STELLAR
INSIGHTS

The Stellar Financial Group's Strategies On Growing PFI Relationships.

WINTER | 2022

NEW NAME,
SAME STELLAR COMPANY

CUSTOMER ACQUISITION
Requires an Offense and a Defense

The Future of Overdraft
With Bank of America decreasing their overdraft fees, what does that mean for other institutions?

The Stellar Market Analysis Portal
Say goodbye to Powerpoint presentations and browse your markets at your convenience.

Student Loan Debt
Neobanks success at refinancing student loans can also be yours.

Craig Simmers
Managing Partner
The Stellar Financial Group

From Our Founder

Welcome to the Winter Edition of *Stellar Insights*

As we kick off a new year, **we have some very exciting news to share!**

The last two years have been a period of explosive growth for our company. As a result, we have invested heavily in technology and the expansion of the solutions we provide our clients. You may have noticed on the front cover of this edition of *Stellar Insights*, we have changed our name to **The Stellar Financial Group**. The change was precipitated by the additional solutions we will be offering to our clients going forward. We feel the name change better highlights the goals of our company. We aim to provide a comprehensive approach for our clients to grow their franchise. Our product solutions have always been and will continue to be driven by the needs of our clients. As a privately held company, we are not beholden to anyone other than our clients and their needs.

The second piece of exciting news is we have officially launched **The Stellar Market Analysis Portal** to support our Auto Loan Recapture Program. This portal was developed to assist potential clients with the due diligence and to thoroughly explain our auto loan solution. We like to refer to the portal as a form of window shopping that can be done at the convenience of our potential clients.

This virtual marketing site allows potential clients the ability to:

- Browse our product solutions
- Pull auto refinance counts specific to their market
- View testimonials and case studies
- Explore the entire onboarding process at their leisure

More detailed information about the portal is included on page 4 of this edition.

Now that we've gotten the major announcements out of the way, let's explore more content of this edition of *Stellar Insights*. As you will see, we focus heavily on what has worked well this past year and what we have planned for 2022. One of the advantages we have had over our 22 years in business is the ability to see how high-performance banking institutions operate year in and year out. The initial goal of this newsletter was to share those experiences. We've incorporated said experiences in our feature article titled *Customer Acquisition: A Comprehensive Approach Requires an Offense and a Defense*. In addition, we touch on a new opportunity for loan growth, as well as a product influx with a very cost-effective approach to maintaining an important revenue stream without contracts and sharing revenue. I think you'll find both articles quite thought-provoking.

Here's to a Happy, Prosperous, and Healthy New Year!

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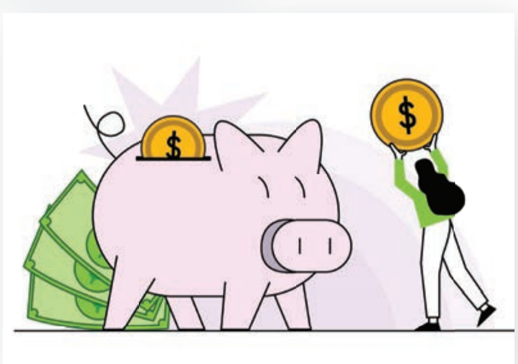

IN THIS ISSUE

STAY UP TO DATE

Sign up for our free quarterly newsletter: stellarstrategic.com/newsletter

About The Stellar Financial Group

Strong, long-lasting relationships with clients is our top priority at The Stellar Financial Group. Simply stated, we continually evolve our product line to meet the ever-changing market demands our clients face. Plus, we work to deliver the projected ROI promised, and treat your budget as if it's our own. The bottom line is that we care about you and it shows in how we partner with you to achieve your goals every step of the way.

The Stellar Market Analysis Portal

Browse Our Product Solutions at Your Convenience

We are very excited to launch The Stellar Market Analysis Portal. This virtual marketing site allows potential clients the ability to browse our product solutions, pull auto refi counts applicable to their market, and literally explore the entire onboarding process, at their leisure. The portal essentially eliminates the need to sit and review a PowerPoint presentation to learn more about The Stellar Auto Loan Recapture Program. It's a form of window shopping that can be done at their convenience.

Explore Your Auto Refi Opportunity at YOUR Leisure

The Stellar Financial Group uses credit bureau information to identify households in specific charter footprints that meet a unique credit criteria profile, and that are paying a higher interest rate for their auto loan than they would at your financial institution. With The Stellar Market Analysis Portal, you can pull your refi counts based on your specific credit criteria. By uploading your rate sheet, you can view counts by county, paper grade, monthly savings, etc.

