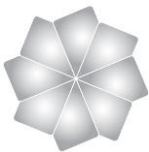




CREDIT CARD MARKET OVERVIEW & CREDIT UNION PERFORMANCE REVIEW

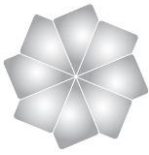
Tim Kolk
President, TRK Advisors
tkolk@trkadvisors.com
(603) 924-4438

April 2023



WHAT WE'LL TALK ABOUT TODAY

- 1) The Story of the Card Market
 - Balance Trends
 - Credit Risk Trends
 - APR Trends
 - Purchase Trends
- 2) Market Offers: What Your Members See Every Day
- 3) Why is Today Different? Challenges to CU Issuers
- 4) Going Forward: A Checklist or Two

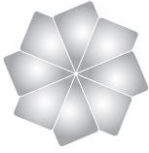


BUT FIRST... WHY IS CARD SO FUN?

Mortgages & Auto Loans	Credit Card
------------------------	-------------

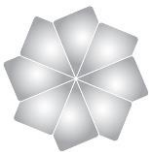
The Most Fun ≠ The Easiest

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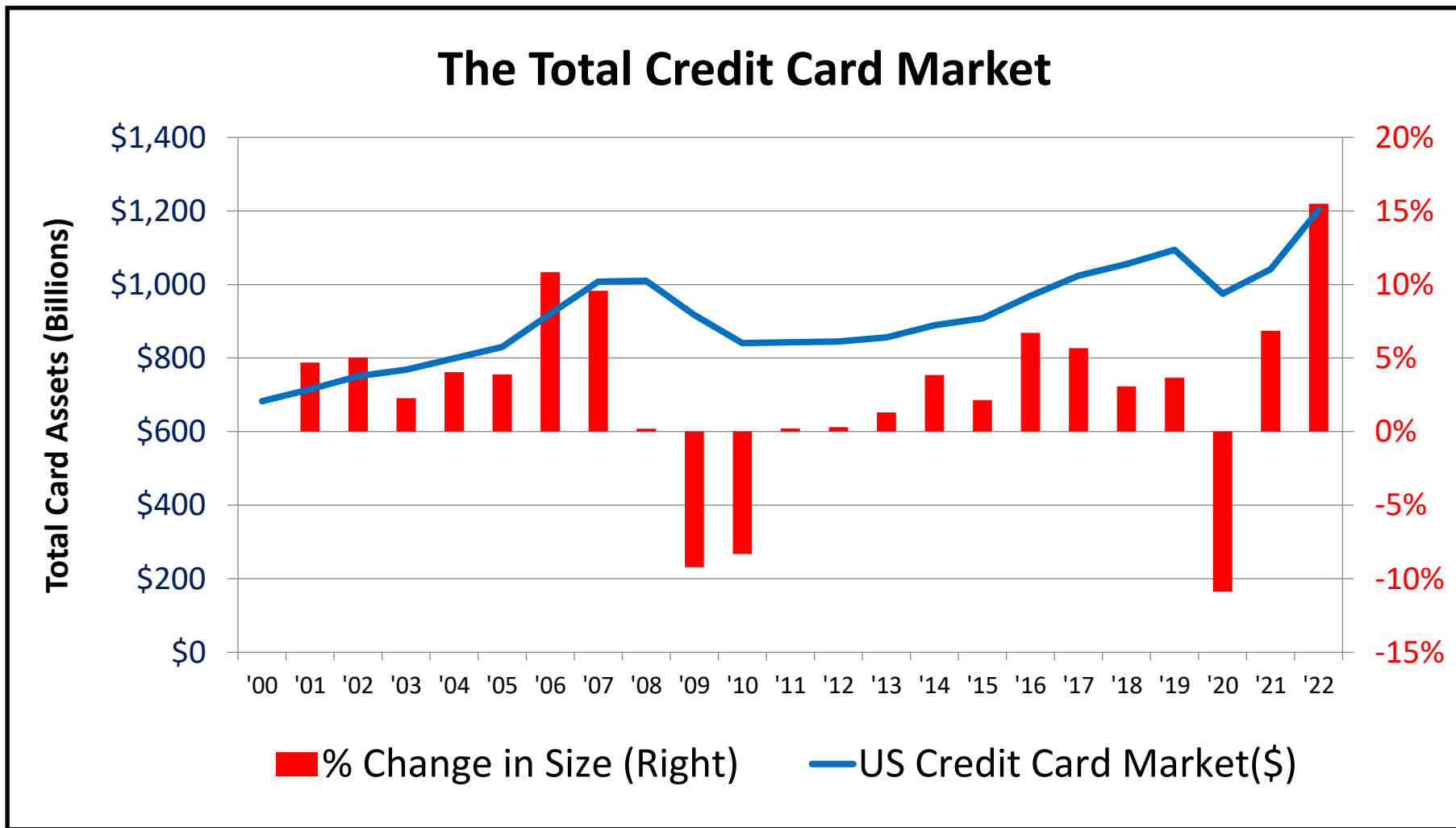


