

# Credit Card Consolidation Loans

**Ben Rogers**

*Driver, CU Tomorrow*

*Filene Research Institute*



## About Us

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

CU Tomorrow is a Filene Research Institute clearinghouse for credit union young adult strategies. The program publishes research and open-source business plans to help credit unions attract younger members, promising young professionals, and younger volunteers. Initiatives include:

- **Business Briefs** - open-source, young adult business plans for credit unions.
- **30 Under 30** - entrepreneurial SWAT Team of young credit union professionals.
- **Community** - CU Tomorrow and Filene Web sites for publication and idea sharing.
- **Leagues** - statewide collaboration to implement CU Tomorrow programs.
- **Recruiting** - talented interns and new hires from high-profile universities.
- **Research** - academic research, focus groups, online surveys, and interviews.

Visit [www.cutomorrow.org](http://www.cutomorrow.org) for more details.

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## About the Author



### Ben Rogers

The author, Ben Rogers, is driver of the Filene Research Institute's new CU Tomorrow program and director of the Institute's 30 Under 30 leadership program. Ben is a former editor of *The CEO Report* and chairman of the National Directors' Convention. Ben holds a Master's degree in Journalism from Northwestern University and graduated cum laude from Brigham Young University with degrees in English and Philosophy.

## Acknowledgments

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## Market Need

Young Americans are inundated with credit card offers and many of them are barely treading the water of the resulting debt. College students in their final year carry an average of \$2,864 on their cards, according to data from student loan giant Nellie Mae (See Cold Hard Facts).<sup>1</sup> Graduate students, on average, carry more than three times as much.<sup>2</sup> At least one major credit card issuer has made new student accounts 25% of its annual new card goal, according to author Anya Kamenetz. And students aren't the only ones building mountains of high-interest debt at an early age.

Consolidation loans are popular at social lending sites like Prosper, LendingClub, and Zopa, which are growing rapidly. Interest rates on credit cards, which often range from 15% to 30% APR for young borrowers, provide a fruitful opportunities for credit unions to offer lower-rate debt consolidation loans and gain competitive advantage by becoming a trusted financial partner for young consumers.

## Program Details

To be attractive, consolidation loans should offer a fixed rate at or below the rate of a standard signature loan. For example, if your regular signature loan rate is 12%, offer a special “consolidation rate” at 10.5%. As with other refinance transactions, the member should provide the credit union with payoff information on the accounts to be consolidated.

To mitigate risk, consider piloting the loan to members with B or better FICO scores. After an initial period to measure delinquencies and losses, extend the product with tiered interest rates.

1. “Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends” Nellie Mae, May 2005.

2. “Graduate Students and Credit Cards in 2006: An Analysis of Usage Rates and Trends” Nellie Mae, August 2007.

## Marketing Recommendations

Consolidation loans can be particularly valuable to young members with large outstanding debt, but their potential success is not limited only to young adults. Research indicates that parents are strong influencers of the financial behavior of their children. Consider direct mail campaigns both to 18- to 30-year-old members and to members with children in that age range.

*"It's become one of those products we don't have to advertise anymore"* MEMBERS CREDIT UNION

To attract new young members with this product, consider alternative marketing venues, including the local Craigslist.org news and community sections, a local alternative weekly newspaper, or prominent local blogs, if applicable.

Advertising, direct mail, and collateral should emphasize the simple financial benefits of a consolidation loan; they include:

- *Lower monthly payments.*
- *Ability to pay off debt faster.*
- *Eliminating confusion.*
- *Paying only one bill instead of many.*
- *Lower interest rates.*

## CASE STUDY: MEMBER'S CREDIT UNION - NORTH CAROLINA

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Members Credit Union, a \$200M North Carolina credit union, has been running credit card consolidation loans since June 2006. The credit union does not target the product to younger members, but borrowers have an average age of 44, which is lower than the average age of their membership in general.

