data

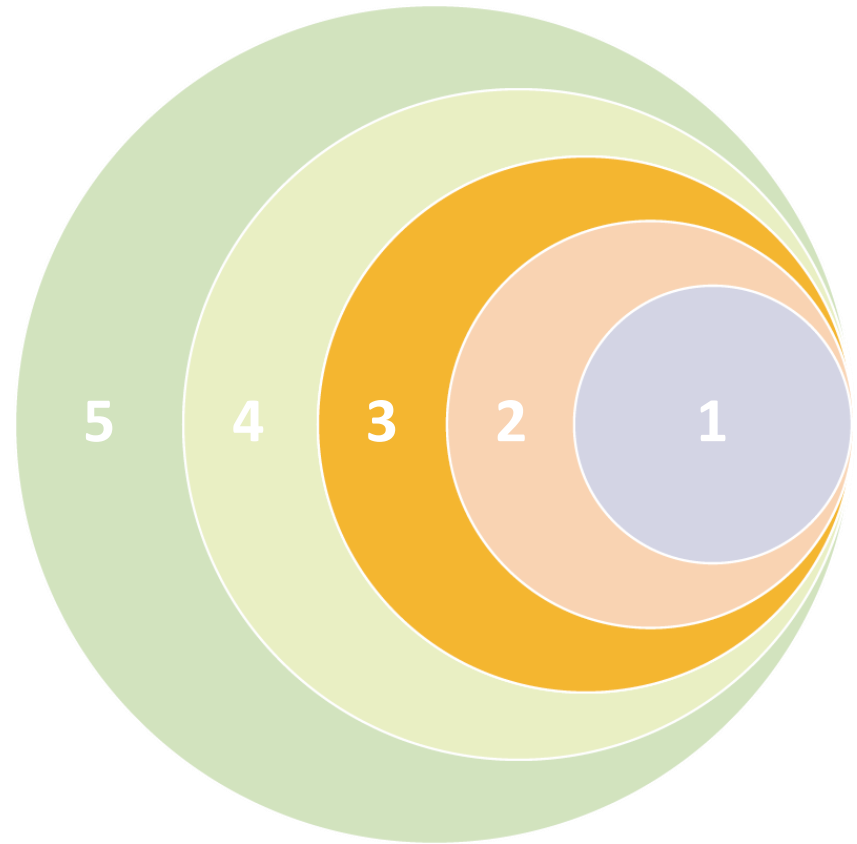
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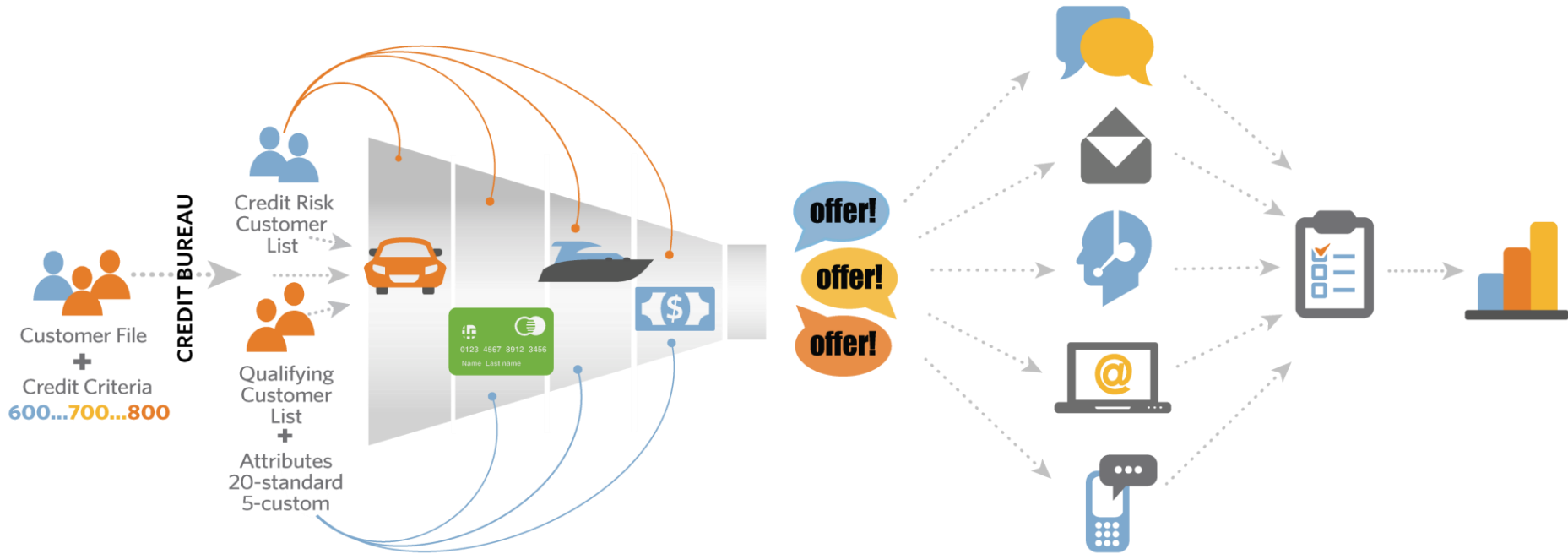
## Initiatives Prioritized Based on Response Rate & Return on Investment