THE EVER-EVOLVING STORY OF THE CREDIT CARD MARKET

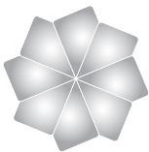
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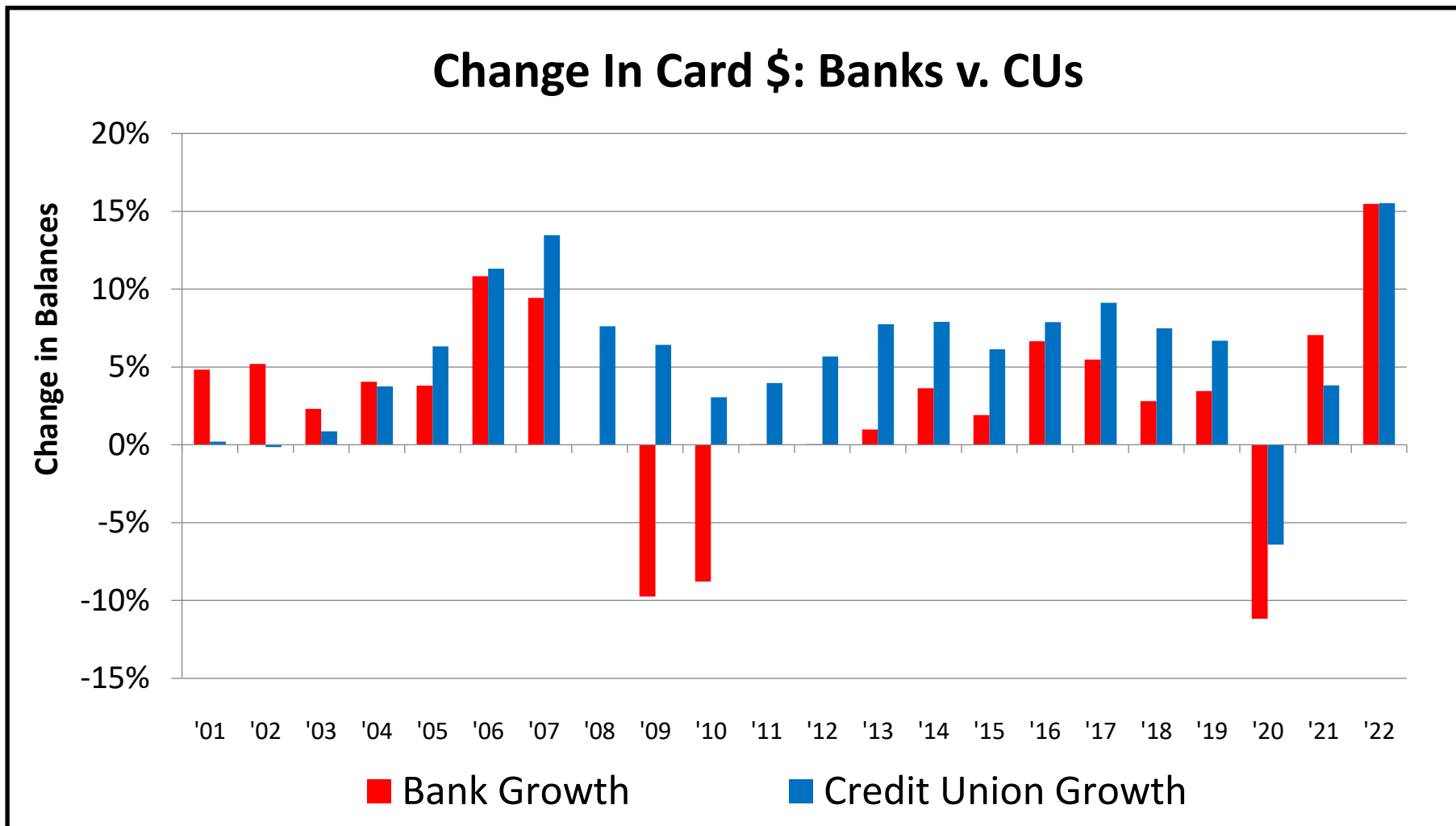
PRIORITY #1: BALANCE GROWTH



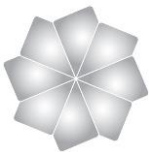
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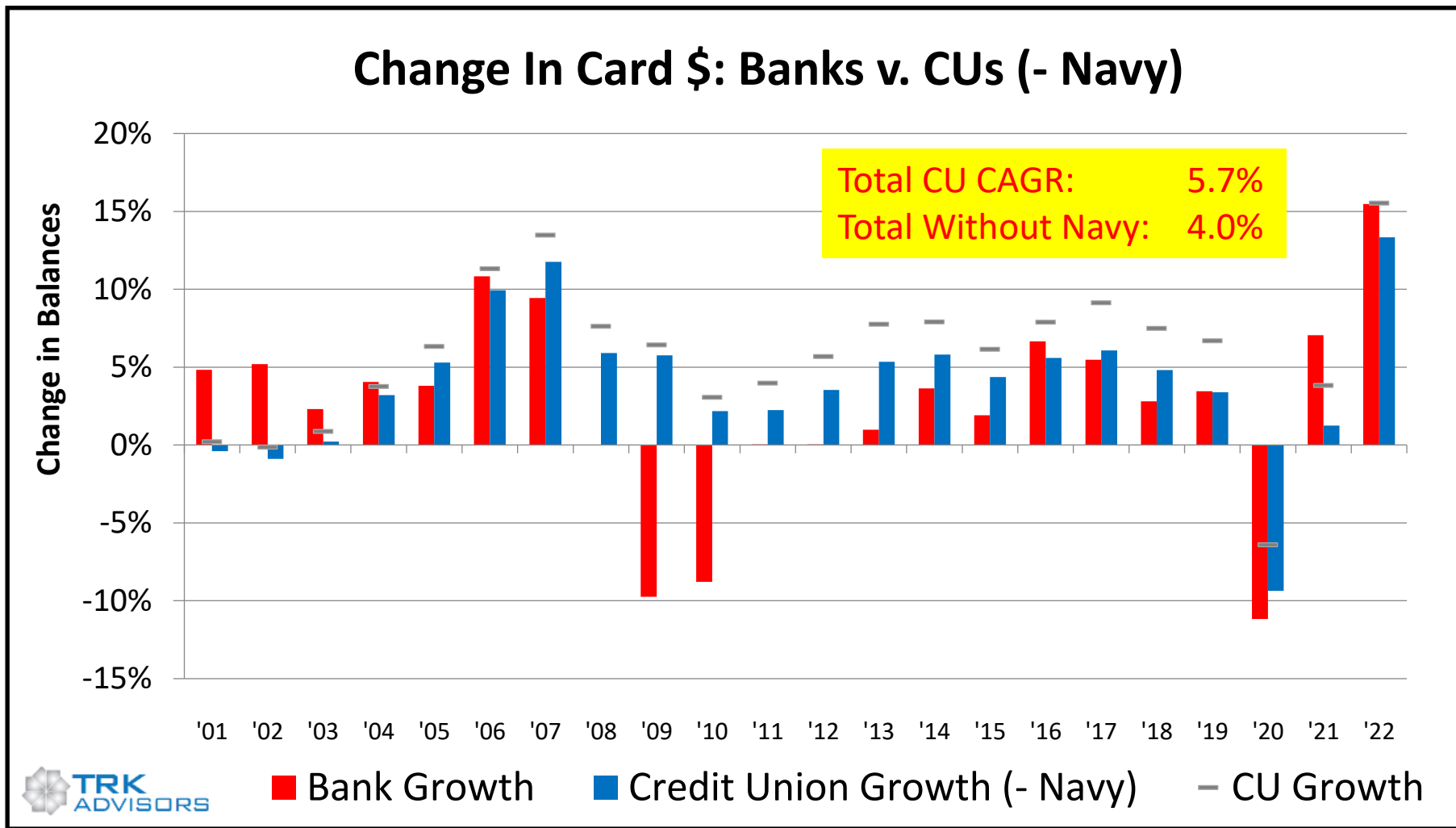
PRIORITY #1: BALANCE GROWTH



