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Harland Clarke Loan Marketing Ecosystem Webcast 01/29/2014
A Comprehensive Approach to Loan Marketing
TRANSCRIPT

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Good day and welcome to the Harland Clarke Loan Marketing EcoSystem: A Comprehensive approach to Loan Marketing conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Stephen Nikitas.

Stephen: Thank you Melissa and good afternoon everybody. Thank you for attending yet another of Harland Clarke's continuous series of webinars that are focused on helping financial institutions to grow their businesses. Today's webinar is going to take everyone to the top of the hour, 2 o'clock here on the East Coast and we will be talking about the Harland Clarke Loan Ecosystem. More on that in a moment but before we get that, a little bit about me. You're probably wondering who I am.

As Melissa said, my name is Stephen Nikitas. I am a strategy director with Harland Clarke. I have been with Harland Clarke now for about three years. I come out of the financial services world with more than 30 years of experience in strategic planning, marking, public relations, executive speech writing and retail. I have worked in senior positions with financial institutions in Massachusetts, New York and California. In my role as a strategy director with Harland Clarke, I work with financial institutions on a day in day out basis, helping them to analyze their businesses and then look at ways that they can grow their businesses and ideally utilizing Harland Clarke marketing service products.

Today, what we're going to talk about is the loan ecosystem and over the course of the next hour or so, we will talk about first, economic trends in the US, take a look at what's happening economically within the consumer framework. From there we will move into the loan ecosystem, the three prong loan ecosystem where we will talk about Shopper Alert, ReFi Genius and Loan Magnet, and then at the tail end of this presentation, we'll leave time for you to ask any questions that you may have. At the end of this presentation I'll ask Melissa to come back online and give you instructions on how you can ask a call over the phone. In the meantime, if you have a question, feel free to type it into the chat function on the webinar screen, make sure you address it to all panelists and there will be certain break points during today's presentation where I will make sure that I address any questions that may come in through the chat function. A couple of ways to ask questions, we'll leave time at the end of the presentation for that or during the course of the presentation if you see or hear anything that peaks your curiosity, feel free to type it in the chat function.

With that, lets go and let's start by taking a look at what's going on in the financial services industry today. As we look at this particular chart and we go left to right, starting off first, we know it has been a challenge environment. We know that we are in a growth period out of the 2008 economic recession that has been extremely slow and frustrating for most business people and on top of that, we see

regulatory issues, new regulations coming at both banks and credit unions on a fast and furious basis. We just saw the consumer financial protection bureau issue new mortgage regulations a couple of weeks back and that seems to have lots of financial institutions in a state of uncertainty these days understandably. On top of that, we are just facing an uncertainty out there among American consumers relative to what they ought to be doing. We saw significant stock market growth in 2013. We look to be in a correction right now and again as we see job growth extremely slow, all of that has just left consumers puzzled over what they should be doing.

Trends from a financial perspective, lowest loan to deposit or lowest loan to share ratios in the last many years although 2013 was certainly a vibrant year for loan production for both banks and credit unions, but still we are well off loan to deposit and loan to share ratios from where we were previous session. As always, competition seems to be out there and it seems like not a day goes by where we don't pick up the paper or look online and see that there are more nontraditional institutions entering the financial services arena. On top of all that, we have seen a real keen focus on just growing of the asset side of the balance sheet and bringing more loans in the door. As consumers have been uncertain, financial institutions have been well challenged to get credit out there and help consumers realize their financial goals and dreams.

In my role as a strategist, what do I see the most effective financial institutions doing in light of the trends that are impacting financial institutions and the economic challenge, is that what they think? First of all, they're being proactive. The days where a bank or a credit union could simply put up a branch on a corner and expect people to walk in are long gone and those financial institutions that are retail proactive and marketing proactive are the ones that I see are the ones who are the most successful. In order to get there, financial institutions are putting their business analytics to good use and identifying consumers who show needs for particular products and services. Increasingly I see less dependence on mass marketing and more of a focus on utilizing business intelligence to identify the right consumer with the right product at the right time to the right channels.

All of that ultimately results in financial institutions just effectively and efficiently marketing. They're effectively identifying their opportunities and they're much more efficiently spending their limited marketing and retail dollars in order to bring business in the door. When it comes to what kind of business is coming in the door, what I see are three things primarily that financial institutions are keen on, certainly home lending; we just came out of a tremendous year in 2013 with recent mortgage ReFi activity. At the same time, we see home equity coming back in most if not all regions of the country. A real focus on growing the auto loan portfolio and after cleaning up their personal balance sheets and getting their personal houses in order, we see lots of American consumers out there dipping their toe in the credit card market again and in search of credit opportunities.

