

2014 SUPPLIER MARKET SHARE GUIDE



CREDIT UNION CARD PAYMENTS

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2014 SUPPLIER MARKET SHARE GUIDE: CREDIT UNION CARD PAYMENTS

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- Revitalize an existing one?
- Want to reduce costs and mitigate risk?
- Want to deepen member relationships?

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Welcome to Callahan & Associates' 2014 Supplier Market Share Guide: Credit Union Card Payments, a publication designed specifically to help credit unions engage in preliminary evaluations of the different card processors available.

CREDIT UNIONS GENERALLY tend to evaluate their card processing solutions just once every five to seven years. Yet the selection of a new processor is one of the most important decisions an institution will make, with long-lasting implications for members, earnings, and the balance sheet.

Making an informed choice today requires not only understanding your organizational needs, but also an awareness of evolving external factors such as increasing regulation, new technologies, and market consolidation that are reshaping the marketplace.

There are several examples of new companies such as Quattro entering the payments space and looking to provide diversity to the card market. Numerous others such as Dwolla and COIN are looking to disrupt the status quo altogether with their impending, viable mobile payments solution.

While it is important to be aware of the industry's heavy reliance on FIS and FirstData's processing solutions — either through direct relationships or through service companies like PSCU, CSCU, or TMG — we have also seen a trend of companies that

were traditionally focused on core processing now playing a larger role in providing card payment solutions.

This year's guide contains numerous resources to help credit unions better navigate this changing space, including nationwide industry analysis as well as individual sections that show which platforms are currently used by comparable peers and the market share information for each.

Callahan & Associates tracks and maintains information on the roughly thirty different types of vendor relationships that each credit union has, and this data is the basis for most of the tables and graphs in this publication.

Information is gathered through a number of different methods including the use of credit union surveys, gathering allowable data from the providers themselves, tracking press releases, and working directly with our clients.

If you have specific questions beyond what is covered in this guide, it is very likely that we will be able to help. Please feel free to contact me at sbrownell@callahan.com for further assistance. ■



SAM BROWNELL

ASSOCIATE VICE PRESIDENT,
CALLAHAN & ASSOCIATES

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Sam Brownell

Dear Credit Union Executive,

Welcome to Callahan & Associates' 2014 Supplier Market Share Guide: Credit Union Card Payments. Fiserv market research suggests that over the next 12-24 months, credit unions will be focusing on priorities such as revenue generation and growing overall margins, continuing their emphasis on optimizing service delivery channels, and confronting the market demands of a shifting payments ecosystem.

Card payment products represent a significant opportunity to ensure your credit union is positioned as its members' primary financial institution, regardless of when and how these individuals prefer to transact. Managing and optimizing your card portfolio continues to be an important strategic component in growing your member base, as well as in dealing with the infrastructure and security challenges of the future.

Implementing the different components needed to lift your card to the top of members' wallets has never been so important. This guide can assist you in developing a card strategy that will enable you to compete and win in the financial services arena.

Collaboration among different departments and between fellow credit unions continues to foster new business partnerships and encourages information sharing, which effectively lifts the entire credit union movement.

At Fiserv, we're pleased to have partnered with the credit union industry for four decades, supporting your commitment to outstanding member service as well as the deployment of leading integrated technologies. It is our privilege to work side-by-side with you, and to support the credit union industry, by sponsoring this key publication.

I'm very pleased that Fiserv was able to sponsor this important document and trust that you will use it wisely to your maximum benefit.

Sincerely,

Kevin Gregoire
President
Card Services from Fiserv



KEVIN GREGOIRE
PRESIDENT OF CARD SERVICES
AT FISERV



KEY INSIGHTS FROM THE 2013 NON-INTEREST INCOME SURVEY

DESPITE NEW REGULATIONS AND INCREASED INCOME FROM MORTGAGE SALES, CREDIT AND DEBIT INTER-CHANGE INCOME STILL COMPRISED NEARLY ONE-THIRD OF ALL NON-INTEREST INCOME.

NON-INTEREST INCOME is broken down on the 5300 Call Report into only two main categories — fee income (account code 131) and other operating income (account code 659). Without having a detailed breakdown of the various components of non-interest income, it can be hard for credit unions to gauge how they are raising non-interest income in comparison to their peers. Callahan & Associates' annual year-end non-interest income survey uncovers trends in non-interest income that are not apparent from the 5300, and can help credit unions create a better picture of this income source.

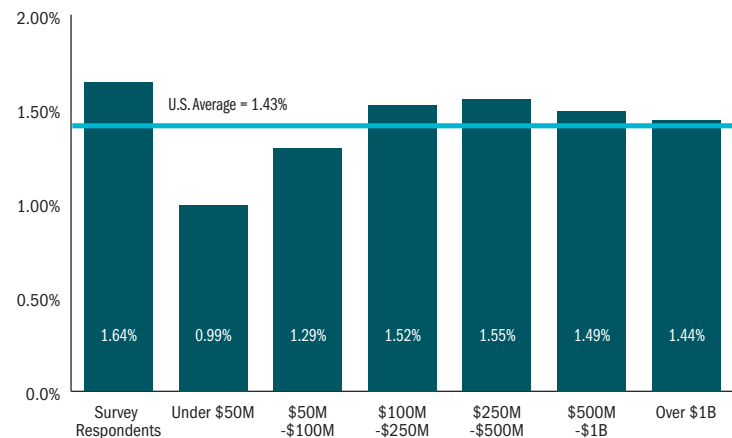
At the end of 2012, non-interest income totaled 1.43% of average assets, up 13 basis points from 2011. Non-interest income as a percent of average assets at credit unions that responded to the survey was 1.64%, 21 basis points above the national average. Total non-interest income increased 16.8% over the past 12 months. Fee income posted 6.3% growth nationally in 2012, with credit unions reporting an average of \$78.62 in fee income per member by 30.8%, fueled by first mortgage sales to the secondary market. FDIC insured institutions posted an 8.0% increase in non-interest income over the same time period. With interest income limited by the low-rate environment, non-interest income has been steadily growing as a percentage of total income since the Great Recession. In 2012, non-interest income accounted for 28.1% of total revenue at credit unions nationwide. In 2007, non-interest income made up just 18.5% of income at credit unions.

Fee income has historically been the larger of the two main components of non-interest income, but the spread between the two has narrowed in recent years. Driven by mortgage lending activity, growth of other operating income has significantly outpaced fee income growth.

Other operating income now accounts for 43.8% of non-interest income, up from 36.7% in 2008. As credit unions adhere to cooperative principles and find other ways to increase income beyond simply raising fees, fee income has dropped to 56.2% of non-interest income in

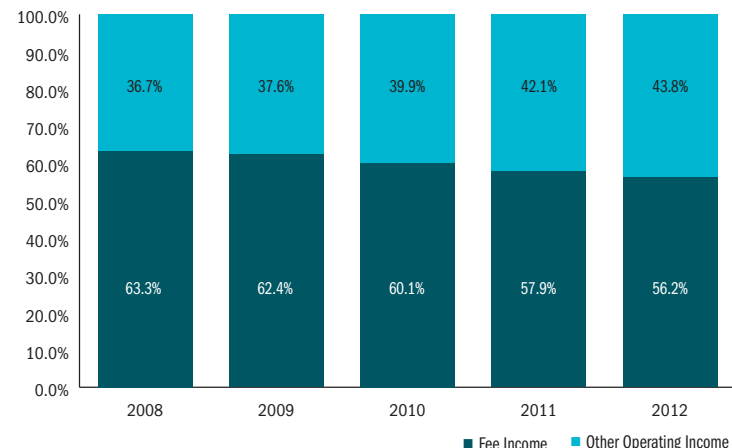
NON-INTEREST INCOME AS PERCENT OF AVERAGE ASSETS

DATA AS OF DEC. 31, 2012 FOR ALL CREDIT UNIONS



MAIN COMPONENTS OF NON-INTEREST INCOME

DATA AS OF DEC. 31, 2012 FOR ALL CREDIT UNIONS

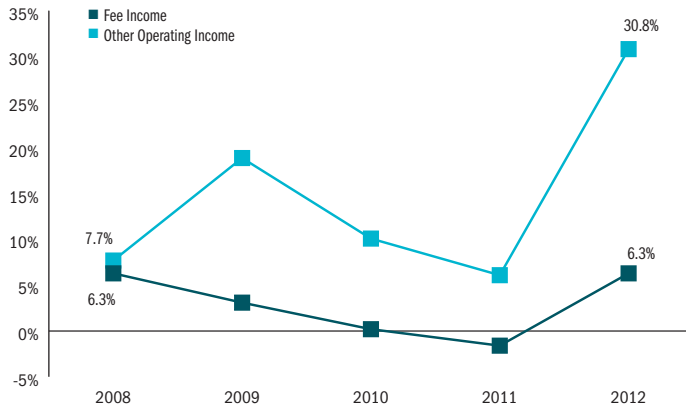


SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

KEY INSIGHTS FROM THE 2013 NON-INTEREST INCOME SURVEY

FEE INCOME & OTHER OPERATING INCOME GROWTH

DATA AS OF DEC. 31, 2012 FOR ALL CREDIT UNIONS



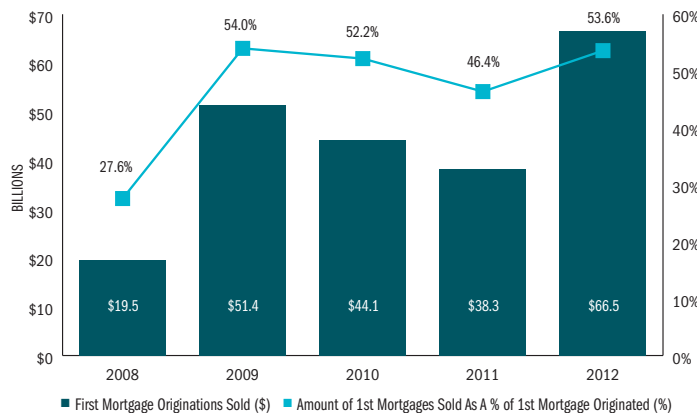
FEE INCOME PER MEMBER

DATA AS OF DEC. 31, 2012 FOR ALL CREDIT UNIONS



FIRST MORTGAGE ORIGINATIONS SOLD TO SECONDARY MARKET

DATA AS OF DEC. 31, 2012 FOR ALL CREDIT UNIONS



2012, down from 63.3% in 2008. Although fee income now accounts for a smaller percentage of non-interest income, credit unions still recognize \$78.62 in fee income per member, up from \$75.59 last year.

WHAT THE SURVEY REVEALED

A total of 69 credit unions participated in Callahan and Associates' 2012 Non-Interest Income Survey, varying in asset size from \$21 million up to \$11 billion. The responding credit unions represent 8.1% of the industry's assets and 9.2% of total non-interest income. The average asset size for these credit unions was \$1.2 billion, with a median asset size of \$636 million. Respondents to this year's survey reported strong financial performance in many areas, including having an average ROA of 104 basis points, 18 basis points higher than the national average. Non-interest income also accounted for a larger percentage of total income at the credit unions responding to this survey.

In a year in which credit unions added more than 2.7 million checking accounts, the highest ever recorded for the industry, the importance of these accounts is reflected in the top two non-interest income categories. Among participating credit unions, NSF/Courtesy Pay income was the largest component of non-interest income in 2012 at 22.5%. This category has been the largest component every year that this survey has been conducted. The second largest component was debit card interchange and fees. With the Durbin Amendment in effect, the data indicates that credit unions have been largely unaffected by the new interchange rates. In the 2009 survey, debit card interchange and fee income made up 19.3% of non-interest income. This year, the category made up 22.0% of total non-interest income, a result that also highlights the increased debit card activity by credit union members. Credit card interchange and fees accounted for an additional 10.3%.

SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

The real story in non-interest income in 2012 is the mortgage sales, servicing rights, and real estate lending fees component. This category comprised 17.7% of total non-interest income in 2012. Although the respondents change yearly, which affects the composition, mortgage sales accounted for only 11.6% of total non-interest income in the 2011 Non-Interest Income Survey. As credit unions experience record first mortgage originations, they are also selling a record amount to the secondary market, leading to higher income recognition from these sales. During 2012, credit unions nationwide sold \$66.5 billion in first mortgage originations to the secondary market, or 53.6% of total first mortgages originated. This is up from the \$38.3 billion in mortgages credit unions sold during 2011. A significant number of respondents indicated that nearly one-third of their non-interest income was coming from the mortgage category.

Another way credit unions are bolstering their non-interest income totals is through miscellaneous income sources. The most common miscellaneous item listed by credit unions was safety deposit box fees, with some credit unions recognizing over \$100,000 in income from these sources alone. Skip-a-payment fees, shared branching fees, CD early withdrawal fees, rental income, and coin machine fees are some of the other creative ways credit unions nationwide are raising their non-interest income. The miscellaneous category comprised 4.5% of non-interest income in this year's survey, with some credit unions reporting up to 15.5% of their totals coming from these sources.

Some credit unions shared their specific initiatives to generate additional non-interest income as 2013 pro-

gressed. Many of these responses indicated the desire to not raise fee income, and instead used other measures to increase their totals. Beginning reward programs for credit and debit cards was a priority for some credit unions, while others were looking at retaining servicing for sold mortgages, offering investment services, and increasing loan volume.

The survey results indicate there

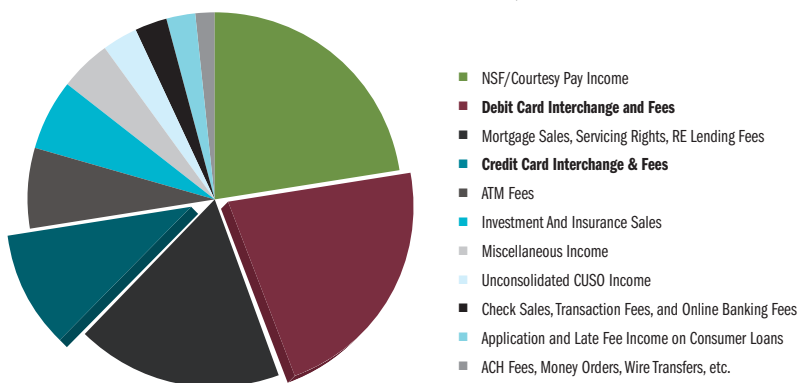
are multiple non-interest income streams that can be developed by credit unions — not one dominant single source of income. In an era of record low interest rates and margins, diversifying revenue sources is increasingly important. Identifying options that fit within each credit union's member service strategy is an essential component of business planning today. ■

2013 NON-INTEREST INCOME SURVEY RESPONDENTS VERSUS NATIONAL AVERAGES | DATA AS OF DEC. 31, 2012 FOR ALL CREDIT UNIONS

	SURVEY RESPONDENTS	ALL CREDIT UNIONS IN U.S.
AVERAGE ASSET SIZE	\$1.2 billion	\$148.7 million
MEDIAN ASSET SIZE	\$636.1 million	\$21.0 million
NET INTEREST MARGIN	2.92%	2.94%
NON-INTEREST INCOME/AVG. ASSETS	1.64%	1.43%
NON-INTEREST INCOME/TOTAL INCOME	31.1%	28.1%
ROA	1.04%	0.86%

NON-INTEREST INCOME SOURCES REPORTED

DATA AS OF DEC. 31, 2012 FOR ALL SURVEY RESPONDENTS



SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

This article was an excerpt from our 2013 Non-Interest Income Survey Summary. If you would like to receive the full 2014 Non-Interest Income Survey, earlier in the year you must be a member of Callahan & Associates or you must participate in the survey. If you would like to learn more about our services you can contact us at support@callahan.com or you can go directly to <http://www.creditunions.com/non-interest-income-survey/5300.aspx> to participate in the survey. If you have any questions about the survey or how it is conducted please contact Mark Reed at mreed@callahan.com.

SILVER LININGS — A PLAYBOOK FOR PAYMENTS

FOLLOW THESE RULES TO TRANSFORM CARD-RELATED CHALLENGES INTO INSTITUTIONAL OPPORTUNITIES.

NUMEROUS CHALLENGES HAVE gathered on the horizon, creating a storm of issues driving credit unions to rethink how they grow and operate in today's competitive environment. Yet these clouds may come with a silver lining for credit unions that have strong and diverse payments strategies. These institutions are prepared to not only confront what the storm clouds bring but also ensure continued relevance and profitability in the years ahead.

Card portfolios are a key component of a strong payments strategy and can be a significant revenue center with tremendous potential to forge deep, profitable member relationships. But to get to that point, credit unions need to create and optimize a comprehensive strategy that equally addresses institutional needs and the evolving product and channel preferences among their memberships.

REDUCING OPERATIONAL COSTS BY INTEGRATING SYSTEMS

Credit unions can improve bottom-line results by directly integrating the core platform with other essential financial service systems. This not only enhances members' experiences but improves workflow efficiency as time-consuming and costly back-office functions are moved to the front line.

Having a card services system directly interact with core accounts is especially important in regard to data entry. Real-time integration ensures immediate data synchronization, eliminates the need for dual entry, and provides a seamless workflow that reduces the staff time required for data maintenance. It also positions staff to provide faster responses to member inquiries and re-

duces staff training.

Credit unions should investigate how real-time integration is supported for routine, but crucial, operational functions like instant issue, card ordering and activation, hot carding, resetting PIN tries, changing limits, and resolving member inquiries with immediate access to member account and transaction data. Comprehensive integration also updates critical fields used for transaction authorization.

Accessing accounts through a centralized application also reduces the need to enter and store data in multiple redundant systems, reducing fraud risk and enhancing security.

DRIVING ADDITIONAL REVENUE GROWTH THROUGH DEBIT CARD PROGRAMS

The flip side of reducing operational costs is generating additional revenue and one of the best ways to accomplish that is to increase debit card activation and usage. Debit interchange is evolving due to the effects of the Durbin Amendment and it is more important than ever to maximize the revenue potential of card portfolios.

This begins with understanding portfolio demographics, member habits, and overall performance. Credit unions need access to their data, a clear understanding of key performance metrics, and a defined

“CREDIT UNIONS NEED ACCESS TO THEIR DATA, A CLEAR UNDERSTANDING OF KEY PERFORMANCE METRICS, AND A DEFINED CARD GROWTH STRATEGY TO MAXIMIZE PORTFOLIO PERFORMANCE.”



**Smart decisions today nurture
non-interest income growth for tomorrow.**

Credit unions face unique challenges, from effectively serving members to growing non-interest income. Fiserv understands, and can help you do that and more. Adding Card Services from Fiserv to your credit union account processing system today can reap benefits for years to come. Our integrated solutions are designed to reduce fraud risk, enhance member loyalty, boost network capability and more, all while enhancing member experiences, increasing income and reducing operational costs. If you want to grow, just add Fiserv. The power within. fiserv.com/cardsolutions

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card growth strategy to maximize portfolio performance. Armed with this information, they can begin to enhance loyalty, increase card usage, and attract new target members.

But that's just the beginning. Credit unions must also evaluate their payment network affiliations and understand the total costs, member benefits of participation, and potential revenue opportunity. Credit unions may also rethink rewards, as relationship-based, blended, and merchant-funded programs can help boost performance and drive credit union cards to the top of wallet in a cost-effective way.

ENHANCING MEMBER RELATIONSHIPS WITH CREDIT

For a truly competitive credit card, credit unions will need much more than a simple card processing solution and a rigid, commodity-style business model. They'll need flexible and comprehensive solutions that allow them to create unique packages tailored to their credit union and individual members' needs.

A complete credit card processing solution should include products such as:

- Business and commercial cards
- Private label programs
- Installment loans
- HELOC account access

And credit unions shouldn't forget that reintroducing or re-emphasizing ownership of a credit program can be a great way to target increased revenue.

INVESTING IN SELF-SERVICE CHANNELS

The success of credit unions is founded on providing a superior member experience. Because large numbers of consumers prefer interacting and transacting through mobile applications or online websites,

credit unions must provide numerous self-service options which supplement the branch and ATM network.

Mobile is now ubiquitous for consumers and credit union members expect the ability to interact and transact on their own terms – anywhere, anytime, on the device or channel of their choice. Using mobile devices to manage card access enhances the member experience and helps reduce potential fraud.

These ascendant financial management options will prove desirable among:

- Risk-averse members who want to better manage and safeguard their money
- Parents who want to control and monitor a child's spending
- Business members that want to ensure spending policy compliance.

By providing this additional level of self-service and control, credit unions can successfully address the preferences and priorities of virtually any member demographic.

UPDATING RISK MANAGEMENT STRATEGIES AND TOOLSETS

Cards remain the payment method of choice for most U.S. consumers. With that preference comes the need for all organizations to review, select, and implement a comprehensive strategy that proactively prevents and detects fraud and money laundering activity.

This is a delicate undertaking that requires balancing the member experience with the ability to provide the highest level of protection by issuing effective fraud alerts.

For this reason, credit unions should look for solutions that offer customization and unique parameters, and facilitate the ability to react quickly if any potential fraudulent activity surfaces.

Credit unions also need to combine these tools with ongoing rigorous review and adjustment of risk management efforts. Dedicated resources knowledgeable about data, rules, trends, and the member base served will reduce risk exposure while establishing a powerful early warning system to help minimize potential losses.

READY TO SEIZE OPPORTUNITY

More than ever before, credit unions need to take the time to fine-tune their specific card strategies and propel their offerings to the top of their members' wallets. A flexible, multi-channel strategy that is responsive to member preference will help tackle the evolving payments space head on. Expense reduction, portfolio optimization, fraud management, efficiency, and a superior user experience for credit union members — now that is certainly a silver lining! ■

Kathy Herziger-Snyder, Ph.D., vice president of channel management, Card Services, Fiserv, has responsibility for market development and sales pursuits within the credit union market. Her wide-ranging experience includes core systems, operational process and procedure, as well as the development and execution of mature and emerging payments strategies for the credit union industry.

Fiserv, Inc. (NASDAQ: FISV) is a leading global technology provider serving the financial services industry, driving innovation in payments, processing services, risk and compliance, customer and channel management, and business insights and optimization. The Accel™ debit payments network from Fiserv processed approximately 12 billion transactions in 2013, making it one of the largest financial transaction processors in the United States. Fiserv provides comprehensive debit, credit, prepaid, and ATM processing services to more than 3,400 financial institutions across the United States. For more information, visit www.fiserv.com.

DON'T POINT FINGERS WHEN LOYALTY PROGRAMS FALL FLAT

CREDIT UNIONS CONCERNED WITH A LACK OF ENGAGEMENT SHOULD LOOK BEYOND THE PRODUCT TO THE INSTITUTIONAL STRATEGIES SUPPORTING IT.

WHEN IT COMES to loyalty programs, credit unions should never automatically assume members are aware of the benefits offered. In fact, a portion of your membership may not even know that your program exists.

There are many reasons why members may not fully understand sponsored rewards programs. For starters, there are all types of rewards out there, so you're not only competing against other banks and credit unions but retailer programs as well.

The average consumer is also enrolled in a number of loyalty programs, so it's no wonder they sometimes become confused or overwhelmed by the information they receive.

BREAKAGE, BUNGLED AWARENESS, AND OTHER CONCERNS

All types of companies, large and small, public and private, face similar challenges when it comes to selling into the B2C market — there's simply never enough time, money, or resources to ever fully optimize product performance results.

This will always be the case, as even machines have capacity constraints, maintenance needs, and other limitations. And as long as your program provider is equipping the institution with the tools and knowledge it needs to be successful and achieve its desired ROI, it does not make sense to assert the blame there.

Thankfully, there are a number of simple ways that credit unions can gain a better understanding of their loyalty products, as well as do a better job promoting them internally

and to their field of membership.

One example is the billions of dollars in rewards that go unredeemed each year. A CFO may love the breakage benefit that comes with a rewards program, but if these numbers are too high, members are most likely not engaged. This means the institution will struggle to realize the desired acquisition, usage, and retention that caused it to consider offering rewards in the first place.