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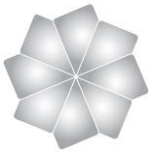


PRIORITY #1: BALANCE GROWTH



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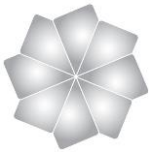
LARGEST ISSUER RESULTS

Top 10 Visa & MasterCard Issuers in the US, 2022

Issuer	Volume (\$MM)		Accounts (M)			Per Active		Turn Rate
	Balances	Purchases	Total	Active	% Act	Bal	Purch	
Chase	\$ 185,175	\$ 1,142,785	90,435	63,638	70%	\$2,910	\$17,958	6.2
CitiBank	121,459	556,834	64,710	44,650	69%	\$2,720	\$12,471	4.6
Capital One	118,911	534,540	93,520	51,310	55%	\$2,318	\$10,418	4.5
Bank of America	106,237	480,619	43,701	30,213	69%	\$3,516	\$15,908	4.5
US Bank	44,002	189,916	27,169	12,066	44%	\$3,647	\$15,740	4.3
Wells Fargo	41,160	164,865	15,973	10,148	64%	\$4,056	\$16,246	4.0
Barclays	29,095	99,921	20,599	11,038	54%	\$2,636	\$9,052	3.4
Navy FCU	23,658	41,324	4,951	3,613	73%	\$6,548	\$11,438	1.7
Synchrony	22,300	70,700	24,400	13,800	57%	\$1,616	\$5,123	3.2
Goldman Sachs*	15,820	30,874	10,790	5,644	52%	\$2,803	\$5,470	2.0
Total, Top 10	\$ 707,817	\$ 3,312,378	396,248	246,120	62%	\$2,876	\$13,458	4.7

Growth → More Accounts + More Use Per Account

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BIGGER IS ~~BETTER~~ EASIER

Distribution of Credit Union Card Program Growth

Size	Size
Top 50	\$168MM-\$26.0B
51-200	\$50-\$167MM
201-500	\$15-\$48MM
501-1000	\$5-\$15MM
<u>1001-1960</u>	\$1-\$5MM
Total	

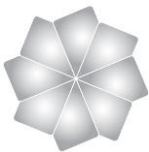


Size (>\$1MM)	% Doing Worse than Average						
	2016	2017	2018	2019	2020	2021	2022
Top 50	46%	52%	50%	58%	62%	54%	42%
51-200	67%	65%	68%	67%	72%	64%	67%
201-500	64%	72%	73%	73%	76%	73%	67%
501-1000	77%	75%	73%	76%	75%	75%	75%
<u>1001-1960</u>	<u>80%</u>	<u>83%</u>	<u>80%</u>	<u>80%</u>	<u>80%</u>	<u>79%</u>	<u>85%</u>
Total	75%	77%	76%	77%	78%	75%	78%

