V. MARKETING AND ACQUISITION

The intense competition in the credit card industry coupled with the relative saturation of the market makes generating new accounts extremely challenging. Attaining new and retaining existing accounts, which are crucial for a successful credit card operation, may be a long-term challenge for card issuers. Examiners should look for evidence that the marketing function remains effective, well-developed, and carefully attended to no matter how challenging the market becomes. Marketing plays a critical role in determining asset quality, and ineffective or inappropriate marketing practices can subject the bank to elevated risks, including, but not limited to those regarding credit, reputation, and compliance. For example, aggressive solicitation programs could increase the bank's credit risk if the resulting credit card accounts experience higher-than-projected delinquencies and losses. The bank could suffer financial stress from sizeable collection costs, excessive credit losses, substantial financial penalties, or other matters. The ability to effectively attract credit-worthy consumers hinges on marketing's ability to identify, target, and attract desirable borrowers.

Marketing programs vary widely and can be as simple as offering credit cards to existing bank customers through "take one" **applications** in the bank's branches or as complex as selectively soliciting consumers in a large, nationwide mail campaign. Marketing programs are designed to promote loan growth and improve earnings, are expensive, and are not without risks. Examiners should assess management's practices for clearly defining and controlling marketing processes. They should also identify whether the bank's marketing plan is detailed, realistic, and consistent with the bank's overall strategic plan. Involvement of all applicable functional areas of the bank (such as credit risk management and information technology) is necessary to help ensure that all risks are sufficiently addressed. Necessary components of a successful marketing operation include experienced and competent management and staff, reliable projections and market analysis, and complete and accurate MIS. Examiners should review management's practices for reviewing marketing materials, consumer disclosures, and product features and terms prior to implementing marketing initiatives. Such practices by management aid in identifying and addressing potential discriminatory, unfair, deceptive, abusive, and predatory lending practices.

MARKETING CHANNELS

Conventional Mail Delivery

Conventional mailing campaigns remain the most prominent marketing channel. Mail marketing can take on a variety of forms and may include pre-screened offers and application solicitations. The term "direct mail" is commonly used and generally refers to mail directed to a specific consumer. In 2005, over six billion credit card offers were mailed.[5] While the volume of card-offer mailings is immense, response rates are nominal and declining. Direct mail response rates, which were 1.2 percent in 1998, declined to 0.2 percent in the first quarter or 2006.[6]

Online Methods

With the rise of electronic environments, online marketing is popular and has many forms. For example, banks advertise credit cards on their own web sites, on facilitator sites (sites that promote a variety of cards from various issuers), with banner ads, and with email solicitations. They also use search engine marketing or optimization techniques which help steer consumers to the bank's web site. Emerging online methods to market bank services, which potentially

[5] According to an April 28, 2006 article entitled "Card Mail 2005" on CardWeb.com, Inc.'s CardTrak web site.
[6] According to a June 13, 2006 article entitled "CardMail" on CardWeb.com, Inc.'s CardTrak web site.

could include credit cards, include **podcasts** and **blogging**. With online marketing, the bank is often reliant on consumers seeking out the bank and may experience **adverse selection**.

Email solicitations fall under the purview of the *Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN SPAM)*. Interagency procedures for examining compliance with CAN SPAM and the *Telephone Consumer Protection Act of 1991 (TCPA)* were distributed on December 14, 2005, and should be considered when reviewing email solicitations as well as telemarketing. While these procedures are normally completed during compliance examinations, risk management examiners should be mindful of the general requirements of CAN SPAM and TCPA and should consult with their compliance counterparts when they identify any potential concerns regarding the bank's compliance with these regulations.

Outbound Telemarketing

With outbound telemarketing, marketers contact the consumer via a telephone call or message. The Federal Communications Commission (FCC) has issued regulations that establish a National Do Not Call Registry as well as other modifications to the TCPA. The FCC regulation expanded coverage of the National Do Not Call Registry by including banks. FTC telemarketing regulations parallel the FCC regulations and apply to other business entities, including third parties acting as agents or on behalf of a bank.

