



CAPITAL SERVICES

Receivables: On or Off the Books?

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A White Paper from CAPITAL Services

➤ Powering Payment Solutions



Credit cards are a must-have product for most consumers. While few customers select a bank based on the credit card they offer, most customers expect to be able to obtain a credit card from their bank or credit union. It is ultimately the service an institution offers that will distinguish it from its competitors.

Faced with a desire to offer credit cards to customers, many financial institutions wonder how to provide such a program.

The answer to this question depends on how much involvement or control you wish to have in your card program. Figure 1 below describes the different levels of program involvement.

➤ *Credit cards are a must-have product for most consumers.*



Figure 1. Ownership of Receivables

➤ Agent Bank

For banks that want to provide credit cards through another financial institution, it is done through Agent agreements. Third party financial institutions handle marketing, approve credit applications, set interest rates, underwrite the credit, collect payments, provide monthly statements, and absorb the risk of default or fraud. Typically, you collect referral fees and a portion of the interest income without any major expenses. You may be required to maintain a deposit with the issuing bank which is used to fund the credit card loans; typically the issuing bank will pay a market rate of interest on those deposits.

Banks of all sizes-- even the smallest institutions that may have fewer than 100 credit card customers-- can take advantage of an Agent program. An Agent Bank serves as a back-room service provider while your bank takes the visible role offering the credit cards. From the customers' perspective, the credit card bank is virtually invisible, although by law they are required to include their name on the back of the card.

› BIN Sponsorships

Another opportunity to issue credit cards comes from programs called BIN Sponsorships, in which your bank obtains a license to issue credit cards through Visa or MasterCard, but allows another institution to handle all the origination and servicing of the credit card accounts. BIN sponsors typically receive a fee for each credit card account that is booked and receives the compensation on an ongoing basis. As the portfolio builds, your revenue increases. The card receivables can be participated out at 100 percent --or some portion-- such as 20 percent for the sponsoring bank and 80 percent for the servicing institution.

The risk you take is proportionate to the amount you participate. With a sponsorship program, the servicing institution is completely invisible to the customer. All cards, statements, and communications to the customer are in your institution's name. Sponsoring institutions approve all marketing material, credit approval criteria, and the parameters used for servicing of the accounts.

› Ownership

For those who wish to have total control over their credit card program and receive all of the revenue associated with it, as well as all of the risks and expenses, issuing your own credit cards may be the way to go. Credit card portfolios have consistently outperformed other bank lending products.

While it does require more capital to set up a program compared to an Agent or Sponsorship program, you have total control over what your program looks like and who receives your credit cards. You decide what risks to take. You may choose to provide cards to all risk profiles whether they fall in a subprime, near-prime or prime-risk category. Or you may wish to stay only in the least risky market segment. You may wish to set up your own operational areas to service the accounts. If you don't want to build that infrastructure, you can turn all of the servicing over to another institution.

› CAPITAL Services Can Help

At CAPITAL Services, we can help you set up your card program. We provide all of the back-end services in customer service, collections, accounting, marketing, compliance, and account origination, (direct mail, internet, and phone). We also provide risk analysis for acquisition or account management.

 **CAPITAL Services**

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