Browse and Review Additional Program Related Information

In addition to pulling auto loan counts applicable to your market, here are some additional resources available:

- Case Studies
- Testimonials
- Collateral Material
- Learn More about Loan Participations
- Sample Offer Letters
- Stellar's Proprietary "7 Step Process"
- Onboarding Process Outline
- Online Application Flow
- Call Center Support
- Client Dashboards
- Ability to Schedule a Meeting on Your Time

Visit the portal at marketanalysisportal.com

The Overdraft Fee Dilemma & Solution

Understanding the Overdraft Fee Dilemma

As overdraft fee concerns increase throughout the banking industry and Congress, let's take a look at how we got here. If we go back to the period in the early 2000s, a cottage industry began to provide and manage several institutions' overdraft programs. Obviously, this service came with a cost. In fact, that cost became a huge windfall for those firms that were the early adopters. In short, a service that had always existed became a huge profit center for everyone involved. The only people that did not benefit were the consumers. This last point has been disputed by those who benefitted for the last 20-some years.

THAT RISE IN FEES AS WELL AS THE STRUCTURE OF THESE PROGRAMS HAS GROWN TO THE POINT THAT MANY INSTITUTIONS ARE REEVALUATING THEIR POLICY RELATED TO OVERDRAFT.

The concept of allowing a consumer to overdraw their account short-term to ensure payments are not allowed for other services (such as auto and mortgage payments) has merit. These carry high late fees and damage credit for consumers if returned by the bank or credit union. As is the case with many good ideas, a level of greed and quite frankly laziness slowly deteriorates the value of a good idea. This is exactly what has happened but does not have to be the case with overdraft fees. The escalation of fees charged to the consumer for each occurrence rose from the mid-teens at the turn of the century to an average fee today of roughly $35.00.

In short, as this fee became more of a profit center for many, the per occurrence fee continued to inch higher. That rise in fees as well as the structure of these programs has grown to the point that many institutions are reevaluating their policy related to overdraft. This is a result of consumers, regulators, and politicians pushing back on the situation.

The Overdraft Push-Back

The good news is many banks and credit unions have taken the initiative to address the issue on behalf of their customers. As is the case with many issues that impact consumers, the marketplace forces change. Having stated all of the above, let's explore a simple solution to this issue. We make this recommendation based on working with over 500 banks and credit unions over the past 19 years to assist them in fully disclosing to their customers and members their overdraft policy. This disclosure of the policy related to the service is critical in our estimation and the foundation of a good overdraft program.

A Proactive Solution

Let's go back for a second and discuss the fee institutions pay vendors to manage their programs. That fee which ranges from mid-teens to as high as 30% of the growth in fee income, basically allowed the institution to outsource the management of their program. So, why did a relatively small percentage of institutions, albeit the number probably exceeds 1,500, elect to do this? The answer is simple, there was a promise of exorbitant increases in fee income and the institutions could rely on technology to manage most of the process. Fortunately for consumers, a large percentage of the institutions elected to keep this core management function in-house. An overdraft program can be easily managed with existing staff given the decline in branch traffic over the past 20 years. In addition, from a pure customer service and retention standpoint, this should be a person-to-person conversation when dealing with lack of funds. Not a situation where squeezing every last dollar out of a customer is the paramount goal.

So, what's the final conclusion and solution to this ever-growing issue? Overdraft fee income has declined significantly since its peak in 2019, as many consumers have been forced to better manage their finances due to the Covid-19 pandemic. Given that fact, why would an institution give away 15 to 30% of this increased revenue stream to a vendor for a service they can provide and manage internally. Here's the simple solution, manage your program with existing staff, lower your per occurrence fee which history has proven may not reduce income significantly, and fully disclose to your customers and members the value and limits of the service you provide. This is a valuable service for your customer base, but remove the greed and laziness from the equation. The marketplace is requiring this of you as a banker and valued member of your community. So, let's be proactive, do the right thing for your customer, and satisfy the consumer, political and regulatory concerns that exist today.

CUSTOMER ACQUISITION

A COMPREHENSIVE APPROACH REQUIRES AN OFFENSE AND A DEFENSE

Traditionally, customer or member acquisition was related to securing checking account customers. While that's still a large component of customer acquisition strategies, it's still only one of the proven strategies used to acquire new members. In this article, we will explore several components of a comprehensive customer growth strategy. We will also identify which of these strategies will serve as a defensive measure related to customer attrition.