Telemarketing is also subject to a number of other restrictions. Among the restrictions are time-of-day limitations and rules regarding the use of automated telephone-dialing equipment. Use of automated dialers is a standard industry practice, and telemarketers are expected to employ consumer-friendly practices when utilizing such technology. For telemarketing programs, risk management examiners should be mindful of the TCPA guidance mentioned in the Online Methods section of this chapter and should consult with compliance counterparts as needed.

Television

While many banks use television to advertise traditional banking activities, television advertising specific to credit cards is mainly used by the larger issuers that offer nationwide programs. The costs of this type of marketing are often high, and the results are usually difficult to predict. The quality of responders to television ads is highly sensitive to the time slot of the ad, the programming during which the ad runs, and the tone and content of the ad.

Print Ads

Print ads include ads such as those found in magazines, newspapers, or other publications. They usually provide the consumer with a phone number and/or web-site address to use to apply. These advertisements are essentially directed to the general public but have a target market to some extent based on the traits of the publication's typical readers.

Special Event / In-Person Promotions

Banks use special event or in-person promotions in which bank representatives may be physically on location at a venue, such as a sports event, to advertise the products to the event's attendees and participants. These promotions often include "take one" applications.

"Take One" Promotions

"Take one" promotions involve applications that the customer can "take" from various locations, such as the bank's branches or other locations. It most often involves applications or brochures placed in the sight of consumers, such as on counter-tops or at the point-of-sale.

MARKETING AND ACQUISITION METHODS

There are several distinct methods of attaining new accounts, including pre-approved solicitations, applications, and portfolio acquisitions. All require prudent underwriting practices to achieve and maintain sound credit quality.

Pre-Approved Solicitations

Pre-approved offers account for a sizeable percentage of credit card enrollments. They are marketing campaigns where a firm offer of credit is made to a list of prospects, usually by conventional mail but sometimes by phone or email. Problems may arise if management has not determined, prior to engaging in pre-approved solicitations, whether its systems are adequate to capture needed data. For example, systems often must be able to capture a multitude of information, including scores, the number of customer responses, and approval/denial reasons.

The pre-approved solicitation process involves developing specific credit criteria from which the final solicitation list will be developed. The screening criteria include both credit criteria and exclusion criteria. This process normally involves a joint effort by the marketing and risk management groups. In general, the marketing group identifies the target population, the type of product, and the marketing costs while the risk management group establishes the screening criteria, sets credit limits, and monitors the campaign's success.

The target population can be derived from either a general **credit bureau** search based on specific criteria or lists developed by the bank using either internal information or lists acquired from third parties or affiliates. When the bank develops a preliminary list from either internal or acquired sources, pre-bureau list processing (scrubbing) could be completed by the bank or a designated third-party before providing the list to the credit bureaus to start the screening process. For example, duplicate records are normally deleted, and the lists may be scrubbed against several files, including, but not limited to, the:

- Existing customer base to drop names of existing customers if a multiple account strategy is not involved.
- Do-not-solicit file to eliminate the names of consumers who have opted out of receiving solicitations.
- Prison address files to limit instances of issuing cards to incarcerated individuals.
- Charge-off files to avoid marketing to consumers with non-ledger debt at the bank.

The scrubbing process helps the bank with limiting costs and potentially employing an efficient and effective marketing campaign. Scrubbing processes are used for certain application strategies, as well. For example, for lists of names from a third party (such as a college or association), the bank may scrub the list prior to sending out invitations-to-apply (ITAs) in order to not market to existing customers. Application strategies are discussed later in this chapter.

Following pre-bureau processing, the screening of prospects begins at the bureau level. Even though the bank may submit names and addresses to the bureaus if using internally-generated or acquired lists, the screening results initially provided to the bank from the bureau only include data on the pool, not identifying consumer information. This process ensures that, at this stage, the bank cannot identify which consumers from the lists submitted to the bureaus met the screening criteria or did not meet the criteria.

For populations to be drawn from a general credit bureau search (rather than a list), the credit bureau's data base is searched to determine which consumers meet the screening criteria (and are not on the bureau's do-not-solicit file). Scrubbing qualifications similar to those used in pre-bureau processing for purchased lists are generally incorporated into the search criteria.