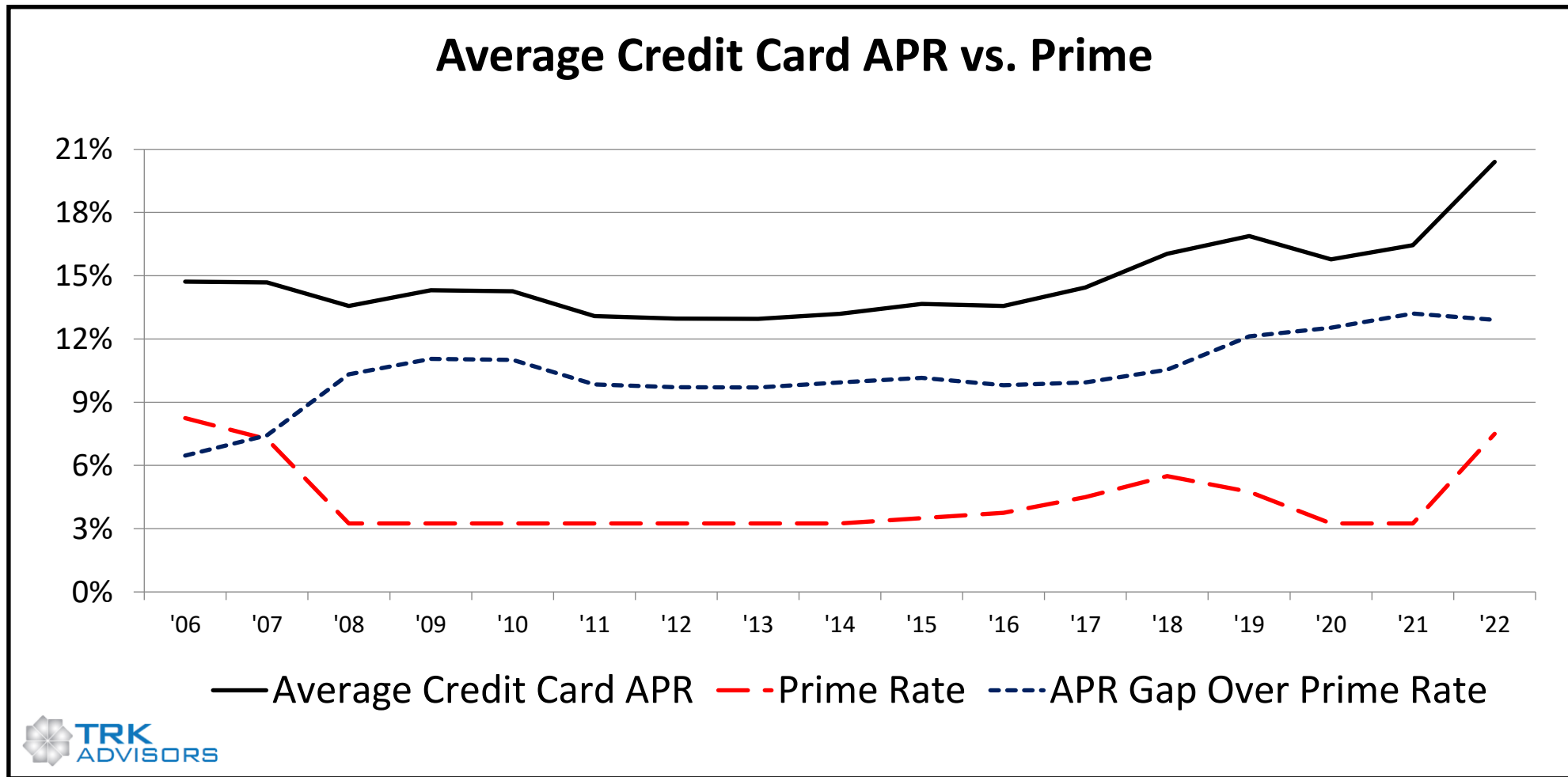


Smaller Means Harder
Vendor Negotiations, Tech Investments, Product Focus, Staff Skills, Marketing Commitment, Analytics...

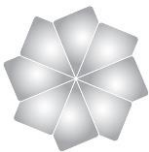




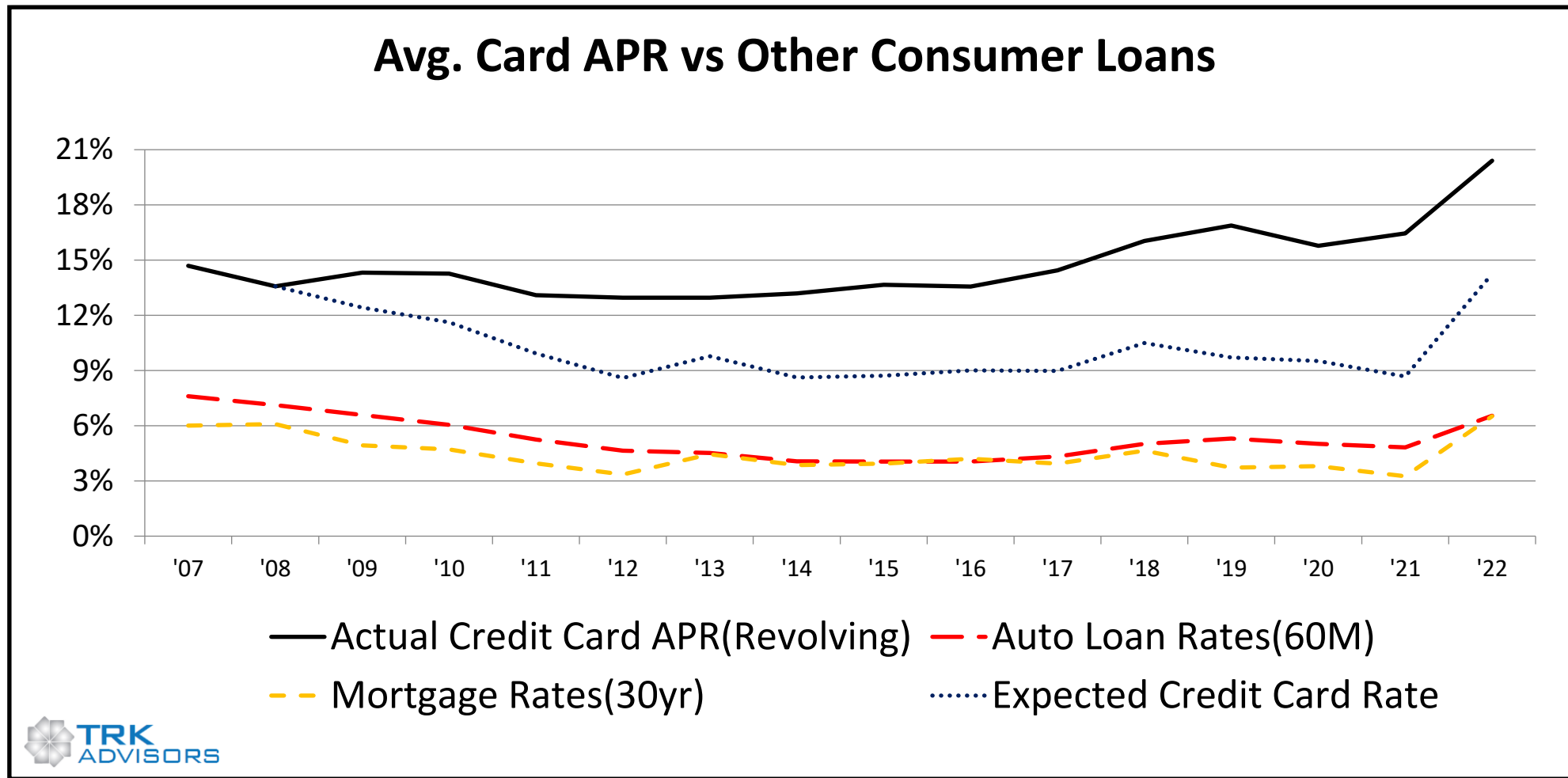
ANOTHER #1 PRIORITY: LOAN YIELD



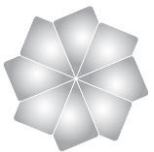
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ANOTHER #1 PRIORITY: LOAN YIELD

