What's a Community Bank to Do?

Consolidation in credit card industry begs a lot of questions

By Keith Floen

As consolidation in the credit card industry grinds on, big decisions await the hundreds of community banks that have sold their card assets to a partner while keeping the customer relationships intact.

The rise of monoline credit card companies throughout the 1980s and 1990s led many banks, community and regional alike, to exit the card management business because they lacked the scale to compete efficiently with "category killers" like First USA, Providian, Capital One, Advanta, Metris, and MBNA. MBNA has consistently led the pack in acquisitions.

Now, the last of these historical monoline credit card banks are being gobbled up by larger banks—or are doing the gobbling themselves, in the case of Capital One, which is buying Louisiana-based Hibernia Corp. First USA went to Bank One Corp. in 1997; Providian is about to be acquired by Washington Mutual Inc. Metris is being purchased by HSBC. And Bank of America plans to purchase MBNA. Only Capital One and Advanta remain freestanding.

In this environment, community banks must take a fresh look at the agent bankcard relationships they've put in place. Reexamining contracts after any merger is a matter of due diligence; doing so after a big-bank competitor buys your old card accounts is a matter of self-preservation.

The recent announcement that Bank of America is buying MBNA is a case in point. It garnered big headlines in part because of the $100 billion in credit card assets involved. But to community banks, the real story is that one-sixth of those assets, or $16 billion, came from credit card portfolios that MBNA purchased from community-based financial institutions over the past few years.

For cardholders of these community-based institutions, MBNA has been their credit card provider. For community bankers, MBNA has been either the company they contracted with to operate their credit card programs—or, perhaps, one of the companies they were considering partnering with to provide credit card products to their customers. It is understandable that bankers in both categories want an answer to this question: Now what?

> Partnering with the right single-purpose specialty credit card company enables community banks to offer a full menu of card options to customers.

The answer depends on individual community bank circumstances.

For community banks whose credit cards are already being issued by one of the former monoline companies, their next short-term steps will be determined largely by the details of their agent bankcard contracts. For those not already committed to a vendor and for those evaluating alternatives, their focus should be more forward-looking: which credit card products and services do we want to offer our customers, and what do we want to accomplish with our credit card portfolio?

But first, some review. Most community banks have experienced steady erosion in the percentage of their customers who have their credit card. In addition, customers who do have a community bank credit card are using it less and carrying lower balances than in years past. It's also a fact, though, that consumers are not charging less—they are just using their community bank credit card less and other cards more.

So, community banks have three choices regarding their credit card services:

1. Continue the status quo, operating the program on their own with card options and pricing that are typically not competitive with what their customers are being offered by other issuers.
2. Drop credit cards as a product.
3. Outsource the program to companies that specialize in partnering with financial institutions to run their credit card programs.

Options #1 and #2 may be valid paths for a limited number of banks with special circumstances; banks in these situations are not likely to be concerned with the ongoing consolidation in the credit card industry. Option #2—and in most cases Option #1—also means community banks are willing to forgo the profits available from a competitive, up-to-date credit card program. More on that shortly.

Banks considering Option #3 recognize the profit potential of a dynamic credit card program. For these banks, the choice of a partner is critical to the future success of their card program. It makes sense for them to choose a partner that they and their customers will be comfortable with.

The $16 billion in credit card loans managed by MBNA for other financial institutions illustrates that some community banks may be comfortable with, and perhaps see advantages to, partnering with a credit card company that offers a full menu of other loan and deposit products under its own brand to consumers nationwide.

Many community banks are not comfortable having a partner that generates the bulk of its profits selling the same products to the same households community banks are serving. They see the potential for a conflict of interest and the prospect of having to monitor whether partner promises not to cross sell products are being kept.

For community banks that place a premium on peace of mind, we recommend consideration of credit card specialty companies that do not offer other consumer banking products. InfiCorp is one such company.

It makes financial sense for community banks to look for ways to introduce a credit card program or to energize an existing program that no longer meets the needs of customers. In most cases, however, it is not practical for community banks to make the investments in people, technology and marketing that are necessary to offer and maintain a competitive credit card program on their own. Partnering with the right single-purpose specialty credit card company enables community banks to offer a full menu of card options to customers. This will strengthen customer relationships and result in a more diversified and balanced lending strategy for community banks. Partnering with the right credit card specialty company can yield bottom-line rewards while eliminating top-of-mind risk concerns.

InfiCorp provides community banks a level and depth of credit card expertise that would be difficult, if not impossible, for an individual bank to achieve on its own. Yet, we remain a company that is "right-sized" for community banks, utilizing economies of scale of a major credit card issuer while still maintaining the personalization of a boutique, customer/client service center.

We think it is good that community banks have choices for partners that can help them get more out of their credit card portfolios. We also are convinced that a community banker's gut feeling remains a valuable test to determine whether a potential credit card partner is right for his or her bank. A concern that a potential partner is not a good fit for your bank should be taken into consideration as much as the information you gather from brokers, other community bankers and ACB partners. Hundreds of financial institutions have found the right partner for their credit card programs. You can, too.

Keith Floen is a managing director at InfiCorp, an ACB Business Partner and a leading partner of choice for financial institutions that choose to sell their credit card portfolios. InfiCorp is a wholly owned subsidiary of privately held First National of Nebraska Inc. Floen can be reached at (404) 965-6040 or by visiting www.inficorp.com.