To strike a good balance, credit unions need to look at the entire picture of both expense management and revenue without narrowing in on one more than the other.

Assuming your rewards program is market competitive, there may still be other internal factors causing low member engagement. For example, if employees don't fully understand a loyalty (or any other) program's features and benefits, then there is a high probability that members won't either.

FOCUS ON THE RIGHT CHANNELS

Options for promoting rewards products typically include word-of-mouth from employees and members, as well as displays and advertisements in the branch, call center, website, home banking and mobile banking applications.

However, the best way to still communicate (at this point in time) is through the Internet, even if members are accessing your site through a mobile device.

Based on research from FIS Global, 80% of users still access rewards information from a computer, although tablet and smartphone access is definitely on the rise.

That means credit unions must maximize this channel to allow for a better user interface and more content to be viewed with fewer clicks. You'll also want to enhance consumer access points as well as incorporate mobile responsive design features and other mobile offerings.

CHOOSE THE RIGHT PRESENTATION

Recently, FIS conducted an internal study on its top 300 financial institutions in an effort to better understand the visibility of member-facing rewards information. This research encompassed a complete assessment of these organizations' home banking websites and how easy or dif-

FIS LOYALTY SERVICES

FIS™ Loyalty Services help financial institutions develop mutually beneficial relationships with cardholders that will last for years.

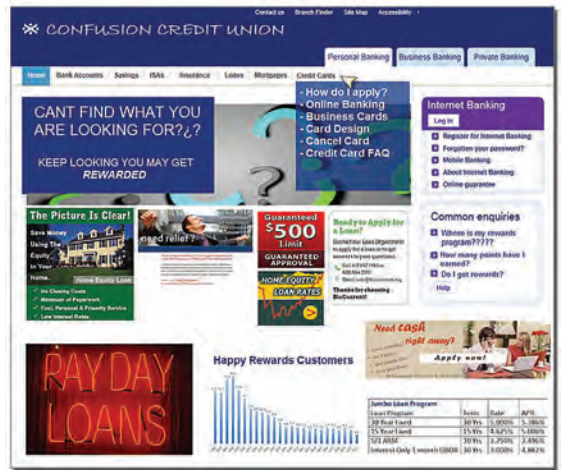
FIS' proven solutions can help you attract and retain cardholders that are profitable and loyal with:

- 30% more transactions
- 27% higher sales volume
- 33% greater revenue
- 19% more margin per account

For more information on FIS' Loyalty Services enhancements and rewards, visit www.fisglobal.com/loyalty-ab.



First in Financial Technology



More information is typically better than less, but pay attention to presentation to prevent content overkill.

difficult it was to find rewards program information, including the type of content presented, its location, the associated number of mouse clicks to access it, and more.

Key findings from that study include:

- 16% (47 out of 300) of institutions had no loyalty information at all (not even a link)
- On average, it took 1.27 clicks to land on a loyalty-related page
- Utilization rates by visitors varied greatly according to the type of information provided:
 - Contact information: 10%
 - A homepage: 28%
 - Program information (e.g. features, benefits, rules): 54%
 - A link: 75%
 - A logo: 22%
 - Graphics: 13%
- The top 50 clients who outperformed the total sample group in overall consumer engagement also had the most content available with the fewest number of clicks.

There should be no surprise that the more “clean content” displayed for a product offering, the better the overall results.

At the same time, not having any product information at all will have a direct impact on performance, especially when coupled with untrained support staff.

This alarming finding is like-

ly not just limited to reward products alone. As a result, credit unions should take the following steps to gauge the availability and visibility of their rewards program (as well as any other products):

1. **Evaluate your current website.**
 - a. Is it simple and user-friendly?
 - b. Does it accurately reflect all available products and services?
 - c. Is it mobile-responsive?
 - d. Are updates made frequently?
2. **Quiz both your frontline and back-office staff on product knowledge.**
 - a. Do your employees (who are also most likely members) understand the features and benefits of the offered products?
 - b. Does your staff understand the overall goals of the credit union?
 - c. How often do your employees promote your major product offerings and how are they tracked and monitored?
3. **Survey your members via:**
 - a. Your website
 - b. Products and offerings
 - c. Staff
4. **Compare findings against product performance.**
5. **Incorporate a remediation plan.**
6. **Repeat steps one through five on an ongoing basis.**

Although there are many ways credit unions can enhance existing

products and services, an easy first step is to simply analyze the primary data that’s right in front of you. It’s much easier to determine your current state and then plan for future strategies, versus looking at future initiatives when you aren’t yet caught up to the status quo. ■

Troy Land is a product strategy leader with more than 10 years of increasing responsibility within the financial services industry including a background in retail banking, payment processing, risk management, relationship management and product development.

Land’s extensive knowledge of the payment processing industry and Loyalty solutions make him an emerging commerce expert within the FIS Global team.



FIS is the world’s largest global provider dedicated to banking and payments technologies. With a long history deeply rooted in the financial services sector, FIS serves more than 14,000 institutions in over 110 countries. Headquartered in Jacksonville, Fla., FIS employs more than 37,000 people worldwide and holds leadership positions in payment processing and banking solutions, providing software, services, and outsourcing of the technology that drives financial institutions.

HOW TO SUCCEED IN CREDIT CARDS ON PURPOSE

LUCK ONLY LASTS SO LONG. THAT'S WHY EVERY CREDIT UNION NEEDS A LONG-TERM ROADMAP FOR THIS CRUCIAL AREA OF ITS BUSINESS.

CREDIT UNIONS ACROSS the country still constantly struggle to find quality loan volume that can generate a reasonable yield. Yet when properly pursued, the credit card and payments market can provide abundant opportunities for almost any issuer, regardless of their size.

For example, did you know that:

- Over the last five years, credit unions grew their credit card market share by 50% while bank share actually shrank? Contrary to popular perceptions, the recession years appear to have been very beneficial for credit union card programs.
- The interest rate on credit cards has not come down from pre-recession levels, while other loan product yields are down by up to 50%? Never before have credit cards provided a more attractive revenue opportunity compared to other products.
- Credit risk and charge-off rates are at their lowest point in 20 plus years? While this means than large bank issuers are hard at work marketing and improving their own products, it also means that credit unions can look a bit deeper and provide more cards to more members than ever before.
- Margin and ROA are at historic highs and a well-performing card program can often generate three to four times more income dollar-for-dollar than other loan products? In other words, credit card program profitability can play a major role in overall financial per-

formance even if the program occupies only a modest place on the balance sheet.

It is important for credit unions to take advantage of these fortunate tides before conditions change. The big banks certainly recognize the attractive opportunity before them, having returned to the market in force after taking a break from aggressive new account marketing during the recession. With the largest and most sophisticated issuers competing as heavily as ever — including developing dramatically stronger cardholder value propositions — credit unions cannot rely on goodwill and inertia to carry them forward. Instead, employee skills must be actively developed and institutional resources dedicated to protect and grow this business.

Translating opportunity into strategy and strategy into action can be a significant challenge, particularly for those who tend to view credit cards from an operational perspective. Getting bogged down in technical matters, EMV concerns, mobile wallet turbulence, or any host of day-to-day distractions is easy. But truly successful issuers are able to lift their eyes toward the horizon and continuously adapt in order to keep their programs growing and performing year-over-year. Simply counting on third-party processing organizations to do all of your thinking for you is a recipe for dissatisfaction.

So, what does a credit union issuer need to understand and improve upon in order to position their cred-

it card program for the next several years? A few crucial traits will separate the top performers (and earners) from the rest of the pack.

AN UNDERSTANDING OF THE ENTIRE MARKET

Too often, issuers look at their own book of accounts and the few other issuers in their area and then base their credit card products and plans on that narrow perspective. Cards exist in a national market, and 90% of these accounts are still issued by the large banks. This is your true competition. Knowing what they are up to, what segments they are most aggressively pursuing, how they are designing and positioning their products, and which of these pose the biggest threats to your member relationships is critical for any forward-looking credit union card issuer.

KEEPING THE PRODUCT SET FRESH

Most serious credit unions have realized that the old Classic/Gold/Platinum product set construct is a relic of the past. But even so, many modern programs are at risk of falling behind market expectations in terms of rate options, special promotional programs, targeted loyalty/reward propositions, service delivery technology, and high-end card type options. Card product design is not a once every five years undertaking, it is a continuous process of analysis and refinement which often takes place behind the scenes and beyond the average card holder's understanding.

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MEMBER SEGMENTATION

The term credit card means different things to different segments of your membership. For some, it is a product to which they aspire but do not yet qualify. For others, it is a source of credit (either regularly or occasionally). And for yet others, credit cards are transactional tools valued for convenience and rewards. Until an issuer develops a segmentation approach based on member viewpoints, matching product value and member expectations will remain guesswork in best-case scenarios and can often turn out just plain wrong in the worst case. A mismatch between product value and member desires means not only less growth and less income, but also an increased risk that existing cardholders will become dissatisfied and defect to a rival offer.

DEVELOP YOUR PEOPLE FOR STRATEGY

A root issue in many struggling credit card programs is that the organization has not sufficiently invested in the skills required to run their program. Often, day-to-day responsibilities fall to an operational function, whereas medium and long-term planning require a more strategic view. In some cases, the people actually setting credit card strategies have very little understanding of the product's financial performance or marketplace appetite for the value proposition they develop.

Those running a card department need not only a strategic mindset but also strong analytic and tactical skills, and developing this staff requires both management support and institutional investment. Finding a perfectly experienced and skilled card manager is difficult for most credit unions. That's why identifying and training promising internal staff

is often a better solution than bringing in unfamiliar external hires.

REPORTING AS A STRATEGIC ADVANTAGE

Often performance reporting is felt to be a burden imposed from above, reluctantly maintained and without any identifiable purpose. But in the world of financial services, good reporting and the guidance it provides is a critical strategic advantage.

Good reporting provides actionable information and guides daily decisions regarding resource allocation. A successful issuer needs to be able to answer performance related questions such as:

- “How much money does this product make?”
- “What is its ROA?”
- “Which products are growing?”
- “Are cardholders borrowing and spending more or less than last year?”
- “What was the response rate on our marketing campaign? Did that provide sufficient returns?”

When properly armed with this type of knowledge, an institution can begin to make smart, focused, and justifiable decisions on resource allocation and product design. Make no mistake, credit unions who are currently struggling — as well as those who have been merged out of existence — have often been historically weak in reporting or performance measurement. This leads to bad resource allocation decisions over time, potentially resulting in competitive failure.

PROVE, ADVOCATE, THRIVE

Even the best run credit union programs need to sell their performance to internal management teams, colleagues, and the Board. And card programs in particular require a regular stream of marketing and pro-

gram management resources to meet their potential.

An organization with all of the skills listed above still needs to translate program performance into information for all these constituencies so that they can understand the program's value, share in its success, advocate for it, and confidently provide the resources to keep it building into the future. When the entire organization has a singular view of its card program, a credit union can absolutely compete with even the largest large bank issuers.

Unlike other loan products, a successful card program does not have a date when it will run off. Existing accounts can stay on the books for decades, generating income the whole time while also augmenting other products within the overall member relationship.

Many organizations often have trouble understanding how a smaller program like credit cards can in fact be their highest earning, with the most long-term value to the organization. But those who finally do figure it out — and who choose to continually support and invest in this important business line — will have a brighter future as a result. ■

Timothy Kolk is the owner of TRK Advisors, and brings more than two decades of credit card experience and expertise to his clients. Kolk has helped credit unions across the United States improve their card programs, better serve their members, and create long lasting, high performing card programs. He can be reached at tkolk@trkadvisors.com or (603) 924-4438.

TRK Advisors brings unmatched expertise to any card issuer. Areas of expertise include program performance analysis and opportunity identification, market and member segmentation, product design, processor RFPs, marketing program development, affinity/cobrand programs, de novo (startup) programs, and much more.

CARDS DEAL CREDIT UNIONS A WINNING HAND

A DIVE INTO INDUSTRY DATA REVEALS THE GROWING IMPORTANCE OF PAYMENTS-RELATED PRODUCTS AND BUSINESS LINES.

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CREDIT CARDS

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PREPAID, MERCHANT PROCESSING, AND EMV

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PAYMENT CARDS HAVE grown in prevalence and importance at credit unions over the past few years. For example, members' demand for credit card products has been rising year-over-year for the past five years — as demonstrated by the rapid increase in credit card penetration and the growing number of credit card accounts at credit unions. While card products of all types have garnered greater attention in credit unions, some regulatory concerns and market risks have emerged that credit unions must pay attention to.

Competition is also on the rise. For example, many big banks are pushing for high reward cards by partnering with various merchants and businesses. Despite this competition, credit cards in particular remain a profitable product that credit unions should consider.

Credit cards bring in a material amount of revenue from fee income. According to Callahan & Associates' 2013 Non-interest Income Survey, credit card interchange and fees accounted for 10.3% of total non-interest income earned at credit unions. Moreover, credit cards typically generate the highest ROA among all lending products, which positions these products as a key contributor to financial success.

For the past several years, the net interest margin — defined as the spread between interest income and interest expense — has continued on a downward trend as the historic low-rate interest environment affects interest income.

However, credit cards can help generate attractive net interest margins with relatively high yields, thus boosting a credit union's overall net interest margin and ROA.

In order to have a successful card program of any type, credit unions must first learn to develop and diversify their card products so that they can provide values that are targeted to members' specific needs.

To help inform tomorrow's payment strategies, Callahan & Associates has assembled a data snapshot of current performance and future potential for credit cards, as well as debit cards and several other subsections of the payments ecosystem. Read on to see how your institution may benefit from these valuable business lines. ■

→ "...CREDIT CARDS CAN HELP GENERATE ATTRACTIVE NET
INTEREST MARGINS WITH RELATIVELY HIGH YIELDS, THUS BOOSTING
A CREDIT UNION'S OVERALL NET INTEREST MARGIN AND ROA."



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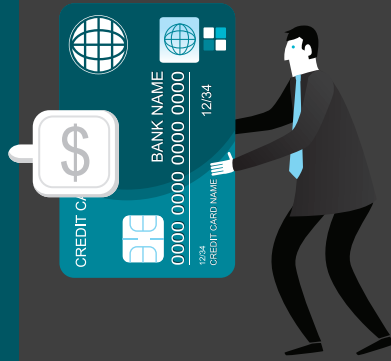
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CREDIT CARD INDUSTRY PERFORMANCE

CREDIT UNIONS HAVE seen dynamic trends in credit card performance over the past decade. Historically, credit cards were not a major source of revenue for many cooperatives. But an increase in member demand along with high yields has made these products more important and attractive to credit unions, especially in a historic low-rate environment.

Currently, over 55.8% of the industry offers credit cards to members, up from 42.7% ten years ago. Given the rising importance of this product in the industry's loan portfolio, it is not surprising that credit card concentration also increased since 2008 to top 6.4% as of September 2013.

After the financial crisis, the pace of growth in outstanding credit card balances slowed. However, going into 2014, growth in credit card balances at credit unions is regaining momentum as the economy improves.

Total outstanding credit card balances have increased 7.6% to reach \$41.1 billion as of September 2013, marking the highest year of annual credit card loan growth since the recession. The average credit card balance also increased 90 basis points year-over-year to reach \$2,711 as of September 2013. Moreover, the total number of credit card accounts has steadily increased to top 15 million.

Prior to the financial crisis, credit card penetration rates were generally in decline, with the number of credit card accounts shrinking even as membership numbers increased. However, since 2011, the percentage of members holding a credit union credit card has been growing.

And despite the concerns that the Credit CARD Act of 2009 would lead financial institutions to raise interest rates, the average credit card rate at credit unions has exhibited a continued downward trend since 2009. ■

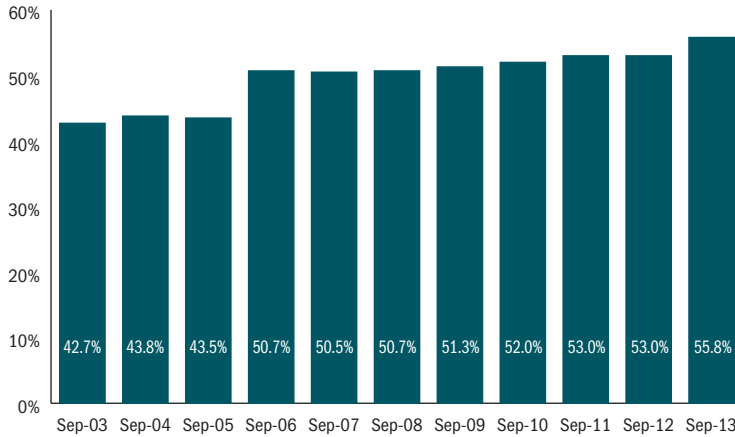
CREDIT CARD DATA BY CATEGORY

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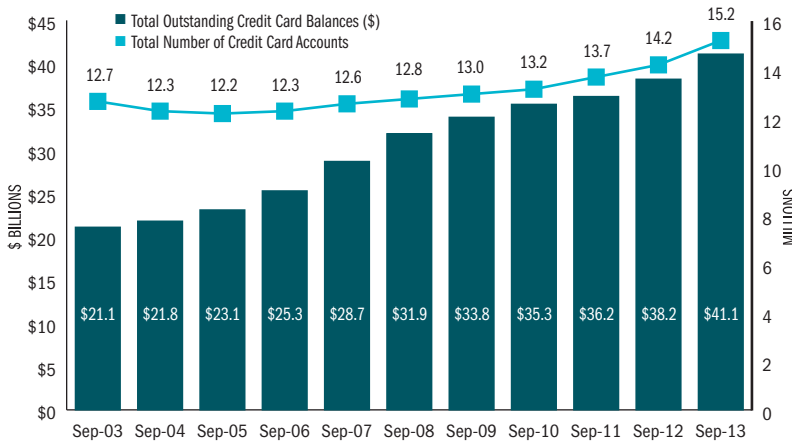
CREDIT CARD INDUSTRY PERFORMANCE

PERCENT OF CREDIT UNIONS OFFERING CREDIT CARDS | DATA AS OF SEPTEMBER 30



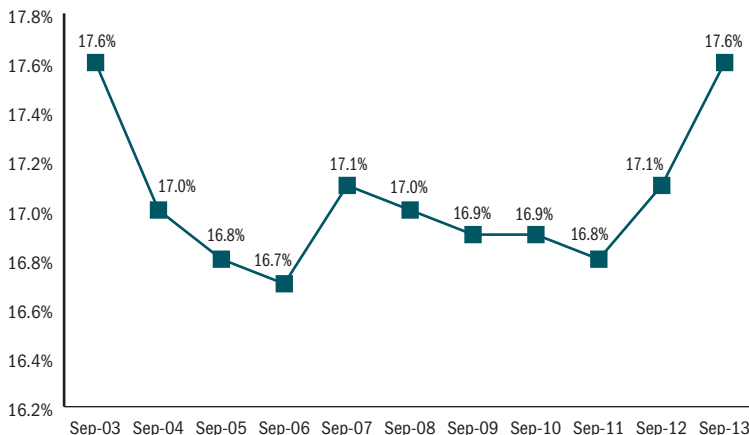
In the third quarter of 2013, 3,771 credit unions – or 55.8% of the industry – had a credit card program. The percent of credit unions offering credit cards jumped notably from 2005 to 2006 and again from 2012 to 2013. The recent trend in rising interest rates coupled with increasing consumer confidence and an improving U.S. economy led to a significant annual increase in the percentage of credit unions offering credit cards.

TOTAL OUTSTANDING CREDIT CARD LOAN BALANCES PLUS TOTAL NUMBER OF CREDIT CARD ACCOUNTS | DATA AS OF SEPTEMBER 30



Total outstanding credit card balances at credit unions have increased consistently for the past decade. In the third quarter of 2013, the industry reported a total of \$41.1 billion in outstanding credit card balances, nearly double the amount reported in September 2003. The pace of growth has picked up in 2013 as consumers are regaining confidence and are more willing to spend now than during the recession. The number of credit card accounts at credit unions nationwide totaled 15.2 million at the end of September 2013, up 6.6% from a year prior and up 19.3% from ten years ago. As the economy recovers, the pace of annual growth in the number of credit card accounts has accelerated.

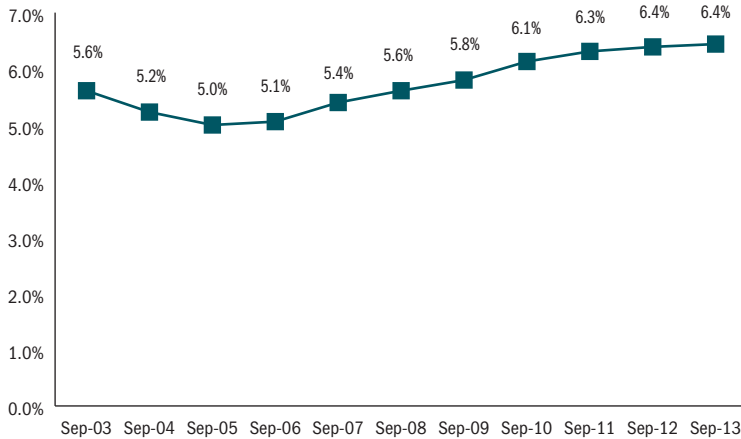
CREDIT CARD PENETRATION | FOR CREDIT UNIONS WITH A CREDIT CARD PROGRAM | DATA AS OF SEPTEMBER 30



Credit card penetration measures the percentage of members holding a credit card account with an outstanding balance at their credit union. As of September 2013, this metric topped 17.6% for the first time in the industry's history. Credit card penetration at credit unions has trended upward since 2011 as members have deepened their relationships with credit unions and utilized credit more significantly as their own financial situations improved.

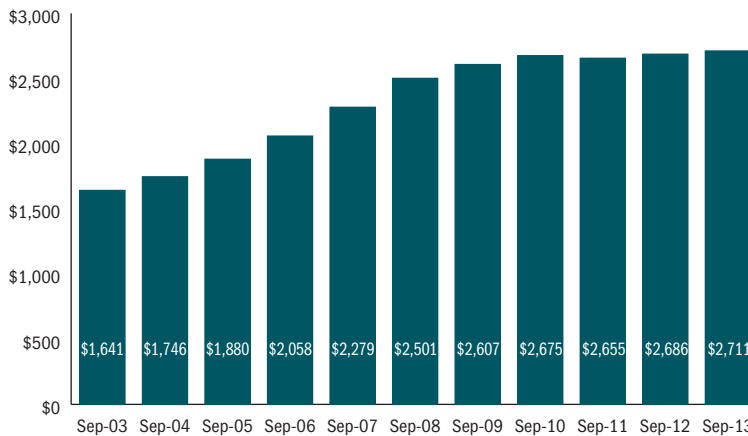
SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

CREDIT CARD CONCENTRATION | DATA AS OF SEPTEMBER 30



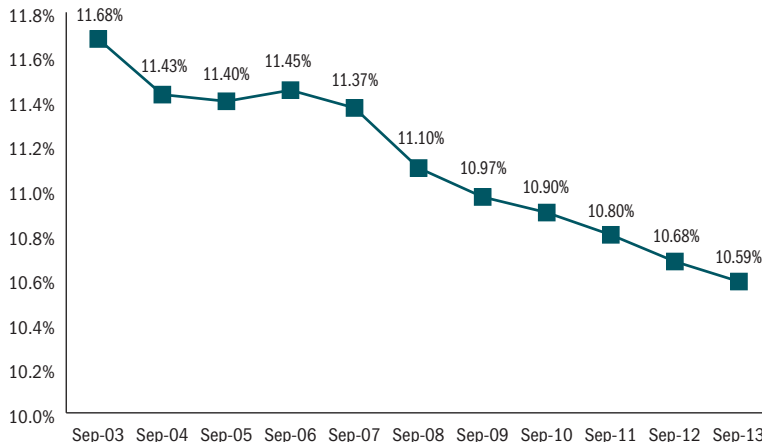
Credit card concentration shows the amount of credit card loans outstanding as a percent of total loan balances. Since September 2005, credit unions nationwide have seen their credit card concentration consistently increasing. And the industry average for credit card concentration as of September 2013 was 6.4%. This gradual increase illustrates the rising importance of credit card loans in the industry's overall loan portfolio.