### 3 Educating Customers on Borrowing Options

Regular pre-screening of customers to offer a full variety of options, over time becoming top of mind for any customer borrowing need



# Establishing Primary Financial Institution Status



Financial institution  
account holders

Quarterly  
credit  
prescreen

Assign additional credit  
product preapprovals based  
on credit profile and current  
product ownership

Communicate credit  
preapprovals at all touchpoints

Convert  
preselected  
leads to  
funded loans

Campaign  
analysis

# Empowering Customers to Borrow

My Offers - Internet Explorer  
 https://loanengine.hc... Harland... Waiting for loanengine.hcdigi... x

**YourFI** Settings | Help | Contact Us | Logout

My Accounts | Bill Pay | Transfer Money | **My Offers** | Additional Services

Congratulations! Your responsible management of credit has earned you pre-approval for a special low rate on a YourFI loan. You can choose any one of the loans below. So whatever big purchase you've wanted to make—now's the time! And with your pre-approved status, you're one step closer to having what you want—with no need to fill out an additional application!

<b>New Auto</b> AVAILABLE CREDIT: <b>\$30,000</b> APR: <b>3.49%</b> TERM LENGTH: 72 mo DESIRED LOAN AMOUNT: \$30,000 PAYMENT ESTIMATE: \$495.00 / Month <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>	<b>Used Auto</b> AVAILABLE CREDIT: <b>\$20,000</b> APR: <b>3.49%</b> TERM LENGTH: 60 mo DESIRED LOAN AMOUNT: \$20,000 PAYMENT ESTIMATE: \$386.40 / Month <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>	<b>Auto Refi</b> AVAILABLE CREDIT: <b>\$100,000</b> APR: <b>2.99%</b> TERM LENGTH: 60 mo YOUR EXISTING LOAN BALANCE: \$22,892 YOUR NEW PAYMENT ESTIMATE: \$411.14 / Month <a href="#">Details &amp; Disclosures</a> <b>REFINANCE NOW</b>	<b>Home Equity Line of Credit</b> AVAILABLE CREDIT: <b>\$100,000</b> APR: <b>1.99%</b> DESIRED LOAN AMOUNT: \$100,000 <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>	<b>Home Equity Loan</b> AVAILABLE CREDIT: <b>\$100,000</b> APR: <b>4.70%</b> TERM LENGTH: 120 mo DESIRED LOAN AMOUNT: \$100,000 PAYMENT ESTIMATE: \$1,046.00 / Month <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>
<b>Personal Loan</b> AVAILABLE CREDIT: <b>\$15,000</b> APR: <b>9.50%</b> TERM LENGTH: 30 mo DESIRED LOAN AMOUNT: \$15,000 PAYMENT ESTIMATE: \$4,381.05 / Month <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>	<b>Visa Platinum Credit Card</b> AVAILABLE CREDIT: <b>\$15,000</b> APR: <b>8.99%</b> DESIRED LOAN AMOUNT: \$15,000 <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>	<b>Boat</b> AVAILABLE CREDIT: <b>\$20,000</b> APR: <b>5.99%</b> TERM LENGTH: 60 mo DESIRED LOAN AMOUNT: \$20,000 PAYMENT ESTIMATE: \$410.00 / Month <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>	<b>RV</b> AVAILABLE CREDIT: <b>\$50,000</b> APR: <b>5.49%</b> TERM LENGTH: 120 mo DESIRED LOAN AMOUNT: \$50,000 PAYMENT ESTIMATE: \$542.50 / Month <a href="#">Details &amp; Disclosures</a> <b>ACCEPT OFFER</b>	