When we talk about economic trends, lets take a look at those three key areas that I just mentioned and over the next few slides, we're going to look at what's going on in the home loan market, the auto market as well as the credit card market. This chart looking at it from left to right details expected new and existing home sales that are going to take place in the US to the end of the year, and you can see all the way over to the left, we were at a low point at the end of 2012 where about five million homes were

sold. You can see between that point and the end of 2014, we're going to see some significant growth in overall new and existing home sales.

While we see home sales on the increase, rates are increasing as well, but in spite of the fact that rates are expected to hit the 5% range before the end of 2014, the message to consumers and the perception that we need to help consumers overcome is that mortgage rates are still relatively cheap and attractive. If you go back and look over the past 35 years or so, average 30-year fixed rate mortgage, it was somewhere between 7% and 8%. Even as the home prognosis calls for 5% and maybe even a little bit better by the end of the year when it comes to 30 year home loan rates, that is still a far cry better than what the overall average has been.

I mentioned earlier that equity is coming back. This chart takes a look at median home prices in the US; blue line represents existing home prices, green line represents new home prices and you can see again if you go all the way over to the left that slowly but surely equity is starting to come back. In my role as a strategist, I would say over the last six or seven months, I've seen an increasing number of financial institutions engaged myself and Harland Clarke in conversations about how to go back and start growing that home equity loan portfolio again whether it's a line or a home loan, but financial institutions are telling me that they're seeing equity come back in their geographies and they want to take advantage of that opportunity.

That's what we see in the home loan market. Lets take a look at US auto sales. This chart takes a look at the number of new vehicles, not used, that are sold in the US if you go all the way over to the left that 16.2 million was the number of new vehicles that were sold in the US prerecession in 2007. Take a look at what happened as we entered the early recession years and you can see that the auto industry really suffered significantly; literally a third of all auto sales fell off the table. Since 2009, auto sales have been slowly but surely coming back and the expectation is that by the end of this year, we will be right back to where we were prerecession.

Lots of pent up demand for autos, that's one of the reasons why we see that prior chart going up and to the right. This chart details the average age of a vehicle on the road today. All the way over to the left back in 2002, the average age of a car or truck on the American road way was 9.6 years. Look at how that line or how the age of vehicles has slowly ratcheted up. At the end of last year, the average age of a car or truck on the roadway was 11.4 years; never higher in the history of the country. Now certainly there are reasons for that, one of which is the fact that cars are just built better today than they have been, so with that we would expect people to hang on to their car a little bit longer than they probably normally had back in the 80s and 90s, but at the same time we see going back to that uncertain consumer, that consumer who's just a little bit frightened right now, maybe a little bit nervous about jumping back into the credit market and slowly but surely, we see them raising their hands and going out and buying new cars and trucks. All in all, just a lot of pent up demand out there for cars and trucks. What I tell people is if you are looking to grow your loan portfolio, you certainly need to be out there right now not only marketing home loan but at the same time looking at auto opportunities because the consumer is speaking loud and clear right now with their wallet and jumping back into that particular market.

This next slide takes a look at credit card activity. Lots of information on this slide, but really the key thing that I want to point out is that first bullet point. For the first time in better than 20 years, we saw in 2012 and again in 2013, American consumers starting to rely increasingly on their credit cards. Up until 2012, what we see was an increasing rate at which Americans were using a debit card to pay for items that are at a retail point of sale. That trend was finally broken in 2012 and again last year when consumers for the first time reversed that trend and starting pulling credit cards out of their wallets a little bit more frequently than they were than they have been in the past. At the same time, as we look at this slide toward the bottom of this slide, Q3 of last year, retailers sent out a billion and a half credit card offers in the mail. Primarily those were sent out by the larger financial institutions, Chase, Citi, Discover, etc. but those larger institutions certainly know something and so they really have ramped up their credit card marketing. In that last bullet point, the good news, as I mentioned earlier, consumers have done a good job of cleaning up their balance sheets. While we see credit card activity increasing, at the same time, credit card delinquency rates are falling. They have fallen to 1.81% at the end of August of last year compared to August of the prior year. Consumers have just done a good job of getting their houses in order and we see a consumer out there who is just a lot more safe and sound than what we saw in the previous session.

