

# Should Lenders & Leasing Companies Accept Debit & Prepaid Card Payments?

*A White Paper for: Banks, Other Lenders & Leasing Companies*

*Statistically, 5% of mortgage loans and 28% of car loans are paid with debit or prepaid cards and 80% of borrowers no longer carry their checkbooks around.*

## Better Performing & More Profitable Portfolios:

Allowing borrowers to pay online via their preferred payment method is key to ongoing portfolio profitability particularly when one understands increased on-time payments, reduced service center call count, and reduced costs of customer service and collection activity.

Convenient payment processes and preferred payment options can reduce:

- Call center incidents by more than 80%;
- Social media complaints by almost 50%; and
- Delinquencies by as much as 75%

Consider overhead savings that improved payment options and processes will generate as call center activity is dramatically reduced.

Recent research found that 3 in 10 Consumers are delinquent on mortgage payments due to bad billing and payment experiences

Funding sources are more available and less costly to profitable, high performing portfolios.



## On-Time Payments & Improved Collection Efforts:

It would be a mistake to underestimate the roll that convenience plays in on-time payments and successful collection efforts.

Common payment processes and limitations that reduce on-time payments and collection effectiveness:

- Borrower is ready to pay, but is underbanked or unbanked and the lender/lessor doesn't accept card-based payments
- Borrower agrees to pay, but doesn't have ACH information at the time of the collection call and the lender/lessor does not accept card-based payments, therefore the account remains delinquent
- Borrower pays most of their bills with a card and the lender/lessor doesn't accept card-based payments possibly causing the borrower to postpone paying and possibly entering into delinquency
- Borrower doesn't have a checking or savings account with you and promises to schedule a payment with their bank's bill payment system. This is no better than a promise to mail a check.
- Borrower will not answer collection related calls. Providing on-line or IVR options to make a card-based payment allows the delinquent borrower to avoid talking with collectors and pay anytime day or night.
- Friends and relative may want to help your borrower but are unwilling to provide ACH information
- When your borrowers pay on-line with a debit or prepaid card, their payment is validated and approved real-time eliminating failed payments because of incorrect account numbers, insufficient funds or inaccurate borrower/account identification.



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## Reduced Cost:

Borrowers do not have any fee or cost when using their debit or prepaid cards to make payments to you, unless you charge a convenience fee or use a third-party platform who may charge convenience or other fees. Removing or reducing cardholder fees greatly improves customer satisfaction and your competitive edge with dealers and originators.

Under the MasterCard and VISA network rules you are prohibited from accepting “credit” cards as payment of an existing debt, thus making debit and prepaid cards your solution for card-based payments.

The cost of accepting some debit and prepaid cards are regulated by the “Durbin” amendment to the Dodd-Frank federal legislation, is usually in the 24 cents per transaction Interchange range.

The cost of accepting debit and prepaid cards which are not regulated by the Durbin Amendment can be far more expensive. Those costs can be managed and reduced by a high-quality, technology-intense, experienced Interchange Optimization provider.

- When you process ACH payments without using a third-party, ACH is often the least costly payment type.
- When effectively optimized, card-based payments are far more cost effective than paper check payments.
- When you process card-based payments without using a third-party website, your costs can be dramatically reduced with Interchange Optimization

## Serving Millennial Borrowers:

The U.S. Census Bureau predicts that by the end of 2019, Millennials will become the largest living adult generation. Millennials (defined as those who were ages 20 to 35 in the year 2016) are far less loyal to a bank or lease brand today than ever before. Convenience and satisfaction are much stronger factors in determining who a millennial will do business with in future transactions.

Millennials:

- Use fewer checks or ACH to pay mortgages than all other generations
- Pay mortgage payments with debit cards more than all other generations combined
- Prefer 3-to-1 paying with debit cards versus ACH
- Indicate billing and payment options and processes are the #1 factor in customer satisfaction
- Almost 75% of highly satisfied borrowers plan to use their loan servicer for their next transaction
- More than 30% of millennial borrowers have contacted their mortgage servicer with complaints and questions regarding the payment process



Adopting millennial payment preferences could be the deciding factor in the future success of lender and lessor portfolios!