# Loan Engine – Marketplace Performance

## \$830 MM Financial Institution – 30,000 Accountholders

Loan  engine

- 16,255 Accountholders with Pre-Approvals
- Products Promoted:
  - New and Used Auto Loans
  - New and Used RV/Travel Trailer Loans
  - New and Used Boat & Watercraft Loans
  - New and Used Motorcycle Loans
  - Personal Loans
  - Personal Lines of Credit
- Response Rate: **4.72%**
- Booked Loan Rate: **3.66%**
- Booking Rate: **78%**
- Cost Per Booked Loan (Excluding set-up): **\$68**
- Total Balances Generated: **\$9,422,245**
- Avg. Balance Per booked Loan: **\$15,836**
- **Campaign Duration: 90 days**
- Channels Implemented: Direct mail (2 drops); E-mail; Online Banking; Mobile Banking; Cross-sell Tool
- % of Redemptions from Online & Mobile Banking: **28%**

**743% ROMI**

Source: Harland Clarke client data (C3LAP)

Many variables impact campaign success. The information on earnings or percentage increases contained within this case study is provided for demonstrative purposes only. Harland Clarke does not guarantee or warrant earnings or a particular level of success with a campaign.



# Loan Engine – Marketplace Performance

## \$414 MM Financial Institution – 49,318 Accountholders

- 10,733 Accountholders with Pre-Approvals
- Products Promoted:
  - New and Used Auto Loans
  - Credit Card
  - Personal Loan
- Response Rate: **4.20%**
- Booked Loan Rate: **4.39%**
- Cost Per Booked Loan (Excluding set-up): **\$64**
- Avg. Balance Per booked Loan: **\$16,884**
- Total Balances Generated: **\$5,665,959**
- **Campaign Duration:** **90 Days**
- Channels Implemented: Direct mail; E-mail, & Online Banking
- % of Redemptions from Online Banking: **35%**

Loan  engine

**1151%  
ROMI**

Source: Harland Clarke client data (C1CPF)

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# Loan Engine – Marketplace Performance

## \$977 MM Financial Institution – 57,000 Accountholders

- 18,750 Accountholders with Pre-Approvals
- Products Promoted:
  - Auto Loans
  - ATV Loans
  - Personal Loans
  - Platinum Credit Card
  - Snow Machine Loans
- Booked Loan Rate: **1.83%**
- Cost Per Booked Loan (Excluding set-up): **\$82**
- Avg. Balance Per booked Loan: **\$16,884**
- Total Balances Generated: **\$5,791,245**
- Campaign Duration: **30 Days**
- Channels Implemented: Direct mail; E-mail

Loan  engine

**876% ROMI**

Source: Harland Clarke client data (C1C1)