AVERAGE CREDIT CARD BALANCE | DATA AS OF SEPTEMBER 30



The average credit card balance shows how much the average member carries on their credit card and is calculated by dividing outstanding credit card balances by the total number of credit card accounts. In the early to mid 2000s, there was an initial upward trend in this metric nationwide. That momentum eventually began slowing, yet overall growth remains positive. The national average for credit card balances was \$2,711 as of September 2013, up from the \$1,641 reported in September 2003.

AVERAGE CREDIT UNION CREDIT CARD INTEREST RATE | DATA AS OF SEPTEMBER 30



From 2003 to 2013, the average rate credit unions charged on credit card loans has fallen. In the third quarter of 2013, credit unions nationwide reported an average credit card rate of 10.59%, down 51 basis points from five years ago and down 109 basis points from ten years ago. The recent fall in rates on credit card loans is attributed to the historic low-rate environment and increasing competition in the credit card industry.

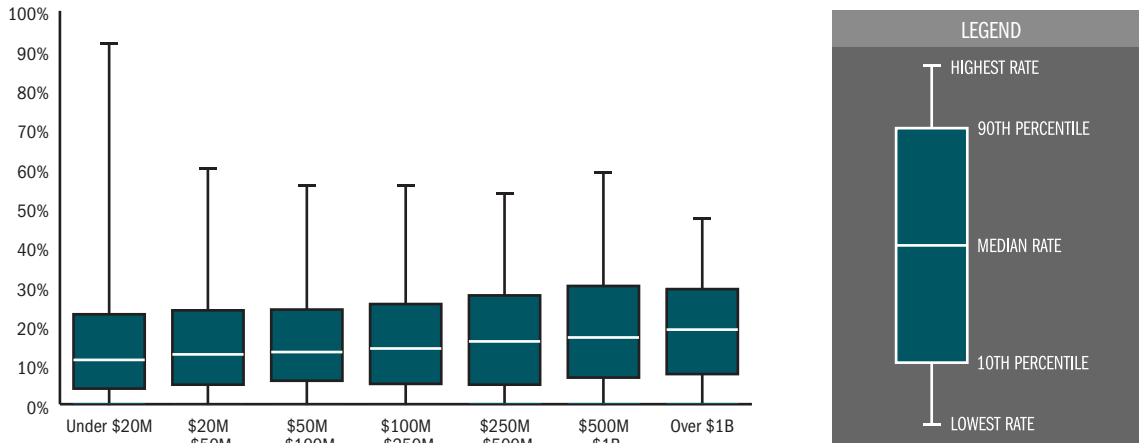
SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

CREDIT CARD PERFORMANCE BY PEER GROUP

IT IS BECOMING increasingly difficult to run a credit card program due to ongoing regulatory pressures and rising competition in the credit card industry. In this environment, larger credit unions generally post better financial performance as they can leverage economies of scale and often have enough resources to operate and manage credit card programs more efficiently. According to Callahan and Associates' Peer-to-Peer analytics, credit card profiles at credit unions vary considerably according to asset sizes. ■

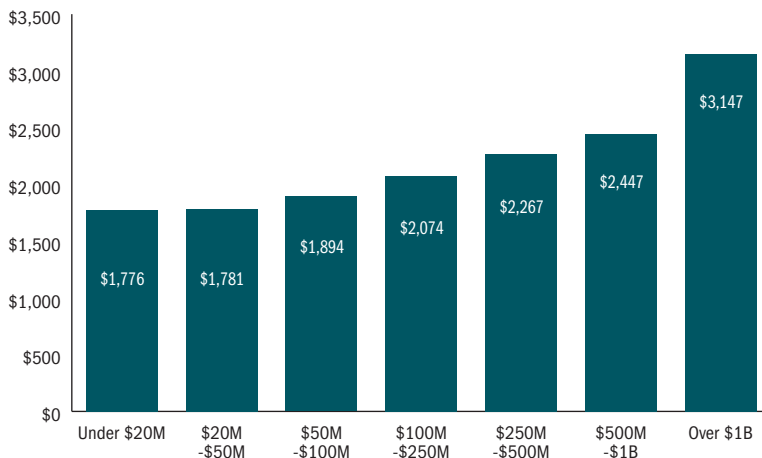
CREDIT CARD PENETRATION BY ASSET-BASED PEER GROUP | DATA AS OF SEPTEMBER 30, 2013

The graph depicting the average credit card penetration for each peer group shows that the size of credit unions is not a major determinant of credit unions' success in credit card programs. The credit unions that performed within the top 10th percentile for the smallest peer group reported an average penetration of 22.8% as of September 2013, which is comparable to the average penetration rates of the top 10th percentile performers at larger peer groups.



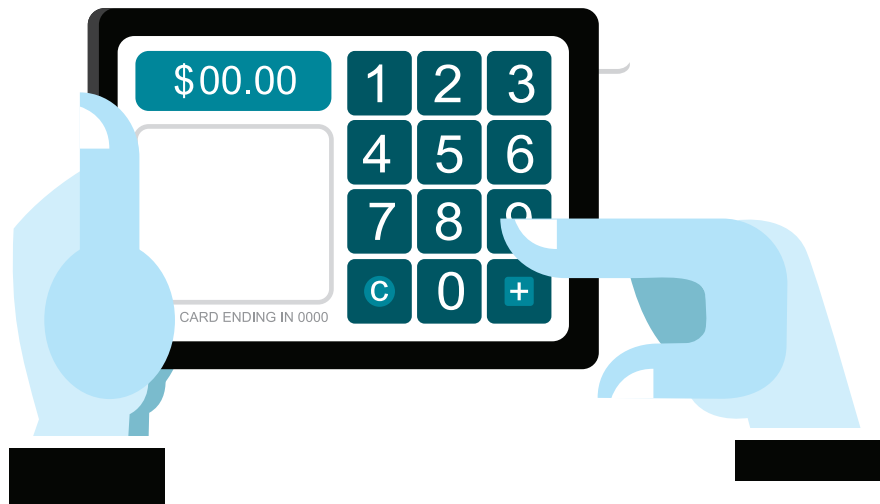
	UNDER \$20M	\$20M-\$50M	\$50M-\$100M	\$100M-\$250M	\$250M-\$500M	\$500M-\$1B	OVER \$1B
LOWEST RATE	0.2%	0.0%	0.0%	0.0%	0.1%	0.1%	1.0%
LOWEST 10 TH PERCENTILE	3.9%	4.9%	5.9%	5.1%	4.9%	6.7%	7.6%
MEDIAN	11.2%	12.6%	13.2%	14.1%	15.9%	16.9%	18.9%
TOP 90 TH PERCENTILE	22.8%	23.8%	24.0%	25.4%	27.6%	30.0%	29.2%
HIGHEST RATE	91.9%	60.1%	55.8%	55.7%	53.9%	59.2%	47.6%

AVERAGE CREDIT CARD BALANCE BY ASSET-BASED PEER GROUP | DATA AS OF SEPTEMBER 30, 2013



The average credit card balance follows the same trend as credit card penetration, with larger credit unions having higher average credit card balances. Members at credit unions over \$1 billion in assets reported an average credit card balance of \$3,147 as of September 2013. Those institutions whose average asset size was over \$100 million reported over \$2,000 as their average credit card balance.

SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS



CREDIT CARD PROCESSOR MARKET SHARE

AS A RESULT of the increased significance of credit card loans as a high-earning asset on the balance sheet, card processor offerings are receiving much greater scrutiny by credit union clients than may have occurred in the past.

By examining credit card processor market share and the performance of individual processors' clients, credit unions can better benchmark their own performance as well as perform preliminary analysis of current and potential partners.

Historically, Callahan & Associates has only tracked credit union credit card processor relationships. But this year, we added credit card rewards programs so that we could illustrate the impact, if any, that implementing a rewards program may have on credit card performance.

As a result, we found the Augeo rewards program from Ohio-based payments processor Vantiv as well as the rewards program from Indiana-based One-Bridge appear to make the greatest impact, based on their credit union clients' average credit card penetration rate.

According to Callahan & Associates' proprietary credit union credit card processor relationship data, FIS provides the greatest number of credit card processing relationships industry wide.

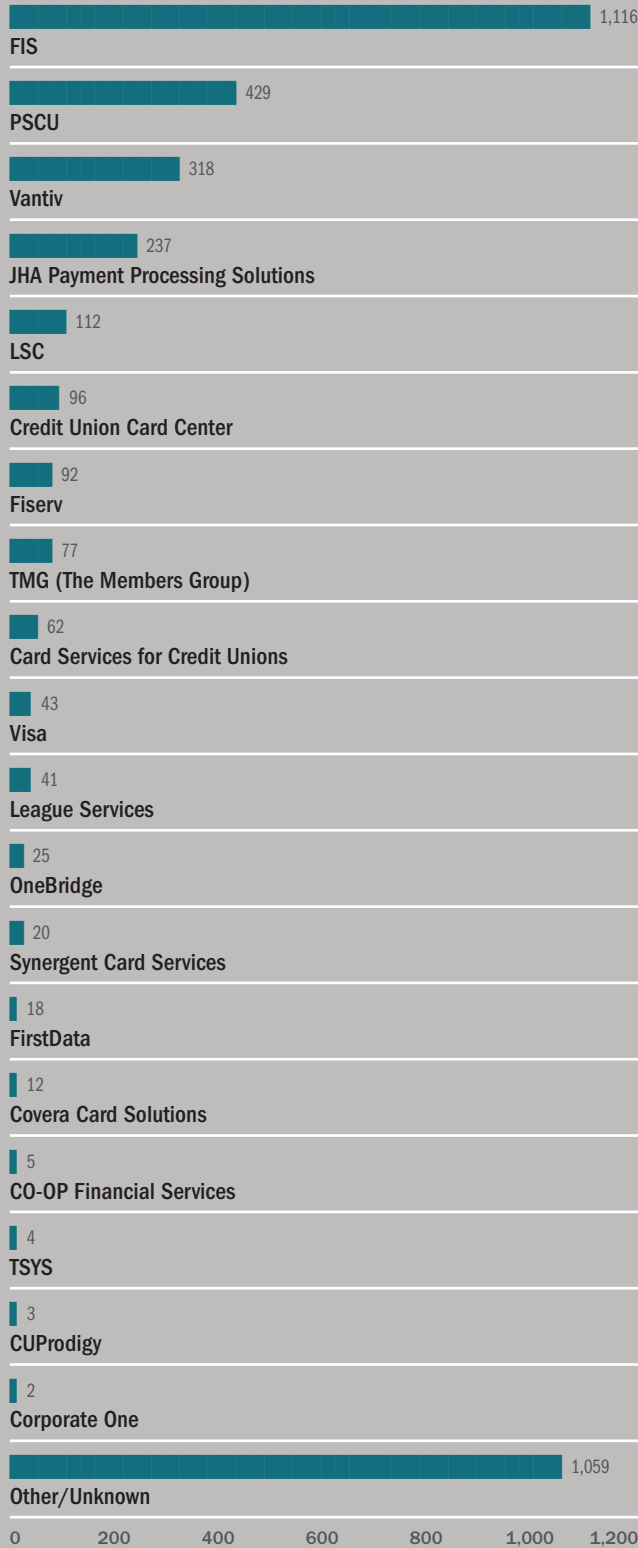
However, it is likely that the number of FIS clients is slightly inflated. This is because several of the credit card processing companies that use this provider's system to perform their processing did not verify their data with Callahan & Associates. Therefore, despite the fact that the FIS network is used for their back-end processing, other companies in fact likely hold many of those relationships.

While Georgia-based TSYS has few direct relationships with credit unions, it does provide the processing services for Navy Federal Credit Union (\$55B, Merrifield, VA) and services 18.6% of the entire industry's outstanding credit card loans.

For this reason, market share in terms of both the number of TSYS client credit card accounts and the amount of their clients' outstanding credit card loans may appear misleadingly high. ■

Research Method: Callahan & Associates' proprietary vendor relationship data, while extensive and accurate, is not verified by the NCUA. Instead, we collect credit union technology relationships in a number of ways. These include monitoring news and press releases to make sure that we are capturing as much public data as we can, surveying our credit union clients, and having technology providers themselves verify that our data is accurate. Callahan provides vendor relationship data on an individual institution level through our business intelligence tools. For more information please contact us at support@callahan.com

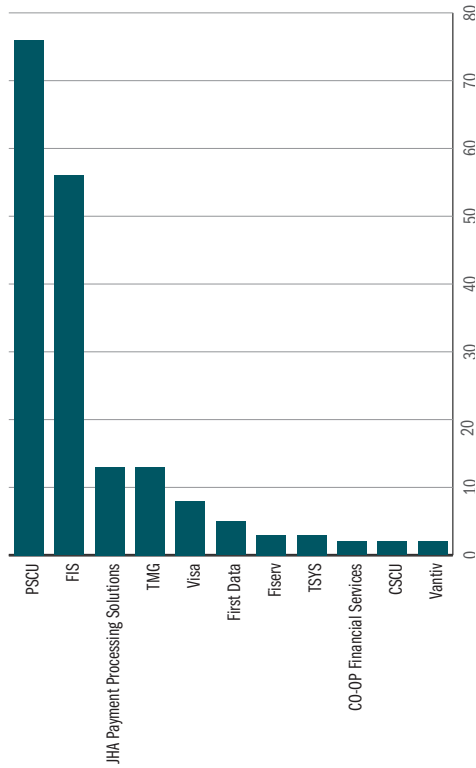
CREDIT CARD PROCESSOR MARKET SHARE BY NUMBER OF CREDIT UNION CLIENTS | DATA AS OF SEPTEMBER 30, 2013



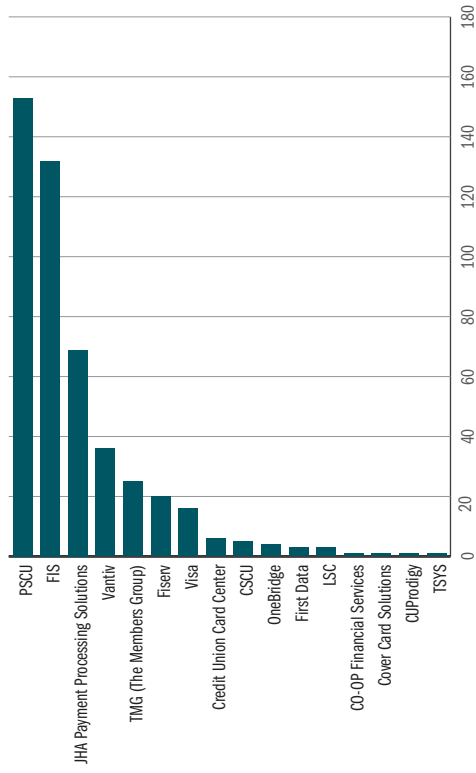
CREDIT CARD PROCESSOR	# CUS
Card Services for Credit Unions	62
CO-OP Financial Services	5
Corporate One	2
Covera Card Solutions	12
Credit Union Card Center	96
CUProdigy	3
First Data	18
FIS	1,116
Fiserv	92
JHA Payment Processing Solutions	237
League Services	41
LSC	112
OneBridge	25
PSCU	429
Synergent Card Services	20
TMG (The Members Group)	77
TSYS	4
Vantiv	318
Visa	43
Other/Unknown	1,059

CREDIT CARD PROCESSOR MARKET SHARE BY NUMBER OF CREDIT UNION CLIENTS

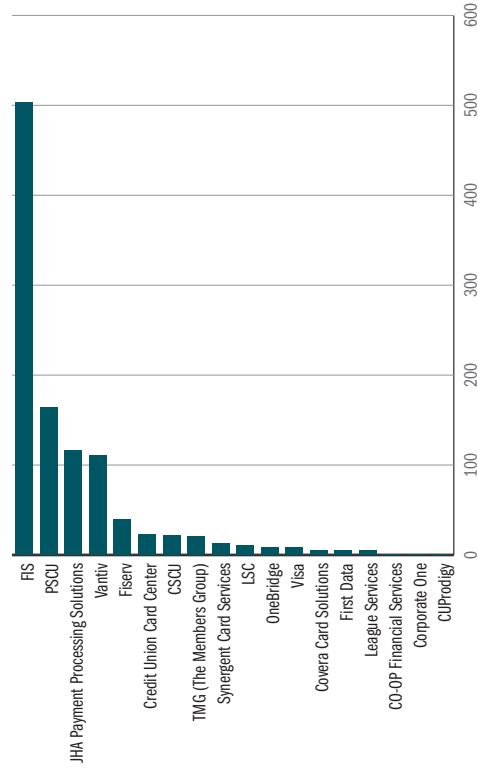
CLIENTS OVER \$1B IN ASSETS



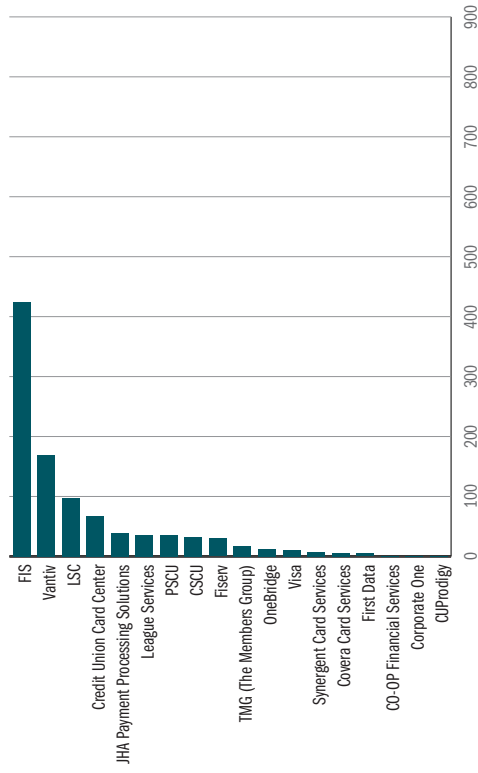
CLIENTS BETWEEN \$250M-\$1B IN ASSETS



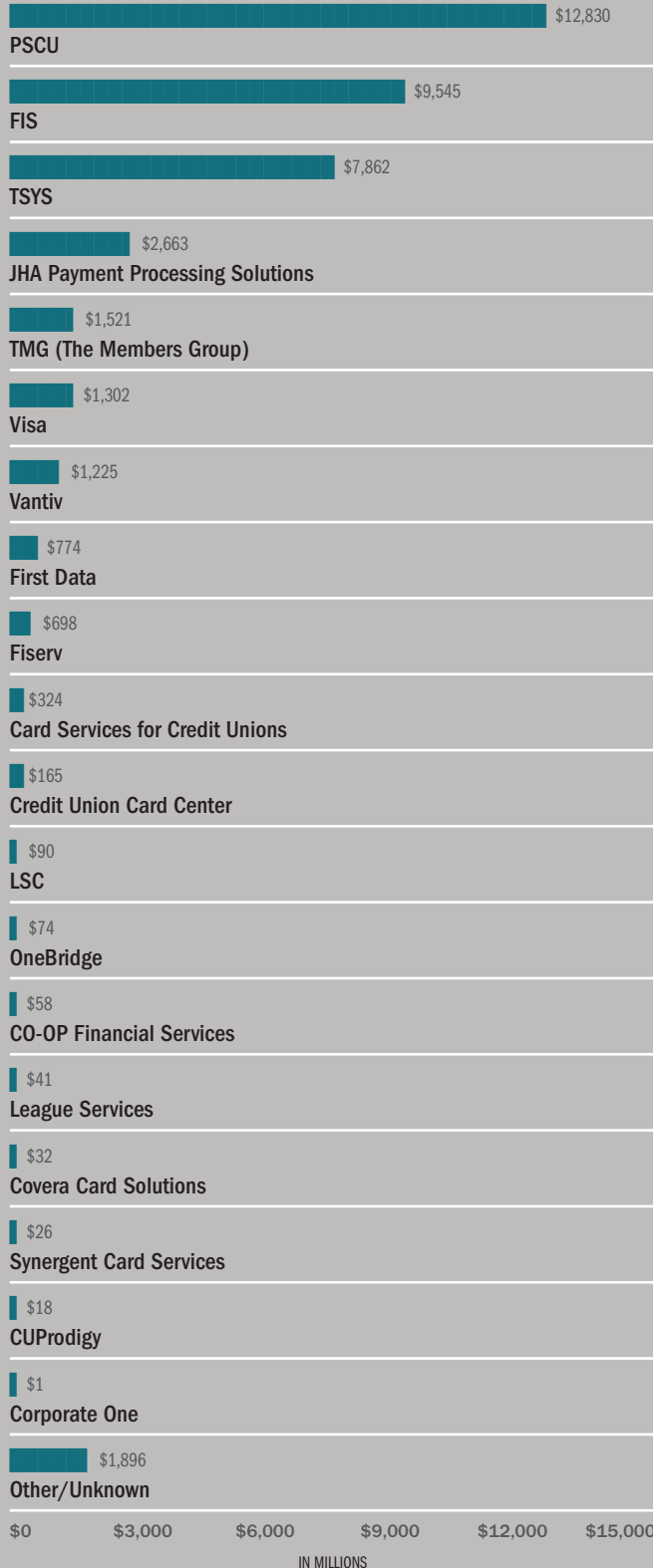
CLIENTS BETWEEN \$50M-\$250M IN ASSETS



CLIENTS UNDER \$50M IN ASSETS



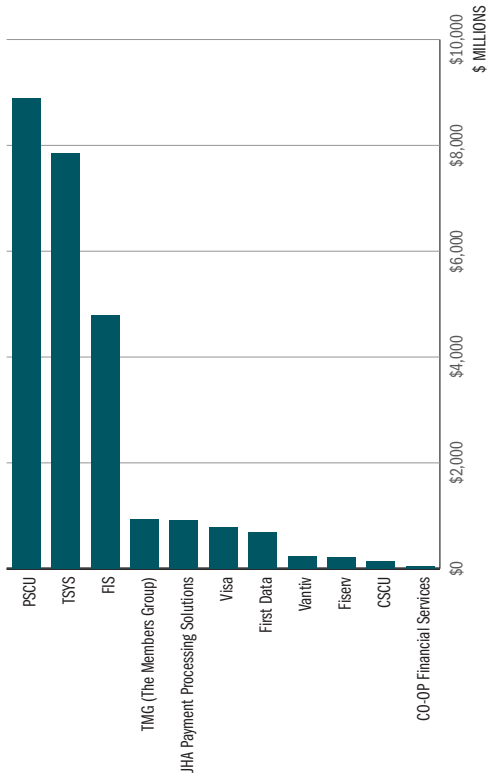
CREDIT CARD PROCESSOR MARKET SHARE BY CLIENTS' OUTSTANDING CREDIT CARD BALANCES IN MILLIONS | DATA AS OF SEPTEMBER 30, 2013



