LoanPaymentPro

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Top Lenders Embrace Debit Card Payment Acceptance

While the lending industry has been slower than others in accepting debit card payments, the practice is now mainstream among the nation's leading lenders.

LoanPaymentPro™ (LPP) is the consumer lending industry's leading debit card processing solution. LPP was built by lenders for lenders (behind a Consumer Installment License) utilizing proprietary patent pending technology, in parallel with our long developed working relationships within VISA/MasterCard and the CFPB, to create the only compliant debit card payment acceptance platform looked favorably upon by the Card Brand Associations to "enforce" their rules and regulations within the short-term debt repayment industry.

To meet customer demand for convenience, a recent study shows 60% of the Top 20 US lenders have added debit card processing for accepting loan payments with:

- 20% accepting debit cards only for those loans in collections;
- 40% accepting debit cards for on-time loan payments; and,
- 50% incurring no additional cost by allowing their customers to pay a service/convenience fee for making electronic payments.

Lenders offering debit card payment processing are improving portfolio performance through:

- Increased revenue from satisfied customers;
- Increased number of customers paying on time; and,
- Reduced customer service calls and staff time spent on payment exceptions.

The trend toward accepting debit cards for loan payments began in the collections arena, progressing to on-time payments for auto, credit card, mortgage, student, title and personal loans.

Many lenders that have held back on accepting debit card payments due to confusion around added processing costs compared to traditional ACH. In actuality, the total cost of accepting debit cards can be recouped and bring in new revenue opportunities for lenders from satisfied customers.

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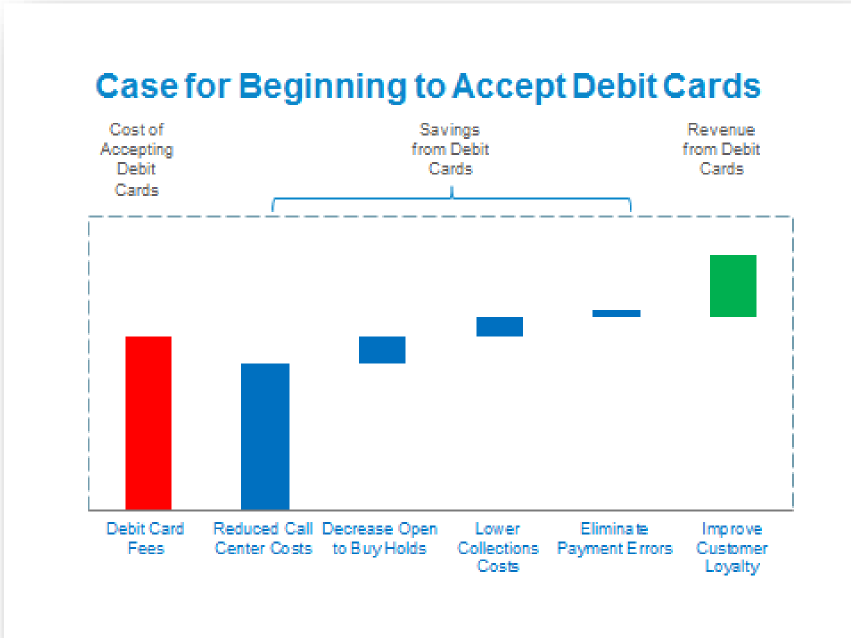

In comparison to ACH transaction fees, debit card payment acceptance ultimately provides lower total cost implementation over the life of the loan. This remains true whether the lender absorbs the interchange fees, or passes the fees along to the customer.

Lender Benefits of Offering Debit Card Payment Options

Lenders accepting debit card payments enjoy benefits in two categories: revenue growth and cost reduction.

Top Line Growth: Customer satisfaction with billing and payment experiences are the primary factors in determining whether or not customers originate new loans with their lenders, according to J.D. Power & Associates.

- Consumers prefer 3:1 to pay with debit cards over the ACH method;
- Debit card payments makes it easier for customers to pay since 80% of customers do not carry their checkbooks for making ACH payments, according to the Onovative Consumer Survey; and,
- J.D. Power & Associates also found that **90% of highly-satisfied customers say they will purchase additional loans from that lender**.