The screening process usually yields two separate files. One file includes data (but not identifying consumer information) on the pool to which the bank might offer credit, or the inclusion list; the other identifies the group to which it will not extend credit, or the exclusion list. The exclusion population includes records matching the scrubbing criteria provided, and, therefore, represents those records that will not be considered further for the current credit offer.

The group on the inclusion list undergoes scoring. It is segmented into various levels based on credit criteria, often including credit bureau scores. For example, the levels may be designated as “A,” “B,” and “C” with level “A” consumers exhibiting higher credit scores and lower credit risk while level “B” and “C” consumers would have lower credit scores and exhibit higher credit risk. Certain other predictors, such as risk scores, can be considered and appended to the data. For more information on scoring, refer to the Scoring and Modeling chapter.

By segmenting the group, management is able to select the risk profile it desires and offer a variety of prices and products. For example, segmentation can help banks finalize their credit line assignment criteria. Some banks assign the credit line up front and disclose the line to the consumer as part of the pre-approved offer. Other banks offer the consumer a credit limit up to a maximum amount in the solicitation, and then assign the credit line after the consumer responds. “Up to” campaigns in and of themselves are not contrary to law. They may, however, warrant criticism if not properly administered (for example, when the maximum credit line offered is rarely assigned). Examiners should closely review the bank’s use of “up to” marketing campaigns, including reviewing the marketing materials and reports on lines assigned. In addition to incorporating findings into the risk management examination process, examiners should consult with their compliance counterparts regarding programs of potential concern. Credit line assignments and management are discussed in the Underwriting and Loan Approval chapter as well as the Portfolio Management chapter.

The feedback (or the data and files that are assembled by the bureaus) that has been provided to the bank thus far in the process and that has been used to help it select the desired risk profile still does not include identifying consumer information. Identifying information is explicitly excluded in order to avoid triggering provisions of the Fair Credit Reporting Act (FCRA). As such, management is able to analyze the scoring distributions of the inclusion group as well as the size of the population and refine the marketing campaign to fits its needs. For example, the score distributions can be tightened and the population can be reduced.

Once management has refined the campaign and is comfortable with screening results (including ensuring that those results accurately reflect the criteria provided to the bureaus and list providers), it takes delivery of a list which includes identifying information. That identifying information includes the name and address of the consumer, an identifier that is not unique to the consumer and that is used by the bank solely for the purpose of verifying the identity of the consumer, and other information that does not identify the relationship or experience of the consumer with respect to a particular creditor or other entity. In accordance with the FCRA, firm offers of credit must be made to the consumers on the list. The only scrubbing-type processes that may occur once the bank gets this identifying information would be those consistent with the permissible purpose guidelines set forth in the FCRA. Keeping the length of time minimal between receiving the list and soliciting the consumer helps ensure that credit is extended only to desired risk profile. Employing a deadline for offer acceptance also helps in that respect as well as in respect to liquidity planning.

Application Strategies

Application strategies vary between banks depending on size and marketing strategy. These strategies are largely overshadowed by the pre-approved solicitation strategy but remain an effective method for reaching some market niches. Credit card application strategies can include, but are not limited to, telemarketing, direct mailings, print ads, take one applications, and internet. For example, a bank might mail ITAs to consumers who are on a certain list (like a list of customers for a certain retail establishment). In these cases, the bank's selection processes have not gone to the level of pre-approval. However, they may have included scrubbing processes, such as to eliminate mailings to existing customers or to consumers on the do-not-solicit list. The consumer completes the application, and the bank then determines whether or not credit will be extended, which frequently incorporates reviewing the consumer's **credit report**, including the consumer's credit score.

Portfolio Purchases

Portfolio acquisition is the purchase of all or part of a credit card portfolio from another entity. Banks often purchase portfolios to rapidly expand an existing credit card operation, realize the advantages of economies of scale, or diversify product lines or geographic markets. In addition, the cost to purchase a portfolio may be significantly lower than other acquisition methods. Saturation in the industry also makes this method attractive to banks. General information about portfolio purchases is found in the Purchased Portfolios and Relationships chapter.