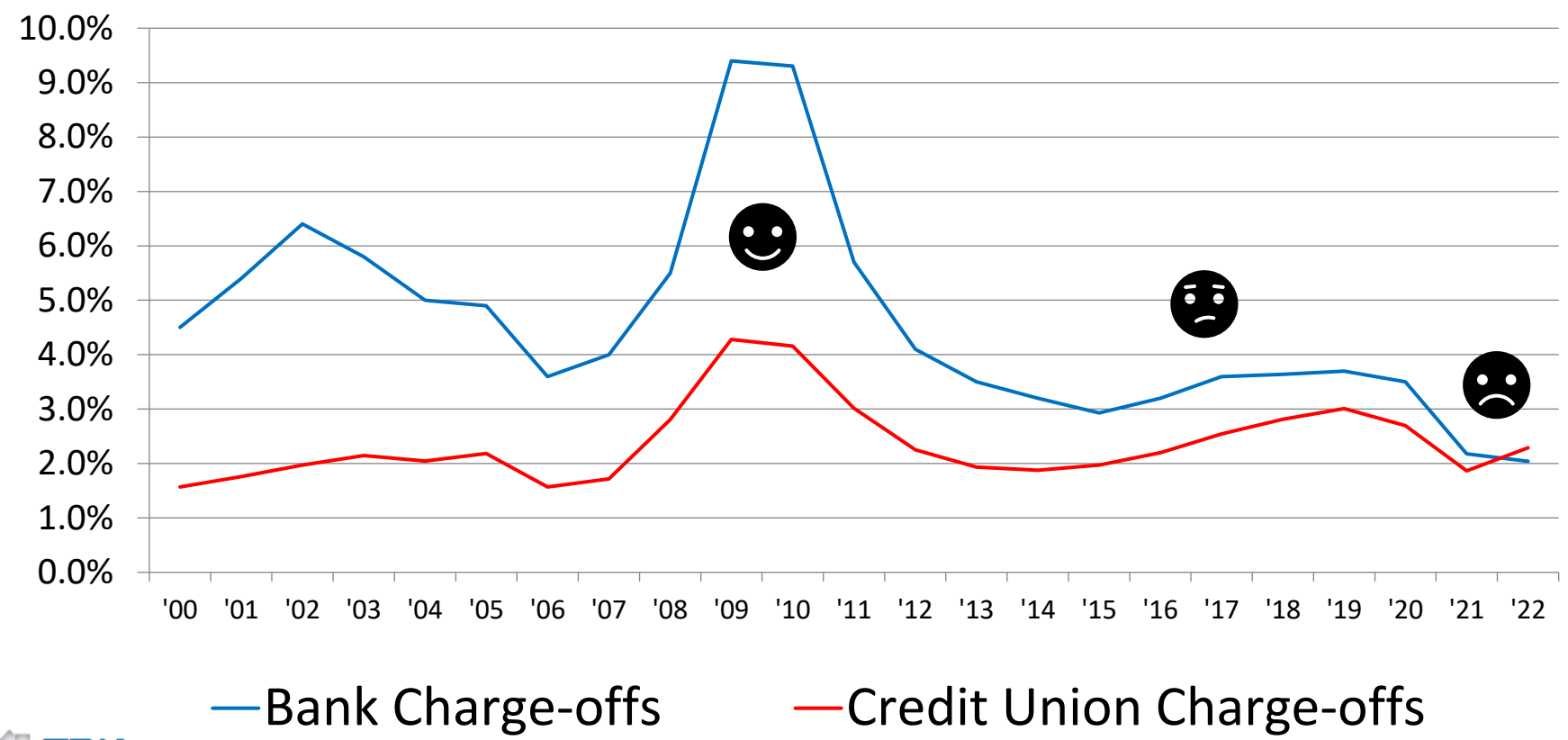


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3RD #1 PRIORITY: CREDIT RISK