Acquisition Practices Need to Change with Consumer Behavior

The pandemic has changed consumer behavior. Businesses have had to cope with many barriers to business as usual, with closures, social distancing, reduced foot traffic, etc. Consumers are concerned with both family health and financial well-being. Financial institutions are no exception to the new pandemic world. Now with the Omicron variant, the country is becoming more cautious again. Lobbies have closed again. More and more banking procedures have shifted to online transactions. Account openings, loan approvals, and online chat have replaced most of the face-to-face activities in the past. Sources of lending have been affected as well. New auto loan sales fell dramatically, with dealerships unable to move inventory for numerous reasons. For several months indirect lending has dropped to lows never seen before! One of our larger clients stated it was the first time that direct auto loans outpaced their indirect portfolio! The Stellar Financial Group's auto loan refinance program has grown assets to record levels each month during the pandemic. Used auto sales are at an all-time high. *CNet.com* reports that "used car sales rise as Americans tighten belts during coronavirus. The used car market has become larger than the new car market. More used cars

ACCORDING TO COX AUTOMOTIVE, NEW VEHICLE SALES FOR THE WEEK ENDING MAY 28TH WERE DOWN 28 PERCENT, BUT SALES OF USED VEHICLES WERE UP 6 PERCENT. WE HAVEN'T SEEN THESE NUMBERS CHANGE MUCH AT ALL THROUGH FALL 2021.

exchange hands each year than new cars are sold." Used car prices hit a record high during the pandemic *(barrons.com)*. *Nypost.com* states "Americans typically become more frugal and favor used cars in uncertain times. Cars remain a vital commodity in a country where getting to work without a vehicle is impossible in all but a few large cities." According to *Cox Automotive*, new vehicle sales for the week ending May 28th were down 28 percent, but sales of used vehicles were up 6 percent. We haven't seen these numbers change at all through the fall of 2021.

The Auto Loan Refinance Opportunity

First, there are some $3 million auto loans in the U.S. totalling an excess of $30 billion in loan volume where the consumer is grossly overpaying. In some cases, this translates to $6,000 over the term of their loan. Most of these consumers have no idea this is the case. They can be easily identified, and most would save well over $1,200 annually if their loan was refinanced. Is it fair to assume this first interaction with a consumer may very well retain them for the long term? Is it also fair to assume they might be pre-disposed to do additional business with you in the future? Of course, the answer to both questions is an unquestionable "yes". Oh, by the way, the loan loss percentage on these consumers is well below the average of your auto loan portfolio and we are currently seeing on average an interest rate after refinancing over 6%. Keep in mind this opportunity also serves as a defensive measure against member attrition. Every day refinance companies are targeting

Student Loan Debt Refinancing

As we all pay close attention to what neobanks are doing and how that may impact our traditional banking business, we all need to focus on what they are doing well that we have overlooked. **One such opportunity that neobanks have had great success with is refinancing student loan debt.** This much misunderstood product has tremendous potential for those willing to seriously consider the opportunity. Most people confuse private student loan debt with government debt. These are two vastly different products. Private loans are not exposed to anything the government might do in terms of forgiveness. In fact, these loans exist today at practically all banks and credit unions as a home equity or consumer loan. Here's the good news. These loans can be targeted with the exact same efficiency we currently target auto loan refinances with some segments such as those with advanced degrees performing at a very high level. Stay tuned, we will be rolling out this very exciting program in Q2 this year!

your members with the opportunity to save money. Take the initiative and serve your members first before they get poached by another company.

Hot New Member Acquisition Strategy – Our Proven Solution

The Stellar Financial Group's success-fee-based auto loan refinancing program provides real membership growth that is extremely profitable to the credit union. These new members look and act like your current members. They live in the same kind of homes, have similar incomes and banking needs, and will act similarly to your current membership account mix. Our typical gross yield is between 6-7%, and net margins around 5%, these new members provide a great return on investment! Our average interest income being generated is many multiples of the acquisition cost, with a Stellar average of $2,581 in interest income within 30 months, as well as $540 in non-interest income from GAP, MBI, AD&D, etc. But, that is just for the current loan. We are seeing close to a 40% penetration of account transactions accompanying these loans. That's an additional 30% increase in additional loan activity. Bottom line, balancing new member acquisition costs with member return value must be considered when growing an institution organically. Stellar's turn-key program brings new members that have proven balanced loan portfolios, creating greater ROI's, and reducing overall marketing risks. Stellar pays for 100% of the marketing costs. The credit union pays when loans are funded that can be directly matched back to Stellar's efforts.