FAIR AND ACCURATE CREDIT TRANSACTIONS ACT OF 2003 (FACT ACT)

The FACT Act was established December 4, 2003, and amends the FCRA. There are provisions that do and will impact marketing, including those regarding use of affiliate-shared information and enhanced disclosure of opt-out means. Examiners should be cognizant of FCRA and FACT Act provisions and should consult with their compliance counterparts if they observe any potential concerns regarding a bank's compliance with the regulations' provisions.

The FACT Act amended the FCRA in part to enhance disclosure of the means available to consumers to opt out of pre-screened lists and thus allows consumers greater control regarding the type and number of marketing solicitations that they receive. Section 615 of the FCRA requires that certain statements be provided with each written pre-screened offer and is amended by Section 213 of the FACT Act. The amendment requires that the mandated statement be simple and easy to understand and, in effect, gives consumers better access to information about how to opt-out of pre-screened lists at **consumer reporting agencies**.

Affiliate marketing provisions were amended by section 214 of the FACT Act and are covered in Section 624 of the FCRA. That section requires consumers to be provided with a notice and an opportunity to opt out of an entity's use of certain information received from an affiliate to make solicitations to the consumer. The opt-out right differs from restrictions in the Gramm-Leach-Bliley Act (GLBA) and in other FCRA provisions because it is tied to use of the shared information rather than to the sharing of the information. The federal banking agencies along with other applicable agencies are developing final regulations to implement the opt-out requirement. Banks are not subject to the requirements until the final rules are implemented and effective. Therefore, examiners (as well as bank management) must remain abreast of new and ever-changing industry guidelines.

BALANCE TRANSFER AND PROMOTIONAL RATE MARKETING

Promotional rate marketing attracts new customers and/or induces new and existing customers to transfer balances by offering a reduced interest rate for a limited time on certain charges and transactions. The reduced rate is also often subject to other material limitations. Without adequate controls, promotional rates may disguise a borrower's repayment capacity when qualification is based on the reduced rate rather than the re-set rate. In addition, higher **attrition** may occur when promotional rates expire. Like “up to” marketing, promotional rate marketing in and of itself is not contrary to law, but, if not administered properly, can warrant criticism. For example, the lack of full and prominent disclosure of material limitations or applicable fees may be problematic. Examiners should closely review promotional rate marketing programs and consult with their compliance counterparts if concerns are identified.

Banks often offer a **balance transfer** option as part of a pre-approved or application strategy and often in conjunction with promotional rate marketing. With a balance transfer, a consumer transfers all or a portion of their credit card debt with other entities onto the credit card extended by the bank. The consumer is often enticed to transfer the balances by receiving a lower interest rate than what they might have on their existing accounts. The characteristics of the debt transferred can vary depending on the bank's program. For example, some banks offer to take transfers of bad debt. Balance transfer strategies can result in rapid growth of receivables, and as such, should be carefully monitored and managed. For example, rapid growth could exceed the level of available funding capacity. Furthermore, the immediate booking of relatively large balances can distort performance ratios. Profitability can also be easily impacted depending on consumer behavior. For example, some consumers pay off the balance or move the balance to yet another card before or at the time the promotional rate on the existing card expires. The cycle may occur over and over, with the consumer able to take advantage of extremely low interest rates for an extended period of time. Promotional rate and balance transfer marketing are responsible for some degree of customer loyalty erosion that has occurred in the industry.

CREDIT AVAILABILITY AND CARD UTILITY

Compliance, credit, reputation, and other risks may arise depending on a cardholder's credit availability and **card utility** at account opening. There are credit card products in which significant fees or other items are immediately charged by the bank to the card, sometimes approaching the nominal credit line, which result in the consumer having little available credit or card utility. In addition to complying with technical disclosure and other requirements, issuers of these types of products are expected to carefully ensure that their marketing solicitations, disclosures, and other materials do not violate prohibitions against unfair or deceptive practices. In general, expectations are that all marketing and other materials contain prominent, readily understandable disclosures of the material costs, risks, terms, and other characteristics, including conditions and limitations, of the product offered. Some banks have been required to discontinue certain programs based on concerns about available credit and card utility and have incurred significant financial penalties for improperly administering and managing such programs.

