

COUPON BOOKS VS. MONTHLY LOAN PAYMENT NOTICES

If you haven't already made the transition from coupon books or packets of coupons to monthly loan payment notices, you may be missing an opportunity to turn a tired and outdated loan payment process into a valuable strategic device

BEYOND INCREMENTAL COST ANALYSIS

Conventional wisdom suggests that printing and postage are bound to be more costly in a monthly loan payment notice environment. If the alternative to coupon books is nothing more than mailing out a monthly loan payment notice and having the borrower remit payment, that's probably true. However, a monthly loan payment notice program integrated with a loan servicing and customer relations model may render conventional wisdom obsolete and make any incremental cost a "small price to pay."

BUILDING A BRAND

Not too long ago, a visit to the local credit union included face-to-face interaction between members and credit union staff. There was a sense of familiarity that today we call a brand. Today, in the era of indirect and online lending, there are precious few opportunities to interact with borrowers. The absence of one-to-one interaction with borrowers is especially evident where the borrower is provided with a preprinted stock of coupons for a twelve month period or for the term of the loan. In this instance, it is possible that a borrower may never have an interaction with the credit union other than remitting payment, a one-way interaction.

By providing a monthly loan payment notice, the credit union has the opportunity to reach borrowers on a regular basis. In even the most basic monthly loan payment notice scenario, the positive impact on the branding effort is significant. Frequency breeds familiarity. Although the basis of the relationship is a periodic mail communication, borrowers grow familiar with the credit union. They recognize the brand. Borrowers are offered a reminder that their payment is due and if they require additional service, the call center number is at their fingertips. While it certainly falls short of a handshake and a smile, there is a regular, familiar touch point that is critical to the branding process.

RELATIONSHIPS AND MEMBER CARE

In a basic monthly loan payment notice program, the borrower is reminded on regular and predictable intervals that a loan payment is coming due. The return address specified by the credit union is printed on the loan payment coupon so that it will appear in the window of the courtesy reply envelope the borrower receives along with their monthly loan payment notice. This familiar process is the same as most of the bill paying done by the borrower. Additional value can be offered to a borrower with a more sophisticated monthly loan payment statement. By including the date their last payment was received, the new principle balance, interest paid in the year to date, the next payment due date, the amount due and the amount of any late fees, the borrower gains access to information previously only available if they went looking for it. Proactively providing this information is far superior to requiring the borrower to contact a call center for account queries. The member clearly receives something of value from the interaction. From a functional perspective, the credit union benefits too. Monthly loan payment notices can accommodate legal notifications eliminating specialized mailings.

Correspondence in the form of late notices and collection letters, once separately generated, can be reduced or eliminated through a monthly loan payment notice process. Over time, the periodic contact, brand recognition and proactive exchange of information can nurture a relationship between the credit union and the borrower that otherwise might not exist.

OPENING A MARKETING CHANNEL

Aside from the basic member care and relationship building elements of a monthly loan payment notice program, the periodic communication with borrowers combined with the messaging capabilities of a monthly printing and mailing process can serve as a valuable marketing tool.

Just as a branch visit exposes a member to the full spectrum of products offered by the credit union through the use of display space and in-branch advertising, the borrower receiving a monthly loan payment notice can be presented with information geared toward cross-selling opportunities. These “sales pitches” can take a number of forms depending on the sophistication of the program.

Format Messages. The monthly loan payment notice design process may include the use of logos, icons or tag lines as part of the basic document. The use of document space for messages that remain constant from month to month is perhaps the most basic use of the monthly loan payment notice as a marketing tool. This type of program is particularly useful in building name recognition and establishing a brand identity.

Static Messages. Typically, the text copy in this message area is at the discretion of the credit union and can be changed from month to month. Static messages can be effective for basic product awareness, short-term program or product tie-in information delivered to an entire loan portfolio.

Targeted Variable Messaging. The logical next step in the use of message text within a loan payment notice is the creation of targeted messages that are applied to one notice or another based on the specific characteristics of an account. Variable messaging implies a slightly more sophisticated process that permits the selection of message text based on predefined criteria. This message type can be very effective in presenting information to selected prospects and creating an individualized relationship with the borrower.

Inserts. The main advantage of using inserts in mailed loan payment notices is the elimination of space constraints that apply to marketing messages appearing on the loan payment notice. This significantly increases the opportunity to present detailed information about credit union products and programs. In some cases, the entire cost of a monthly loan payment notice program may be self funded by selling insert space to business units within the credit union and to third party products and services complimentary to the lending relationship. The owner of the program generates a new revenue stream while the credit union’s other business units or third parties benefit by sharing the cost of a direct mail campaign.

TAKE CONTROL OF COLLECTIONS AND CASH FLOW

Monthly loan payment notices hold a clear advantage over coupon books when considering the control the credit union has over the collection process and float dynamics. The most obvious example is when a credit union chooses to realign or alter the location of its collection points or lockboxes.

There are a number of reasons why a credit union may wish to change the remittance address for payments. Changing the lockbox service provider, relocating in-house lockbox operations, a shift in the mail or collection float experience, acquisition of a loan portfolio or relocation of a borrower could all warrant changing the remittance address. When loan repayment is coupon book-based, the lockbox address is normally printed on the coupon or preprinted on envelopes or labels provided to the borrower. In either case, changing that address is difficult. The change must be communicated to the borrower. Coupon or envelope supplies must be replaced and delivered to borrowers. Some of the borrowers will inevitably continue to remit to the old address. The effects include additional expense, misrouted payments, increased call center volumes and aggravation to borrowers and credit union staff.

Simple solutions abound in a monthly loan payment notice environment. For example, changing the remittance address for an entire portfolio, a segment or even an individual borrower is as easy as a phone call to your print distribution vendor. There are never any documents to replenish and no transition process to manage.

Accelerated remittance by the borrower has emerged as yet another intrinsic benefit of monthly loan payment notice programs. An independent survey conducted by the U.S. Postal Service suggests that as many as 39 percent of consumers pay bills within two weeks of receipt. Moreover, 17 percent pay upon receipt and an additional 7 percent pay within one week.

By converting a loan from coupon books to monthly loan payment notices, it seems reasonable that the loan payment becomes like a bill that prompts the borrower to pay rather than a self-initiated payment prompted by the calendar. If, in fact, the behavior of the borrower conforms to that of a bill payer and a monthly loan payment notice is delivered two weeks prior to the due date, it follows that up to 24 percent of loan payments could be accelerated by as much as a full week.

MAKING THE CASE FOR CHANGE

In the ongoing quest to build long-term member relationships and maximize credit union performance, the opportunity created by a monthly loan payment notice program is real. The benefits are diverse, measurable and critical to both the bottom line and the longevity of a consumer loan business. Properly designed and strategically positioned monthly loan payment notice programs:

- Strengthen the member relationship and build brand loyalty.
- Improve the member experience.
- Open a channel to cross-market other credit union products.
- Establish a sound communication element in a portfolio management strategy.
- Drive improvement in the utilization of the credit union's resources.
- Are potentially self-funding and can initiate a new revenue stream.
- Position lenders to exert control over the billing and remittance process.
- Accelerate cash flow.

The value of a monthly loan payment notice program extends well beyond the traditional cost/benefit analysis and literally establishes a new basis for competitive differentiation. This breadth of opportunity is seldom found without considerable downside potential. In the case of monthly loan payment notices, it seems the only downside lies in not making the change.