With all that, when I reach out to financial institutions and I'm called in to discuss strategies for 2014 and beyond, what are the key things that I hear? This is pretty simple unanimous across the board whether it's a bank or a credit union. First and foremost, we've got to grow the loan portfolio. Secondly, while we grow the loan portfolio, lets focus on account holder acquisition but lets make sure we're bringing the right account holder in the door, both account holders who show proclivity to have a deeper relationship with us then just bringing a new customer or a new member in the door who may not have a very deep relationship with us. Financial institutions focused on bringing the right account holder in the door, bringing an account holder in the door with whom they know they will have a deep relationship relative to more products and relative to more balance. Lastly, what I see is a focus on bringing consumers in the door who are amendable to channel shift; by that, I mean not necessarily consumers who are going to do into the branch and do business at a teller line, but more so consumers who are going to do their business with the financial institution either through online banking or through mobile banking or through some channel much more so than relying on consumers who show only a proclivity to walk in the door.

We know from studies that the average cost of a transaction at a teller line is $4.60. We know the average cost of a transaction done via online banking is about .19 cents or so; that same transaction that could be done at the teller line or via online banking. When it's done via mobile, the cost goes down to about .09 cents. Channel shift, lowering the cost of operations everything flowing to the bottom line and just helping financial institutions to become even more profitable.

That's our economic out look and economic review. With that, lets now take a look at the Harland Clarke Loan Ecosystem and just a quick reminder for anybody, if you have a question, if you see anything on these slides that peaks your interest or curiosity, you can ask your question via the chat function on your webinar screen. Just make sure you address it to all panelist and we'll leave time at the end of this presentation to allow you to ask any questions over the telephone if you like.

Here we go with the loan ecosystem. This chart takes a look at a couple of different ways that financial institutions can and have and do focus on growing the loans on their balance sheet. When you look at this chart, let me first direct your attention to the circles. The circles are focused on prospecting, bringing new customers in the door. What lots of financial institutions do particularly when it comes to direct mail or even mass media is that simple offer to the prospect. No business intelligence whatsoever involved here, just making an offer to potential customers or members. From our measurement perspective, it shows the lowest ROI opportunity. Cost can be pretty expensive and ROI can be relatively low. From a prospecting standpoint as we go up this continuum, when we take the time to prescreen our potential prospects and focus on preapproval opportunities, our ROI starts to increase and our direct mail activities really pay off for themselves relatively quickly.

Ultimately at that last circle on this chart, preapproved offers to shopping prospects. If we can not only prescreen prospects but also identify prospects when they are in the act of shopping for a loan, we stand to realize the highest ROI when it comes to prospecting. The rectangular boxes that sit just above those circles are focused on existing account holders. This is our organic approach. Many financial institutions have conducted initiatives where they will simply go out and make offers to all of their account holders for certain credit products. From our experience, those type of promotions are not as effective and the ROI is not as high. Just like we saw with prospecting, when we take the time to apply our business intelligence to first off identify prospects who are prescreening or preapproved for our particular loan products, and then ultimately identify those existing customers who are not only preapproved but also under the act of shopping, that is when we realize the highest ROI. That goes back to what I mentioned early on where those institutions that I see most successful in this particular economic environment are those institutions who are not only proactive, but are those who are putting intelligence to use and being as efficient as they possibly can and ultimately as effective as they possibly can when I come to marketing.

In the Harland Clarke Loan Ecosystem, it's a three-prong approach. If you look at this chart all the way over to the left, those are the three prongs. Let me walk you through this prongs. Lets start with the top row, Shopper Alert. Shopper Alert is where we're able to target loan shoppers, those folks who are actively out there shopping for a particular loan product; it could be a home loan, it could be an auto loan, it could be a credit card or personal loan. The qualification for that approach is identifying credit triggers, working with the credit bureaus and identifying when particular lenders reach out to the credit bureaus in order to run credit for a particular shopper. As you can imagine, the universe size is relatively small but because we're identifying shopping, because we're going through loan application process, our response rate is very high. Financial institutions through my experience that run these kinds of programs are seeing extremely high returns on their investments.

Our next prong is called ReFi Genius. This is where we're reaching out to existing loan holders of a particular financial institution who have a loan product at another financial institution. In effect, we're going out and we're recapturing our existing customer or member and through a refinance message encouraging them to come into their own existing financial institution in order to get a better rate and lower their overall payment. The universe size for this type of a program is a little bit larger than what we see with Shopper Alert, and just like Shopper Alert, what we're seeing is a relatively high return on a

financial institution’s investment when they implement a ReFi Genius type of program. Shopper Alert, account holder doesn’t have a loan but they're out there shopping for one; ReFi Genius, our existing account holder who already has a loan but with a financial institution other than ours.