Your Members are Vulnerable

One of the most overlooked vulnerabilities are your current members that have an auto loan that carries a higher than necessary interest rate. Those members are being marketed to daily by the refinancing companies. Keep in mind that retaining a member carries the value of having to pay for two additional members. There's a simple solution to this costly retention problem. Monthly campaigns to these members that you know *have* an auto loan with another lender and also targeted campaigns to those members that *may have* a loan with another lender. These two distinct member groups respond at accelerated rates and are critical to sustained member growth. Stellar provides this solution to numerous clients with outstanding results. Due to the accelerated response rates, we offer this solution at a success-based-fee starting at an industry-low rate of 1.25%.

CASE STUDY

$1B Asset Southwest Credit Union

Background. This southwest credit union (CU) has an asset size of roughly $1.0B with 80,000 plus members. The CU has a community charter footprint with a potential membership of over several million households. The CU rates for A, B, C, D, & E paper of 3.49%, 3.74%, 4.49%, 7.75% and 11.50% for 60-month loans respectively (with a 600-credit score floor).

The Stellar Financial Group's Proposal. Our clients pay no out-of-pocket marketing costs. All incentives, credit bureau lists, mail, postage, telemarketing expenditures, website, etc. are paid by Stellar, thus taking all costly risks from our clients. We collect a tiered success fee from the funded loans that match back to the marketed consumers. A small application fee is assessed on all applications, which is waived when the loan is funded.

Implementation. Using the CU's standard rates, The Stellar Financial Group Auto Loan Recapture Program targets non-member households that are eligible to become members. Potential members are spread across all paper grades fairly evenly.

Approach. The Stellar Financial Group's unique auto loan recapture program uses data mining of credit bureau consumer information to find households that are paying a substantially higher interest rate on their auto loan than what our client would charge for the same credit score. Stellar then scrubs the potential list to remove those prospects that will not meet the CU's credit policies (late payments, bankruptcies, number of open loans, etc.). Prospects are ranked by best responders as well as profitability.

Prospects are mailed a prequalified offer letter, which shows the monthly savings unique to each consumer, if they were to refinance with the credit union. The direct mail offer is supported by outbound calls, a custom microsite with application, reminder letters, digital marketing, and after-hours inbound/outbound call service. Applications are completed and sent to the CU for approval and loan closure.

RESULTS

- 2021's mailings resulted in $18 million+ in new, booked loans
- Members saved an average of $104.48 per month on their loans
- The average booked loan term was 65 months
- $8,032 average savings per household over the remaining life of the loan
- An average blended interest rate for all funded loans was 5.25%

ROI

- Estimated interest income for first 30 months: $2,286,574
- Estimated DDA (Demand Deposit Account) income for 30 months: $87,000
- Estimated 30-month non-interest income (GAP, MBI, etc.): $116,000
- Total Estimated Income: $2,489,574

Total Estimated ROI: 211%

MIDWEST CREDIT UNION
$1.2 Billion Assets, 15 Branches

	Number	Gross Balance	Avg. Balance
MARCH 9, 2012			
Checking Accounts	28,594	$141,843,908	$4,961
Savings Accounts	62,193	$86,677,566	$1,394
Grand Total	90,787	$228,521,474	$2,517
TOTAL ASSETS			$598,833,503
APRIL 1, 2020			
Checking Accounts	50,737	$195,007,980	$3,844
Savings Accounts	96,811	$218,217,931	$2,254
Grand Total	147,548	$413,225,911	$2,801
TOTAL ASSETS			$1,205,496,948
LIFT			
Checking Accounts	77%	37%	-23%
Savings Accounts	56%	152%	62%
Grand Total	63%	81%	11%
TOTAL ASSETS			101%

Remarks: 7.3% annual checking account growth
(assuming constant compound growth)

Market Disruption has Presented a Huge Opportunity

Market disruption has never been higher. Think about it, we are even seeing credit unions buying banks and vice versa. That would have been dismissed as impossible just a couple of years ago. This phenomenon continues to gain strength as the opportunity to grow your checking and deposit base peaks. We have seen this with our checking account acquisition program for many years. Clients that continue marketing and building their brand gain a disproportionately larger share of retail deposit growth. Many institutions have ignored this growth opportunity due to being flush with deposits. Our clients that have maintained their marketing efforts over the past several years have seen significant growth that would have otherwise gone to a competitor. Consider this benefit that has gained significant strength over the past two years. The pandemic has changed consumer behavior related to payments. Debit cards are used for multiple purchase types at rates we have never seen before. Debit card growth has outpaced credit card growth. The interchange fees related to this change in consumer behavior have made the checking account more valuable than ever.

