

**AFFINITY CREDIT CARD PROGRAM
SUMMARY REPORT**

**Prepared for the
UNITARIAN UNIVERSALIST ASSOCIATION**

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**Valerie L. Holton
Marketing Outreach Consultant, UUA
vholton@uua.org**

ASSIGNMENT

Many non-profit organizations in the United States offer credit cards to their members. These programs are called affinity card programs because they seek card applications and usage from members who presumably feel a bond -- or affinity -- to the organization.

The card is offered by two organizations that partner in the effort – one the lending institution/credit card provider- the other the non-profit organization. Both stand to benefit from the program. The primary benefits in the partnership are financial. The non-profit receives a percentage of the revenues from the card usage, while the bank issuing the card gains new income from new customers.

The UUA seeks to better understand the opportunities for offering an affinity card to UUA members on a national basis.

This report includes the following:

- I. Summary Findings
- II. Sample Description of a Program
- III. Market Trends and Implications
- IV. Potential Benefits & Potential Drawbacks to Card Program
- V. Peer Analyses
- VI. Credit Card Issuer Responses
- VII. Case Studies
- VIII. Financial Projections
- IX. Recommendation

I. SUMMARY FINDINGS

- Major card providers appear disinterested in a UUA affinity card program. Small size of the UUA membership and the fact that this is a faith-based group are primary reasons cited.
- Potential income to the UUA is small
- Program risks out-weigh potential benefits

II. SAMPLE DESCRIPTION OF A PROGRAM

The card is offered by two organizations partnering in the effort -- one a lending institution and the other a non-profit organization. Hundreds of organizations currently offer affinity cards. The following examples show the diversity of organizations: AARP, Academy of Dentistry, American Boating Association, American Kennel Club, American Medical Association, Elks, Massachusetts Teachers Association, National Association of Realtors, San Diego Zoo, St. Jude Children's Research Hospital, World Wildlife Fund and Y-ME National Breast Cancer Organization. College and universities are also all major issuers of affinity cards.

The organization contracts with the bank to create a special card that bears the non-profit's logo. The organization receives a percentage of the transaction revenue from every dollar spent using the card, along with other possible income.

Income (and typical revenues) to the organization may include the following:

- Percent of retail transactions (dollars spent per month): ~.5%
- Flat fee per active card: \$1.00 per card holder
- Flat fee for cards that renew: \$1.00 - \$3.00

The organization receives a quarterly check with a summary statement of card usage.

In the past, some organizations were guaranteed a minimum income. Conversely, in other cases, the non-profits had to guarantee a minimum production volume to the credit card provider.

In return for the revenues, the nonprofit organization allows the credit card issuer to market the card to its member base. This is done through a series of direct mail campaigns (approximately 4x per year), possible telemarketing and e-mail solicitations, banner advertising on the non-profits website, applications in new member packets, etc. *Credit card issuers are interested in organizations that have a large membership and good contact information - volume dictates success.*

III. MARKET TRENDS

Consumer Usage of Credit Cards

- Nearly 190 million Americans carry a credit card
- 81 percent of all U.S. households have at least one credit card
- Almost 24% of non-cash retail payments in 2003 were made by bank and private label credit cards, with the number expected to rise to 30 % by 2006.
(Source: J.P. Morgan Chase)
- The average cardholder has 6.5 credit cards (bank and private label)
- 40% of accounts pay off their balances each month
- 55% “carry” a balance
- The average outstanding balance is \$2,500 and the average household card debt is \$8,500
(Source: Partners Marketing Group/Cardweb)

Consumer Attitudes about Credit Cards

The following attitudinal research from the Federal Reserve Bulletin (Sept. 2000) report *Credit Cards: Use and Consumer Attitudes, 1970-2000* may be of use to the UUA in evaluating how a credit card program would be received by UUA members:

Consumer attitudes about credit cards have changed over time. Opinions about credit cards are somewhat more negative and polarized in 2000 than they were a generation ago. When asked the question “Overall, would you say that using credit cards is a good thing or a bad thing?” among all families 33% answered “good”, while 51% answered “bad” (five point scale with remainder answering within extremes of the scale). In 1977, 27% of consumers thought credit cards were bad.

Credit card users were more favorable about card usage than the overall population. Nonetheless, unfavorable views among cardholders have also increased, with 42% stating that credit card usage is bad. However, 42% of users also view credit cards as “good”.

Consumers who use credit cards as credit devices rather than cash substitutes have even stronger negative opinions about credit cards, probably reflecting their frustration in fees and interest charges.