Net Charge-Off Rates



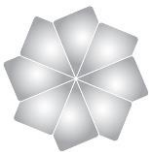
CU Advantage

2017 =	106 bp
2018 =	82 bp
2019 =	69 bp
2020 =	80 bp
2021 =	31 bp
2022 =	-25 bp

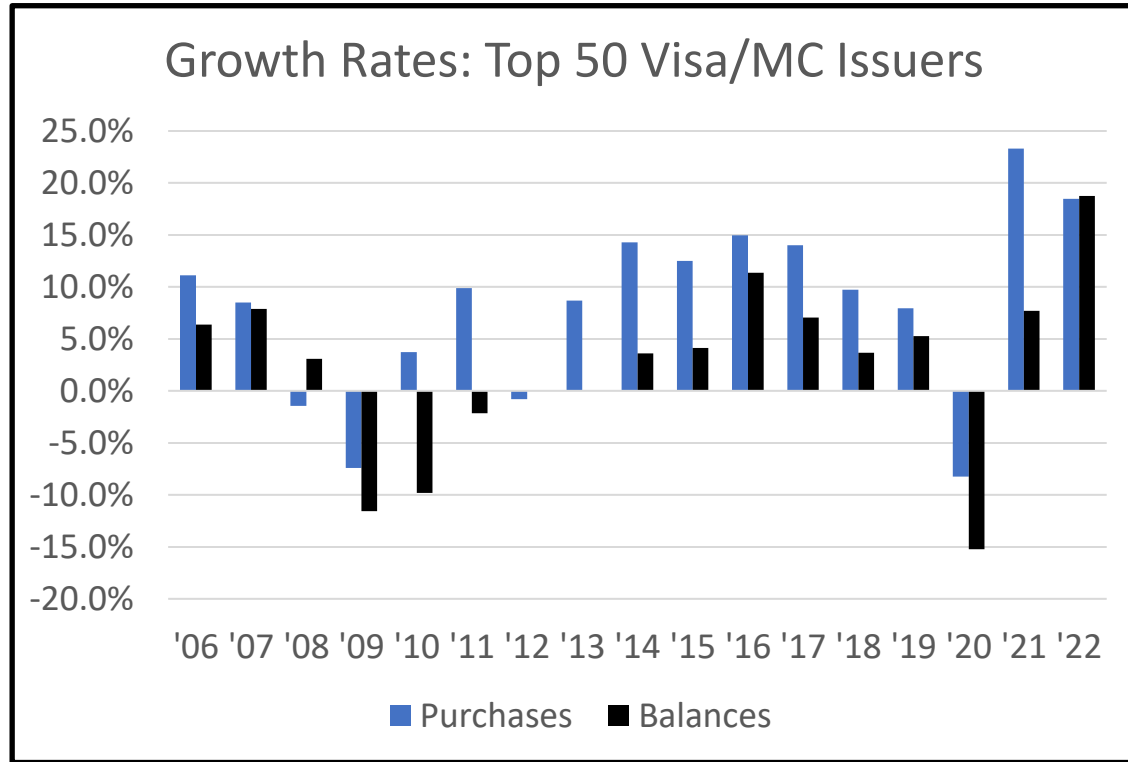
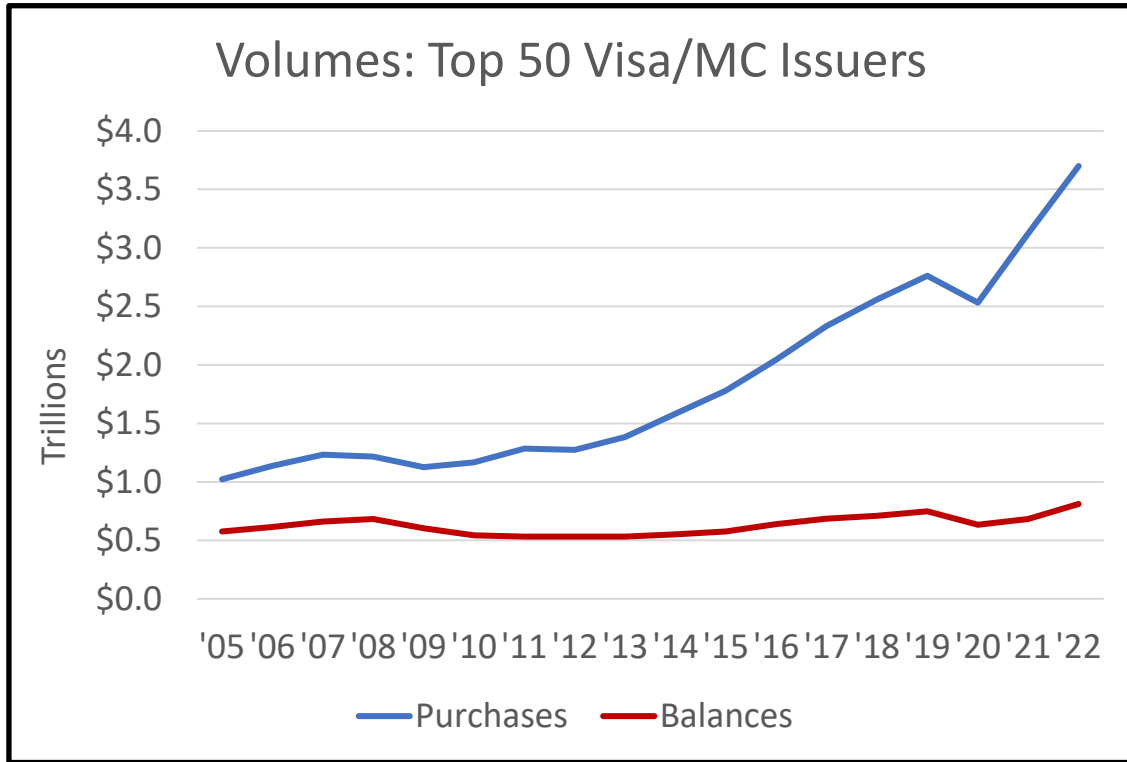
CU '22 GCL %

Q1	2.7%
Q2	2.8%
Q3	2.9%
Q4	3.4%





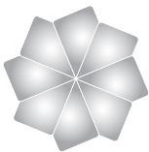
4TH #1 PRIORITY: TRANSACTION \$



Turn Rate (Purchases / Balances) Over Time

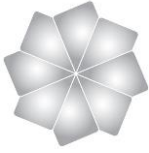
2005 = 1.8x 2010 = 2.1x 2015 = 3.1x 2020 = 4.0x 2022 = 4.6x

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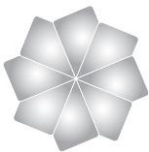
FINALLY, DONE WITH ALL THAT

- Balances grew quite a lot in 2021 & 2022
 - If excluding Navy, Banks > CUs 3-of-last-4 years
- Credit card yield continues to thrive
 - Keeps getting higher, and cardholders don't seem to care (so far)
 - More pricing discretion than for any other loan category, but....
- Credit risk now > banks (!!!) and trending up
 - Probably not prudent to assume yesterday's charge-off rates going forward
- Cardholders putting every transaction they can on cards
 - And we all know why. Because we do it too.
 - Capturing transactions a higher priority than balances?