The third prong is what we call Loan Magnet and here is where we’re implementing propensity analytics to identify our existing customer base or existing member base who shows the propensity for particular loan products. As you can imagine, because we’re looking at our existing customer base or member base, the universe size and be relatively larger, especially when compared to Shopper Alert or ReFi Genius. The response rates, while attractive, are not as high as they would be with a Shopper Alert or ReFi Genius program. Still attractive, just not as high as what you would find with those other programs. In summation, three different types of loan programs that Harland Clarke has put into the loan marketing ecosystem; Shopper Alert, ReFi Genius, Loan Magnet.

As a quick summation, what do we see with each particular program? What is that identifier? With Shopper Alert, these are consumers who are out there actively shopping for a loan; with ReFi Genius, these are consumers who are not shopping for the loan have that loan with another financial institution and the message to them is built around refinancing and how they can save money by bringing that loan to our financial institution where they already have an account; lastly, Loan Magnet, the consumer’s not necessarily shopping, the consumer does not have a loan but what we’re doing is utilizing analytics to identify propensities and reach out to account holders in order to send them a message that we have a loan waiting for them should they like to take advantage of the opportunity.

As I mentioned on each of these three programs, we talk about prescreen, prescreen being a step that we encourage financial institutions to take in order to make sure they get the maximum ROI off of any of those three prior programs. With any preapproval program that runs, there are certain configurations that we need to address. First off, we want to make sure that our compliance issues are buttoned up and we implement any loan marketing ecosystem program, we require financial institutions to make sure that their compliance departments are involved in the program roll out. We want to make sure that compliance departments have an opportunity to get their thumbprints over everything that we’re doing to ensure that everything complies with the institution’s overall policies and compliance has their input. When we conduct a preapproval program, there are requirements that are dedicated by the Fair Credit Reporting Act, things like making sure we offer firm rate of credit, making sure that we communicate a minimum dollar amount; we’ll go more into that in a little bit. With any of the three programs that we run, we want to ensure that everyone with the organization is on board with the programs that are being implemented. We encourage involvement from the lending department and we encourage involvement from the IT department. In my role, it’s surprising how often I will work with financial institutions either from a marketing standpoint or their retail departments and how frequently departments don’t talk to one another. Where I see bottlenecks occur when it comes time to implement programs is when those silos exist within an institution and during the implementation process, lending is bought in for the first time, never had an opportunity to be involved upfront when the program is being discussed, and at the same time, IT is involved for the first time. As we all know, IT departments are extremely busy. If your financial institution is anything like the institutions with whom I worked in the past, often times when we reach out to IT and we don’t get their involvement early on, the answer is

usually no and so in order to avoid having a roadblock set up for us, when we're about to implement an exciting program that we know is going to bolster the balance sheet, we want to make sure that IT is involved as soon in the discussion process as possible so IT can set its own expectations.

A little bit more about preapproval. When we conduct preapproval campaigns, the first bullet, depending on the institution's proclivity, we will either notify account holders that they have been preselected, prequalified or preapproved for offers of credit or insurance. The terminology or the difference between the three are minimal; they are pretty much mean the same thing from a legal perspective. When we make an offer to an account holder, as I mentioned, we need to make sure that we're making a firm offer, we need to make sure that we're communication an interest rate. When we work with financial institutions, we ensure that we communication the requirements of the Fair Credit Reporting Act to a T. Those requirements call for financial institutions to communicate a range of rates for which their account holders might qualify. Not only do we want to put our best rate in front of the consumer, we also by regulation have to make sure that we're putting the maximum rate in front of the consumer. At the same time, required by the Fair Credit Reporting Act, we have to let the consumer know the minimum dollar amount for which that loan may be granted.

Many financial institutions with whom I work when we talk about preapproval campaigns will sometimes shutter at the thought. Many have told me that at some point in the past they've done preapproval campaigns and they may have gotten in trouble with them by that granting a loan to somebody who probably should not have been granted the loan. However, there is a misperception out there and that is financial institutions don't necessarily have to give the rate that's communicated on the letter or the offer that goes to the account holder, and that's why we put a range of rates in anything we communicate when we make a preselection or a prequalified or preapproval offer to a customer. We do have a range of rates out there. We also have a minimum dollar amount and that minimum dollar amount for the particular loan product that we're promoting has been a reasonable minimum loan amount. At the same time, financial institutions do reserve the right to outright deny the loan to the account holder. If there is a change in income or if there is a change in jobs or if there is a change in the loan to value of the property that's being put up for collateral, financial institutions do have the capability to deny the consumer the loan. Just wanted to point that out as we talk about preapproval campaigns and wanted to spell any misperceptions out there and any thoughts that financial institutions might have or their inclination not to bother conducting preapproval campaigns.