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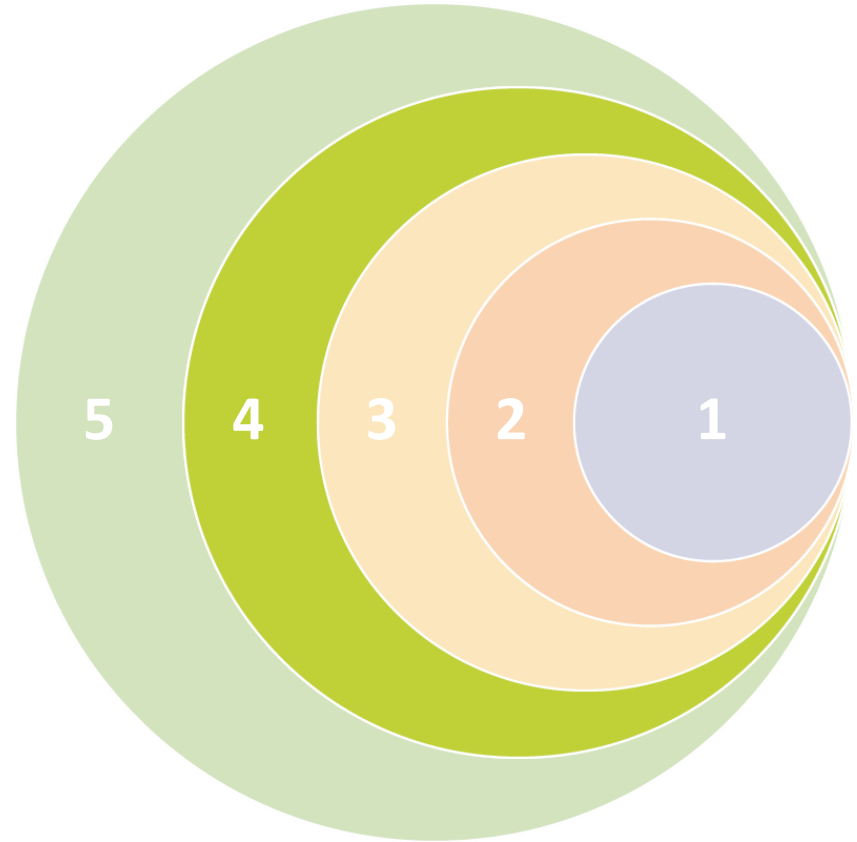


# Rate Specials and Product Specific Loan Goals Remain Business Necessities

Initiatives Prioritized Based on Response Rate & Return on Investment

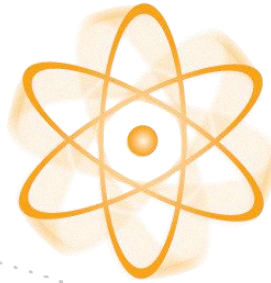
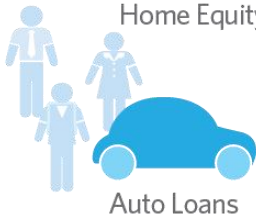
## 4 Pre-screen Campaigns

During key demand windows, pre-screen customers and prospects with a focus on single products or refinancing for payment savings opportunities



# Pre-Screen Refinance Campaigns

Prospects and Account Holders



Calculate Potential Savings



- High rate loans at competing institutions
- High payment loans at competing institutions
- Meet your underwriting criteria

- Origination date
- Remaining loan balance
- Loan-to-value ratio
- Home value, length of residence
- Savings potential