The credit union will refinance up to \$15,000 of credit card debt from other institutions. Members Credit Union pays off other lenders directly to ensure the loan is used for consolidation. The average loan volume is \$11,161 and the average monthly payment is \$229.

At launch, the credit union offered a 9.95% interest rate. In December 2007, the rate was 10.45%, which is four percentage points lower than the regular unsecured loan rate. Members currently limits consolidation loans to those with FICO scores higher than 650. Delinquencies since inception have been extremely low at less than 0.1%. Only three loans have been written off in the program's first 18 months.

To introduce its products Members Credit Union ran marketing around the theme: "One Duck, One Bill. Get your ducks in a row." The advertised benefits included: "rock bottom" low rates, low monthly payments, getting personal finances back on the right track, and one monthly bill.

"It's become one of those products we don't have to advertise anymore," says Matt Davis, the credit union's public relations director. Most of the refinancing comes from credit cards that carry a 15% or higher rate, he adds. The credit union has made 756 consolidation loans since the product's launch for a total volume of \$8.43M.

Figure 1: Advertise the Simplicity of Consolidation Loans

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# ONE DUCK, ONE BILL

Getting your ducks in a row at Members Credit Union is easy with our new Debt Consolidation Loan! Refinance up to \$15,000 in high interest personal debt at the rock bottom low fixed rate of 9.95%\*. Enjoy monthly savings up to \$174\* and the simplicity of one easy-to-understand bill. One duck. One bill. One low monthly payment to get your personal finances back on the right track.



 **Members  
Credit Union**  
2098 Frontis Plaza Blvd.

**memcu.com ❖ (800) 951-8000**

\*Single payment limit of \$18,000 per \$1,000 financed amount; maximum 72 month term. \$15,000 maximum loan amount. Current Members Credit Union loan balances not eligible for debt consolidation. 9.95% fixed APR is subject to credit approval. All debt repayment in 3 years. Membership and other restrictions may apply. \*Savings maximum \$15,000 debt at 11.99% APR refinanced at 9.95% over 72 months.

University of Iowa Community Credit Union (UICCU), a \$600M credit union in Iowa City, uses a direct mail approach with consolidation loans. At least once per year, the credit union sends A-, B- and C-credit members with less than \$15,000 in unsecured debt a pre-approved check, but allows the members to use the loan for more than consolidation.

*Figure 2: Breakdown of UICCU Consolidation Loan Offers*

Credit level	Amount	Rate	Term	Monthly payment
A	\$7,500	9.9%	48 months	\$191.41
B	\$5,300	11.9%	48 months	\$140.92
C	\$2,700	16.99%	36 months	\$97.59

UICCU has been sending the mailings for three years and found the most success with campaigns aimed at post-holiday debt consolidation. New borrowers get a 60-day grace period on new loans, and the advance carries no pre-payment penalty. Members are not allowed to pay down higher-interest credit union debt with the funds. In UICCU’s last campaign, 29.7% of respondents were under age 30.

**Selling points:**

- *Low payments.*
- *Deferred first payment.*
- *No paperwork or trips to the branch.*
- *Consolidating higher-interest loans to save money.*

Members with lower credit scores respond more often to the check offer than those with higher scores. Because of the higher loan limits for A-quality borrowers and a greater concentration of A-quality borrowers at UICCU the credit union reaps higher loan volume with that group. Response rates improved when the credit union added the message: “Your Check is Enclosed” on the envelope.

Figure 3: Typical Response to UICCU Offer

Credit level	Response Rate to Mailing	Loan Volume
A	3.9%	\$1,470,000
B	13.2%	\$742,000
C	18.5%	\$399,600

This is an easy campaign to run, says Senior Vice President of Marketing Jim Kelly. Now that the program is set up, "I can call it in and have the mail out next week," he adds.

Figure 4: Make it Simple to Consolidate

UNIVERSITY OF IOWA  
COMMUNITY  
CREDIT UNION

Just

Dear Member,

Thank you for your membership in the University of Iowa Community Credit Union. We are very pleased to be serving your financial needs.