MARKET OFFERS: WHAT DO YOUR MEMBERS SEE?

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TOP THREE: CHASE (NO FEE)



\$200 bonus plus 5% grocery store offer - up to \$800 total cash back

Earn a \$200 bonus after you spend \$500 on purchases in the first 3 months from account opening. Plus, earn 5% cash back on grocery store purchases (excluding Target® and Walmart®) on up to \$12,000 spent in the first year (that's \$600 cash back!).

APR: 0% intro APR for 15 months from account opening on purchases and balance transfers.[‡] After the intro period, a variable APR of 19.49%–28.24%.[‡] Balance transfer fee applies, see pricing and terms for more details.[‡]

Earn cash back for every purchase.

Earn unlimited 1.5% cash back or more on all purchases, like 3% on dining and drugstores and 5% on travel purchased through Chase.

NEW CARDMEMBER OFFER

Low intro APR + intro My Chase Plan® fees[‡]

For 18 months from account opening, enjoy a low intro APR on purchases and balance transfers[‡] and \$0 plan fees[‡] when you split up large purchases into monthly installments with My Chase Plan® during your 0% APR introductory period.

AT A GLANCE

Lower your interest rate by 2% each year.[‡] Get an automatic review for a higher credit limit when you pay on time and spend \$500 in your first six months.[‡]

APR

0% intro APR for the first 18 months from account opening on purchases and balance transfers.[‡] After that, 19.49%–28.24% variable APR.[‡] Balance transfer fee applies, see pricing and terms for more details.[‡]



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TOP THREE: CITI (NO FEE)



Earn cash back TWICE. Earn 2% on purchases with 1% cash back when you buy, plus an additional 1% as you pay for those purchases.

Purchase Rate:

18.49% - 28.49% variable APR, based on your creditworthiness¹

Balance Transfer Rate:

0% Intro APR for 18 months on balance transfers only. After that the variable APR will be 18.49% - 28.49%, based on your creditworthiness.¹

There is an intro balance transfer fee of 3% of each transfer (minimum \$5) completed within the first 4 months of account opening. After that, your fee will be 5% of each transfer (minimum \$5).¹



Transfer high-interest balances from your other cards to the Citi[®] Diamond Preferred[®] balance transfer credit card and take some time to enjoy a low-interest lifestyle.

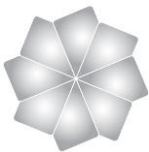
Purchase Rate:

0% Intro APR for 12 months. After that, the variable APR will be 17.49% - 28.24%, based on your creditworthiness.¹

Balance Transfer Rate:

0% Intro APR for 21 months. After that, the variable APR will be 17.49% - 28.24%, based on your creditworthiness.¹

Balance transfer fee of either \$5 or 5% of the amount of each transfer, whichever is greater.



TOP THREE: CAPITAL ONE (NO FEE)



Earn unlimited 1.5% cash back on every purchase, every day

Earn a one-time \$200 cash bonus once you spend \$500 on purchases within 3 months from account opening¹

0% intro APR for 15 months; 19.24% - 29.24% variable APR after that;
3% fee on the amounts transferred within the first 15 months



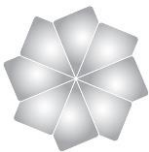
Earn unlimited 1.25 miles per dollar on every purchase

0% intro APR for 15 months; 19.24% - 29.24% variable APR after that;
3% fee on the amounts transferred within the first 15 months

Earn unlimited 5 miles per dollar on hotels and rental cars booked through Capital One Travel

Earn 20,000 bonus miles once you spend \$500 on purchases within the first 3 months from account opening¹

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RELATIONSHIP ELEMENTS




What you will receive if you maintain a qualifying consumer Wells Fargo checking or savings account:

- Annual Relationship Bonus of 10% with qualifying consumer Wells Fargo checking or savings account
- Annual Relationship Bonus of 25% with Portfolio® by Wells Fargo program
- Annual Relationship Bonus of 50% with Portfolio by Wells Fargo® program and \$250,000 or more in qualifying balances; or Portfolio by Wells Fargo® Private Bank clients.





 Gold Tier
 \$20K to < \$50K
 3-month combined average daily balance


+25%


 Platinum Tier
 \$50K to < \$100K
 3-month combined average daily balance

+50%

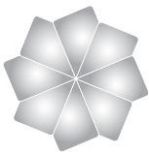

 Platinum Honors Tier
 \$100K to < \$1M
 3-month combined average daily balance

+75%


 Diamond Tier
 \$1M to < \$10M
 3-month combined average daily balance

+75%

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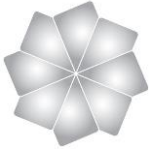


KEY TAKEAWAYS

1. Up-front elements are promoted
2. “Go To” APRs are higher than ever (> 18%)
3. Reward value at least 1.5%
4. Reward amplifiers are creative, vary by product, and evolve quickly as the market moves
5. Big banks have no interest in low rate card competition

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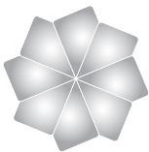
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HOW ABOUT US?

CREDIT UNION CHALLENGES TODAY

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CHALLENGE #1: YOUR REGULATOR

The 18% rate cap: You have fixed rate accounts now.

