



HOW TO INCREASE LOAN DOLLARS

STEVE MORRIS, VICE PRESIDENT

It appears that 2012 will be the year to grow loan portfolios. With the downturn in the economy over the past few years, banks have been focusing on conserving and growing deposit dollars, but that is changing.

How can marketers grow loans while working with smaller marketing budgets and with the bank possibly taking a more conservative underwriting stance? And how can marketers ensure that whatever marketing program they put forth shows a positive ROI?

“Using a credit bureau to buy a pre-approved list can be very expensive and the rules surrounding firm offers of credit can be overwhelming and make it difficult to maneuver,” says Chris Wachtel, President & CEO of WordCom. “RiskIQ™ is a tool for marketing loan products without the hassle, time and expense of using pre-approved lists associated with credit bureaus.”

RiskIQ™ utilizes summarized credit data in a small geographic area to predict the likelihood that an individual will qualify for a loan. With its core data from over 100 sources and using 1,500 demographic, psychographic, attitudinal, econometric and credit variables, the model allows targeting of customers and prospects at a zip+4 level.

COST EFFECTIVE MARKETING

“It’s more cost effective and, because the data is localized, it takes local and regional economic conditions into consideration,”

says Chris Wachtel. “This tool can be used for any type of loan product, from auto loans to credit cards.”

In the case of an auto loan program, with an understanding of likely credit score, banks can vary the advertised loan rates on any direct mail piece. Lower-scored zip+4 areas receive one offer and higher-scored areas can receive a different offer.

RiskIQ Range	
Null	590
1 – 760 and above	12,667
2 – 720 to 759	10,049
3 – 680 to 719	5,310
4 – 640 to 679	3,450
5 – 600 to 639	806
6 – Less than 600	406
	28,026

The same reasoning can be used if a bank has more than one credit card offering. There might be one segment of the customer base that may respond to a credit card that offers a low rate because they carry a balance. Another segment may respond to an offer for a credit card that gives points as a reward because they pay off their balances every month.

“The marketer now has the option to segment the offers, messages and the mailings to various customer and prospect segments,” says Chris Wachtel.

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RiskIQ™ uses aggregate credit data to assign a “FICO-like” score for each household. As the data is not specific to each household, mandatory offer restrictions do not apply.

“This score can be used to help select households that are likely to respond to an offer of credit and to remove prospects that are not likely to qualify for the offer based on their credit score, in essence saving the bank from sending a wasted mailing,” says Chris Wachtel.

EQUITY LOANS

In our current economic climate, not only would a bank like to be able to predict the likelihood that an individual may qualify for a loan, but also the likelihood that there is equity in the home as well. EquityIQ™ uses the RiskIQ™ “chassis” and then adds other variable data pertinent to home mortgages or equity, i.e. home value, mortgage value, presence of children, length of residence, etc.

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HOW TO INCREASE LOAN DOLLARS, CONTINUED

STEVE MORRIS, VICE PRESIDENT

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Home value range	
Null	13,043
1 – \$1 million and above	1,077
2 – \$750,000 to \$999,000	1,882
3 – \$500,000 to \$749,000	6,503
4 – \$250,000 to \$499,000	18,947
5 – \$100,000 to \$249,000	4,869
6 – Less than \$100,000	99
	33,278

In the example given, based on the risk profile that a bank uses, EquityIQ™ can show the segment of their targeted population that is a good “risk” for

qualifying for a loan, along with the likelihood of having equity in their home. This group is most likely to respond to an offer for a home equity loan.

FINDING WEALTHY PROSPECTS

In addition to RiskIQ™ and EquityIQ™, marketers now have the ability to segment their customers or prospects even further with the use of WealthIQ™. Further targeting can be accomplished through the use of this companion model, which also uses a zip+4 cluster to assign a score of likely wealth in the form of an income proxy.

LTV (loan/home value)	
Null	8,184
1 – 0% to 24%	1,984
2 – 25% to 49%	5,882
3 – 50% to 79%	5,373
4 – 80% to 99%	3,180
5 – Greater than 100%	3,423
	13,239

The combination of household level data, zip+4 level RiskIQ™ scores and demographic information creates a powerful tool to help select customers or prospects that are more likely to respond and qualify for a loan product.



SALES TRACKING MEASURES SUCCESS

RYAN STAMM, DATA ANALYST

A vital component to understanding the performance of a direct mail campaign is having proper sales tracking in place. Without it, it is very difficult – if not impossible – to collect accurate campaign data that will allow for analysis and optimization to occur.

To maximize campaign performance, the following must be determined:

- Did the revenue generated exceed the cost of the program?
- Which creative got the most response?
- Did new offers increase response rates as compared to previous mailings?