Your excellent credit score is enabling us to make a pre-approved, unadvertised personal loan offer directly to you. This loan is at an amazing low fixed rate of just 5.99% APR.

It's easy, instant cash! All you have to do is cash or deposit the attached check. There are no extra loan papers to complete, collateral to secure, or steps to make to the credit union.

Use the funds however you wish! You can use this low interest money to consolidate high interest debt, take a vacation, fix the place up, or for whatever else your needs might be.

Payments are low, and your first payment isn't due for 60 days after you cash the check! Better yet, there are absolutely no prepayment penalties.

Thanks for taking the time to read this letter, and again for your membership in the University of Iowa Community Credit Union. If you have any questions, our staff has the answers. Give us a call at 339-1000 or stop by WWW.UICCU.ORG for more rate or product information.

Sincerely,  
  
 Jeff Dierffelt  
 University of Iowa Community Credit Union  
 President/CEO

You can choose to stop receiving "pre-approved" offers of credit from this and other companies by calling toll-free 1-800-5OPTOUT. See PRESCREEN & OPT-OUT NOTICE on other side for more information about pre-screened offers.

(319) 339-1000 or (800) 397-3790 / www.uiccu.org

easy

affordable

University of Iowa Community Credit Union  
 800 Union Ave.  
 Iowa City, IA 52242

November 5, 2007

Pay to the  
 Order of \_\_\_\_\_ \$ 7,500.00

Seven thousand five hundred and 00/100 \*\*\*\*\* Dollars

UNIVERSITY OF IOWA  
COMMUNITY  
CREDIT UNION

Member Discount Rate Offer Expires: 12/31/07

## What to Measure

Tracking the adoption and results of CU Tomorrow business briefs is essential. If you choose to launch a consolidation loan program similar to those outlined in this document, please do three things:

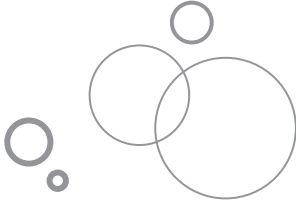
1. **Monthly: Track the number of members, 30 or younger, who successfully open a consolidation loan.**
2. **Monthly: Track the total loan volume extended to members 30 or younger.**
3. **Send monthly tracking results to Ben Rogers at [benrogers@filene.org](mailto:benrogers@filene.org).**

## Cold Hard Facts<sup>3</sup>

- The average outstanding balance on undergraduate credit cards was \$2,169, a reduction of 7% from 2001 when the average balance was \$2,327.
- More than half the undergraduates with credit cards carried balances lower than \$1,000.
- Undergraduates reported freshman year as the most popular time for getting credit cards, with 56% reporting having obtained their first card at age 18.
- As students progress through school, credit card usage swells. Ninety-one percent of final year students have a credit card compared to 42% of freshmen. Fifty-six percent of final year students carry four or more cards while only 15% of freshmen carry that many. Final year students carry an average balance of \$2,864 while freshmen carry an average balance of \$1,585.
- Undergraduates reported direct mail solicitation as the primary source for selecting a credit card vendor. The second most common source was referral from parents.
- Twenty-one percent of undergraduates with credit cards reported that they pay off all cards each month; 44% say they make more than the minimum payment but generally carry forward a balance; 11% say they make less than the minimum required payment each month.

3. Source: Nellie Mae, 2005 and 2007.

- The average outstanding balance on graduate student credit cards is \$8,612, an increase of 10% from the 2003 average of \$7,831.
- On average, older graduate students (age 30–59) carry \$12,593 in credit card debt, almost twice as much as their younger counterparts (age 22–29) who carry an average debt of \$6,479.
- The majority of graduate students, 67%, said they took out their first credit card as an undergraduate student.
- Although 93% of graduate student survey respondents try to keep their credit card debt under control by making at least the required minimum monthly payments, only 20% said they pay off their cards in full each month.
- Of the graduate student survey respondents, 93% would have liked more information on financial management topics before they started school and would like financial management education made available to them now.



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