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## CREDIT/DEBIT/ATM NEWS

### *Sellers Be Wary*

## More Data Coming to Light About CU Unhappiness After Portfolio Sales; Agent Issuing Steadily Improving, Buyer Counters

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ST. PETERSBURG, Fla. — An unexpectedly high percentage of credit unions that sold their credit card portfolios to banks expressed regrets about the transaction and would not recommend their card issuing partner, according to Asset Exchange, a former leading broker of CU card portfolios.

The firm collected the information during the last quarter of 2006 by surveying portfolio sellers, both those that had used Asset Exchange and those that had not. The survey also touched on all the major buyers, according to Asset

Exchange CEO Willie Koo. Asset Exchange has been purchased by Fidelity National Information Services, the leading card processor for credit unions.

“We actually started collecting this data before our purchase by Fidelity National,” Koo said. “And we were surprised at how much dissatisfaction we were finding among the credit unions that had sold.”

Koo presented some of the firm’s information on a Webcast last week sponsored by Card Services for Credit Unions, the association of credit unions that process their card transactions with FIS. The Webcast targeted credit unions thinking about selling.

CSCU is a longstanding opponent of credit unions selling their portfolios but Koo emphasized that his message and the firm’s stance was not against portfolio sales.

“We know that credit unions are going to sell and if they do sell we want to help them sell,” Koo said. “Our message in the Webcast was that we have additional information that credit unions need to know about when evaluating a potential sale.”

Koo explained that Asset Exchange had surveyed CEOs, chief financial officers, and chief lending officials with 224 credit unions that sold their portfolios and entered into agent relationships with the buyers between one to five years previ-

ously. Koo said he would have been happy with a response rate of 5% and was surprised that, by the end of the survey period, 23% had responded.

Koo explained that prior to the survey he had anticipated a general degree of satisfaction with the sales but that the firm had been surprised, by the time the survey was complete, to find that 44% of the survey respondents said they would not recommend their issuing partner. He stressed the problems the credit unions cited with their partners covered products, services and pricing and that they had covered all buyers, though he said some buyers fared better than others. He would not identify which buyers did better in the survey and which did worse.

The survey found that 46% of the executives surveyed were unhappy with their partner’s product offerings, 71% with their partner’s service levels and 63% with their partner’s pricing. Koo stressed that service and pricing were both very broad topics and could reflect everything from successful call center response to ease of making payments in service to interest rates and fee levels in pricing.

On the positive side of the question, 90% of the executives surveyed expressed relief that their CU no longer dealt with the risk of their card program and 70% that they did not have to deal with it in general. However, Koo pointed out this was a little bit ironic since they were still dealing with aspects of the program from members who had been unhappy with the change.



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Interestingly, the survey found that even though premiums and profit sharing were high on the list of why CUs sold their portfolios, they were not generally cited as reasons the executives were pleased with the sale. "It's almost as though the premium didn't bring a lasting impact," Koo said.

Koo said he believed that the survey had been a first where portfolio sellers shared their results publicly. He pointed out that the firm has never taken the position that every credit union should sell its portfolio and now doesn't take the position that every CU should not.

"Some credit unions are interested in selling and should sell," Koo said. "But others should not. This survey highlights the different experiences of credit unions with portfolio sales," he added, pointing out that 56% of the respondents of the survey had said they would recommend their portfolios.

Koo said the survey results had not broken down the data by when the CU sold the portfolio. This could be a significant issue since credit union card portfolio buyers are known to have worked on and improved their CU card portfolio agent programs over time.

This is what had happened with the \$54 million Bellco Federal Credit Union, headquartered in Wyomissing, Pennsylvania. Card Manager Kelly Gaughan explained that the CU sold its portfolio in a three-year contract to

Elan Financial Services in October of 2004 and the portfolio was healthy when it was sold.

"Most of us never really understood why we sold it," Gaughan said, adding that she had come to work one day and been told the CU had sold the portfolio. She also said the CU had been involved in merger talks at the time and that the sale could have been brought about in relation to that. The CEO who had facilitated the sale has since left, she said.

Gaughan said the problems started soon after the sale as members, most of whom had fixed rate platinum cards with the CU, were told that their fixed rate cards were going to adjustable rates, some as high as 27.4%. There were almost immediate service problems as CU members had troubled getting help from Elan, making convenient payments and started getting hit with fees.

"It was really not good for us," Gaughan said. "Particularly since the card still had our name on it and members came to us to resolve problems and blamed us for them. It was very frustrating."

Now that the CU has not renewed its contract and is starting to reissue cards, Gaughan said Bellco will offer its members balance transfer offers and a card program to address some of the Elan problems. Bellco will not be able to use Elan's card transaction log in its marketing but will be able to

market cards generally to their members, Gaughan said.

Contacted about the Bellco situation, Elan explained that many of the CU's problems arose because the company, which is subsidiary of US Bank, had purchased the portfolio before it had a CU specific card agent program in place.

"This credit union signed with us before we even had a credit union program so we essentially treated, and priced, like they are a bank," explained Dan Roads, first vice president with Elan. "So their rates can exceed (and in some cases do exceed) 17.99% which is the maximum our credit union program will charge. There are other benefits as well that they miss out on because of the credit union program."

"When their contract expired they could have renegotiated, but I don't know at this time whether they did or not."

Roads noted that the program took off before it created a credit union program with all of its unique features and the CU had opted for the rate changes.

"It is also fair to note that by permitting us to charge the higher bank interest rates they did receive a higher premium in the sale. We currently view higher premiums with distaste if we're going to chase members away and prefer to maintain rates similar to what members pay today," Roads said.

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