THE KEY FACTOR: RETURN ON INVESTMENT

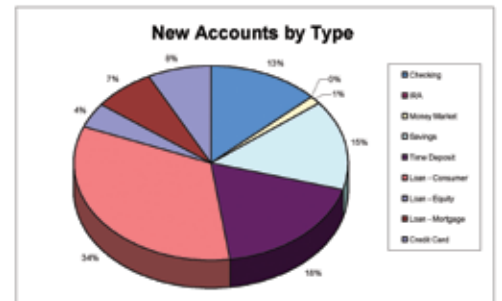
Conclusive results can only be drawn if clients are willing to adopt tracking, measurement strategies and tactics prior to launching campaigns. However, many banks will move on to the next campaign without knowing how the previous ones performed. Not only are they missing the

HELOC Pre-Approval

Job #	Description	BMC Drop Date	Tracking Range
ABC-105	HELOC Pre-Approval	8/8/2011	8/8/2011-10/31/2011

Segment	Mailed	Mail Cost	Approximate Unit Cost	Direct Account Openings (HELOC)				All Loan Openings			
				New Accounts	Open Rate	Balance	Cost per Account	New Accounts	Open Rate	Balance	Cost per Account
A - Switch	9,039	\$ 6,900	\$ 0.763	19	0.21%	\$ 978,875	\$ 363	253	3.91%	\$ 18,522,502	\$ 20
B - New	25,210	\$ 19,244	\$ 0.763	96	0.38%	\$ 2,990,166	\$ 200	860	3.41%	\$ 41,339,838	\$ 22
C - New B Credit	234	\$ 179	\$ 0.763	1	0.43%	\$ 19,959	\$ 179	3	1.28%	\$ 50,348	\$ 60
	34,483	\$ 26,323	\$ 0.763	116	0.34%	\$ 3,988,940	\$ 227	1,216	3.53%	\$ 59,912,688	\$ 22

Service	Total	Balance	Avg Balance	Est. Revenue
Checking	357	\$ 363,917	\$ 1,019	\$ 7,560
IRA	1	\$ -	\$ -	\$ -
Money Market	37	\$ 1,167,538	\$ 31,555	\$ 23,351
Savings	406	\$ 768,578	\$ 1,893	\$ 21,136
Time Deposit	497	\$ 8,779,831	\$ 17,666	\$ 21,950
Loan - Consumer	903	\$ 14,645,491	\$ 16,219	\$ 471,864
Loan - Equity	116	\$ 3,588,940	\$ 30,939	\$ 14,356
Loan - Mortgage	197	\$ 41,678,257	\$ 211,565	\$ 1,500,417
Credit Card	204	\$ 379,136	\$ 1,859	\$ 9,820
	2,718			\$ 2,070,453



basic cost vs. revenue analysis, but they are also missing out on resourceful advice on how to improve future campaigns.

To calculate ROI, the revenue provided by each purchase needs to be calculated, as well as the entire cost of the campaign. ROI calculations can easily be customized to suit the client’s purposes, and the results can be expressed in many different ways.

Campaigns can be structured to use additional information such as demographics to help the mailing become more targeted. It could be that recipients of a certain age, income or geographical region opened products at a higher rate than other groups and therefore should be the only population

selected for future campaigns.

A good way to test segments is to divide the mailing population into different packages, send each group a different mail piece, and determine which package got the higher response rate.

A non-contact control group can also be a great comparison baseline to weigh the success of the campaign. These test segments usually work best with larger lists, since smaller lists have a sample size too minute to be statistically valid.



REVENUE SOURCES: THE CHANGING LANDSCAPE

HARRY WALTMAN, VICE PRESIDENT

The past year has been a time for banks to grapple with regulatory changes and the impact on profitability they have wrought. With reduced overdraft fees and debit card usage charges, checking accounts in particular have come under intense scrutiny from institutions, their customers and the media. WordCom surveyed clients and industry contacts in an attempt to assess the range of responses to the current climate.

CHECKING ACCOUNTS AT THE FORE

Many institutions have revamped their checking product suites in an attempt to recapture lost revenue. Survey respondents indicated that while some institutions have staked out clear ground in the “free vs. fee” debate, many are trying to straddle the fence. Roughly 33% offer only a checking account truly free of charges, while 40% indicated both types of accounts were available.

Those institutions offering an account with a monthly fee have structured them so the fee can be waived with certain customer actions. All of those include at least a minimum balance requirement. Many also require direct deposit, estatements and/or debit card usage—or a combination of all—to forgo fees. Most responders indicated their checking fee was in the \$5.00 – \$14.99 range.



Customers (53%) and prospects (47%) will be equally targeted for new checking accounts. Advertising will include most mediums, with 42% using direct mail, followed by print (33%), radio (22%) and TV (18%). When asked what type of offer would accompany the advertising, 65% planned no offer, while 30% will make a cash offer. Most of those offers were in the \$50 – \$100 range. Some indicated a premium type of gift.

