

## **Risk Based Pricing Pays Off for Shell Federal Credit Union**

Sharon Hicks, credit card services manager at Shell Federal Credit Union, remembers thinking two years ago how “moving to risk-based pricing of our credit card portfolio was pretty scary.” Today, the credit union is reaping the benefits of its bold move, which it began at the urging of TNB Card Services’ Portfolio Consulting team.

The Deer Park, Texas-based credit union has worked with TNB as its credit card processor since converting in mid-2005 from another processor. As



part of that conversion, Shell FCU worked closely with TNB for several months on a detailed portfolio analysis, resulting in a series of recommendations that have since been implemented and have paid off across the board.

Shell FCU originally converted about 4,350 credit card accounts over to TNB, and in mid-2006 began implementing the risk-based pricing strategy. The approach worked well, and in 2007 the credit union updated its pricing tiers, Hicks said, “to adapt to market conditions and drive additional growth.”

“Our initial push toward risk-based pricing was designed to bring our card program in line with our other loan products,” Hicks explained. “Our card program was the last product in our loan portfolio that wasn’t based on credit score, and we wanted all our loan products to be consistent.”

Hicks added that it wasn’t until Shell FCU moved its processing to TNB that it had a processor that could handle the complexities of risk-based pricing.

In addition to a migration to risk-based pricing, TNB’s portfolio consultants recommended that Shell FCU begin regular promotions, to drive activity and interest among cardholders and generate new cardholder business.

“Prior to the conversion, we didn’t promote the card program very much,” Hicks conceded. “TNB recommended that we drive card usage through usage and retention programs as well as a balance transfer promotion. We have done that, and the combination of those promotions, our attractive pricing, and a very strong introductory

rate of 2.99 percent to generate new cardholders has really driven the growth of our card portfolio.”

As of the end of 2007, Shell FCU had grown its cardholder base to 6,800 accounts, a 56 percent increase over the number of cardholders when it converted to TNB as its processor. Since the conversion to risk-based pricing in mid-2006, Shell FCU grew the card program’s outstanding balances to \$10.5 million by the end of 2007, a 25 percent increase over the \$8.4 million in balances it held just 18 months earlier.

In 2007 alone, Shell FCU opened nearly 1,000 accounts, representing cardholder growth of nearly 17 percent in a single year.

In addition to the promotional programs that Shell FCU ran in concert with TNB – balance transfers, summer and holiday usage and retention promotions, holiday skip-a-payment, and summer reactivation – the credit union ran its own cross-product promotion in 2007. That promotion, which offered cardholders a chance to win a Harley-Davidson motorcycle, proved to be very effective, especially since the credit union moved the motorcycle around among its four branches to heighten awareness among a broad range of members.

For 2008, Hicks said, the credit union will continue its aggressive promotional program, along with its 2.99 percent new cardholder incentive. The goal, she said, is to add an average of \$100,000 in balances monthly throughout the year.

Shell FCU, with 40,000 members overall and \$284 million in assets, is community chartered to serve Harris County (Houston) in Texas. The credit union, dating to 1937, was founded originally to serve employees of Shell Oil, and those employees and their members are still the core of the credit union’s membership.