Refi Marketing Opportunity



Pre-approved Refinance Offer



Email



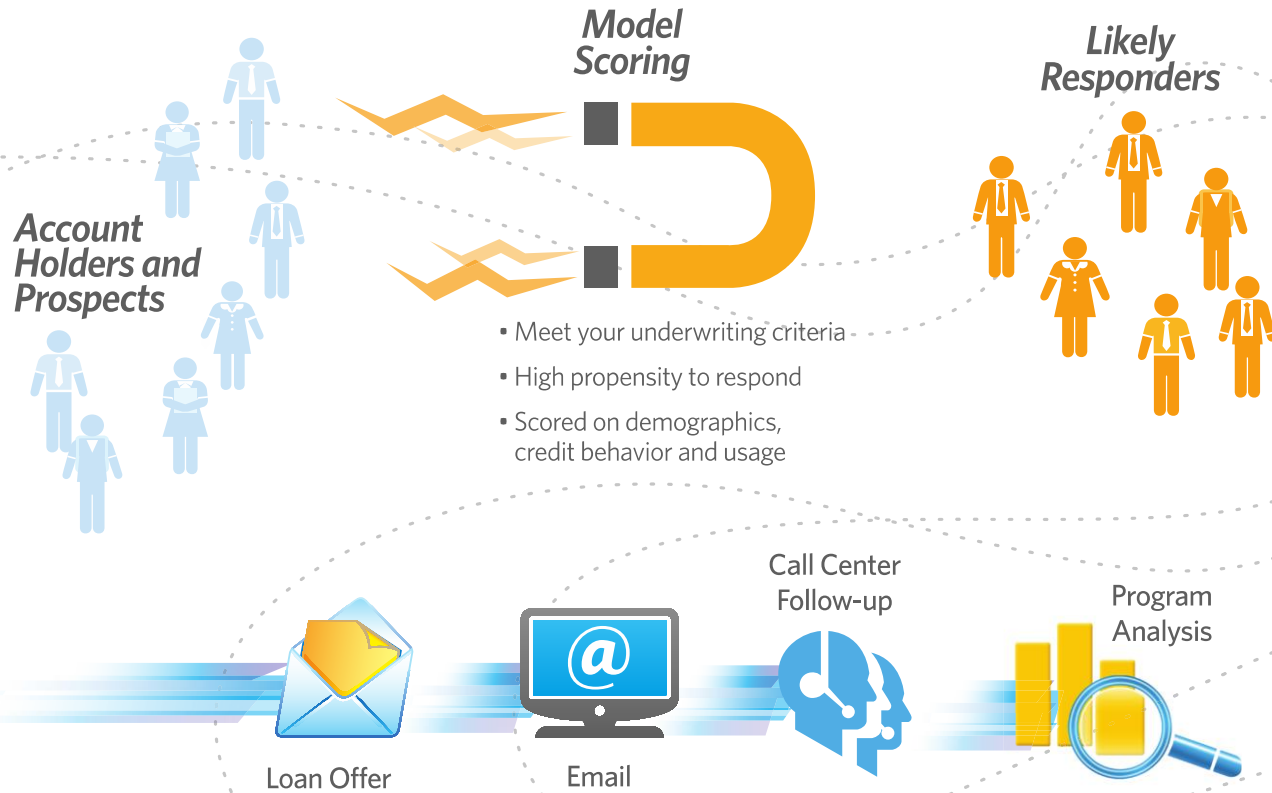
Call Center Follow-up



Program Analysis



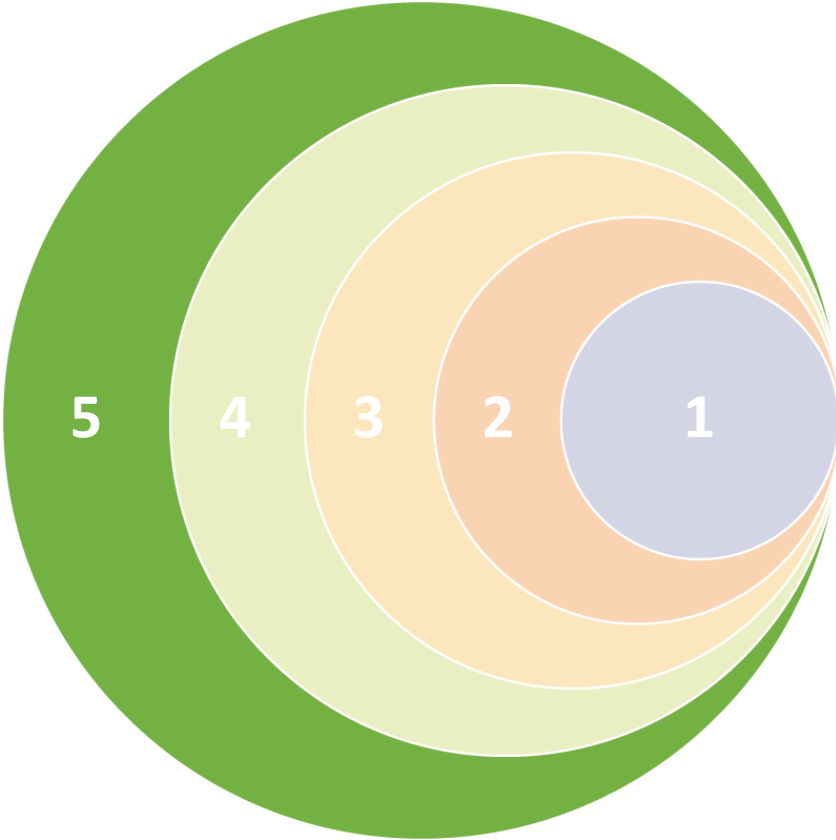
# Traditional Seasonal Product Pre-Screen Campaign