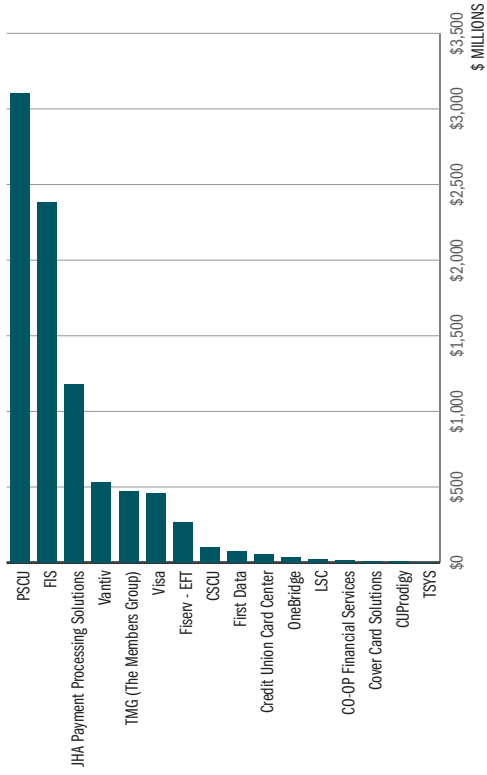
CREDIT CARD PROCESSOR	TOTAL CC LOANS
Card Services for Credit Unions	\$323,942,351
CO-OP Financial Services	\$58,011,152
Corporate One	\$950,276
Covera Card Solutions	\$31,648,878
Credit Union Card Center	\$164,543,016
CUProdigy	\$17,799,459
First Data	\$774,360,423
FIS	\$9,545,020,166
Fiserv	\$698,330,702
JHA Payment Processing Solutions	\$2,662,756,394
League Services	\$41,018,115
LSC	\$89,808,981
OneBridge	\$74,124,028
PSCU	\$12,830,191,811
Synergent Card Services	\$26,251,483
TMG (The Members Group)	\$1,521,054,207
TSYS	\$7,861,974,304
Vantiv	\$1,225,128,150
Visa	\$1,301,725,724
Other/Unknown	\$1,896,291,735

CREDIT CARD PROCESSOR MARKET SHARE BY CLIENTS' OUTSTANDING CREDIT CARD BALANCES

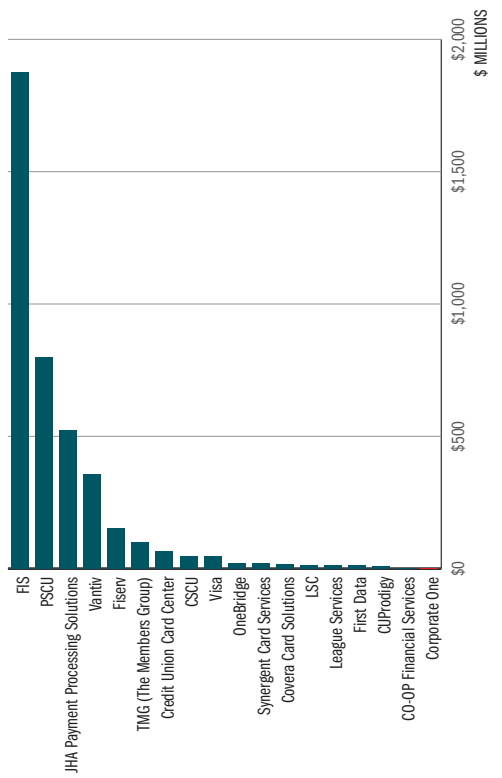
CLIENTS OVER \$1B IN ASSETS



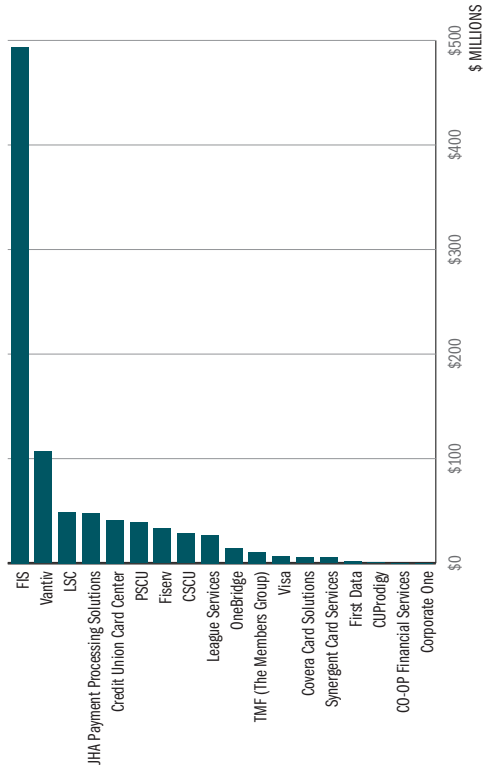
CLIENTS BETWEEN \$250M TO \$1B IN ASSETS



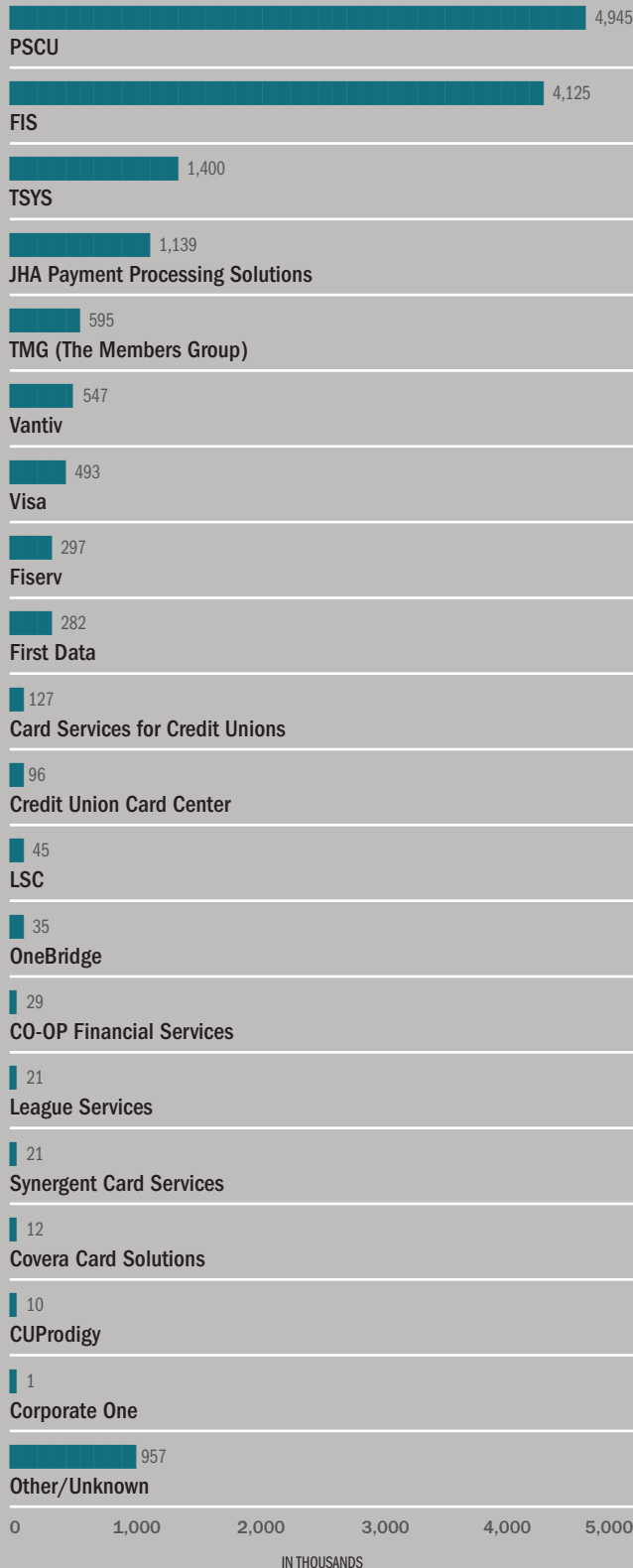
CLIENTS BETWEEN \$50M-\$250M IN ASSETS



CLIENTS UNDER \$50M IN ASSETS

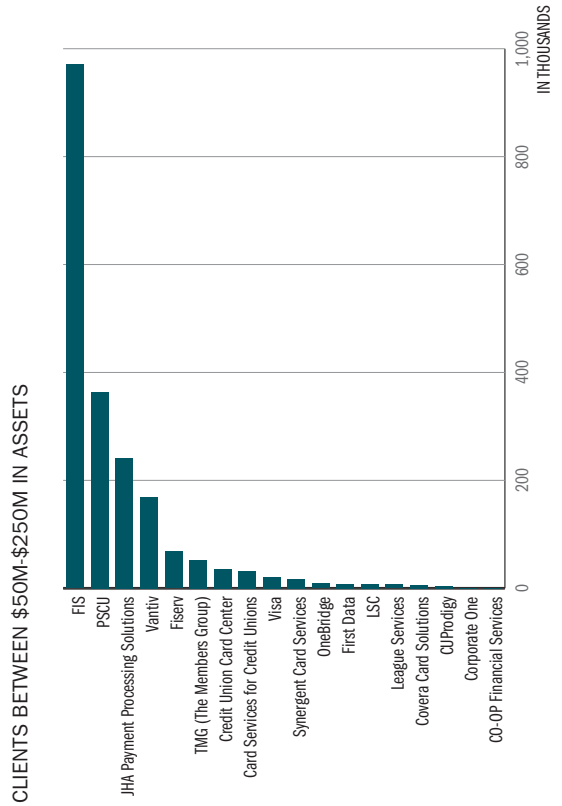
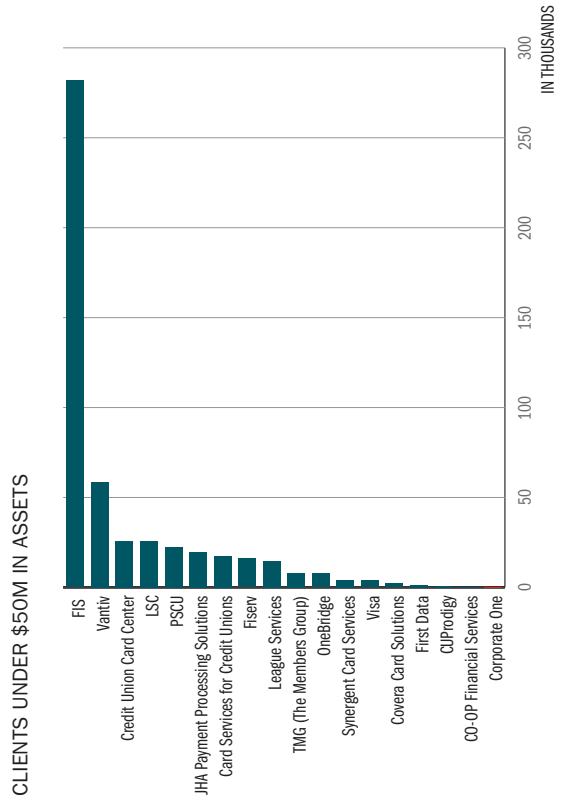
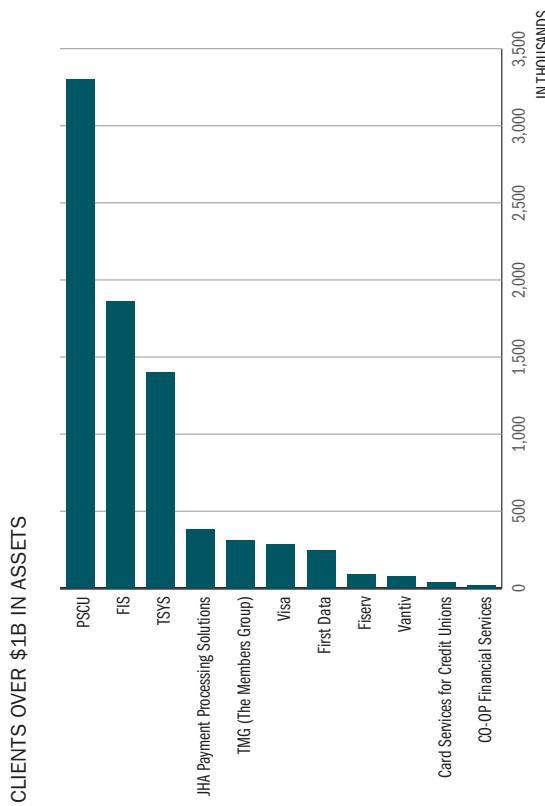
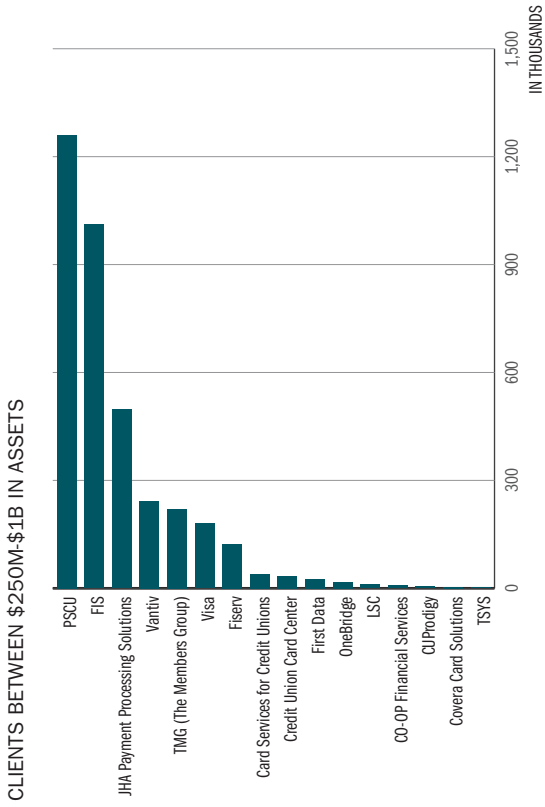


CREDIT CARD PROCESSOR MARKET SHARE BY NUMBER OF CLIENTS' CREDIT CARD ACCOUNTS IN THOUSANDS | DATA AS OF SEPTEMBER 30, 2013



CREDIT CARD PROCESSOR	# OF CC ACCOUNTS
Card Services for Credit Unions	127,395
CO-OP Financial Services	29,421
Corporate One	826
Covera Card Solutions	12,317
Credit Union Card Center	95,687
CUProdigy	9,566
First Data	282,248
FIS	4,125,287
Fiserv	297,060
JHA Payment Processing Solutions	1,139,414
League Services	21,121
LSC	44,955
OneBridge	34,986
PSCU	4,945,044
Synergent Card Services	20,762
TMG (The Members Group)	594,860
TSYS	1,400,251
Vantiv	547,334
Visa	492,605
Other/Unknown	957,404

CREDIT CARD PROCESSOR MARKET SHARE BY NUMBER OF CLIENTS' CREDIT CARD ACCOUNTS



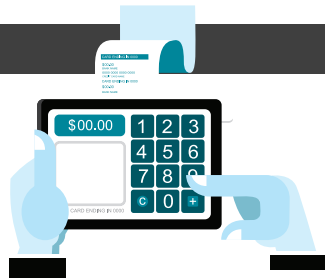
SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

CREDIT CARD PROCESSOR CLIENT PERFORMANCE COMPARISON (ALL CREDIT UNION CLIENTS)

CREDIT UNION FINANCIAL DATA AS OF SEPTEMBER 30, 2013

CREDIT CARD PROCESSOR	# CUS	TOTAL ASSETS	TOTAL AMOUNT OF CC LOANS	TOTAL NUMBER OF CC ACCOUNTS	AVERAGE ASSETS	AVERAGE CC LOAN GROWTH	AVERAGE CC BALANCE	AVERAGE CREDIT CARD PENETRATION	AVERAGE CREDIT CARD INTEREST RATE
Card Services for Credit Unions	62	\$7,983,403,515	\$323,942,351	127,395	\$128,764,573	12.58%	\$2,543	16.51%	10.84%
CO-OP Financial Services	5	\$3,459,287,693	\$58,011,152	29,421	\$691,857,539	11.28%	\$1,972	9.94%	10.81%
Corporate One	2	\$77,668,923	\$950,276	826	\$38,834,462	420.47%	\$1,150	9.33%	9.06%
Corporate One*	1	\$12,401,391	\$281,679	126	\$12,401,391	62.75%	\$2,236	4.81%	9.17%
Covera Card Solutions	12	\$802,472,244	\$31,648,878	12,317	\$66,872,687	0.65%	\$2,570	15.67%	9.92%
Credit Union Card Center	96	\$6,061,638,277	\$164,543,016	95,687	\$63,142,065	3.79%	\$1,720	12.30%	11.25%
Credit Union Card Center*	35	\$4,017,283,891	\$112,621,951	64,393	\$114,779,540	5.80%	\$1,749	12.71%	11.13%
CUPProdigy	3	\$441,200,727	\$17,799,459	9,566	\$147,066,909	12.01%	\$2,351	14.39%	11.17%
First Data	18	\$19,377,560,767	\$74,360,423	282,248	\$1,076,531,154	10.04%	\$2,744	17.93%	10.65%
FIS	1,116	\$250,791,759,513	\$9,545,020,166	4,125,287	\$224,723,799	5.01%	\$2,314	18.04%	10.57%
FIS - Scorecard*	25	\$2,053,613,496	\$91,240,183	39,664	\$82,144,540	2.03%	\$2,300	16.56%	10.12%
Fiserv	92	\$20,650,278,681	\$698,330,702	297,060	\$224,459,551	5.57%	\$2,351	15.40%	10.48%
UChoose Rewards**	-	-	-	-	-	-	-	-	-
JIA Payment Processing Solutions	237	\$74,676,461,997	\$2,662,756,394	1,139,414	\$315,090,557	6.76%	\$2,337	17.72%	10.20%
League Services	41	\$1,060,160,258	\$41,018,115	21,121	\$25,857,567	2.85%	\$1,942	13.41%	10.81%
LSC	112	\$4,056,452,692	\$89,808,981	44,955	\$36,218,328	6.28%	\$1,998	8.74%	10.36%
OneBridge	25	\$2,697,715,139	\$74,124,028	34,986	\$107,908,606	4.05%	\$2,119	11.90%	10.48%
OneBridge*	4	\$499,357,653	\$15,718,278	7,001	\$124,839,413	-1.97%	\$2,245	13.51%	10.01%
PSCU	429	\$318,540,586,506	\$12,830,191,811	4,945,044	\$742,518,850	5.66%	\$2,595	18.54%	9.94%
PSCU CURewards*	271	\$156,683,562,826	\$6,083,463,446	2,346,785	\$578,168,129	4.29%	\$2,592	4.25%	9.70%
Synergent Card Services	20	\$1,501,895,387	\$26,251,483	20,762	\$75,094,769	1.38%	\$1,264	11.61%	11.18%
TMG (The Members Group)	77	\$50,096,008,259	\$1,521,054,207	594,860	\$650,597,510	6.51%	\$2,557	14.64%	10.10%
TSYS	4	\$60,833,965,410	\$7,861,974,304	1,400,251	\$15,208,491,353	19.75%	\$5,615	27.04%	8.72%
Vantiv	318	\$37,454,924,081	\$1,225,128,150	547,334	\$11,782,780	6.41%	\$2,238	13.20%	10.47%
Vantiv -Augeo*	2	\$188,161,566	\$13,114,361	5,599	\$94,080,783	55.30%	\$2,342	17.51%	10.00%
Visa	43	\$27,220,495,476	\$1,301,725,724	492,605	\$633,034,779	1.07%	\$2,643	19.65%	10.93%
Other	1,059	\$71,704,966,365	\$1,896,291,735	957,404	\$67,710,072	5.64%	\$1,981	12.49%	10.96%
Totals	3,771	\$959,488,901,910	\$41,144,931,355	15,178,543	\$254,438,850	8.03%	\$2,710.73	17.62%	10.58%

* Rewards Program



CARD PORTFOLIO SALES TRENDS

THE NUMBER OF CREDIT UNIONS SELLING CREDIT CARD PORTFOLIOS HAS SIGNIFICANTLY DECREASED OVER THE PAST DECADE, SIGNALING THE INCREASING VALUE OF CREDIT CARDS AT THESE INSTITUTIONS.

CREDIT UNIONS MAY sometimes choose to sell their credit card portfolios to a third party. This is often due to the credit union not having the resources to devote to managing a high-performing program. While these types of transactions do not happen every day, some significant portfolio sales have taken place over the past decade. The number of credit unions that chose to sell off their credit card portfolios peaked from 2004 to 2007. In fact, in 2006 alone, nearly a hundred credit unions sold either a portion or the entirety of their credit card portfolio.

Prior to the recession, consumer confidence had reached an all-time high due to the strong economy, and credit cards were performing well as a result. There was high demand among buyers for credit card portfolios and many credit unions chose to sell their programs at an attractive premium — sometimes even above 20%, according to Timothy Kolk, the owner of TRK Advisors. By selling their card portfolios, these credit unions were able to generate both upfront income in the form of a premium and ongoing partnership revenue.

Because these institutions also had ample revenue streams from strong auto loans and relatively low-risk real estate loans, selling their credit card portfolios worked as a realistic and practical strategy to increase fee-based revenue, reduce portfolio risks, and focus more heavily on other products.

Credit card penetration dropped significantly in the mid-2000s, falling from 17.6% in 2003 to 16.7% in 2006. The primary reason for this drop was an annual decrease in

the number of credit card accounts, in part due to credit unions selling their card programs. Membership at credit unions — the denominator of the credit card penetration rate — increased annually, which further depressed the rate.

However, the number of credit unions selling credit card portfolios dramatically decreased in 2008 as the economy entered a recession. As credit cards began to be associated with additional risk and many traditional buyers became more conservative on purchases, the number of buyers for credit card portfolios decreased and premiums became smaller. Banks reduced their lines of credit for credit cards by over \$1 trillion during the recession in an effort to reduce their exposure. At the same time, credit unions received positive media coverage for their no-gimmick credit card programs, attracting new interest from members. Loan yields were also decreasing considerably as interest rates

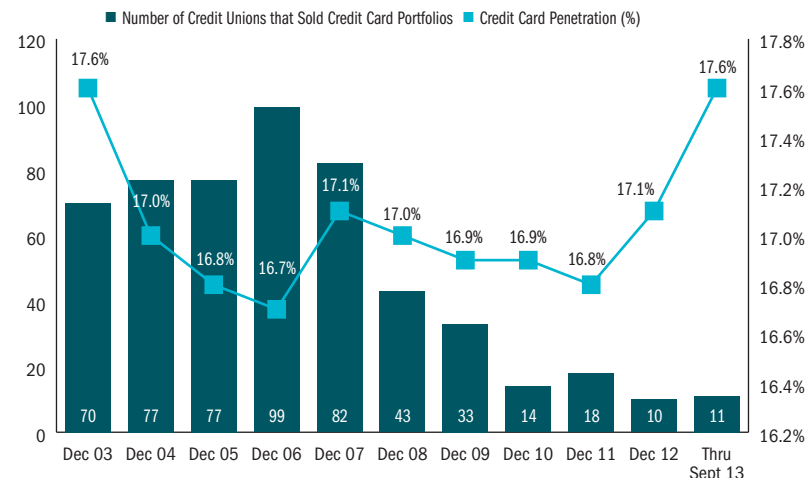
hit historically low levels, which helped transition credit cards into a more essential lending product that could provide the high returns credit unions were looking for.

Diminishing buyer demand, combined with credit unions' growing desire to retain their credit card portfolios, led to an eventual decline in overall credit card portfolio sales. Only 43 credit unions sold their credit card portfolios in 2008, just half the number reported in 2007. Since then, the number of credit unions selling portfolios has continued to trend downward. Conversely, credit card penetration has increased since 2011. In fact, this metric jumped a half percentage point over the past year to 17.6% in 2013.

In addition, more than 35% of the credit unions that sold their credit card portfolios between 2003 and 2008 have since restarted these programs and had an outstanding credit card balance as of September 2013.