THE SEARCH FOR OTHER REVENUE

Institutions are increasingly charging fees for all types of services, with overdraft charges continuing to be a major source of revenue.

Overdraft fees ranged from a low of \$28 to a high of \$37, with the mean among responders being \$34. About half said they charged for sending paper statements, with fees from \$1 – \$10, with a majority collecting about \$3 per statement.

Over 60% charged from \$5 – \$12 to replace a debit card. Wire transfer charges vary between incoming and outgoing and averaged about \$25. All institutions charge for stop payments. The fee range was from \$4 – \$37, with most about \$25.

As banks continue to search for new revenue streams, no rock is being left unturned. It appears that any product or service that holds value for customers is likely to be explored for fee opportunities.



SURVEY SHOWS DIRECT MAIL PREFERRED

TIM BERGER, SENIOR VICE PRESIDENT

When all media are compared, 36% of U.S. consumers said direct mail is the preferred channel to receive financial services information, according to a survey just completed by Epsilon Targeting, a leading provider of consumer information.

With all the advances in email, social media, and other electronic solutions, the “old fashioned” paper in the mail marketing option scored highest, according to Epsilon’s “2011 Channel Preference Study.” Some key findings:

- 36% said direct mail is the preferred channel to receive financial services information.
- 26% said direct mail is more trustworthy than email.
- 50% said they pay more attention to postal mail than email.

- 60% said they enjoy checking the mailbox for postal mail, highlighting an emotional connection.
- The perception that reading email is faster declined among U.S. email account holders to 45% in 2011 (from 47% in 2010), suggesting clogged inboxes are draining time.
- Personally addressed mail is greatly preferred to unaddressed.
- The preference for direct mail also extends to the 18-34 year old demographic.
- 34% of U.S. consumers who prefer email over mail cited “saving on paper” as the main reason, up strongly from 21% in 2010.
- 10% of respondents said they used Facebook for consumer product information, an increase from 6% in 2010. But 33% said they don’t find ads on social media sites useful.

The study also verifies that marketers are

improving their targeting efforts, because 30% said they’re receiving more mail that interests them compared to a year ago.

“Consumers use and trust certain communications channels more than others,” said Epsilon’s Warren Storey. “Our study suggests that brands should use a variety of mediums to build relationships, starting with trusted channels like direct mail, then layering the message to re-enforce it through other channels.”

The study is based on completed surveys from 2,226 U.S. consumers and can be found at www.epsilon.com.





DEVELOPING SMALL BUSINESS RELATIONSHIPS

CHARLES GROSS, SENIOR VICE PRESIDENT

For many years, financial institutions have successfully generated new consumer accounts from both customers and prospects by using direct mail. The most effective programs maintain an ongoing stream of communication with highly targeted offers.

Could the same process be applied to developing new commercial accounts? “Yes, indeed!” says Michelle Devine, Vice President at First National Bank of Pennsylvania (\$9.6 billion).

Looking to establish and build relationships with local small businesses with annual sales under \$2 million, the bank developed a strategy that in many ways is similar to what is often developed for consumer marketing programs.

BUILDING A DATABASE

To start, First National Bank developed a database of both existing small business customers and nearby prospects. “We then put together a communications matrix for each segment,” said Michelle Devine. “Existing customers would receive offers for selected deposit and loan products based on their existing product usage.”

Prospects received messages for either a loan offer, the Workplace Banking program, or for a broad package of services that includes solutions for checking, bill payment, online banking, credit card, etc.

During the course of 2011, a series of four mailings was produced. Before each mailing, the database was refreshed to include recent account openings. In this



Michelle Devine

manner, the products presented to each recipient were as suitable as possible.

Before each mailing went out, the final mailing file was uploaded to the bank’s CRM system where it was accessible for in-branch sales efforts as well as internal tracking.

The mailing package included a personalized letter addressed to the

business owner. Each letter was signed by the local branch manager or business development officer.

PROGRAM FLEXIBILITY

Flexibility built into the design of the program allowed the bank to make special offers to selected segments to take advantage of short-term rate promotions, etc. For example, a segment of the database recently received an offer from the bank’s leasing company subsidiary.

As for the results, Ms. Devine says, “This program has performed very well for us. Over the course of the year, existing customers have generated an overall open rate in excess of 7%. And we are very pleased that the non-customer segment has opened accounts at a rate greater than 4%.”

She continues, “Our acquisition cost per account is very reasonable. Thanks to the loan balances generated by this program, the ROI is very good. We plan on continuing this program in 2012.”

— CUSTOMER COMMENT —

“Working with WordCom is so easy. The more we do together, the more it feels like a real team effort. They are flexible and accommodating of our requirements and, at the same time, they offer insights and guidance that help to more precisely target our direct mail to get the best response. We love the format and detail of their response analyses. WordCom really exemplifies partnership.”

Karyn Roche, Vice President, Market Research & Analysis, Sandy Spring Bank



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