Cost Savings: Mailed check and ACH payments from customers often require customer service phone call follow-ups to confirm payments received. ACH payments contribute to higher call center costs according to Crone Consulting LLC with:

- Average customer service call costing $4; and,
- 80% of incoming calls are related to billing & payment.

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With debit card payments, calls are almost non-existent as the customer receive immediate confirmation. BlueFlame Consulting Survey shows compared to ACH payments:

- Debit cards shorten call times by 80% when customers call in to make payments;
- Debit card payment acceptance process does not require "disclosures and recordings" as mandated by ACH regulations; and,
- LoanPaymentPro™ increases payment acceptance more than 35% over other debit card processors.

When lenders accept ACH payments, they cannot immediately confirm if customer accounts have sufficient funds. If another creditor gets to the customer's deposit account first, the lender incurs costly payment errors and returns that require time and money to resolve.

With LoanPaymentPro™ Funds Verification Tool, both parties know right away if 100% of the payment will be received. If another form of payment is necessary, the LoanPaymentPro™ ZDA Tool (Zero Dollar Authorization) allows quick validation while the customer is on the phone without unnecessary transaction fees and customer account holds.

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Case Study #1 – Top 25 Lender Raising Loan Portfolio Performance with Debit Card Payment Processing

A top-25 lender in the US boosted its loan portfolio performance with debit card payment processing. The lender raised the number of performing loans due to a double-digit increase in customers paying on delinquent accounts and helped collect a greater number of payments on-time.

The lender also lowered the cost of collecting payments through competitive interchange rates for debit cards. This virtually eliminated staff time spent on payment exceptions since customers use debit cards more often now instead of ACH payments.

Other key objectives achieved by the lender included reducing customer service payment calls by one-third and saving treasury staff time spent on reconciliation. All of these cost reductions freed up additional cash flow. The lender was then able to leverage the cash to further expand its loan portfolio.

A vital mission for every bank is to increase the number of performing loans. The key is to make it as easy as possible for the customer to make their payments. With 80% of customers not carrying checkbooks on their person, most will pay their other bills first and put their loans at the bottom of the pile.

Bottom Line - Failure to meet customer preferences = increased non-performing loans.

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Case Study #2 – Capital One's Business Case for Accepting Debit Cards

"***Accepting debit cards was absolutely the right decision***," said Director, Payment Services at Capital One.

Customers Want to Pay Loans with Debit Cards

Customer demands lead Capital One to explore adding debit cards as a payment option; they reported that 1 in 8 pay-by-phone customers inquired about paying with a debit card. Telling customers they could not use a debit card created a poor customer experience.

The bank identified three customer segments that had high demands for debit card payment processing:

- Unbanked - subprime credit card customers who did not have a checking account, but did have a prepaid debit card or payroll card to pay their bill;
- Collections - customers who had previously been through the collections process with the bank, where Capital One did accept debit cards, now wanted to pay their bill on time using a debit card; and,
- No Checks - customers without access to their checkbook trying to make their first payment. Often customers would be at work calling to pay and did not have their checkbook.

Capital One built a rock solid business case for accepting debit cards for loan payment processing based on:

- Helping customers in need;
- Reducing risk and lower open to buy holds, thanks to a guaranteed funds model; and,
- Likelihood to pay increasing, which aligned with their collections strategy.

Success from Accepting Debit Cards

Lower than expected costs, fewer repeat calls and delighted customers resulted from Capital One's decision to accept debit cards. Capital One first enabled a small number of their call center agents to take debit card payments over the phone and after initial success, enabled the capability for all call center agents.

Costs have come in lower than anticipated due to:

- Customer paying with a debit card are paying a smaller amount than the average payment size;
- Fewer repeat calls, in the past customers were forced to pay with ACH and if they did not have their ACH information, they were forced to call back when they found it; and,
- Return rate for payments made over the phone decreased by 31%.

Capital One proved the business case for accepting debit cards for customers paying their loans. They built a rock solid case around satisfying customers, reducing risk, lowering open to buy holds, and increasing customer likelihood to pay.

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