The notable trend of a smaller number of credit card portfolio sales — coupled with rising credit card penetration, increasing total credit card balances, and the repurchase of credit card portfolios — is truly signaling the comeback of this business line at credit unions. ■

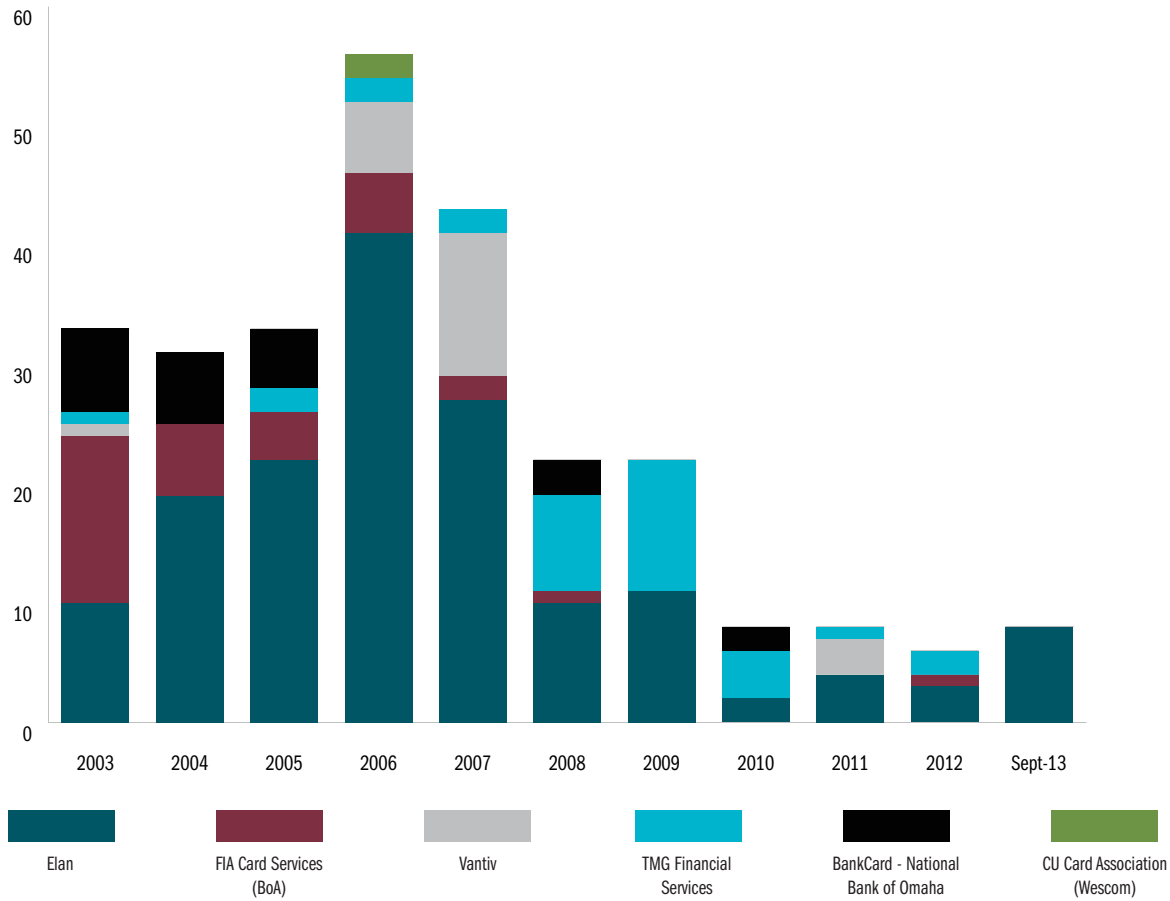
CREDIT CARD PORTFOLIO SALES



SOURCE: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

NUMBER OF CREDIT CARD PORTFOLIOS ACQUIRED

CREDIT UNION FINANCIAL DATA AS OF DECEMBER 31 | GRAPH DOES NOT INCLUDE OTHER

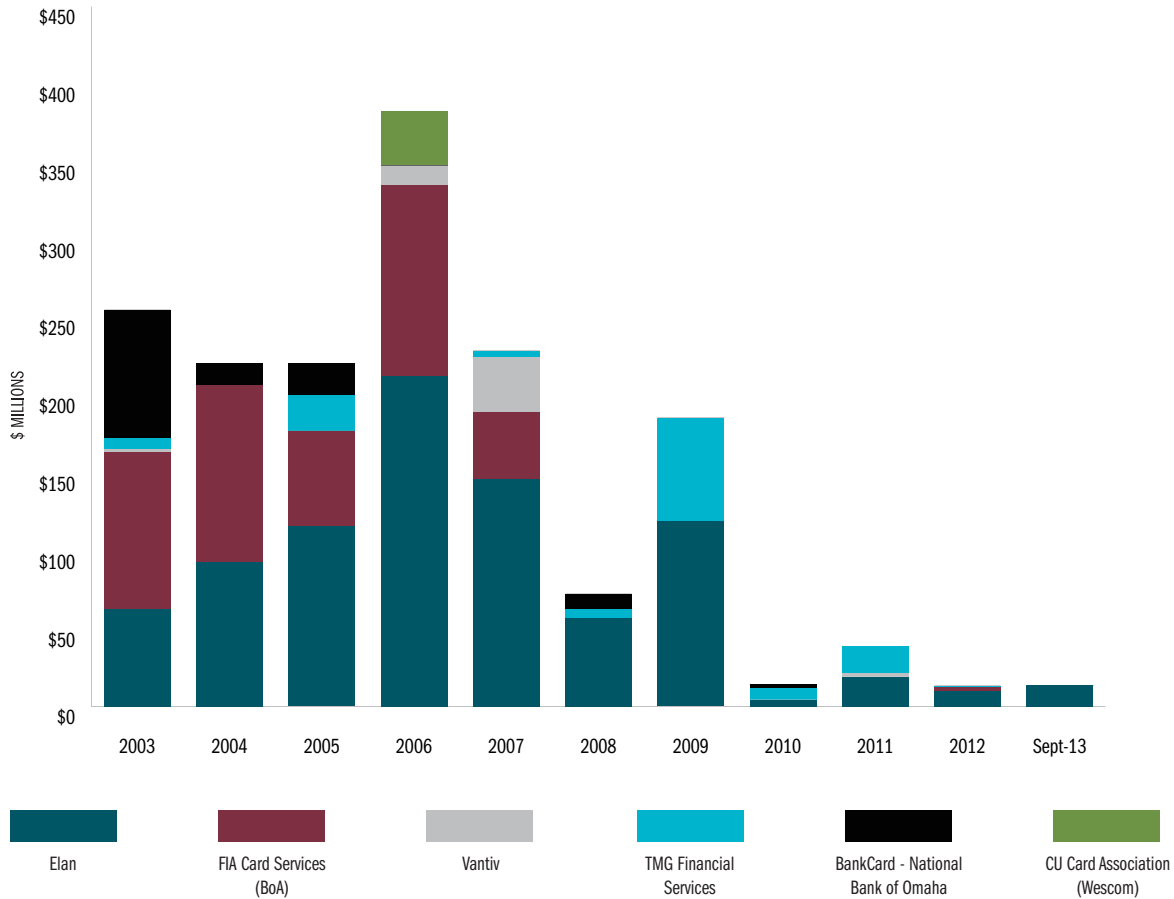


	ELAN	FIA CARD SERVICES (BoA)	VANTIV	TMG FINANCIAL SERVICES	BANKCARD - NATIONAL BANK OF OMAHA	CU CARD ASSOCIATION (WESCOM)	OTHER	TOTAL
2003	10	14	1	1	7	0	37	70
2004	19	6	0	0	6	0	46	77
2005	22	4	0	2	5	0	44	77
2006	41	5	6	2	0	2	43	99
2007	27	2	12	2	0	0	39	82
2008	10	0	1	8	3	0	21	43
2009	11	0	0	11	0	0	11	33
2010	2	0	0	4	0	0	6	14
2011	4	0	3	1	2	0	10	18
2012	3	1	0	2	0	0	4	10
Sep-13	8	0	0	0	0	0	3	11

SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

APPROXIMATE DOLLAR AMOUNT OF CREDIT CARD PORTFOLIOS ACQUIRED

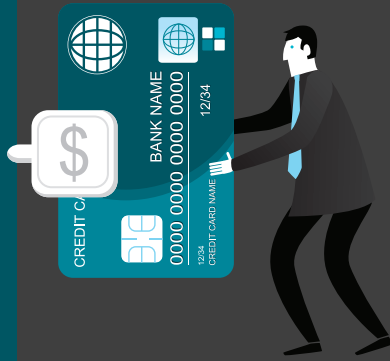
CREDIT UNION FINANCIAL DATA AS OF DECEMBER 31. | GRAPH DOES NOT INCLUDE OTHER



GRAPH DOES NOT INCLUDE OTHERS

	ELAN	FIA CARD SERVICES (BoA)	VANTIV	TMG FINANCIAL SERVICES	BANKCARD - NATIONAL BANK OF OMAHA	CU CARD ASSOCIATION (WESCOM)	OTHER	TOTAL
2003	\$62.7	\$100.4	\$2.2	\$7.1	\$82.6	\$0.0	\$112.4	\$371.3M
2004	\$92.6	\$114.0	\$0.0	\$0.0	\$14.1	\$0.0	\$226.1	\$446.8M
2005	\$115.7	\$61.6	\$0.0	\$22.6	\$20.8	\$0.0	\$197.7	\$418.3M
2006	\$212.3	\$122.7	\$12.6	\$0.4	\$0.0	\$34.5	\$71.8	\$454.3M
2007	\$146.1	\$42.8	\$35.4	\$4.5	\$0.0	\$0.0	\$152.5	\$381.3M
2008	\$56.8	\$0.0	\$0.1	\$5.5	\$10.0	\$0.0	\$32.0	\$104.3M
2009	\$118.9	\$0.0	\$0.0	\$66.8	\$0.0	\$0.0	\$112.1	\$297.7M
2010	\$4.3	\$0.0	\$0.0	\$7.5	\$2.5	\$0.0	\$9.6	\$24.0M
2011	\$19.0	\$0.0	\$2.2	\$17.3	\$0.0	\$0.0	\$108.5	\$147.0M
2012	\$9.7	\$2.6	\$0.0	\$0.9	\$0.0	\$0.0	\$8.3	\$21.5M
Sep-13	\$13.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$9.7	\$23.3M

SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS



DEBIT CARD INDUSTRY PERFORMANCE

SINCE CREDIT UNIONS do not report account or transaction-level data on debit cards to the NCUA, Callahan & Associates uses share draft accounts as an indicator of credit union debit card performance.

Share draft products — whether structured as free or rewards-based — are perhaps the most important tool that credit unions have to attract and retain members. It is especially important to keep track of share draft penetration, since this metric helps gauge members' relationships and level of interaction with the credit union. If a member is satisfied with their credit union share draft account, they are more likely to sign up for other products and services at the credit union.

Over the past decade, credit unions have seen a consistent increase in share draft penetration. The industry average for share draft penetration topped 52.3% as of September 2013, up 6.6 percentage points from five years ago and up 10.9 percentage points from ten years ago.

Annual growth in the number of share draft accounts has outpaced membership growth, which led to an annual increase in share draft penetration. The 7.0% annual growth seen in the number of share draft accounts was more than three times greater than the 2.1% annual membership growth experienced in the third quarter of 2013. While credit unions have excelled in growing share drafts, they still have ample room to improve their penetration for this product, as half of all credit union members do not hold a share

draft account. Credit unions that can grow their member base while fostering organic share draft growth can effectively turn unengaged members into full-fledged, profitable ones.

Debit cards are often offered to members when they open a share draft account, with the general belief being that once a member has a debit card they will begin using it frequently and start generating interchange income for the credit union. Debit card interchange fees, listed under other operating income on the call report, have indeed been one of the major sources of non-interest income for credit unions. According to Callahan & Associates' 2013 Non-Interest Income Survey, debit card interchange and fees was the second largest component of this income type, accounting for 22.0% of total non-interest income at credit unions. Since all but a handful of credit unions are exempt from the Durbin Amendment, which placed a limit on debit interchange fees, these institutions have remained largely unaffected by the new interchange rates that burden bank competitors.

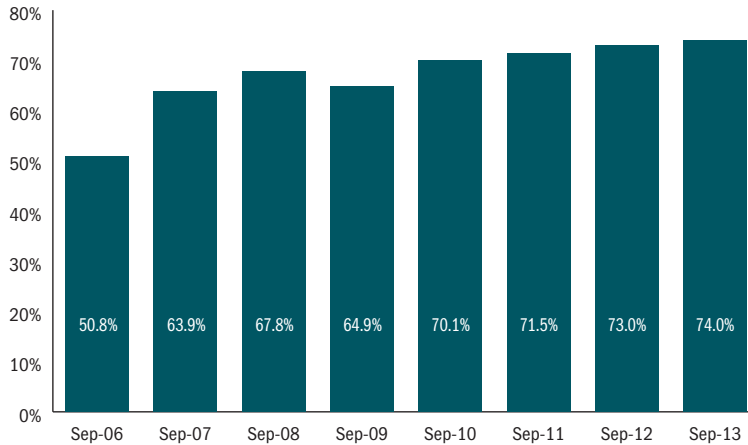
Given the growing debit card activity among members, credit unions have also been able to continuously expand their debit card programs. The percentage of credit unions offering ATM/debit cards has trended upward for the past ten years to reach 74.0% as of September 2013. In fact, in every peer group except for credit unions under \$20 million in assets, more than 95% of the institutions represented offered ATM/debit cards to their members. ■

DEBIT CARD DATA BY CATEGORY

- 34 Debit Card Industry Performance
- 36 Debit Card Processing Market Share
- 44 Debit Signature Processor Client Performance Comparison
- 52 Debit PIN Processor Client Performance Comparison

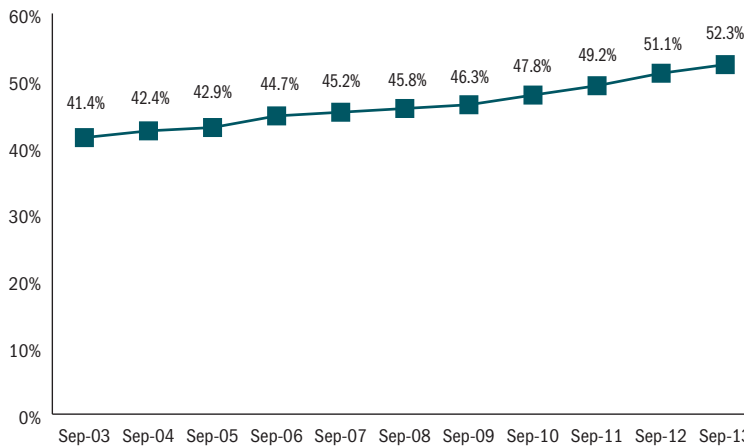
DEBIT CARD INDUSTRY PERFORMANCE

PERCENT OF CREDIT UNIONS OFFERING ATM/DEBIT CARDS | DATA AS OF SEPTEMBER 30



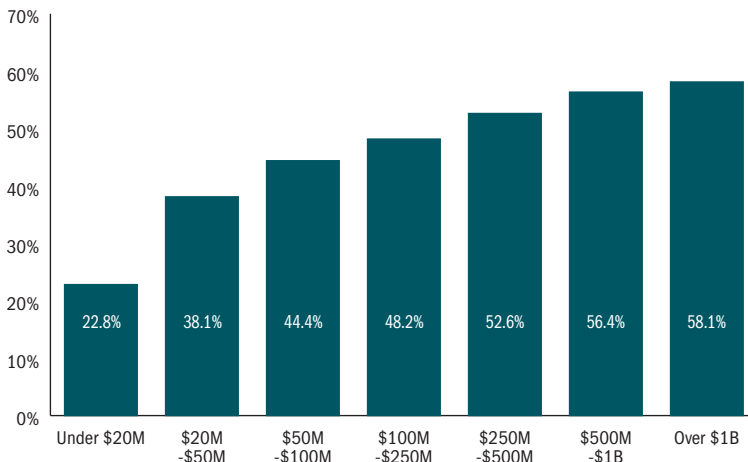
The percent of credit unions offering ATM/debit cards has risen over the past decade as member participation increases. Back in September 2006, just over 50% of all U.S. credit unions offered ATM/debit cards. As of September 2013, that figure has grown to 74.0% of credit unions nationwide.

SHARE DRAFT PENETRATION | DATA AS OF SEPTEMBER 30



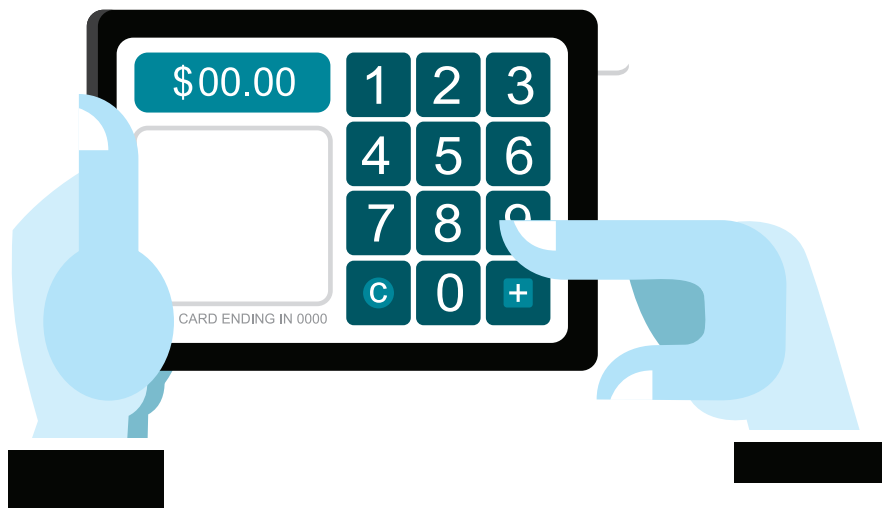
Share draft penetration has consistently increased as members continue to enhance their financial relationships with credit unions. This higher penetration rate indicates more members are using credit unions as their primary institution, making them more likely to look to the credit union for other financial products. On average, more than half of members at credit unions had a share draft account as of September 2013.

SHARE DRAFT PENETRATION BY ASSET-BASED PEER GROUP | DATA AS OF SEPTEMBER 30, 2013



The largest credit unions reported a 58.1% share draft penetration rate, the highest penetration rate among all asset-based peer groups. These credit unions also posted the second highest annual increase in share draft penetration – right after credit unions between \$20 million and \$50 million in assets – with their penetration rate increasing 3.7% from the September 2012 levels. All asset-based peer groups posted a positive growth in share draft penetration over the past twelve months.

SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS



DEBIT CARD PROCESSOR MARKET SHARE

ACCORDING TO CALLAHAN & Associates' Peer-to-Peer analytics, as of third quarter 2013, more than 70% of cooperatives offered an ATM card solution. Yet these institutions rely on a wide range of different debit card relationships when it comes to their signature processing and PIN processing needs.

For debit signature processing, companies traditionally known for offering core processing solutions currently control the largest market share in terms of the number of credit union clients.

The payments divisions for two of the largest core processing providers, Fiserv – EFT and Jack Henry's Payment Processing Solutions, rank first and second respectively in terms of the number of credit union debit signature processing clients nationally. However, Washington-based JHA Payment Processing Solutions tends to serve larger credit unions, so its market share in terms of both the number of members its clients serve and the number of open share drafts is more than double that of Fiserv – EFT.

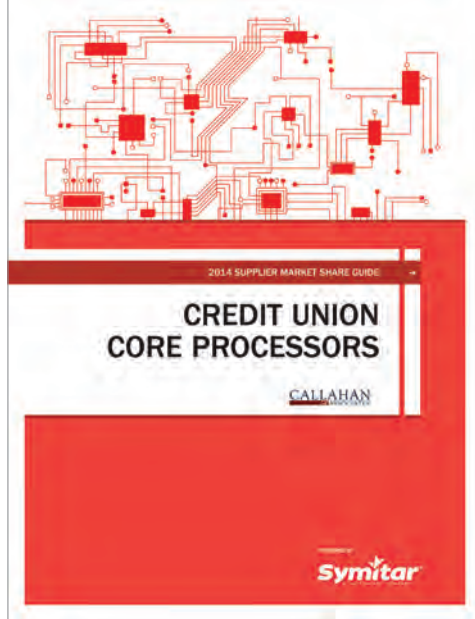
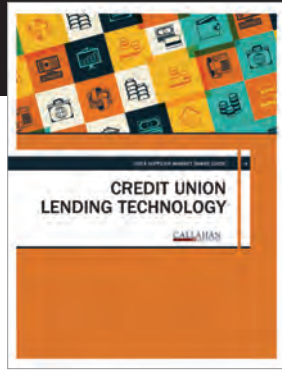
For debit PIN processing, CO-OP Financial Services holds the greatest number of relationships nationally, closely followed by Fiserv – EFT. JHA Payment Processing Solutions, PSCU, and FIS come in third, fourth and fifth respectively, yet each control only a little more than a third of the relationships held by either CO-OP Financial Services or Fiserv – EFT.

As was also seen with Georgia-based TSYS for cred-

it card processing, because Visa DPS provides debit PIN processing for Navy Federal Credit Union (\$55B, Merrifield, VA), this large client skews some of their market share data and may actually give the impression that they have a larger focus on the credit union space than is representative of their business. Both TSYS (for credit card processing) and VISA (for debit processing) appear to be focused primarily on attracting the business of the nation's largest credit unions.

For debit PIN processing, Callahan & Associates currently only has data on about half of the industry. However, this information is more robust and accurate for larger credit unions, with data available for over 69% of credit unions with more than one billion dollars in assets, over 73% for those with more than \$250 million in assets, and over 63% for those with more than \$50 million. Data is currently only available on 38% of cooperatives with fewer than \$50 million in assets. ■

Research Method: Callahan & Associates' proprietary vendor relationship data, while extensive and accurate, is not verified by the NCUA. Instead, we collect credit union technology relationships in a number of ways. These include monitoring news and press releases to make sure that we are capturing as much public data as we can, surveying our credit union clients, and having technology providers themselves verify that our data is accurate. Callahan provides vendor relationship data on an individual institution level through our business intelligence tools. For more information please contact us at support@callahan.com.



UPCOMING 2014 SUPPLIER MARKET SHARE GUIDES

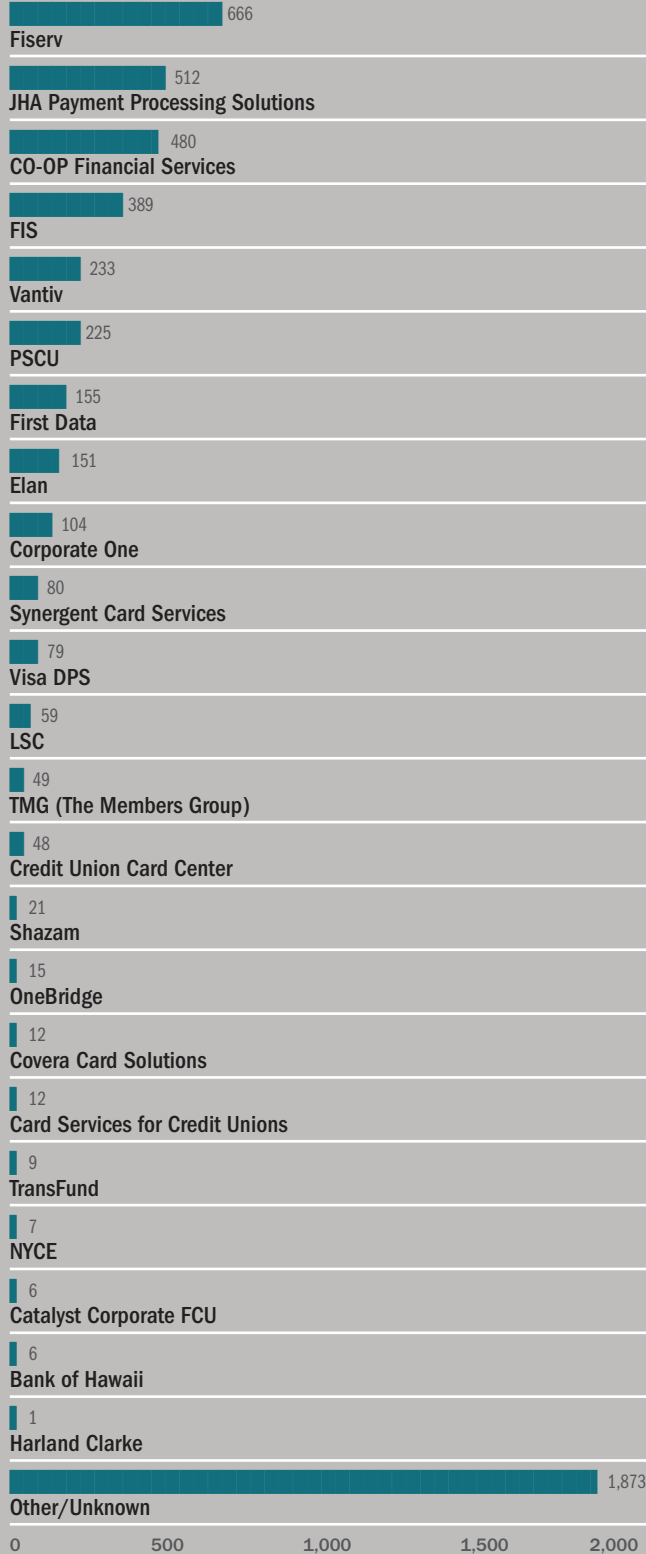
- Core Processors
- Payments
- Internet Home Banking & Ancillary Products
- Mobile Banking
- Auditor/CPA
- Lending Technologies

IDENTIFY LEADING CREDIT UNION SUPPLIERS.