Checking Acquisition – Small Budget, Big Results

The Stellar "Deposit Direct" strategy is designed for any size institution to participate in gaining retail checking growth regardless of their available budget. The chart to the left details the growth rate of a client that has maintained their marketing efforts over a period of 10 years, spending on average less than $50,000 per year. In addition, we managed their program without ever having them commit to more than the next campaign. Signing three and five-year contracts is simply not necessary if the solution works. We simply don't believe in contracts unless required by our client.

Overdraft Fees & Programs Must Be Addressed

Consumers, politicians, the media, and regulators are forcing a change in how these programs are priced and administered. Failure to take these changes seriously and develop your own overdraft program will ultimately be viewed as a missed opportunity to do the right thing for your customers and members. Numerous neobanks and several large banks such as Wells Fargo and BofA have already announced significant changes to their programs and pricing. This issue is not going away and is just gaining momentum. For more on the overdraft dilemma and solution see the article on page 5.

Recent Market Changes Require a New Strategy for Growth

When developing a comprehensive growth strategy, it's a mistake to not include initiatives that address attrition. Much of what we talk about in this article, and execute daily for our clients, is a combination of growing their customer base and ensuring the loss of customers is minimized. That approach has never been more critical for the banking industry than it is today. As consumers buying and spending habits change, it's incumbent upon every banking institution to not only be cognisant of the changes but also address those changes in their strategic planning.

Failure to do so will have a long-term negative effect on your ability to compete. The industry is changing rapidly, are you making the necessary changes in your growth strategy to maximize your revenue potential?

Q&A JUST THE FACTS

About Stellar's Auto Loan Recapture Program

Q. ***What changes do we need to make to our lending practices with the Stellar Auto Loan Recapture Program?***

A. Your institution does not need to change any of your current practices. We use your current credit tier rates for auto loan amounts, remaining terms, credit score tiers, and suppress those leads that do not meet your customary derogatories/ stipulations via our proprietary credit bureau data analytics. Applications are still processed through your normal channels to approve or deny the loan.

Q. ***We have tried other recapture programs and have had little success. What makes your program more effective?***

A. Stellar uses a "7 Touch" process to communicate with prospective members that reside in the credit union's field of membership.

Q. ***How much does this cost our credit union? Is there a long-term commitment?***

A. The Stellar Financial Group's approach is in line with our clients' results. Their success is our success, literally. We charge a contingency (success fee) for loans funded that are directly matched to the Stellar prospects targeted. Our agreements allow for the institution to terminate the program at any time, with a 30-day notice.

Q. ***Are these applications shared with other institutions?***

A. Applications are NOT shared with other financial institutions.

Q. ***How do you choose which prospects to target?***

A. The Stellar Finacial Group's unique recapture program uses data mining of credit bureau consumer information. We find households that are paying a substantially higher interest rate on their auto loan than what your credit union would charge for the same credit score, remaining balance, remaining term, and meet your credit criteria. The key to success for the Stellar program is the data manipulation used to determine which prospects to target, as well as being able to have a unique example of the potential monthly, yearly, and lifetime payment savings from consumer to consumer if they were to refinance with your institution.

1. Multiple mailings
2. Outbound and inbound call center
3. Online web application portal designed with the credit union's marketing appearance
4. Reminder messaging
5. Application process support
6. Proprietary credit bureau selection model mirroring the financial institution's credit criteria
7. Stipulations help ensure not only a good response rate of applications but a high "look-to-book" rate.

SUCCESS STORY

Trax Credit Union

Tampa, FL

We were looking for a creative partner and comprehensive program to increase loan growth and Stellar more than delivered. Their program manages to drive in existing and potential new members with loan dollars we would not have otherwise had. They handle most of the heavy lifting all with a reasonable fee and a high return on investment. They took the time to understand who we are as a credit union and gave us a few customizable marketing plans to choose from. Their business model is simple in nature but powerful with results. We wholeheartedly recommend Stellar.

– Sammy Schomer
VP Lending
Trax Credit Union

Thank You

As we begin a new year, there's no better time than to say **"Thank You"** to our clients that helped make 2021 a year of tremendous growth for our company. We understand each and every day how valuable you are to our success. We have some very exciting things planned for 2022, and look forward to sharing those with you, as well as continuing to support your efforts to grow your business. Thanks again for your support and together let's make 2022 the best year ever!

— Craig Simmers
Managing Partner, The Stellar Financial Group

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