ADVERSE SELECTION

Within any population of potential customers there is an expected number of bad credit risks. Adverse selection occurs when a disproportionate number of bad credit risks respond to an offer and fewer than expected good risks respond. Contributing factors can include using non-current information in the analysis or lacking a full understanding of the market. Marketing to respondents above management's prescribed cut-off score does not ensure satisfactory asset quality and an adequate distribution across the range of acceptable scores is generally preferred. A concentration of respondents with scores at the low end of the range is an indication of adverse selection and normally results in higher levels of delinquencies and charge-offs than anticipated. Adverse selection might result in a product that is offered at a price that does not cover the potential risk for a given market and may also result in greater-than-anticipated loss rates.

Combating adverse selection begins with an effective marketing campaign. Good credits tend to selectively respond to credit offers, while bad credits tend to be less selective. Attracting good accounts is increasingly difficult due to the intense competition in the industry. But, tightly defined marketing and segmentation strategies may effectively reduce adverse selection.

Once a pre-screened solicitation is mailed, management's options are reduced. Credit generally must be granted, except under very limited circumstances, as discussed in the Underwriting and Loan Approval chapter. Portfolio analysis and account management techniques, however, can be employed to minimize losses. Post-screening is a valuable tool. An increase in the number of respondents with large decreases in credit scores between pre-screening and post-screening is a symptom of adverse selection. If adverse selection is detected, management may be able to take actions, such as reducing the size of credit lines being granted or limiting cash advances, to reduce exposure. Post-screening is discussed in the Underwriting and Loan Approval Process chapter. Tracking is useful in both the short and long run. In the short run, tracking, like post-screening, can help determine whether adverse selection is occurring. Once alerted, management can respond accordingly. In the long run, the information gained from tracking improves management's understanding of the market segments. This understanding assists management in developing marketing strategies and products that are attractive to the best prospects in those segments and in limiting adverse selection.

PRODUCT DIFFERENTIATION

In light of marketplace challenges to attain accounts, successful issuers continually find ways to differentiate their products to attract consumers. Product differentiation often involves value-added features. One example of a value-added product is a reward card. Reward cards include, but are not limited to, those cards that offer cash rebates, airline miles, and points toward a variety of items and services. Some rebates are even automatically contributed to pay down a cardholder's mortgage or build a savings plan. A value-added feature marketed on some subprime accounts is the potential for the consumer to mend his or her credit and/or increase his or her credit score.

Banks also attempt to differentiate their products with creative pricing. For example, the promotional rate marketing programs (sometimes known as **teaser rate** programs) are designed specifically to draw in consumers with attractive, low rates. In other cases, card products reflect variations in pricing terminology, such that the terminology differentiates the product in the consumer's view even though actual pricing might be similar or the same. Take, for example, a small subprime credit card product that involves front loading $175 of fees to the card. Some issuers might market the $175 as a lump-sum fee while others might parcel the fees, such as by marketing them as a $99 acceptance fee, a $49 set up fee, and a $27 annual fee. While they result in the same initial charge, some consumers may view the products very differently.

Examiners should gain an understanding of the features of the bank's credit card products. An understanding of the features will help examiners to better assess the bank's risk management practices and will also help in reviewing certain component areas, such as earnings. Examiners should also look for evidence to substantiate credit-repair or similar claims made.

TESTING

Testing changes in credit standards or marketing practices before full roll of such changes is necessary for an account acquisition program to remain effective. In addition to requirements for analysis, review, and decision making, examiners should expect that a bank's testing program have defined objectives. Management may employ an assortment of tests to evaluate variables such as, but not limited to, changes in cut-off scores, pricing, or product type. Key concerns with new product offerings or marketing changes include the amount of historical or test sample data available, the speed with which the product or change is introduced, and the size of the solicitations or test cells. It normally takes several months or even a year or more before bank management can draw a valid conclusion. The necessary duration of the test can vary, but when tests involve a significant departure from existing practices, the duration of the test should normally be longer than in other cases. In addition, the testing period should endure through the point of historical peak losses for a particular population and should allow for the proper work-through of any operational or other issues.