Consumers also seem concerned about specific practices of credit card issuers. They state that 1) annual percentage rates charged on outstanding balances are too high 2) they are concerned over privacy issues and 3) have little confidence in how *other* individuals manage their credit card usage.

In addition they express concern about general credit card issues. These concerns include the following:

- Belief that there is too much credit available
- Consumers are confused about card issuer practices
- Short-term low-rate solicitations (“teaser” rates) are misleading
- Users have difficulty getting out of debt
- Issuers should not be allowed to market cards to college students

While these are general attitudes about credit cards, the majority (90%) of consumers still believe that credit cards provide a useful service to consumers and 70% are satisfied with their card company relationship.

Credit Card Companies

There has been tremendous consolidation in the credit card industry. Bank of America in December 2005 acquired card behemoth MBNA and is now the biggest card issuer with \$144 Billion in outstanding credit card loans (point-in-time dollars outstanding on a card—these dollars may be paid off immediately or revolve). J.P. Morgan, through its bank acquisition of Bank One several years ago, is the second largest issuer with \$137 Billion in outstanding credit card loans.

The top eight BANK issuers are listed below. Among the top eight, the top three account for 80% of the outstandings. Bank of America (BofA) holds 30% of the share of the top eight providers:

Bank	Outstanding Credits Card Loans	Total Number of Accounts	Active Accounts	Total Cards
BANKofAMERICA/MBNA	\$144 B	86 M	51.7 M	115 M
J.P. MORGAN	\$137 B	77.2 M	40.4 M	98.2 M
CITIGROUP	\$114.1 B	123.9 M	74.2 M	142.4 M
CAPITAL ONE	\$ 46.3 B	49.2 M	26.6 M	52.2 M
HSBC	\$22.6 B	23.8 M	12.5 M	31.7 M
WAMU/PROVIDIAN	\$19.2 B	9.8 M	7.3 M	9.8 M
WELLS FARGO CARD SERVICES	\$7.3 B	6.6 M	3.5 M	7.1 M
US BANCORP	\$6.7 B	5.9 M	4.1 M	6.6 M

The credit card market is saturated. New credit-worthy customers are harder to obtain. As a result, new card solicitations (particularly by direct mail) are resulting in lower response rates. Over 50% of card solicitations are for “reward programs”. Response rates for reward card direct mail solicitations are ~ .5% -1.0%. Most other programs, including affinity cards, have a direct mail response rate of 1/3-1/2%.

Credit card companies are primarily interested in high membership affinity card partners (the UUA with its 150,000+ members is perceived as small). In addition, membership growth is important so that there is a new pool of prospects each year. Multiple contact information (e-mail, phone) is also important.

Affinity card contracts are not as generous to the non-profit as in the past. Credit card companies are passing more of the marketing and operational costs back to their non-profit partners and lowering the percentage rate on card transactions.

IV. POTENTIAL BENEFITS & DRAWBACKS TO CARD PROGRAM

Potential Benefits

Cardholders:

- Supporters of the UUA can feel good about making a contribution without having to donate personal funds
- Creates a stronger bond/affiliation with the UUA and the local church
- Increases brand awareness with the member. Serves as a reminder (brand “advertisement”) each time the card is used. This reminder may lead to increased direct donations.
- Generates pride in showing their UUA affiliation through the card identity
- Can be used as a way to create conversations and evangelize the faith
- Users like the fact that the UUA benefits financially from their transactions

The UUA:

- Alternative Revenue Source. Income received from
 - Royalties from new accounts approved
 - Income from cardholder (member) purchases
 - Card renewals
- Brand awareness. Every time the card is used the UUA name is advertised.
- Possible personal evangelizing by UUA members using cards – conversations with retail clerks, etc.
- Some members may welcome the efforts of the UUA to offer a card
 - May applaud efforts of the UUA to find additional revenue sources
 - May be grateful for a way to donate funds
 - May be appreciative of card offer
- May force UUA to keep more detailed and updated records of members

Potential Drawbacks

Cardholders:

- May resent that their membership information is being used for a commercial purpose; may not even be aware that the UUA has this information
- If UUA members have a negative experience with the card company that may create a negative opinion of the UUA
- May object to being solicited to use consumer credit services and possibly incurring greater personal debt
- May object on “moral” grounds – “church” should not be engaged in commercial activities, promotes consumerism and debt, etc.

The UUA:

- May experience member backlash if program is perceived as negative
 - Has little or no input on card pricing and term changes offered to members
 - Members may resent marketing solicitation
 - Members may be concerned about privacy issues – list usage, information on their credit worthiness, etc.
- Members see their affiliation as being with their local church. May not even realize that UUA has their contact information. May perceive that their church released their name to the UUA for solicitation. Peripheral ill-will with the congregations.