Lets talk a little bit more about each of the three prongs in the Harland Clarke Loan Ecosystem. The first one I want to talk about here is Shopper Alert. Shopper Alert, as I mentioned, we're looking at consumers who are shopping for a loan. Let me walk you through very quickly this chart and I'm going to start on the upper left hand side. With Shopper Alert, we are working with your financial institution's customer data. We are tracking the credit activity of your existing customer or member base. As we go clockwise on this chart, what are we looking at? We are looking at your customers who are applying for either a home loan, an auto loan, a credit card or personal loan; personal loans being those $2500 short term kinds of loans that consumers will take, particularly those who may have an inclination not to want a credit card or another cred card. Those are the four different loan types that we're looking at through the Shopper Alert programs. These are your customers who have gone to another financial institution

competitor of yours for any of these particular loan products. We're reaching out to our existing customer base. As you know, those of you who have been in marketing or retail, regardless of all the advertising we do, regardless of all the posters we put into branches, regardless of all the radio commercials we run and newspaper ads we publish, for one reason or another, our customers or members sometimes don't understand that we have all the loan products to meet all of their financial needs.

I was in a meeting yesterday with a financial institution who's also a Shopper Alert client who has been at the program now for some time who told me that one of the mortgage loans that they recently were able to capture was from an existing customer who had been with this particular institution for 20 years, and during the course of the conversation as the financial institution was brining that loan in-house, the customer told the mortgage consultant that she did not know that the bank did mortgages. Again, this was a customer of the bank of 20 years.

What happens with Shopper Alert? As I mentioned we're tracking the credit trigger activity of your particular customers. Lets use today as an example. Here in the east coast it's 2:34 in the afternoon. Lets say one of your customers is out there right now shopping for any of those particular four loan products that you see and lets say it's a car loan. They may have gone to a bank or credit union down the street other than ours where they already have a relationship with us. What happens is the customer or member completes a loan application. That application goes into the underwriting department and it starts being processed. At 2:34 in the afternoon, that particular institution's underwriters are reaching out to one of three credit bureaus; those credit bureaus could be Experian, Equifax or Transunion. When that happens, we get an immediately heads up and within 24 hours, we send that particular customer a letter from our financial institution letting them know that he or she has been preapproved for that particular loan with us. Immediately if we have an email address, we'll send that account holder an immediate email mirroring the message in the hard mail or postal mail piece that goes to the customer.

The following business day, the financial institution will receive a feedback file from Harland Clarke possessing the names of all of their account holders who have applied for credit somewhere else the prior day. Tomorrow, Thursday, your financial institution would receive a feedback file from Harland Clarke possessing all the names of your customers or your members who've gone elsewhere for a loan so that you can ultimately make a follow-up phone loan to those members or customers and engage them in conversation about their loan needs and then do whatever we can in order to capture that loan and bring it in house where it should be in the first place. We do that for home loans, auto loans, credit cards and personal loans. If the financial institution can't make the outbound phone call, Harland Clarke has a very robust outbound contact center and we have our contact center make phone calls for lots of financial institutions who are involved with this program.

Trigger alert marketing certainly makes a whole lot of sense. Why? Let me direct your attention on this slide. We know through experience that at any given point in time between 4% to 6% of your existing account holders are out there applying for a loan at an institution other than yours. 4% to 6% of your existing account holders are applying for a loan somewhere else right now. Through Shopper Alert, it's our opportunity to get back in front of our account holders and encourage them to finance that loan

with us. That's why that outbound phone call is so important because it's our opportunity to engage the customer in what kind of rate they may be getting, what kind of terms they may be getting and it gives us an opportunity to talk about our own rates and terms in order to encourage the customer to finance that loan with us.

Let me share with you over the next couple of slides some results that we see through the Shopper Alert program. Right now, Harland Clarke is getting close to 100 financial institutions throughout the country who have implemented the program. Texas Financial Institution, about $5 billion in assets, has seen nearly $5 million in new mortgage, auto and personal loans come in through the Shopper Alert program. There's a New Jersey financial institution out there with $400 million in assets; they've seen near $5 million in new loans that have come in through the door. This is a credit union and they've seen their borrower to number ratio, the percentage of their members who are actually borrowing money from them, grow by nearly 6% since they implemented the program. We've got another California financial institution out there with a little over $8 billion in assets; since they implemented the program, they've funded more than $15 million in loans. In the last financial institution I want to point out on this slide is that Maryland institution at the bottom; about $1 billion in assets and they are seeing a better than 10% response rate. In other words, 10% of all of their account holders to whom this institution is reaching out to after they see that credit trigger, 10% are ultimately financing that loan with this particular institution. Those of you who are involved with direct mail will know that a 1 ½% to 2% response ratio with any direct mail program is considered to be extremely good; here's a financial institution that's seeing a better than 10% response rate.