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## Serving Underbanked & Unbanked Borrowers:

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A recent survey conducted by the FDIC and U.S. Census Bureau estimated that 7% of U.S. households were unbanked and another 20% were underbanked . . . almost 70 million households. Today, creative lenders and lessors are providing payment options to meet the needs of this increasingly important and influential group.

Many underbanked or unbanked employees receive their wages via prepaid debit cards (often called Payroll Cards). Prepaid debit cards (most often VISA or MasterCard) are linked to money loaded in advance onto the card, unlike debit cards which are linked to a checking or savings account. These cards often come with a multitude of fees and because they are not linked to a checking or savings account cannot be used with to create an ACH transaction. When a prepaid cardholder wants to pay a lender or lessor that doesn't accept card-based payments, they must withdraw funds at a FI branch or ATM and mail their payment to the lender/lessor. Withdrawing funds often involves a service fee and because of the time it takes for the payment to arrive at the lender a late fee may be assessed. If the lender or lessor uses a 3<sup>rd</sup> party to process payments, the cardholder may suffer another costly "service or processing fee".

Doing business with a lender or lessor that accepts card-based payments creates a better payment experience and a more affordable payment option for the borrower enabling faster payments which may reduce the portfolio's delinquency rate.

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## Customer Service:

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Customer service and satisfaction are always improved when your borrower is offered an efficient payment process using their preferred payment method and no exorbitant primary or third-party fees.

Customer satisfaction degrades when the borrower's on-line payment experience involves being switched to a third-party website and then is charged high fees to complete the payment process.

Unhappy borrowers often complain to your dealers and originators, making it easier for your competition to displace you as the preferred financing/leasing partner.

Satisfied borrowers are less likely to become delinquent or default.



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## Conclusion:

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In our opinion, any bank, lender or leasing company should consider the benefits of accepting debit and prepaid cards and allow all borrowers to pay installment and lease payments with their personal choice of payment types. By doing so, portfolio performance may improve, collection efforts become more successful, you will better serve your underbanked/unbanked & millennial borrowers. You can also reduce your cost of card acceptance with Interchange Optimization and may be able to reduce borrower fees.

For more information on reducing card acceptance costs and Interchange Optimization, visit our website at:

[www.PaymentsAdvisoryServices.com](http://www.PaymentsAdvisoryServices.com) or call one of our offices:

Atlanta: 678-576-7263 or New York: 716-741-2463





## PAYMENTS ADVISORY SERVICES

### CARD ACCEPTANCE FEES...DESIGNED TO BE CONFUSING

#### LEARN HOW TO REDUCE YOUR COST OF CARD ACCEPTANCE

- Why pay exorbitant card and processing fees?
- Our mission is to drive down our clients' cost of credit and debit card acceptance.

With more than 30 years of experience reducing the cost of card acceptance for businesses worldwide, Payments Advisory Services is a trusted partner for lenders and retailers.

- We are founded upon a deep knowledge of transaction interchange, of the card industry and of realistic savings solutions. We are not associated with a bank or processor, which allows us the freedom to focus solely on reducing your card acceptance costs.

#### What We Will Do For You

We will analyze your current costs and how you process card payments including card information data capture and authorization & settlement message construction.

We will then present you with details of how Interchange Optimization will reduce your costs, a deployment plan, and we will manage the entire improvement plan activity.

We work within your business platform and processes to maximize your savings. There is no one-size-fits-all solution here.

No up-front fees, no equipment or software to buy, no need to change card processors.

Our fees are based on a percentage of your savings, **after** you realize those savings.

Learn more at [www.PaymentsAdvisoryServices.com](http://www.PaymentsAdvisoryServices.com)

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**GUARANTEED RESULTS: If we don't reduce your cost, you owe us NOTHING!**