To carry out testing functions, management often runs **champion/challenger strategies** which involve applying one strategy (a champion) against a portion of the population and applying other strategies (challengers) against other smaller segments of the population. The goal is to identify more successful and effective practices. When a challenger proves more effective than the champion in meeting the identified objectives, management usually substitutes the challenger for the champion in the future. Champion/challenger strategies are used not only in the marketing function, but in various other risk management functions as well. Examiners should assess whether management adequately tests challengers and thoroughly weighs the costs/benefits before implementing them as champions. The following features generally describe what to look for in an adequate test:

- Covers a sufficient timeframe.
- Consists of a population large enough to make the results meaningful.
- Is well-documented.
- Includes clear descriptions of test objectives and the method(s) used.
- Considers risk and return objectives as well as credit performance hurdles and other key performance measurements.
- Considers the impact of circumstances or assumptions that may not necessarily be specific to the test or the test population, such as economic changes, natural disasters, or legal/regulatory changes.
- Is properly approved.
- Includes a strong test and control discipline that includes a clean hold-out group and test groups that are not subject to other initiatives that could influence the outcome.

MARKETING INDICES

Management's responsibility is to demonstrate their ability to successfully manage marketing operations through reliable projections and market analysis, all within the confines of controlling credit risk and remaining compliant with laws, regulations, and other guidance. Management closely monitors a variety of marketing indices, including the response rate and the costs of solicitations. The response rate is the number of applications received to total solicitations. The higher the response rate, the lower the origination cost per account. Marketing costs can fluctuate significantly depending on the size of the solicitation and the channel used, among other things. As such, marketing costs are tracked in detail. For example, management normally tabulates and tracks the cost per piece to prepare and mail each offer.

SEGMENTATION METHODS

Segmentation is the process of dividing a group into homogenous populations. A wide variety of features can be used as the basis. Examiners should evaluate how management determines its information needs and identifies and selects the segmentation basis that satisfies those needs. Typically, trends monitored by segment include delinquencies, bankruptcies, losses, **utilization** rates, attrition rates, payment patterns, and credit bureau and/or **behavior scores**. Trend analysis not only aids in the development and/or refinement of future marketing strategies, but of asset management strategies as well. Potential segmentation methods include, but are not limited to, the following:

Product Line

Segmentation by product line focuses on the type of card product offered. Product types such as affinity, co-branded, premium, and standard cards are targeted at different populations and use different selection criteria. Management may segment on this basis to help monitor historical and current trends, adjust marketing strategies, and set interest rates and fees on future products.

Geographic Location

Segmentation by geographic location captures regional differences in card usage and monitors local economic conditions. Not only does geographic segmentation better enable management to concentrate collection efforts on particular hot spots across the country, but it also allows management to adjust marketing strategies for areas with deteriorating economic trends. The importance of geographic segmentation was emphasized when banks across the country had to deal with the impacts of Hurricane Katrina on their cardholders and card portfolios.

Vintage

Risk management often monitors solicitation programs by **vintage**. Segmentation by vintage tracks the performance of accounts established at a similar time using the same credit and pricing criteria and is relevant because the performance of vintages changes over time. For example, the delinquency rate for accounts established three months ago can be compared with more seasoned accounts when they were at the 3-month vintage. This comparison allows management to more accurately assess the quality of newer accounts and monitor changes in the shape of the **loss seasoning curves** between vintages. Credit card receivables often follow fairly predictable seasoning curves in which delinquency and loss rates are typically very low for new accounts for the first few or several months, then rise significantly, and eventually level off and follow a fairly predicable pattern. Vintage analysis helps identify where a portfolio segment is at along the seasoning curve and can assist management in predicting future performance.