That's Shopper Alert. Lets talk about ReFi Genius. ReFi Genius, prong number two in the three prong Harland Clarke Loan Ecosystem. What does it allow us to do? As we look at the bottom of this chart, it allows us to make sure that we're identifying existing customers or prospects who have a loan somewhere else. It allows us to get in front of them with a refinance message with the focus being on refinancing that loan and saving money. In this economic environment, I haven't come across anybody who's not interested in planning ways that they can save money. Just like with Shopper Alert, there's a preapproval component to ReFi Genius because we are working with the credit bureaus to identify your account holders who have a loan somewhere else.

Here's another chart. Let me explain how ReFi Genius works in a little bit more detail. We're looking at your existing account holders and just like Shopper Alert we can look at prospects as well. With ReFi Genius, the loan types that we're primarily looking at are mortgages, home equity loans, and auto loans. If we're looking at your customer base or your membership base or looking at those who have a loan at another financial institution, if we're looking at prospects, we're looking at prospects obviously who have a loan at another financial institution. As we go left to right on this particular chart, I'll go under the calculate potential savings. If it is an auto loan, what we're going to do is be able to back into the monthly savings that your particular account holder or prospect would save by refinancing that particular loan with you. If it is a home loan related product, we're unable to back into the monthly savings so out message revolves around the rate and promoting an attractive rate that the financial institution has in order to encourage the account holder to refinance that existing loan with our financial institution.

As we look at the bottom of this graph, the reach out is pretty similar to what we just saw with Shopper Alert. Preapproval letter goes in the mail, if we have email, email certainly can be a component, letting the customer or account holder know that they have been preapproved for that particular loan product. Outbound phone call takes place and that outbound phone call either can be conducted by the financial institution or the Harland Clarke contact center. A multichannel reaches out in order to encourage the account holder to refinance that loan with us. On a regular basis just like we do with Shopper Alert, and here's a key differentiator of the program, we provide response analysis. On a regular basis, we'll meet with financial institutions and that's something that I do on a frequent basis meet with financial institutions to review the results of their program and use that as an opportunity to tweak the program if we have to in order to get the maximum lift, the lift that the financial institution is looking for. These monthly or quarterly reviews are part of everything we do with the loan ecosystem in order to make sure that the financial institution is a satisfied as can be with the performance of the program.

With ReFi Genius as I mentioned we're able to look at the monthly savings that someone would experience by refinancing that loan. This is an exercise that we'll go through with a financial institution. For example, lets take a look at the graph or the chart on the bottom of this slide. Simonson, fictitious account holder, we're able to determine through the ReFi Genius program that Simonson's current monthly auto loan payment is $432 a month. Based on the rate that the financial institution is going to promote to its account holders or prospects, we're able to calculate that the new payment will be $300 and Simonson would save $132 a month. That is a message that we would communicate to Simonson. On the other hand, Kharidhi, the next person on this chart, we're calculating that based on what we see from the credit report, his current monthly payment is $274 a month. Based on the rate that the financial institution wants to offer, wed be able to lower this monthly payment to $250. His monthly savings would be $24. In this case, we would recommend that the financial institution probably does not want to bother reaching out to Kharidhi. What we find is unless the savings is $50 or so per month, you may not be able to move the needle with your existing account holder and encourage them to refinance with us.

In a nutshell, that's how ReFi Genius works when it comes to auto. With mortgages as I mentioned, we're not able to look at the monthly savings that someone would experience by refinancing so when we implement a ReFi Genius program revolving around a home loan product, we focus on primarily the rate and communicate the attractive rate and the advantages and benefits of refinancing that particular home loan with the bank or credit union. Some examples of financial institutions that have implemented ReFi Genius programs, let me direct your attention to the middle, Tennessee institution, we actually implement this program for them and they were able to grow their loan portfolio by 14%. Their loan to share ratio since they implement the program has increased by roughly 10%. Another California financial institution; these folks conducted an auto ReFi program, they saw a 4.31% response rate, and if you go to the bottom couple of bullets, they're bringing a new loan in the door at roughly $50. Very attractive ROIs for both of these particular financial institutions.

Our third prong in the Harland Clarke Loan Ecosystem is Loan Magnet. Loan Magnet primarily focusing on home equity line of credit, auto, credit card and personal loans, is looking at existing account holders as well as prospects who show the propensity for a new loan product and a likelihood that they will

respond to an offer. In many ways, as you look at the three particular loan products or the three prongs of the Harland Clarke Loan Ecosystem, Shopper Alert is a fulfillment program, ReFi Genius is a generation program and Loan Magnet is a loan creation program.

