

Focus on Performance: Sound Credit Union

Facts at a glance:

Sound Credit Union

(Formerly Telco Community Credit Union)

Headquarters

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Established 1940

Other Washington branches: Tacoma (South State Street), Tacoma (Pacific Avenue South), Tacoma (North Pearl Street), Gig Harbor, Key Center, Puyallup.

Turning a languishing credit card program into a profit center seems like a daunting task. It is. And it isn't.

The staff at Sound Credit Union, with its main office in Tacoma and five more branches throughout the Puget Sound area, decided late last year they needed to lift their credit card programs out of the doldrums. "We did a lot of homework," said then-VP of Marketing, Jennifer See. "We wanted attractive products for our members so we polled employees to find out what members were asking for."

Sound Credit Union offered a Classic Visa, a Gold Visa, and a home equity line of credit (HELOC) Visa. Though the credit union had been approached to sell their card portfolio, they didn't consider it. They didn't want to lose this line of contact with their cardholders.

"Our card programs weren't losing money, they were just flat," said Marlene Gehl, VP of Lending. "Our rates weren't competitive." Members asked about our card, but most opted for cards from other issuers because they came with lower interest rates.

Sound CU's card staff brainstormed ways to revive their card portfolio, researched member wants and needs, examined rates and fees from other issuers, and anticipated how members would respond to a mileage reward program. They lowered the interest rates on their Visa Classic and Gold cards and increased lines of credit. But the vehicle they used to overhaul their card portfolio was their newly developed Visa Platinum card with Extra Awards mileage rewards tied to it and a \$25 annual fee.

Next, they lopped a few pages off their credit card application, reducing it to one easy page. They marketed it as a five-minute application. Armed with a range of credit card options, Sound CU could appeal to varying member needs. For instance, members with good credit who wanted the low 8.95 annual percentage rate of the platinum card but didn't want the annual fee or the mileage rewards program could apply for a Visa Gold Plus card.

"That one's a real winner," said Russ Gowrylow, Senior VP and CFO. "We saw a 48 percent increase in new Gold cards because of it."

Initially some of the member service staff expressed concern over the mileage award program and how much hands-on involvement it would need. PEMCO trainer Russell Sawyer explained how easy Extra Awards is to run. That allayed staff fears and many opened their own accounts to take advantage of the rates and rewards.

In January 2002 Sound CU launched its new cards in an all-out marketing campaign with a "Buy. Buy. Buy. Fly. Fly. Fly." theme. They started with targeted mailings to current cardholders. As added incentive, they threw in 2,500 Extra Awards bonus miles on the Visa Platinum card upon approval.

Sound CU's staff continued the marketing message with statement stuffers, postcards, newsletter articles, and staff lapel buttons. They built momentum for the cards right away so members who qualified were the first to know about them.

An increasing outstanding loan balance is a key indicator of program success. And so is added income from interchange and annual fees.

Sound's staff predicted the outstanding loan balance for the newly introduced Platinum card would be \$100,000 at the end of February, \$250,000 in March, \$400,000 in April, \$600,000 in May, \$700,000 in June, rising approximately \$100,000 each month thereafter. At the end of May, the rolled balance was \$48,000 ahead of forecast, in June it was \$76,600 ahead of predictions, and July's outstanding balance was \$20,238 ahead of expectations.

In addition to lowering rates on Gold and Classic Visa cards, Sound increased lines of credit. They predicted the rolled balances for these cards would grow by \$10,000 monthly. In July 2002, rolled balances of Gold cards were \$1,177,000 above forecast. Of course some of the growth in the Gold card came from Classic cardholders moving up. July 2002 combined balances for Gold and Classic cards were \$143,000 above budget.

Gowrylow said they expected members to move from the Classic card to the lower interest rate Gold and Platinum cards, knowing it would have a negative effect on interest income. "But we knew we would lose those balances altogether if members switched to the lower interest cards our competitors were offering."

Seven months into the program, the combined total for the credit union's new Platinum, Gold, and Classic cards was \$810,000 ahead of the year-end total for 2001!

In the first six months of the program, not much travel redemption happens since cardholders are accumulating miles. Sound CU planned for increased redemption and allowed for possible fare increases by doubling their redemption expenses for the first six months and adding a percentage to that for airfare price increases.

And interchange income offset their travel reward expenses. Assuming their interchange income at approximately \$11,250 monthly prior to the new card rollout, they would have earned \$135,000 in 2002. Using the first seven months under the new program, they predict they'll earn \$207,000 for the year in interchange income and annual fees -- a 53 percent increase! Subtracting their reward redemption expenses

from the added interchange income at the six-month point, they still find themselves \$14,000 ahead.

Gowrylow concluded that if loan balances continue to build, even modestly, the increased interest income on rolled balances will offset the reduced interest rates.

And equally important, Sound CU is serving another member need.

--Diane Noasconi, Communications/Media Coordinator, PEMCO Technology Services, 206-352-3455.