# Successful Loan Acquisition Requires Multi-prong Approach

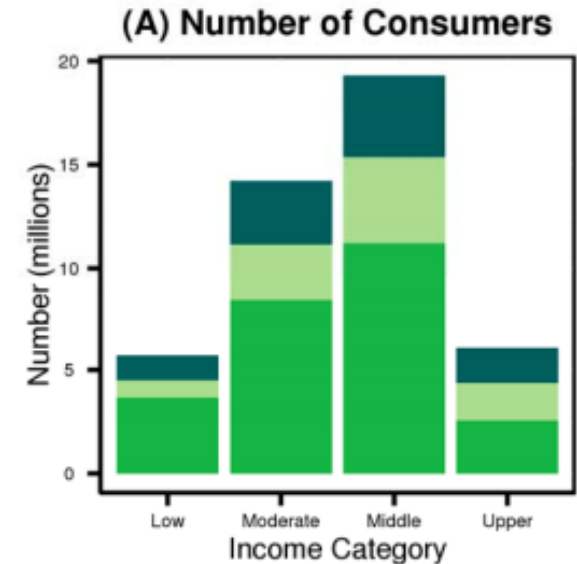
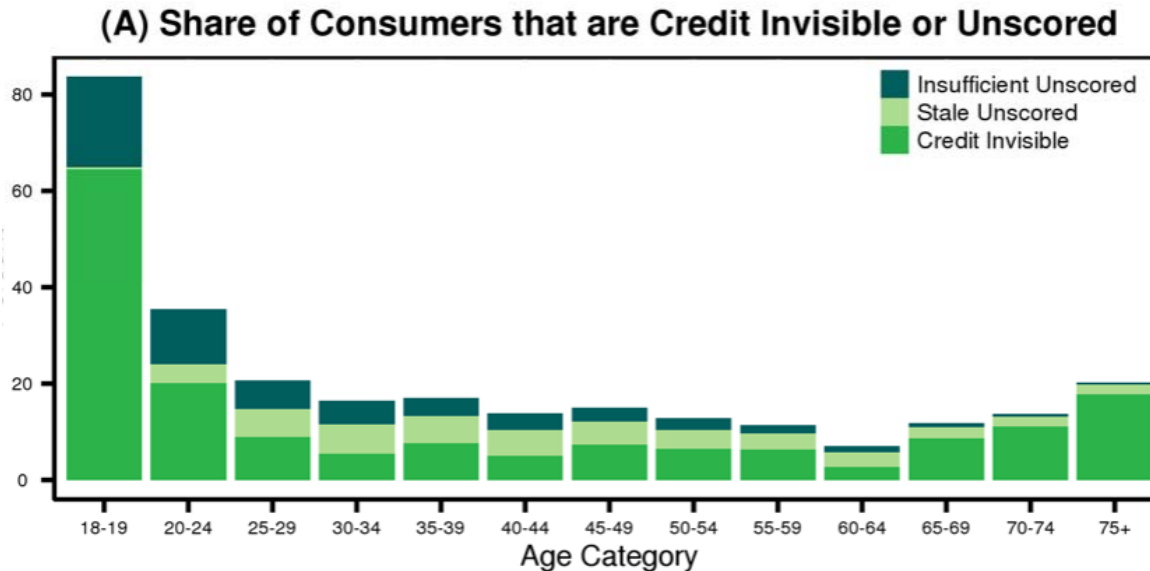
Initiatives Prioritized Based on Response Rate & Return on Investment

## 5 Invitation to Apply Campaigns



# Invitation – to - Apply to Expand Available Audience

- 20% of US population has insufficient experience to generate a credit score



- Millennials and CRA audiences over-represented in the credit-Invisible population
- Inexpensive opportunity to generate interest in loan products

Summary > > >

# Selecting Your Promotional Mix

- Loan Goal
  - # of accounts
  - Balances
  - Expected attrition
- Marketing Budget
  - Return on Marketing Investment
  - Cost per account
- Compliance Culture
  - Firm offer of credit
- Credit Culture
  - Audience size

Thank You