Supplier Market Share Guides are designed to help credit unions better understand their options when it comes to choosing service partners for critical areas of business. Individual sections vary, but credit union leaders can use all of the guides to identify the most active suppliers in national or state credit union markets, outline which companies tend to serve credit unions of each standard peer group, and gauge a supplier's experience with the specific needs of each credit union.

Contact Sam Brownell at 202-223-3920 ext.244 or sbrownell@callahan.com to learn more.

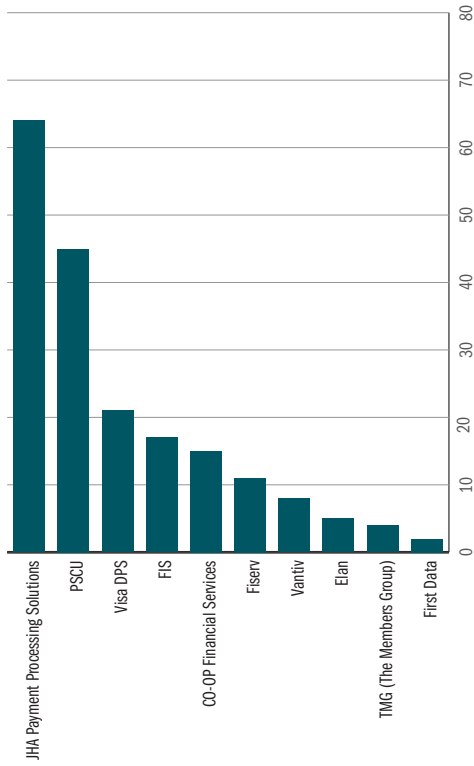
DEBIT SIGNATURE PROCESSOR MARKET SHARE BY NUMBER OF CREDIT UNION CLIENTS | DATA AS OF SEPTEMBER 30, 2013



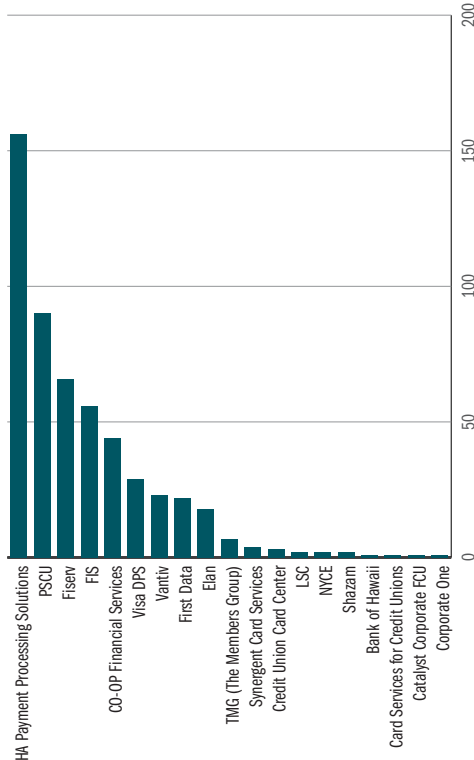
DEBIT CARD SIGNATURE PROCESSOR	# CUS
Bank of Hawaii	6
Card Services for Credit Unions	12
Catalyst Corporate FCU	6
CO-OP Financial Services	480
Corporate One	104
Covera Card Solutions	12
Credit Union Card Center	48
Elan	151
First Data	155
FIS	389
Fiserv	666
Harland Clarke	1
JHA Payment Processing Solutions	512
LSC	59
NYCE	7
OneBridge	15
PSCU	225
Shazam	21
Synergent Card Services	80
TMG (The Members Group)	49
TransFund	9
Vantiv	233
Visa DPS	79
Other/Unknown	1,873

DEBIT SIGNATURE PROCESSOR MARKET SHARE BY NUMBER OF CREDIT UNION CLIENTS

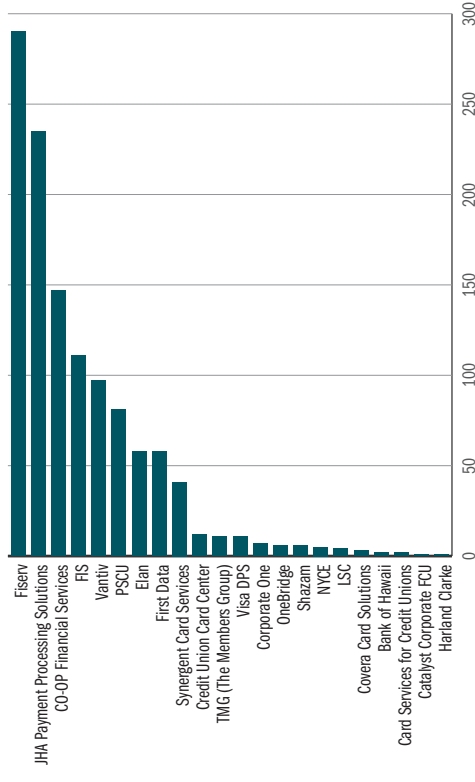
CLIENTS OVER \$1B IN ASSETS



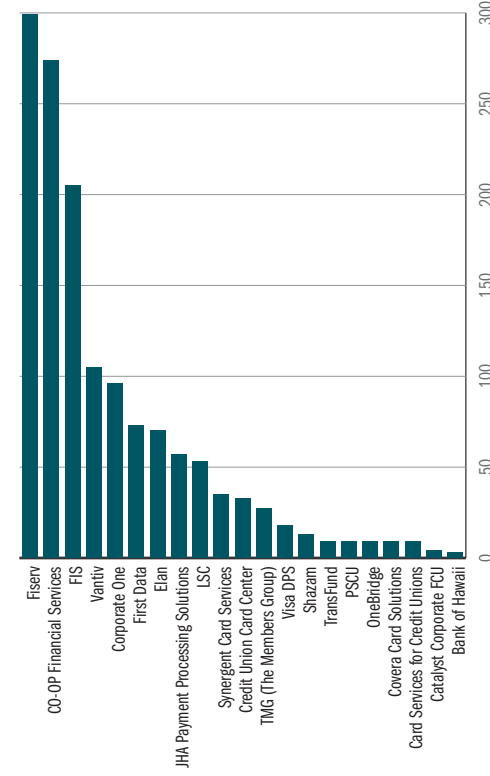
CLIENTS BETWEEN \$250M-\$1B IN ASSETS



CLIENTS BETWEEN \$50M-\$250M IN ASSETS

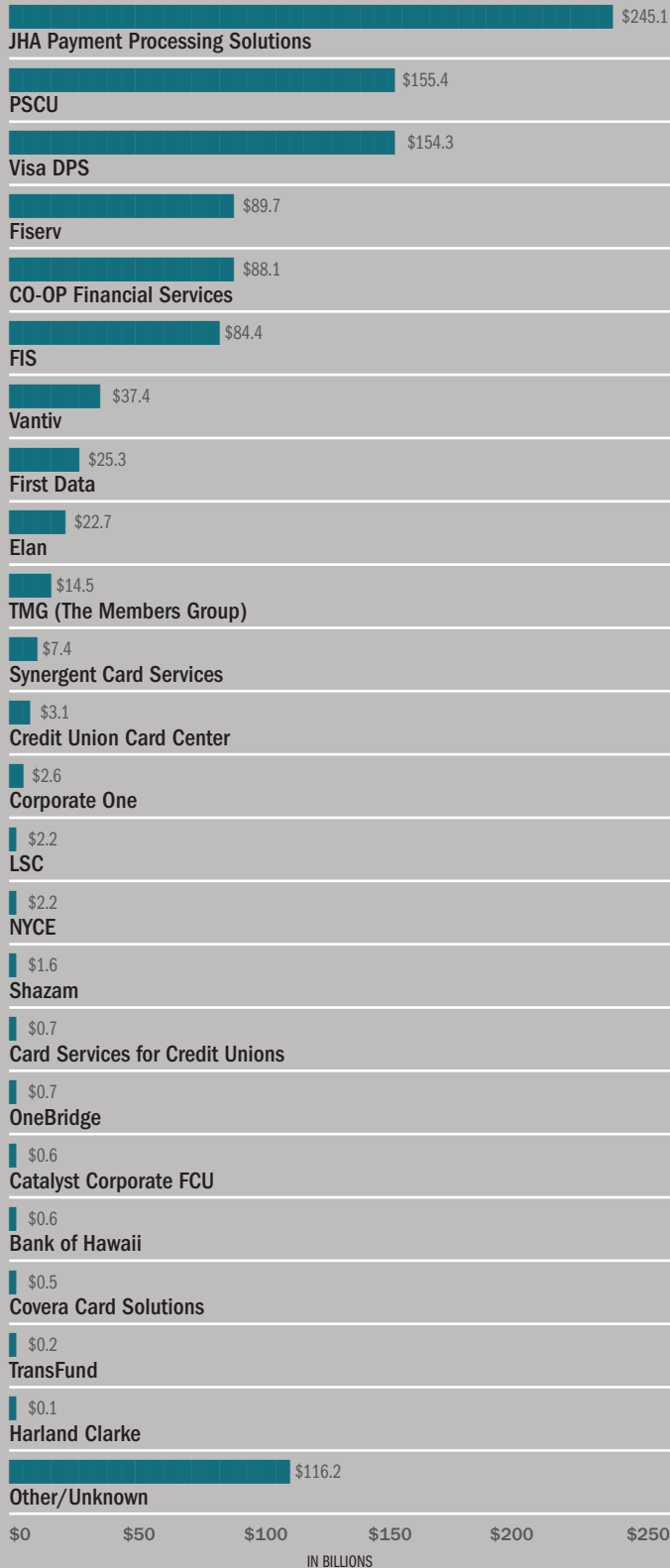


CLIENTS UNDER \$50M IN ASSETS



SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

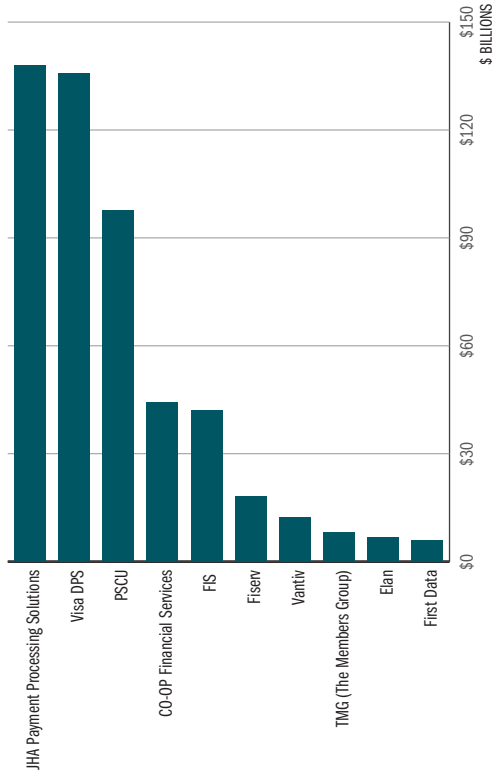
DEBIT CARD SIGNATURE PROCESSOR MARKET SHARE BY CLIENTS' TOTAL ASSETS IN BILLIONS | DATA AS OF SEPTEMBER 30, 2013



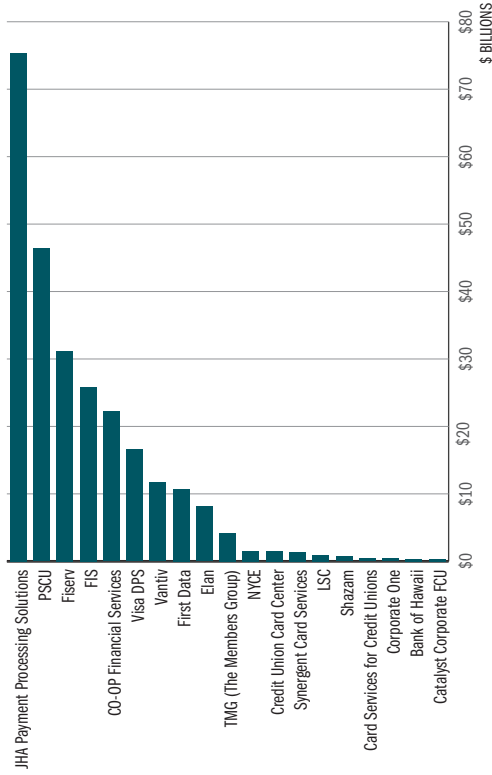
DEBIT SIGNATURE PROCESSOR	TOTAL ASSETS
Bank of Hawaii	\$583,096,839
Card Services for Credit Unions	\$726,702,516
Catalyst Corporate FCU	\$588,035,705
CO-OP Financial Services	\$88,115,151,962
Corporate One	\$2,553,931,323
Covera Card Solutions	\$480,604,587
Credit Union Card Center	\$3,122,198,876
Elan	\$22,664,193,228
First Data	\$25,255,699,327
FIS	\$84,360,071,819
Fiserv	\$89,685,357,135
Harland Clarke	\$106,119,305
JHA Payment Processing Solutions	\$245,094,796,459
LSC	\$2,245,705,934
NYCE	\$2,211,422,440
OneBridge	\$722,548,612
PSCU	\$155,383,529,286
Shazam	\$1,602,472,031
Synergent Card Services	\$7,406,350,781
TMG (The Members Group)	\$14,516,858,039
TransFund	\$174,497,698
Vantiv	\$37,410,934,344
Visa DPS	\$154,251,843,425
Other/Unknown	\$116,200,575,119

DEBIT CARD SIGNATURE PROCESSOR MARKET SHARE BY CLIENTS' TOTAL ASSETS

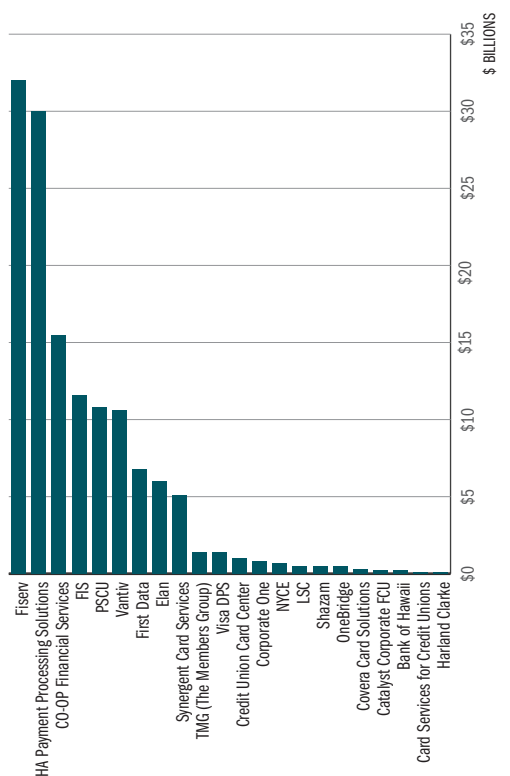
CLIENTS OVER \$1B IN ASSETS



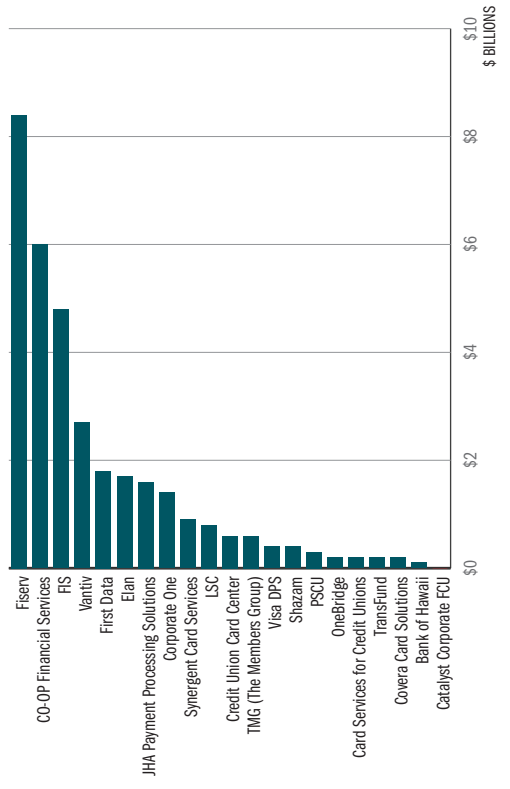
CLIENTS BETWEEN \$250M-\$1B IN ASSETS



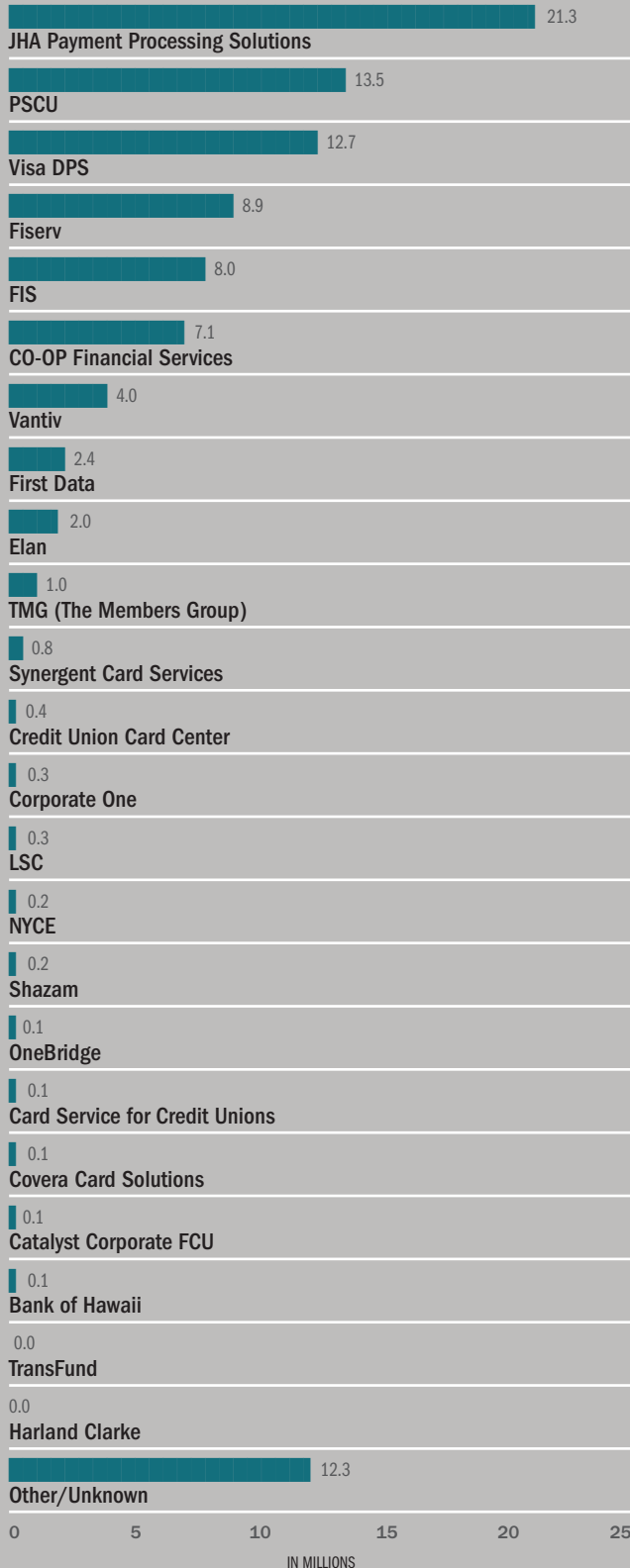
CLIENTS BETWEEN \$50M-\$250M IN ASSETS



CLIENTS UNDER \$50M IN ASSETS



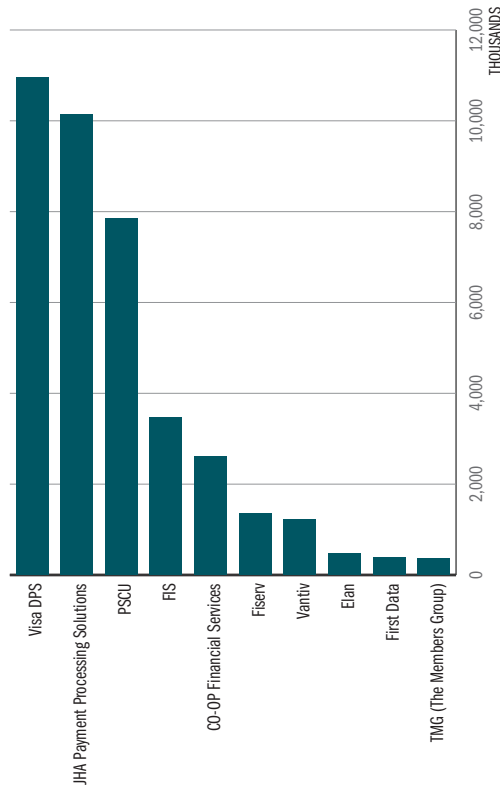
DEBIT CARD SIGNATURE PROCESSOR MARKET SHARE BY NUMBER OF CLIENTS' MEMBERS IN MILLIONS | DATA AS OF SEPTEMBER 30, 2013



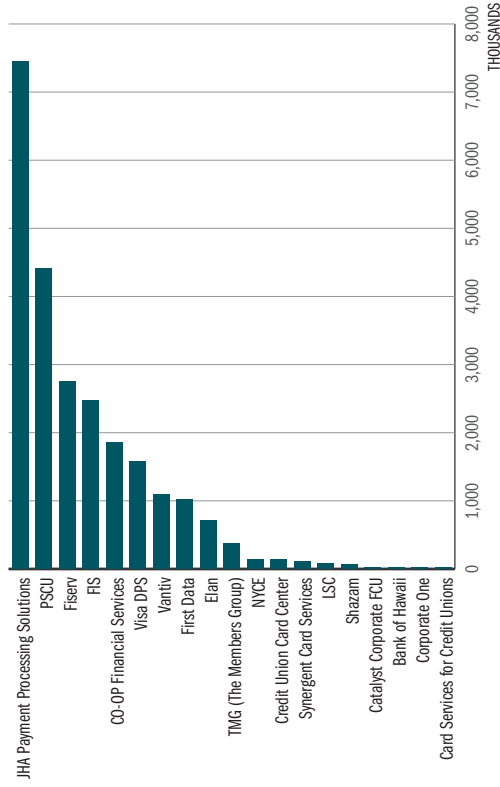
DEBIT CARD SIGNATURE PROCESSOR # MEMBERS	
Bank of Hawaii	52,633
Card Services for Credit Unions	72,093
Catalyst Corporate FCU	60,701
CO-OP Financial Services	7,134,387
Corporate One	338,598
Covera Card Solutions	70,595
Credit Union Card Center	374,140
Elan	2,009,705
First Data	2,426,472
FIS	7,969,792
Fiserv EFT	8,855,584
Harland Clarke	12,814
JHA Payment Processing Solutions	21,260,740
LSC	267,985
NYCE	229,002
OneBridge	93,379
PSCU	13,517,084
Shazam	169,874
Synergent Card Services	786,296
TMG (The Members Group)	969,257
TransFund	24,317
Vantiv	3,973,429
Visa Dps	12,726,688
Other	12,344,179