- Supporting program may be operationally cumbersome
 - Must release the names and addresses of its members to the card company for solicitation purposes.
 - List must be managed and kept up-to-date
 - Need to manage “do not solicit” responses
 - May need to determine legalities around releasing names
 - UUA has little or no control over the content and frequency of direct mail and telemarketing contacts
- May not derive sufficient income to make the effort worthwhile
- Must budget modest start-up, administrative, and legal costs to maintain the relationship with the issuer, to create name files, and to review contracts
- Must evaluate the program on ethical and moral grounds. Will the UUA be perceived as encouraging consumerism, spending and debt? Is this campaign in keeping with UUA values and principles?

IV. PEER ANALYSES: EXPERIENCES OF OTHER NATIONAL CHURCH ORGANIZATIONS

National church denominations and religious organizations were contacted to see if they currently offering affinity card programs. The following is the list of those contacted and their responses:

Organization	Comments	Offering?
Baha’i	Considered years ago	No
Church of Jesus Christ of Latter-Day Saints (Mormons)	Would not consider. Against their values	No
Episcopal	Have not considered. Decentralized church structure would make it difficult to market card effectively	No
Evangelical Lutheran Church of America	Do not offer	No
Lutheran Church – Missouri Synod	Do not offer. See comments below	No
Presbyterian Church (USA)	Do not offer. Have not considered	No
United Church of Christ	Investigated a card program. Comments below	No
United Methodist Church	Considered. See comments below	No

United Church of Christ. UCC investigated an affinity card program several years ago and again in the past six months. They decided not to offer a card for the following reasons:

- They could not find a provider. They contacted several credit card companies and found only one or two that were willing to talk to them.
- There were not enough benefits to UCC
- Believed that the credit card market is saturated and that they could not build a large enough account base to generate sufficient income.
- Informal conversations with UCC parishioners indicated that they were unwilling to switch cards. Consumers want points towards merchandise, air fares, etc. and have card loyalty based on those benefits.
- The process of setting up a program was cumbersome. There were logistical issues and costs to market the cards; UCC is very autonomous and it would have been hard to effectively market to their parishioners.
- UCC felt that the time and money used to manage this campaign would be better served with a direct solicitation to donors.

United Methodist Church. The concept was presented at a Board Meeting, discussed and dismissed. One reason cited was the concern about the “adverse” brand message if their cards were used for inappropriate sales in such places as liquor stores, bars, etc.

Baha’i. Discussed at the Board level and dismissed. The primary reason was that they did not want to appear to be “endorsing a product”. Their Chief Financial Officer stated, “regardless of the financial benefit, we felt strongly that we must act on our principles, and we have a strong statement that we will not endorse any commercial products.”

Lutheran Church - Missouri Synod. Offered credit cards in the 1990s through United Missouri Bank, but terminated due to required production guarantees from the card issuer, an unexpected request to help with collections of overdue accounts, and the small amount of revenue received for “a lot of work and headaches”. Church leaders concluded they did not want to get involved in the financial affairs of their members in this way.

V. RESPONSES FROM CREDIT CARD ISSUERS

Many of the issuers *refused* to discuss their programs. Their protocol is to have the non-profit express interest and apply for consideration by FAX or via their website. Several banks were contacted that way. To date, no card issuer has expressed interest in pursuing a relationship with the UUA. In fact, it may be difficult to find a card issuer interested in an affinity partnership with the UUA.

MBNA (soon to merge with Bank of America) – Conversations were held with the MBNA sales representative. A typical program generates income through a % of retail transaction dollars, and a new and renewal card fee (~\$1.00 per card). MBNA does the advertising through direct mail, e-mail and telemarketing. The sales rep stated that they had done church affinity cards in the past, but they had not been particularly successful. He requested that the UUA submit an application for consideration. The application was NOT submitted.

US Bancorp - Contacted. They declined to pursue relationship - not interested in doing business with the UUA because it is a religious organization. Concerned about their brand being affiliated with a religion’s values.

Capital One - Repeated phone messages and e-mails did not gain a response.

Chase – Only permitted to request by fax. Request made. No response.

First Midwest - Requests were made to several smaller providers. This card issuer works through a larger provider (First National Bank of Omaha) to manage affinity programs. Require > 500,000 members. Request denied.

VI. CASE STUDIES

Large non-profit with a social justice mission

One million “records” in entire database, including obsolete names, past members, etc.
~ 550,000 active names (members plus others); 360,000 current members.
Current annual operating budget ~\$40 Million.