Vintage reports are normally generated monthly to enable management to better identify and act on developing trends in various performance characteristics such as delinquencies, bankruptcies, losses, utilization rates, attrition rates, or behavior score distributions. Initial vintage reports are limited because sufficient time has not passed to establish performance patterns and may only include the quality and quantity of the respondents, and whether the marketing campaign attracted the desired consumers. Vintage analysis reports are used to determine if actual portfolio performance has met management's projected performance.

Acquisition Method and Marketing Channel Method

Segmentation by the acquisition method separates accounts based on how they were acquired, and segmentation by the marketing channel method separates accounts based on the type of channel utilized. Institutions typically segment by these methods to better evaluate and monitor the success of the pre-approved solicitation, application, or purchased programs or to better evaluate and monitor the success of the marketing channels used.

The characteristics of the respondents to each of the bank's solicitations normally varies as a result of a number of factors such as the characteristics of the targeted population, the demographics of the respondents, the level of the cut-off scores, or the stringency of credit standards. Examiners should ascertain whether management understands who is responding to solicitations, why the responders are attracted to particular offers, and how various response patterns are affecting the bank's asset quality.

Review by solicitation allows for more precise identification of the cause of asset quality problems. For example, delinquencies and losses may primarily reflect a poorly designed solicitation offer and be centered in one portfolio, or they may reflect general economic conditions and be spread across all portfolios. Review by solicitation also aids in refining future strategies. Review of the score distribution and delinquency rates demonstrates whether desired markets were reached and aids in evaluating the effectiveness of a solicitation strategy.

Management segments by application type to assist in monitoring historical and current trends, adjusting application strategies, and setting interest rates and fees on future products.

Management typically monitors purchased portfolios to track current performance and to evaluate that performance against past trends. Monitoring may include tracking utilization rates, purchase volume, average outstanding balance per account, delinquencies, charge offs, and other items.

Other Methods and Combinations

Management can also use other segmentation methods, such as scoring. It often uses more than one segmentation method in its risk management processes and frequently uses combinations of segmentation methods to further delineate a population. For example, management might segment via product line and then further segment a product line by marketing channel. Examiners should ascertain whether the segmentation methods used are sufficient to provide valuable and effective insight as to the successfulness of the marketing program. Segmentation is also discussed in other chapters of this manual, including the Portfolio Management, Capital, and Reserving for Loan Losses chapters.

SUMMARY OF EXAMINATION GOALS – MARKETING AND ACQUISITION

Examiners are tasked with assessing whether marketing activities are consistent with the bank's business and strategic plans and risk tolerance objectives. They are to determine whether proper controls and systems were in place before the bank rolled out new marketing or account acquisition strategies and should consider reviewing items such as, but not necessarily limited to:

- The structure of the marketing department and the expertise of its staff.
- Applicable board and committee minutes (coordinated with the examiner-in-charge).
- Marketing policies and procedures.
- The marketing plan.
- The types of marketing channels used.
- Audits or other reviews of the marketing function.
- Marketing materials and cardholder agreements.
- Testing and roll-out processes for new products, marketing campaigns, or other significant initiatives.
- The chronology and composition of marketing campaigns (often maintained in a chronology log).
- Controls for affinity, co-branding, and other third-party relationships.
- Management reporting, tracking, and monitoring including department statistics, portfolio statistics, and other segmentation statistics.
- Planned product offerings or marketing changes.
- Management's identification of and response to adverse trends in the marketing area.
- Documentation substantiating unusual, sensitive, or potentially over-zealous marketing claims.
- Findings of other regulatory reviews of marketing (for example, compliance reviews).

The following items might signal current or future elevated risk and warrant additional follow-up:

- Extremely low or high response rates.
- Significant changes or swings in marketing volumes and/or channels.
- A high or increasing volume of consumer complaints regarding marketing practices.
- Significant audit or prior examination findings.
- Lack of sufficient management response to adverse trends or audit and prior examination findings.
- Absence of written policies and procedures.

These lists are not exhaustive, and examiners must exercise discretion in determining the expanse and depth of examination procedures to apply. If they identify significant concerns, they should expand procedures accordingly.