DEBIT CARD SIGNATURE PROCESSOR MARKET SHARE BY NUMBER OF CLIENTS' MEMBERS

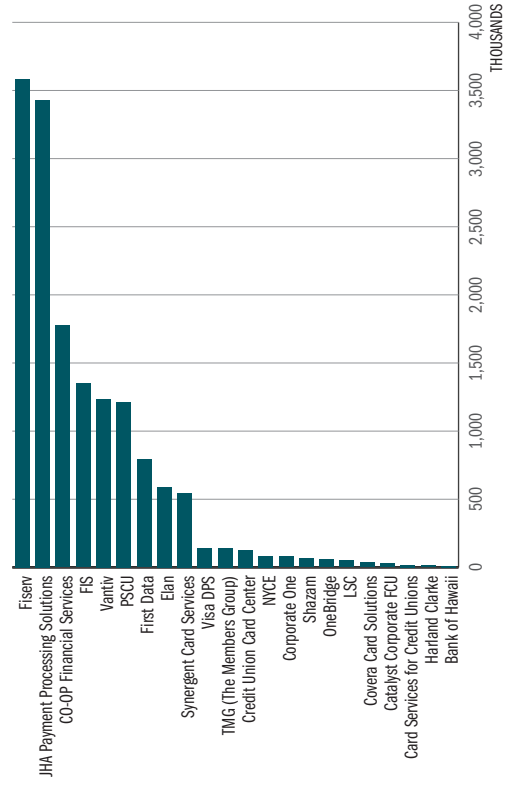
CLIENTS OVER \$1B IN ASSETS



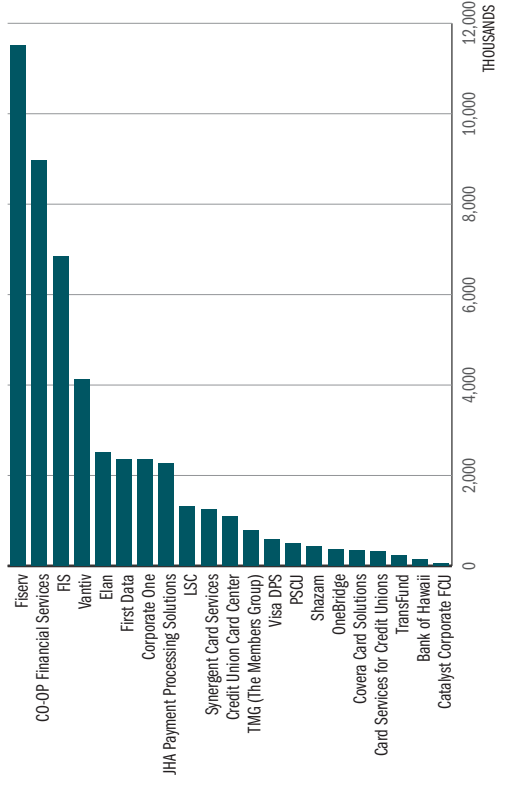
CLIENTS BETWEEN \$250M-\$1B IN ASSETS



CLIENTS BETWEEN \$50M-\$250M IN ASSETS



CLIENTS UNDER \$50M IN ASSETS



DEBIT SIGNATURE PROCESSOR CLIENT PERFORMANCE COMPARISON (ALL CREDIT UNION CLIENTS)

CREDIT UNION FINANCIAL DATA AS OF SEPTEMBER 30, 2013

DEBIT CARD SIGNATURE PROCESSOR	# CUS	TOTAL ASSETS	# OF MEMBERS	AVERAGE ASSETS	# OF SHARE DRAFT ACCOUNTS	GROWTH IN # OF SHARE DRAFTS	SHARE DRAFT PENETRATION
Bank of Hawaii	6	\$583,096,839	52,633	\$97,182,807	17,082	1.71%	32.47%
Card Services for Credit Unions	12	\$726,702,516	72,093	\$60,558,543	32,725	0.09%	45.39%
Catalyst Corporate FCU	6	\$588,035,705	60,701	\$98,005,951	36,503	9.98%	60.14%
CO-OP Financial Services	480	\$88,115,151,962	7,134,387	\$183,573,233	4,018,324	5.53%	56.32%
Corporate One	104	\$2,553,931,323	338,598	\$24,557,032	116,600	2.88%	34.44%
Corporate One*	1	\$26,632,342	6,033	\$26,632,342	1,762	7.64%	29.21%
Covera Card Solutions	12	\$480,604,587	70,595	\$40,050,382	35,309	3.59%	50.02%
Credit Union Card Center	48	\$3,122,198,876	374,140	\$65,045,810	168,305	3.41%	44.98%
Elan	151	\$22,664,193,228	2,009,705	\$150,093,995	975,340	3.79%	48.53%
First Data	155	\$25,255,699,327	2,426,472	\$162,939,996	1,255,149	4.31%	51.73%
FIS	389	\$84,360,071,819	7,969,792	\$216,863,938	4,414,682	4.61%	55.39%
Fiserv	666	\$89,685,357,135	8,855,584	\$134,662,698	4,439,981	5.22%	50.14%
Harland Clarke	1	\$106,119,305	12,814	\$106,119,305	7,535	-6.87%	58.80%
JHA Payment Processing Solutions	512	\$245,094,796,459	21,260,740	\$478,700,744	11,792,312	5.56%	55.47%
LSC	59	\$2,245,705,934	267,985	\$38,062,812	115,756	3.16%	43.19%
NYCE	7	\$2,211,422,440	229,002	\$315,917,491	115,391	8.73%	50.39%
OneBridge	15	\$722,548,612	93,379	\$48,169,907	44,538	13.18%	47.70%
PSCU	225	\$155,383,529,286	13,517,084	\$690,593,463	7,091,401	5.21%	52.46%
PSCU CURewards*	39	\$34,203,915,983	3,243,180	\$877,023,487	1,862,016	5.11%	57.41%
Shazam	21	\$1,602,472,031	169,874	\$76,308,192	80,829	3.92%	47.58%
Synergist Card Services	80	\$7,406,350,781	786,296	\$92,579,385	440,954	3.87%	56.08%
TMG (The Members Group)	49	\$14,516,858,039	989,257	\$296,262,409	575,518	0.40%	59.38%
TransFund	9	\$174,497,698	24,317	\$19,388,633	7,921	4.60%	32.57%
Vanitv	233	\$37,410,934,344	3,973,429	\$160,561,950	1,763,482	4.61%	44.38%
Visa DPS	79	\$154,251,843,425	12,726,688	\$1,952,554,980	7,986,046	8.31%	62.75%
Other	1873	\$116,200,575,119	12,344,179	\$62,039,816	5,314,229	4.72%	43.05%
Totals	5192	\$1,055,462,696,790	95,739,744	\$203,286,344	50,845,922	5.54%	53.11%

* Rewards Program Clients

SOURCE: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

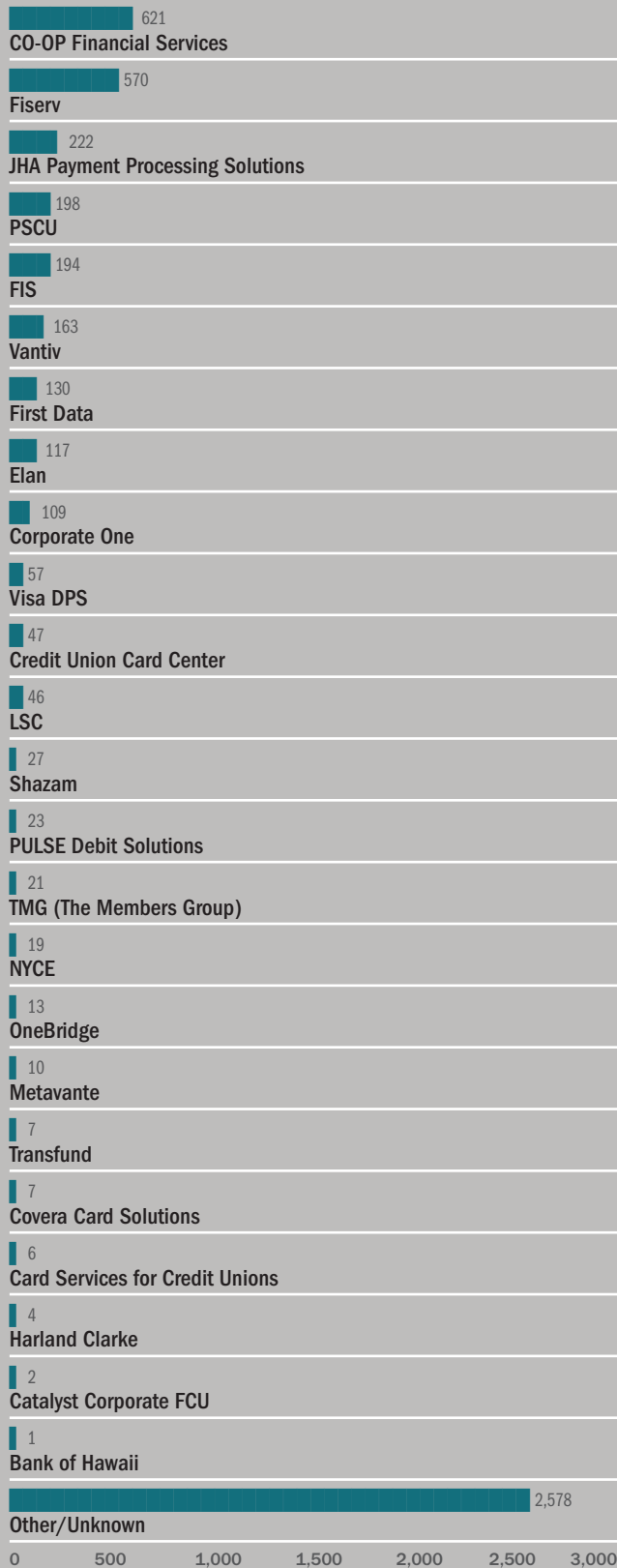
BE the power behind the control.

Be there with mobile card control and alert technology, and give members real-time command of card transactions. As mobile wallet adoption grows, mobile payments solutions that offer maximum spending control will soon be indispensable—to you as well as to your members—and CO-OP continues to lead the way. Coming soon, the first mobile card controls solution will equip credit unions to dynamically differentiate their card payments programs. Find out how we're offering even more ways for your card programs to provide members the convenience, confidence and security they expect and deserve. Visit co-opfs.org. **Be more.**

LOCATIONS
CARD PAYMENTS
MOBILE/VIRTUAL



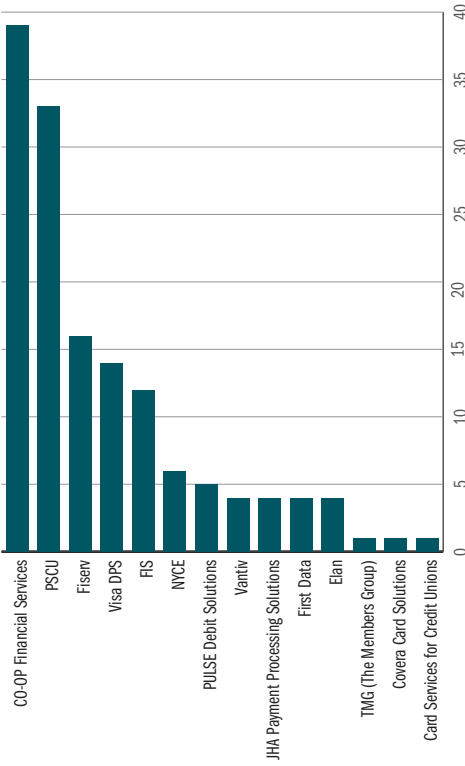
DEBIT CARD PIN PROCESSOR MARKET SHARE BY NUMBER OF CREDIT UNION CLIENTS | DATA AS OF SEPTEMBER 30, 2013



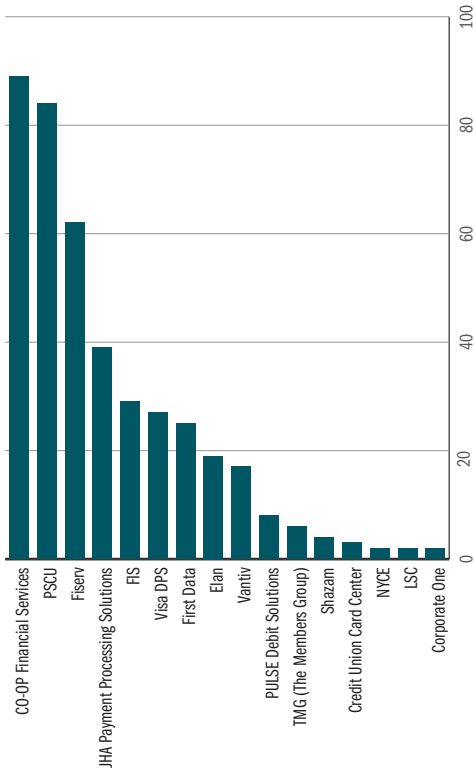
DEBIT CARD PIN PROCESSOR	# CUS
Bank of Hawaii	1
Card Services for Credit Unions	6
Catalyst Corporate FCU	2
CO-OP Financial Services	621
Corporate One	109
Covera Card Solutions	7
Credit Union Card Center	47
Elan	117
First Data	130
FIS	194
Fiserv	570
Harland Clarke	4
JHA Payment Processing Solutions	222
LSC	46
Metavante	10
NYCE	19
OneBridge	13
PSCU	198
PULSE Debit Solutions	23
Shazam	27
TMG (The Members Group)	21
TransFund	7
Vantiv	163
Visa DPS	57
Other/Unknown	2,578

DEBIT CARD PIN PROCESSOR MARKET SHARE BY NUMBER OF CREDIT UNION CLIENTS

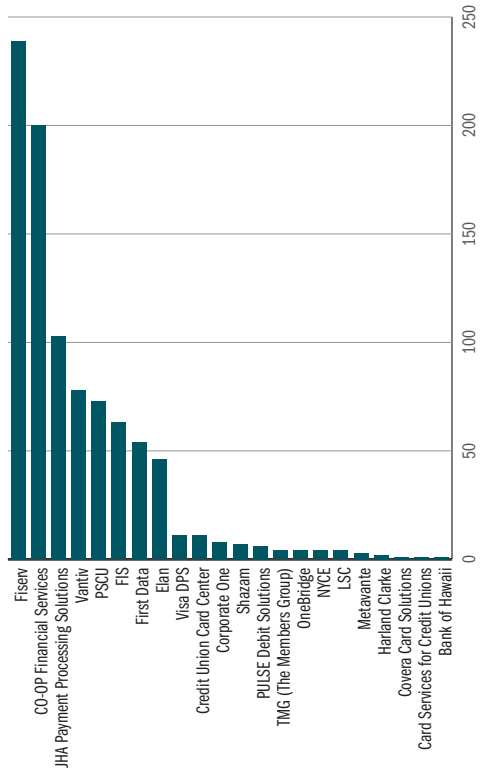
CLIENTS OVER \$1B IN ASSETS



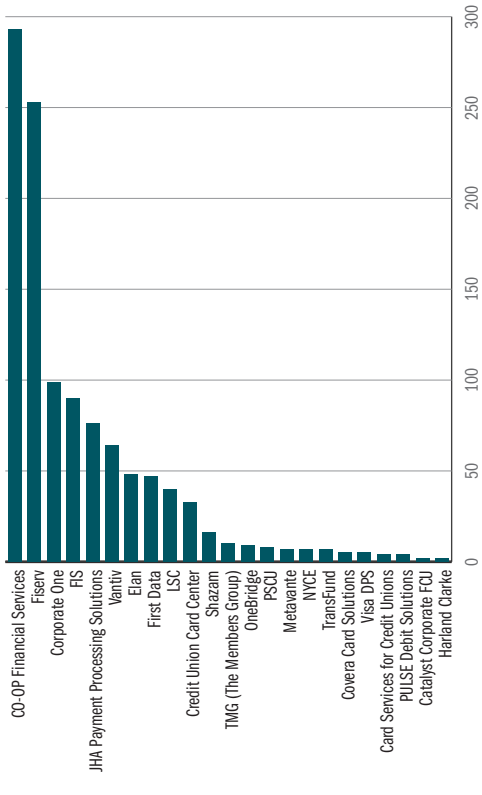
CLIENTS BETWEEN \$250M-\$1B IN ASSETS



CLIENTS BETWEEN \$50M-\$250M IN ASSETS



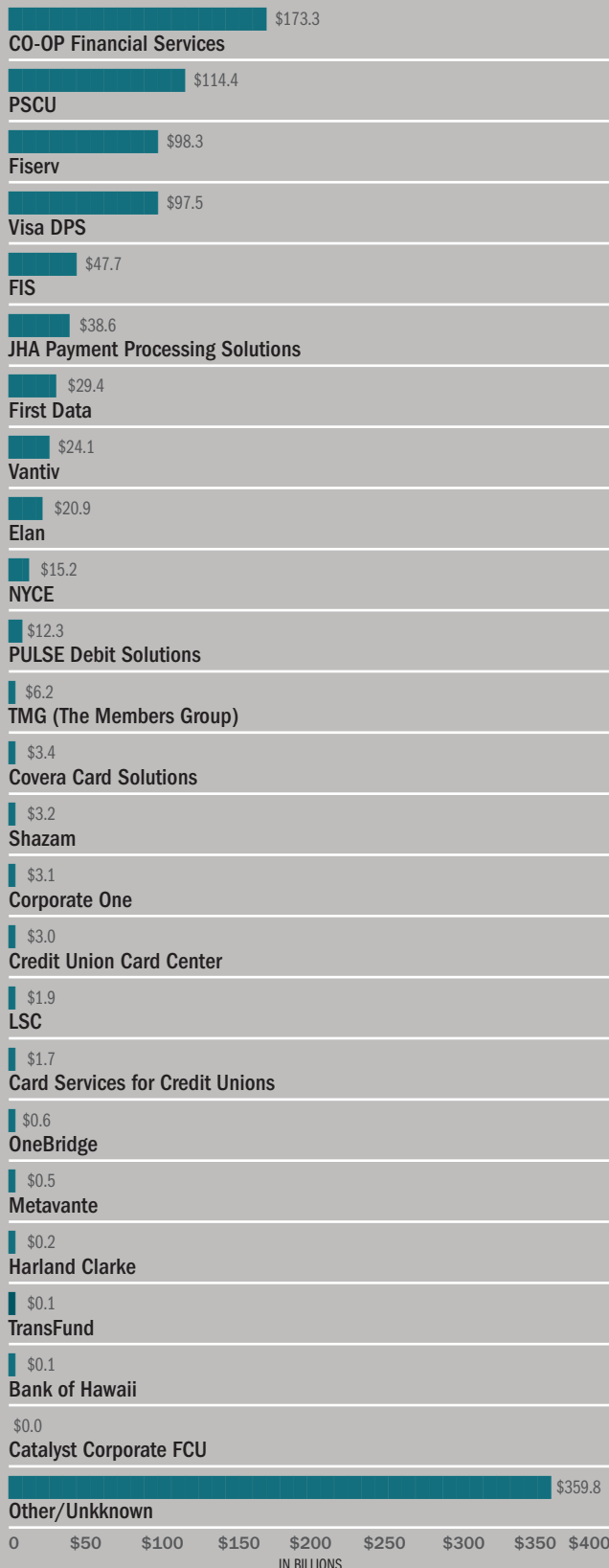
CLIENTS UNDER \$50M IN ASSETS





DEBIT CARD PIN PROCESSOR MARKET SHARE

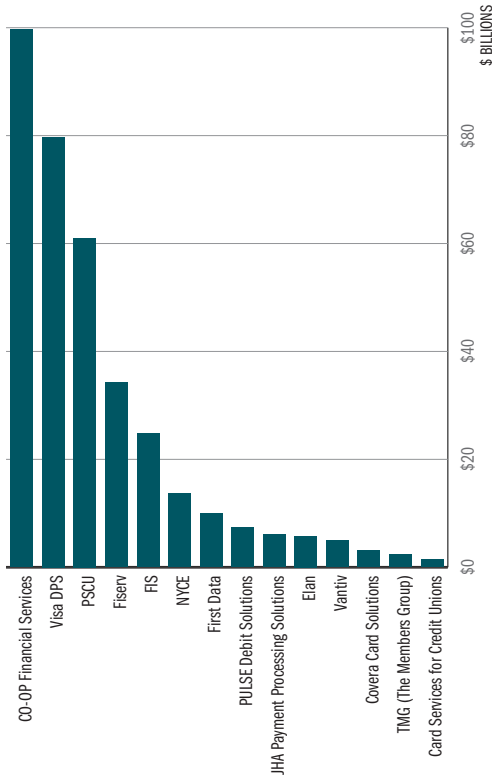
BY CLIENTS' TOTAL ASSETS IN BILLIONS | DATA AS OF SEPTEMBER 30, 2013



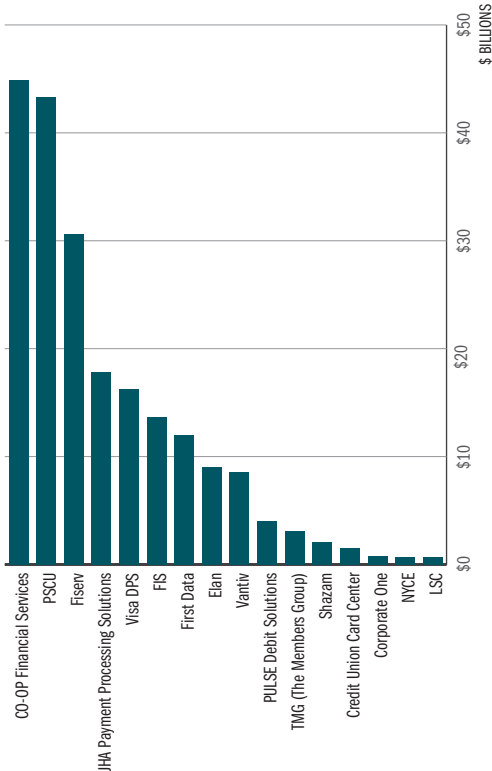
DEBIT CARD PIN PROCESSOR	TOTAL ASSETS
Bank of Hawaii	\$63,771,400
Card Services for Credit Unions	\$1,678,120,369
Catalyst Corporate FCU	\$15,673,067
CO-OP Financial Services	\$173,340,730,095
Corporate One	\$3,110,005,330
Covera Card Solutions	\$3,351,182,154
Credit Union Card Center	\$3,026,902,409
Elan	\$20,943,183,218
First Data	\$29,449,526,456
FIS	\$47,657,370,925
Fiserv	\$98,304,592,000
Harland Clarke	\$209,355,776
JHA Payment Processing Solutions	\$38,608,084,833
LSC	\$1,864,308,456
Metavante	\$455,069,609
NYCE	\$15,159,582,483
OneBridge	\$561,555,360
PSCU	\$114,391,379,313
PULSE Debit Solutions	\$12,294,051,258
Shazam	\$3,185,305,295
TMG (The Members Group)	\$6,156,883,777
TransFund	\$121,714,724
Vantiv	\$24,122,098,060
Visa DPS	\$97,543,097,352
Other/Unknown	\$359,849,153,071

