

Card Turn Around Strategy Increases Net Yield

Even large credit unions with assets in excess of \$100 million sometimes need help with their credit card portfolios. When David Bleazard became CEO of Right Choice Credit Union of Houston three years ago, he immediately recognized the credit card portfolio was trending downward and was in serious trouble.



“The portfolio was overpriced, underperforming, and was full of high risk accounts,” said Derrick Brown, Right Choice’s vice president of lending and collections. “Because the portfolio was priced at a flat rate and we had high delinquencies, we were losing money on it.”

With a background in collections and lending, Bleazard knew the credit union had to stop the bleeding and implement a new strategy to turn the program around. Selling the portfolio wasn’t an option, due in part to its high risk. Instead, Right Choice CU turned to TNB Card Services for help.

TNB brought in its experienced team of consultants to conduct a forensic-type analysis on the portfolio and determine what could be done to improve it.

After extensive analysis of the portfolio and construction of various performance models, TNB presented a plan to improve the portfolio by lowering risk, reducing chargeoffs, and increasing revenue. The goal: Create a portfolio that would enable Right Choice to increase revenue, offset the chargeoff losses, and build a program with effective underwriting policies. At the same time, the credit union had to offer a card that would be attractive to its members.

By tightening its credit policy, Right Choice modified practices for issuing credit cards in order to better manage risk. Prior to the new policy, cardholders automatically received annual credit line increases, regardless of credit score. At the peak of this practice, the credit union was extending credit lines up to an average of \$6,500. Today, credit lines average \$5,700. Members also no longer receive annual credit line increases without a review.

Pricing was also a challenge for Right Choice. While it offered low rates, from 9.9 percent to 11.9 percent for its three card products, risk was not considered when issuing a card. High-risk cardholders could receive the same rate as members with great credit, resulting in low yield and a delinquency rate that reached 14 percent at one point.

After a thorough analysis of each cardholder and their individual risk, TNB recommended the credit union overhaul its pricing by moving to a variable rate and reducing the types of cards it offered. Risk-based pricing enabled Right Choice to establish rates for cardholders according to the risk they presented to the credit union. The new pricing strategy helped the credit union achieve an average net yield after chargeoffs of nearly 12 percent within six months, compared to an average of only 5.6 percent from the previous six months.

“By redirecting Right Choice’s portfolio, the credit union has been able to focus on reducing delinquencies and making the necessary chargeoffs to repair the portfolio,” said Tina Jones, account executive for TNB Card Services. “The new pricing that Right Choice implemented increased net income by 36 percent in the first six months of launching the new pricing strategy. The income being generated from the new pricing is helping to rebalance the portfolio and offer members more attractive products.”

Educating employees about the new card strategy was also part of the overhaul process. Right Choice had to retrain its staff to teach them about its new card product, what to look for in terms of credit worthiness and risk, and how to handle collections. Through an array of online management tools from TNB, Right Choice’s employees easily access the information they need to help them manage the portfolio on a daily basis using CardStation™ and VIP Portfolio Pro®.

While Right Choice’s card portfolio remains a work in progress, the credit union has made great strides in correcting its imperfections. Today the portfolio boasts outstanding balances of \$2.3 million, with nearly 12 percent net yield after chargeoffs and a shrinking delinquency ratio. That ratio is down to almost half of what it was when Bleazard joined the credit union.

As Brown noted, “We are still squeezing the risk from the portfolio, but net income has been growing for the last six months. Our yield has also been trending upward, which is quite an accomplishment considering it was in the red a year ago.”

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