In 1996-7 this organization started an affinity card program. They had a three year contract with MBNA. At renewal time (2000) they requested proposals from other credit card issuers and signed a five year contract with First USA (acquired J.P. Morgan/Chase). First USA offered a good contract, with guaranteed income component of \$100,000 year/\$500,000 over five year contract. The contract terms included:

- Fee for every new card (\$1.00)
- Percentage of revenues (50 basis points = ½ of 1%)
- Fee for renewal (\$3.00)

All marketing was done by First USA. The nonprofit provided the list. The list was flagged for members to “opt out” of being solicited. Some members were offended by the program even though it benefited the organization. The initial mailings under the First USA relationship (1999-2000) were to 200,000-250,000 households, four times a year, based on an initial list of 550,000 households. The solicitation list was determined by the credit card credit card company who ran the list against a credit profiling filter that identified good prospects and screened out credit unworthy prospects. The last mailings, conducted in the past eighteen months, were against the membership list of 360,000. Of that list, approximately 100,000-200,000 members were solicited in 2004.

The response rate has declined in recent years. First USA stopped doing mailings because of low response rates. During the first three years of the program (1997-2000) the non-profit had 6,000-7,000 card holders. Currently they have <10,000.

During the contract term, the bank changed the terms and conditions of the card holder agreement. Customers with late payments were charged a higher interest rate – in some instances as high as 29.7% from an initial 11% rate. First USA also looked at the household’s entire payment history – not just the non-profit member’s card - to determine the interest rate adjustment to the card holder. This created ill-will with some members.

The relationship between First USA and the non-profit also declined. There was a high turn-over in the account management structure at First USA. Customer service to the non-profit was adversely impacted.

The contract with First USA was up for renewal in 2005. First USA signaled a disinterest in the relationship. Marketing support was deleted from the contract and a dramatically lower guarantee of income was proposed. The non-profit felt that their values and mission around “justice making” were in conflict with the credit terms imposed on their members. The relationship was terminated.

During the course of the five year contract the non-profits fund-raising goals were between \$23-25 Million. Last year revenues from the affinity card program were \$140,000.

Large non-profit with environmental mission

1.2 million members

Annual operating budget ~ \$100+ Million

This organization started an affinity card program in 1995. In 2002 they moved their relationship to Chase Bank.

From the initial list of 1+ million members, the card issuer sends approximately 100,000-200,000 solicitations each year. The offer is a pre-approved card. That is why the mailing quantity is low. It reflects credit screening. It also reflects those members that have opted out and are on a "do not solicit" list. Among the members solicited response rates are about .3-.5%.

Fees generated come from:

- Percent of sales (1% - a rate that is considered very high. This organization was early in the affinity card movement and acknowledges that this rate would no longer be offered).
- New card application

Chase Bank pays for all the marketing. There has not been any negative response from members. The non-profit supports the affinity program by running periodic articles in their newsletter and placing applications in donor packages. There is no solicitation on their website.

This non-profit is pleased with their affinity program. Over 10 years they have generated a total of \$10 Million (~\$1 Million a year). This represents one of their "top five corporate fund-raising activities" (third in revenues). On an annual budget of \$100 Million, the affinity card program is 1% of income.

VIII. FINANCIAL PROJECTIONS - UUA

First Year Income

Assumptions:

1. UUA adults in database: 158,000 (150,000)
2. Household list for mailing: ~100,000. Cleaning of files for accuracy and credit card scoring will reduce the 150K list.
3. Mail response rate: .05% (realistic for credit card solicitations).
4. Monthly transaction volume per card: \$2,500
5. Percentage Revenues to UUA: .05% (50 basis points)
6. Additional Fees: \$1.00 per new card

100,000 x .005 = 500 cards

500 x \$2,500 x 12 months = \$15,000,000 x .005 = \$75,000 (+ \$500 for new cards) = \$75,500

The low card projection is probably the reason that card issuers are not expressing interest in an affinity card partnership with the UUA. Volume drives their business; the financial pay-back is not significant enough to the card issuer.

VII. RECOMMENDATIONS

The UUA must decide whether the revenue opportunities out-weigh the potential downside risks of an affinity card program.

The UUA should also consider whether the resources used (time, money, personnel, etc.) towards the success of this program would be better used elsewhere, i.e. for direct donor solicitation or other fund-raising initiatives.

In conclusion, it is recommended that the UUA should not offer an affinity card for the following reasons:

- Major affinity card providers appear disinterested in partnering with the UUA
- Possible draw-backs seem to out-weigh the benefits. Of particular concern is possible ill-will from congregation members.
- Potential income to the UUA is small
- Case studies indicate that even with the most successful programs, revenues represent a very small percentage of total funds raised to support annual operating budget