DEBIT CARD PIN PROCESSOR MARKET SHARE BY CLIENTS' TOTAL ASSETS

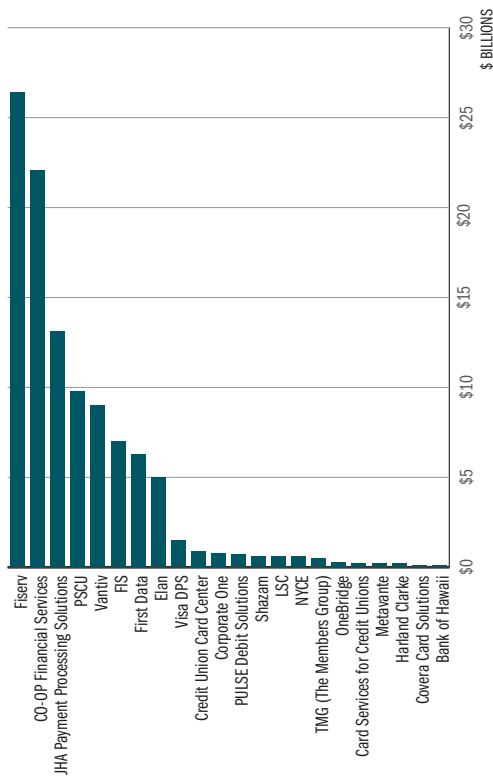
CLIENTS OVER \$1B IN ASSETS



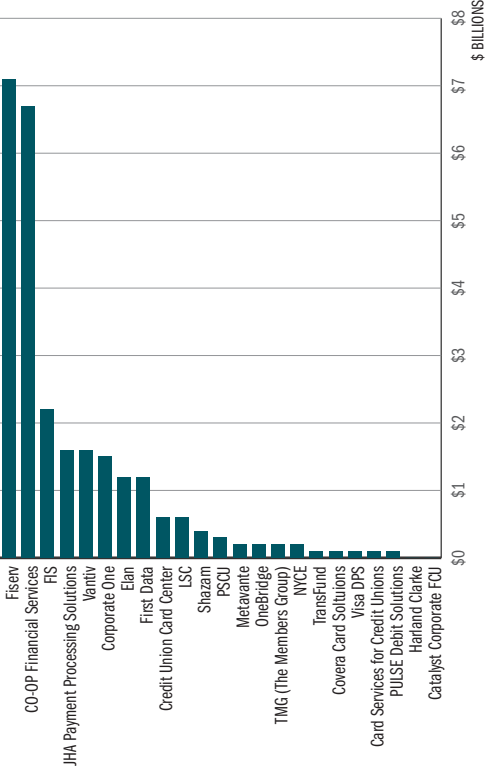
CLIENTS BETWEEN \$250M-\$1B IN ASSETS



CLIENTS BETWEEN \$50M-\$250M IN ASSETS



CLIENTS UNDER \$50M IN ASSETS



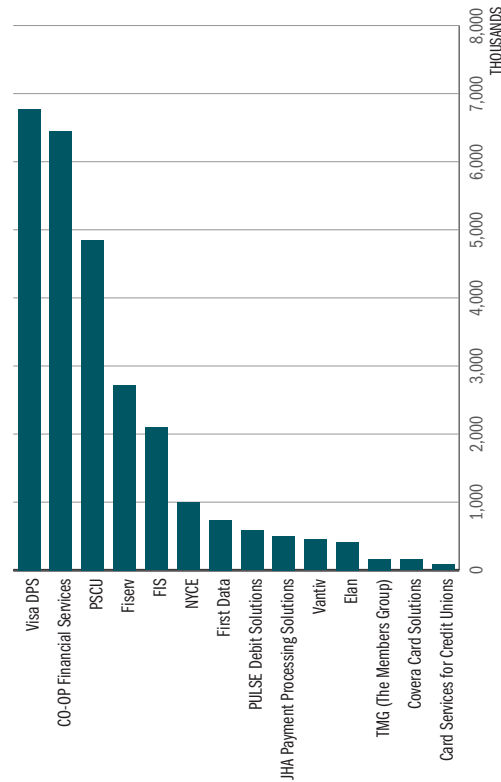
DEBIT CARD PIN PROCESSOR MARKET SHARE BY NUMBER OF CLIENTS' MEMBERS IN MILLIONS | DATA AS OF SEPTEMBER 30, 2013



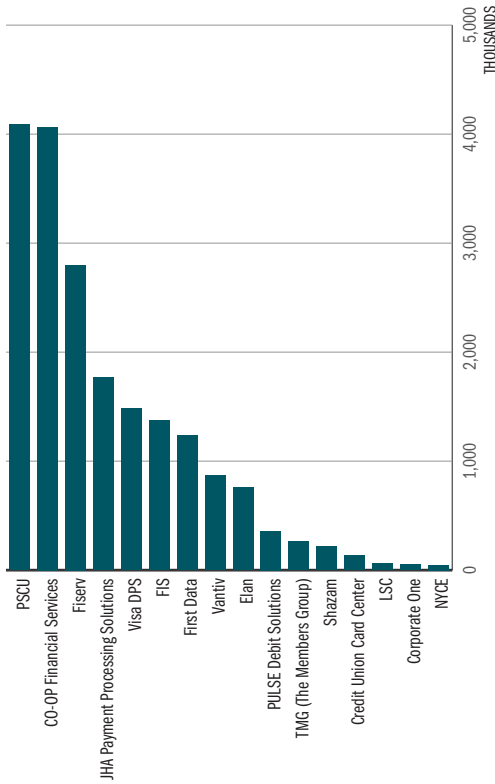
DEBIT CARD PIN PROCESSOR	# MEMBERS
Bank of Hawaii	5,175
Card Services for Credit Unions	111,002
Catalyst Corporate FCU	2,954
CO-OP Financial Services	13,906,341
Corporate One	379,124
Covera Card Solutions	185,523
Credit Union Card Center	361,755
Elan	1,870,724
First Data	2,869,855
FIS	4,639,291
Fiserv	9,500,173
Harland Clarke	32,312
JHA Payment Processing Solutions	4,040,093
LSC	211,153
Metavante	60,551
NYCE	1,122,872
OneBridge	72,808
PSCU	10,067,553
PULSE Debit Solutions	1,040,293
Shazam	343,124
TMG (The Members Group)	507,691
TransFund	15,694
Vantiv	2,633,723
Visa DPS	8,445,516
Other/Unknown	33,314,444

DEBIT CARD PIN PROCESSOR MARKET SHARE BY NUMBER OF CLIENTS' MEMBERS

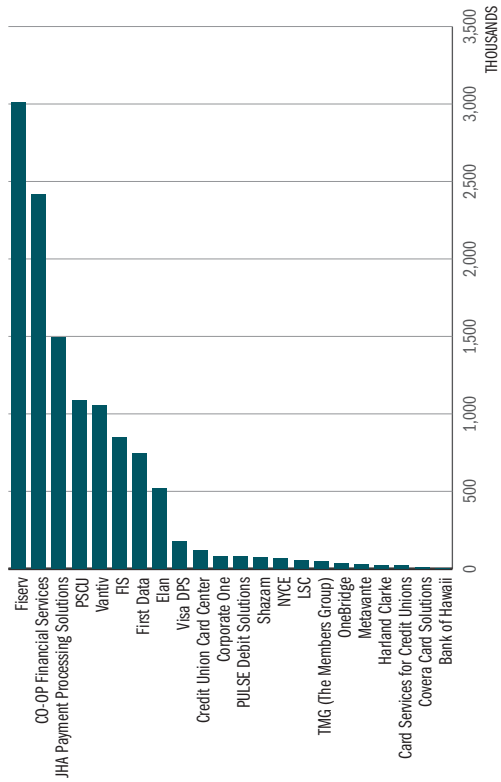
CLIENTS OVER \$1B IN ASSETS



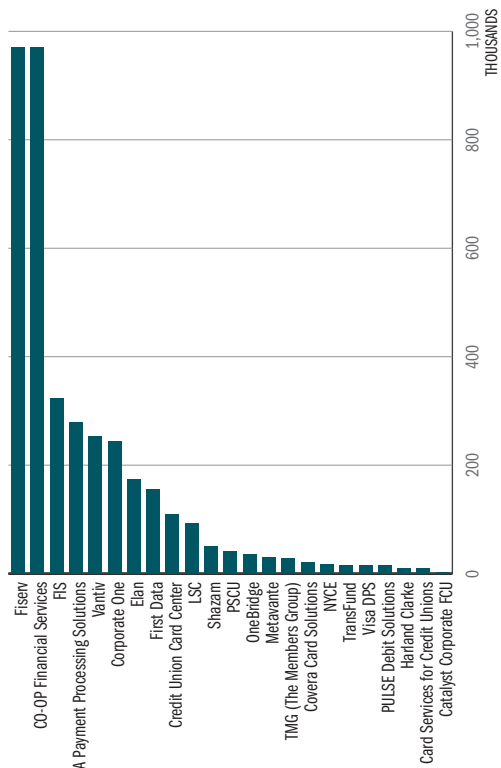
CLIENTS BETWEEN \$250M-\$1B IN ASSETS



CLIENTS BETWEEN \$50M-\$250M IN ASSETS



CLIENTS UNDER \$50M IN ASSETS



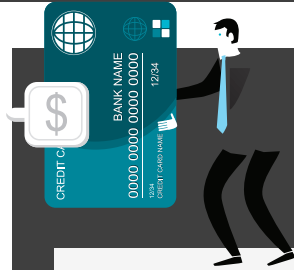
SOURCE FOR ALL GRAPHS: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS

DEBIT PIN PROCESSOR CLIENT PERFORMANCE COMPARISON (ALL CREDIT UNION CLIENTS)

CREDIT UNION FINANCIAL DATA AS OF SEPTEMBER 30, 2013

DEBIT CARD PIN PROCESSOR	# CUS	TOTAL ASSETS	# OF MEMBERS	AVERAGE ASSETS	# OF SHARE DRAFT ACCOUNTS	GROWTH IN # OF SHARE DRAFTS	SHARE DRAFT PENETRATION
Bank of Hawaii	1	\$63,771,400	5,175	\$63,771,400	1,940	0.31%	37.49%
Card Services for Credit Unions	6	\$1,678,120,369	111,002	\$279,686,728	57,546	8.78%	51.84%
Catalyst Corporate FCU	2	\$15,673,067	2,954	\$7,836,534	505	2.23%	17.10%
CO-OP Financial Services	621	\$173,340,730,095	13,906,341	\$279,131,610	7,891,742	5.72%	56.75%
Corporate One	109	\$3,110,005,330	379,124	\$28,532,159	136,013	2.62%	35.88%
Corporate One*	1	\$26,632,342	6,033	\$26,632,342	1,762	7.64%	29.21%
Covera Card Solutions	7	\$3,351,182,154	185,523	\$478,740,308	88,523	-1.25%	47.72%
Credit Union Card Center	47	\$3,026,902,409	361,755	\$64,402,179	160,754	3.82%	44.44%
Elan	117	\$20,943,183,218	1,870,724	\$179,001,566	935,494	4.70%	50.01%
First Data	130	\$29,449,526,456	2,869,855	\$226,534,819	1,546,901	5.00%	53.90%
FIS	194	\$47,657,370,925	4,639,291	\$245,656,551	2,528,167	5.44%	54.49%
Fiserv	570	\$98,304,582,000	9,500,173	\$172,464,196	4,991,959	4.31%	52.55%
Harland Clarke	4	\$209,355,776	32,312	\$52,338,944	13,004	-2.88%	40.25%
JHA Payment Processing Solutions	222	\$38,608,084,833	4,040,093	\$173,910,292	1,954,263	5.54%	48.37%
LSC	46	\$1,864,308,456	211,153	\$40,528,445	82,945	0.56%	39.28%
Metawante	10	\$455,069,609	60,551	\$45,506,961	31,864	3.71%	52.62%
NYCE	19	\$15,159,582,483	1,122,872	\$797,872,762	667,475	5.14%	59.44%
OneBridge	13	\$561,555,360	72,808	\$43,196,566	34,180	16.80%	46.95%
PSCU	198	\$114,391,379,313	10,067,553	\$577,734,239	5,668,983	5.62%	56.31%
PSCU CURewards*	39	\$34,203,915,983	3,243,180	\$877,023,487	1,862,016	5.11%	57.41%
PULSE Debit Solutions	23	\$12,294,051,258	1,040,293	\$534,523,968	635,025	7.09%	61.04%
Shazam	27	\$3,185,305,295	343,124	\$117,974,270	157,280	-10.13%	45.84%
TMG (The Members Group)	21	\$6,156,883,777	507,691	\$293,184,942	305,588	6.64%	60.19%
TransFund	7	\$121,714,724	15,694	\$17,387,818	5,612	4.27%	35.76%
Vantiv	163	\$24,122,098,060	2,633,723	\$147,988,332	1,245,379	4.43%	47.29%
Visa DPS	57	\$97,543,097,352	8,445,516	\$1,711,282,410	5,491,291	9.28%	65.02%
Other	2,578	\$359,849,153,071	33,314,444	\$139,584,621	16,213,489	4.99%	48.67%
Totals	5,192	\$1,055,462,696,790	95,739,744	\$203,286,344	50,845,922	5.54%	53.11%

*Rewards Program



PREPAID, MERCHANT PROCESSING, AND EMV

PREPAID

PREPAID PAYMENT OPTIONS, WHICH allow a consumer to preload their money onto a card and use it at the point of sale until those funds are exhausted, may be the area where there is most new opportunity for credit unions. According to MasterCard's 2012 Global Prepaid Sizing Study, the U.S. prepaid market is expected to grow at an annual rate of 16% through 2017 and top \$421 billion within three years. Despite the strong potential for prepaid in the U.S., there are not many credit unions that currently offer this option to their members.

Prepaid cards are particularly useful as education or onboarding tools for individuals with no previous banking relationship or a limited credit history. That's because they provide all the convenience of a credit card without having to borrow, while also ensuring the user never spends more money than they actually have.

According to a 2009 FDIC National Survey, 25.6% of U.S. households — or approximately 30 million households — are considered either unbanked or underbanked. Credits unions are well positioned to provide banking services to those individuals through prepaid cards and in doing so, may capture additional market share that is currently unrealized.

MERCHANT PROCESSING

As credit unions work to build and enhance their relationships with community businesses, merchant processing is also playing an increasingly integral role in their payments business. A

growing number of credit unions are choosing to enter into member business lending (MBL) or expand their efforts — particularly those equipped with low-income designation, which allows them an additional lending capacity beyond traditional MBL caps. By offering merchant processing solutions, credit unions can provide a more fully fleshed out suite of services to the small businesses they wish to attract.

According to Callahan & Associates' Peer-to-Peer analytics, outstanding member business loan balances reached \$39.8 billion as of September 2013, an 11.9% increase within just a year. The fast annual growth and rising importance of member business loans suggests that merchant processing solutions may become an increasingly attractive way for credit unions to generate additional revenue.

EMV

Another new opportunity lies with payment technology and security. Although more than 80 countries around the world have long since abandoned magnetic stripe in favor of the more secure Europe-MasterCard-Visa chip standard, most American ATMs and merchants are not currently equipped to handle this technology.

EMV cards are just starting to make an appearance in the U.S., but will eventually be accepted as frequently as in other countries. That's because major card companies have issued liability shift dates for non-EMV transac-

tions. After October 2015, credit unions that do not convert to EMV will be responsible for the financial consequences of fraudulent card transactions made without the technology.

It is difficult to anticipate how credit unions will react to this shift in policy as there are various challenges associated with deploying EMV, including the complexity and cost of implementation as well as the possibility of merchants occasionally resorting back to magnetic stripe use due to business pressures or a lack of awareness.

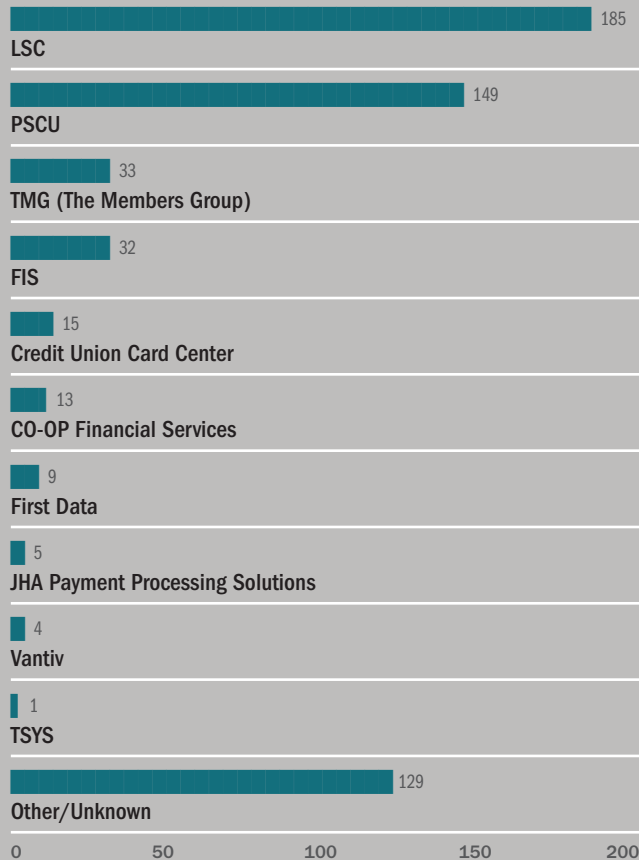
At the same time, EMV is poised to generate huge cost savings for credit unions through dramatically decreased rates of fraud transactions. In fact, an estimated 90% of counterfeit card fraud could be eliminated through EMV deployment, according to Aite Group. Increased safety in the payments space is also likely to improve consumer experiences and raise the level of member satisfaction.

As cooperatives continue to expand their member base, some — such as State Department Federal Credit Union (\$1.5B, Alexandria, VA) — have already shown initiative and adopted EMV technology in order to meet the specific needs of members who frequently travel overseas. ■

PREPAID, MERCHANT PROCESSING, AND EMV DATA BY CATEGORY

54	Prepaid Processor Market Share
55	EMV — Early Adopters
55	Credit Unions Offering Merchant Processing Services

PREPAID PROCESSOR MARKET SHARE BY NUMBER OF CREDIT UNION CLIENTS | DATA AS OF SEPTEMBER 30, 2013



DEBIT CARD PIN PROCESSOR	# CUS	TOTAL CLIENT ASSETS	AVERAGE CLIENT ASSET SIZE
CO-OP Financial Services	13	\$2,178,058,439	\$167,542,956.85
Credit Union Card Center	15	\$1,845,594,900	\$123,039,660.00
First Data	9	\$1,204,898,635	\$133,877,626.11
FIS	32	\$9,914,904,453	\$309,840,764.16
JHA Payment Processing Solutions	5	\$1,318,272,491	\$263,654,498.20
LSC	185	\$23,531,095,328	\$127,195,109.88
PSCU	149	\$160,679,350,003	\$1,078,384,899.35
TMG (The Members Group)	33	\$19,449,928,159	\$589,391,762.39
TSYS	1	\$40,275,575	\$40,275,575.00
Vantiv	4	\$1,138,989,708	\$284,747,427.00
Other	129	\$40,166,370,979	\$311,367,216
Totals	575	\$261,467,738,670	\$454,726,502

EMV — EARLY ADOPTERS | DATA AS OF SEPTEMBER 30, 2013

CHARTER NUMBER	CREDIT UNION NAME	STATE	ASSETS	CEO	HEAD OF OPERATIONS	PROVIDER
66310	State Employees	NC	\$26,891,613,097	Jim Blaine	Sue Douglas	PSCU
227	Pentagon	VA	\$16,510,849,549	Frank Pollack	Lisa Jennings	PSCU
68490	VyStar	FL	\$4,935,980,645	Terry West	Rich Alfirevic	PSCU
64131	Pennsylvania State Employees	PA	\$4,101,671,596	Gregory Smith	Dave Warwasesyn	PSCU
5588	United Nations	NY	\$3,920,957,602	Bill Predmore	James Fenimore	TMG
5582	Bank-Fund Staff	DC	\$3,665,416,131	Eli Vazquez	Al Smith	PSCU
61844	DFCU Financial	MI	\$3,462,890,081	Mark Shobe	Jerry Brandman	PSCU
66836	Virginia	VA	\$2,516,281,038	Jane Watkins	Chris Shockley	PSCU
66703	Wescom	CA	\$2,504,839,636	Darren Williams	Susan McCreedy	PSCU
5561	Keesler	MS	\$2,114,060,994	John Goff	George Mitchell	PSCU
5851	Sandia Laboratory	NM	\$2,009,984,430	Christopher Jillson	Kendal Harris	PSCU
68187	BCU	IL	\$1,844,180,235	Mike Valentine	Bob McKay	PSCU
24063	Founders	SC	\$1,673,875,206	Bruce Brumfield	Mike Bragg	PSCU
435	State Department	VA	\$1,503,970,092	Jan Roche		PSCU
61315	Arizona State	AZ	\$1,476,776,477	David Doss	Bryan Nielsen	PSCU
17642	Amy Aviation Center	AL	\$1,116,436,367	Jim Mitchell	Royas Sanders	PSCU
5754	Andrews	MD	\$1,016,550,551	Jim Hayes	James Aldridge	PSCU
68362	School Employees Credit Union Of Washington	WA	\$953,662,030	Sandra Kurack	Joann Blalock	PSCU
24292	Northrop Grumman	CA	\$917,633,483	Stan Swenson	Betty Friddle	PSCU
6775	Y-12	TN	\$689,090,435	Mark Ziegler	Janie Flick	PSCU
97068	Christian Community	CA	\$575,352,929	John Walling	Marji Hughes	PSCU
2658	First Source	NY	\$368,350,774	Mike Parsons	Tricia Lilli	PSCU
24703	Railroad & Industrial	FL	\$275,903,204	Arthur J. Wood, III	Pete Giorgianni	PSCU
68062	America's Christian	CA	\$275,572,512	Mendell Thompson	Terri Snyder	PSCU
6464	PAHO-WHO	DC	\$199,789,546	Miguel Boluda	Patricia Ilijic	PSCU
96723	Firefighters Community	OH	\$195,726,994	Ben Laurendeau	Lyn Ruggeri	PSCU
23101	Martin	FL	\$105,120,215	Bob Beskovoyne	Denise Gale	PSCU
68612	Entrust	VA	\$71,642,393	Lisa Lambrecht		PSCU
24656	Electrus	MN	\$50,566,750	Debbie Mickelson		PSCU
11526	Dakota Plains	SD	\$45,211,099	Peter Butterfield	Bonnie Lueck	PSCU
AVERAGE SIZE OF CREDIT UNION ADOPTERS			\$2,829,965,46	NUMBER OF CREDIT UNION ADOPTERS 29		

CREDIT UNIONS OFFERING MERCHANT PROCESSING SERVICES

CHARTER NUMBER	CREDIT UNION NAME	STATE	ASSETS	CEO	HEAD OF OPERATIONS	PROVIDER
18336	CommunityWide	IN	\$318,176,835	Loren Roth		Credit Union Card Center
8548	Encompass	IN	\$160,836,221	Matt Lambert	Don Mcelfresh	Credit Union Card Center
15072	Regional	IN	\$127,879,242	Jill Banning		Credit Union Card Center
5422	Chiphone	IN	\$84,434,090	Ronald Mazur	Travis Mazur	Credit Union Card Center
306	Madison County	IN	\$70,328,772	David Dodd	Jim Thiemer	Credit Union Card Center
16213	Financial Builders	IN	\$68,986,259	Cindy Brock	Cindy Heuermann	Credit Union Card Center
14562	Evansville	IN	\$58,167,866	Mike Sills	Jim Phelps	Credit Union Card Center
17040	Bar-cons	IN	\$31,706,108	Karen Allen		Credit Union Card Center
67648	Hoosier Farm Bureau	IN	\$18,948,807	Jennifer Mulligan		Credit Union Card Center
2711	ProFinance	IN	\$14,378,809	Malcolm King	Rae Hedrick	Credit Union Card Center
19319	Jefferson Community	IN	\$10,647,094	Stephanie Marion		Credit Union Card Center
24108	Indiana Heartland	IN	\$7,024,650	Buffey Hedrick		Credit Union Card Center

SOURCE: CALLAHAN & ASSOCIATES' PEER-TO-PEER ANALYTICS 

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1. Aite Group. December 12, 2012

2. The Federal Reserve Consumers and Mobile Financial Services. March 2012

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