How does Loan Magnet work? Again, we're looking primarily at mortgages, auto loans and home equity loans as well as credit cards. We're utilizing business analytics to identify propensities and just like we did with the other two prongs of our loan ecosystem, we're communicating to prospects and customers in a multitude of ways, certainly postal mail, email if we have the email address, for existing account holders we're reaching out to them via contact center; that contact center could be the bank's contact center or it could be a Harland Clarke contact center. Just like we saw with Shopper Alert and ReFi Genius, with Loan Magnet on a regular basis, we provide response reporting to the financial institution in order to make sure the institutions realizing the maximum ROI and lift from the program. This is our opportunity to get our hands around the program, make sure that everything is operating on all eight cylinders and if we have to tweak, this is our opportunity to make changes. Changes can range from things like the offer to maybe the rate if we're finding that the rate is not moving the needle strongly enough. I was in a meeting yesterday with a financial institution where we determined that maybe the offer that was being made, which in this case there was no offer, when all is said and done this financial institution decided to make an offer for a home equity related product and go on from there. Example of some financial institutions that have implements Shopper Alert. Here's another Texas financial institution that implement Loan Magnet and their Loan Magnet program generated better than $6.5 million in new auto, home equity line of credit and home equity loans.

Let's wrap up and then we'll get to some questions. I'll ask Melissa to join us very shortly. Just as a quick review, what do we know as we started at the very outset, we know this is a very challenge environment, lots of activity going on there relative to regulations coming out fast and furious and it seems like from lots of different corners, trends, loan to deposit or loan to share ratios continue to be low, certainly not where financial institutions would like them to be. We see financial institutions, whether it's banks or credit unions, it seems to be a singular focus among all financial institutions these days is growing their loan portfolio. Those institutions that are most successful are proactive, they're utilizing their business analytics to reach out to their existing account holders with the right message at the right time. Where do we see the focus? Home loans, auto loans and credit cards. What's the solution? Harland Clarke is able to offer the loan ecosystem; Shopper Alert, a fulfillment program; ReFi Genius, a generation program; and Loan Magnet, a creation program. Those are the three prongs in our approach to helping financial institutions strengthen the asset side of their balance sheets.

That takes us to the conclusion, and with that Melissa, would you be kind enough to let our attendees on the phone know how they can ask a question if they'd like. While you're doing that, I see a batch of questions that have come into the chat function so I'm going to take a look at these while you're opening up the phone lines.

Melissa: If you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you're using a speakerphone, please make sure you mute function is turned off to allow your signal to

reach our equipment. Please press *1 to ask a question. We'll push just a moment to allow everyone that opportunity to signal *1 for questions.

We do have a question from Sherry [00:48:46].

Stephen: Good afternoon.

Sherry: I asked a few questions on chat because I thought that's what we were supposed to do. First is the definition of response and I think perhaps later on there were a couple different metrics and a couple different financial institutions that talked about the response rate versus the amount of loans. When you're talking about a response rate, what are you considering a response?

Stephen: A response rate I'm considering to be a loan that ultimately will close with a financial institution. What you may find is customer or members who react to the program is one thing, and that's something when I provide those regular updates to a financial institution, I will show them, but ultimately financial institutions want to know what closed and what was the dollar balance of what closed and that's why I'll show.

Sherry: The next question I had I think gets to the fact that we are a commercial bank. We have consumer customers just because we have businesses that have people running them. Do you have programs centered around obtaining business loans?

Stephen: We do. They're a little bit different then what we saw here. We do have the capability to identify among other things what type of a commercial account is it that you would like to approach, and then utilizing firmer graphics what we call the data that will go into identifying that kind of business. We're then able to put together programs that are focused on one of two things; certainly bringing credit in the door or the other approach we implement a lot is helping financial institutions bring business checking in the door. It can be either or, credit or primarily checking accounts.

Sherry: My last question you basically answered that the actual offer or rate and the bank's risk standards will often dictate those results if you're talking about closed loans because we can get 100 of them in the door, but if they meet our qualifications, all we've done is turn our wheels.

Stephen: Let me share with you what I'm seeing in Shopper Alert. Shopper Alert is the program where we're looking at credit triggers from your account holders who went to another financial institution and applied for the loan. All three of those programs that we talked about today include a preapproval or prescreen component. We're only reaching out to those potential borrowers who based on the financial institution's underwriting criteria would be preapproved for a loan. Right away, we're being very selective in who we reach out to. What I'm seeing so far with Shopper Alert results, and as I mentioned, we got probably close to 100 financial institutions now who've implemented Shopper Alert and I work with several dozen of them, the denial ratios are extremely low. I'm seeing denial ratio roughly between 8% and 12%. Because we're taking the time to only reach out to account holders who meet our preapproval criteria, we're really selective, we're only greeting those folks in the door. We're not

necessarily bringing paper in just for the sake of bringing paper in; we're only bringing that paper in that converts to a loan

Sherry: And I assume when you're saying our preapproval criteria, you're meaning the bank's preapproval criteria.

Stephen: Absolutely correct. We're only targeting those account holders who based on your particular institution's underwriting criteria fall into a preapproval category.

Sherry: My last question is what is the fees structure to the bank for these programs?

Stephen: There is a small startup cost, there is a small creative cost, and by creative Harland Clarke can generate all of the postal mail pieces, the email pieces that would compromise any parts of these particular programs. With Shopper Alert, there is a monthly monitoring fee at the credit bureaus and then there's a productive fee for the letters and of course postage. With the other two programs, there would be obviously an analytics fee to identify who those potential customers or account holders would be. They would be a fee for prescreening and then production and postage.

Sherry: What type of commitments are you asking for the bank? Is this an annual thing? Is it something you go on a campaign?

Stephen: With Shopper Alert, it's a 90-day commitment. What we ask financial institutions to do is get the program underway for at least 90 days. After 90 days, if you're not satisfied with the results of the program, then the financial institution with a 30-day notice can pull the plug on the program if they like. I haven't see any one day that. We've been offering Shopper Alert now for almost two years and I haven't seen a single financial institution ask us to stop the program after 90 days. With ReFi Genius and Loan Magnet, typically those campaigns are quarterly campaigns that would take place over the course of the year. My recommendation when I meet with a financial institution that wants to implement either of those two prongs would be to conduct at the very least quarterly mailings, if not, every other month mailings. I see those programs ranging; some financial institutions will do it for a quarter, others will sign up for a year, so it varies.

Sherry: I think those are the only questions I have right now.

Stephen: Thank you. We got a couple more minutes left. I've got a lot of questions in here in chat and as Sherry mentioned, she's asked a lot of them.

Here's a question that came in: what was the period of time each campaign mentioned to generate the increases?

I may have just mentioned that, but with Shopper Alert because we're reaching out to the account holder in real time, things more generally quickly with that particular program. Mail drops on a day-to-day basis with Shopper Alert. Monday through Friday, mail goes out the door. With the other two programs, ReFi Genius or Loan Magnet, typically those are quarterly types of programs and we will come in after 60 days or so after the mailings drop. We'll provide measurements at that point.

With Shopper Alert, how is working with HC better than maybe working with the bureaus directly?

With Shopper Alert, Harland Clarke is working with the three leading bureaus, Experian, Equifax and Transunion. In my former life like probably many of you, the bureaus knocked on my door in the past. Here's the difference: Harland Clarke handles everything from soup to nuts. We're going to monitor the bureaus, we're going to provide you with the information on who we're mailing to, who you can call, we'll produce the postal mail pieces and we'll get them in the mail. In my former life one of the bureaus would approach me, they would basically tell me we'll give you the data, but then it's up to you to find someone to produce the postal pieces to get out the door. I worked with a financial institution last week that took that approach. Their mail pieces go out the door once a week. At Harland Clarke, our mail pieces go out the day within 24 hours of the trigger and as you know, when your member or account holder is out there looking for credit, that train is at the station, you got to get on that train as quickly as possible. Going out the door with mail, daily phone calls, plays a huge difference rather than waiting once a week. The other big differentiator is revolving around the fact that when we are working with the three bureaus instead on one, your pool of opportunity is much bigger. Typically what I see is one institution might account for maybe half of all the loan triggers that we see for financial institutions. When you're working with three financial institutions, you're getting a much bigger pool of opportunity.

The last question I see and then we'll wrap it up after this: what's the different in cost between marketing prospects and existing account holders?

The account holders obviously are going to be a little bit less expensive and what we'll do is put someone in touch with you to give you a better breakdown on what those cost differences might look like. Certainly an existing program would be less expensive than a prospecting program.

That takes us one minute after the hour. I know you all are a busy. I don't want to keep you on the line any longer. With that, I want to thank everybody for attending this loan ecosystem webinars, lots of good questions, and look in your email for future Harland Clarke webinars focused on helping you to grow your business. Thank you all very much and we'll talk to you next time.

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