Typical Low Rate Card, Prime = 3.25%

Tier	% of \$	Prime +	= APR	x Rev %	= Yield
A	15%	5.90%	9.15%	85%	7.8%
B	35%	7.90%	11.15%	90%	10.0%
C	30%	9.90%	13.15%	90%	11.8%
D	15%	11.90%	15.15%	95%	14.4%
E	5%	13.90%	17.15%	95%	16.3%
Total/Avg		9.10%	12.35%	90%	11.1%

Prime = 8.00%

Full APR	Act APR	"Cost"	Yld Cost
13.90%	13.90%	0.00%	0.00%
15.90%	15.90%	0.00%	0.00%
17.90%	17.90%	0.00%	0.00%
19.90%	18.00%	-1.90%	-1.81%
21.90%	18.00%	-3.90%	-3.71%
17.10%	16.62%	-0.48%	-0.43%

If P=10%

Cost
0.00%
0.00%
-1.71%
-3.71%
-5.61%
-1.35%

Typical Reward Card, Prime = 3.25%

Tier	% of \$	Prime +	= APR	x Rev %	= Yield
A	30%	8.90%	12.15%	50%	6.1%
B	30%	10.90%	14.15%	70%	9.9%
C	25%	12.90%	16.15%	80%	12.9%
D	10%	14.90%	18.15%	85%	15.4%
E	5%	15.90%	19.15%	90%	17.2%
Total/Avg		11.45%	14.70%	69%	10.1%

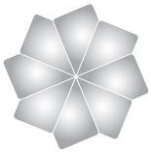
Prime = 8.00%

Full APR	Act APR	"Cost"	Yld Cost
16.90%	16.90%	0.00%	0.00%
18.90%	18.00%	-0.90%	-0.63%
20.90%	18.00%	-2.90%	-2.32%
22.90%	18.00%	-4.90%	-4.17%
23.90%	18.00%	-5.90%	-5.31%
19.45%	17.67%	-1.78%	-1.23%

If P=10%

Cost
-0.45%
-2.03%
-3.92%
-5.87%
-7.11%
-2.67%

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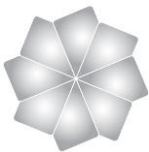
CHALLENGE #2: OTHER PRODUCTS

Card has lost some of its edge vs mortgages and auto

- Auto and mortgage rates up about 50% in the last year.
- Each is a larger balance account without needing as much ongoing attention
- Each is generally less complex to service, and without a 3rd party processor
- Each has lower charge-off rates (incl. CECL fluctuations)
- Liquidity constraints are forcing choices not required in 12+ years.

Flashbacks to 2003-2007:

“We can write one mortgage or find 150 credit cards.”



CHALLENGE #3: OPERATING EXPENSES

Programs are getting more expensive to operate

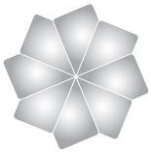
- Inflation has certainly flowed through to processing costs.

Impact of 8% Open Cost Increase

Account Balance	\$ 2,100	% of Bal\$
Opex 2021	\$ 125.00	6.0%
+ 8% Now	\$ 135.00	6.4%

There goes another 40bp of ROA. Impact greater the lower the average balance.

- Baseline “Table Stakes” are increasing: Stripe-to-Chip-to-Contactless, mobile integration, wallets, reward servicing and redemption options, and on and on
- Internal costs under the same pressures: Card management expertise, marketing campaigns, support functions (underwriting, collections)....

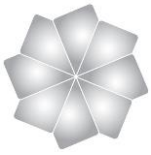


CHALLENGE #4: CONSOLIDATION

Consolidation throughout the industry

- Concentration, particularly of transactional volumes, at the largest issuers brings them scale and leverage which is hard to really understand.
- Processor consolidation has created more capable organizations, but also fewer options. Harder to effectively service the smaller issuers. Need to manage your partners (Squeaky wheels and all that).
- The same holds true for other areas that interface with the card program: core, mobile, servicing, originations...
- CU consolidation has been steady and significant. If you are taking in other CUs you have an advantage; if not, scale is not working in your favor.

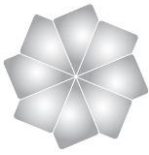
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CHALLENGE #5: FUNCTIONALITY

The stakes keep escalating.

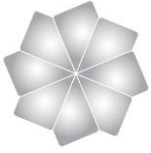
- Real time decisioning and digital card provisioning.
- Reward functionality: real time redemptions, pay at pump, one-to-one promotional messaging.
- Servicing as cardholders expect: AI technologies, chat resolution, integration of servicing tools with processing system, self-serve throughout.
- Rules-based promotional campaigns.
- BNPL...sort of. *But boy did we put a lot of time into it.*



CHALLENGE #6: TALENT

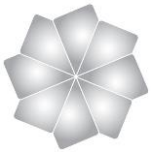
Where are the experts?

- I've lost track of the # of clients looking for a "Card Program Manager"
- Outside recruiting is often picking among a couple sorta-ok options.
- As the # of bank issuers has dwindled (fewer than 20% of banks issue their own cards), the historic 'feeder' flow for card talent is limited.
- Needs a pretty deep combination of talents: card ops, FI finance, vendor management, project management, senior management communications, competitive analysis, and staff management.
- Our view; generally, much better off finding ambitious, capable internal people to grow into the role. But it takes time and commitment.



**WANT A CHECKLIST?
HERE YOU GO!**

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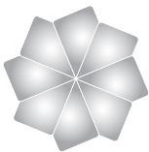
WHAT TO DO NOW

If you already do 5 or more of these, you are doing pretty ok.

- ❑ Maintain monthly comprehensive product-level portfolio reporting; including Full P&L, growth KPIs around accounts (total, active, new), growth trends around balances and transaction \$, risk elements.
- ❑ Quarterly product benchmarking against the large bank competitors around the above measures and member-facing product propositions.
- ❑ 2x (at least) comprehensive reviews with processing partner and brand. Do not just sit and listen. (In-process projects require active management)
- ❑ Build an evergreen annual marketing plan around portfolio management and new account disciplines with specific start dates to initiate the work. Do not simply recycle last year's.
- ❑ Build an annual card business plan integrating all of these elements, ultimately flowing to balances, transactions, accounts and net income elements.
- ❑ Card Manager development plan with annual goals for performance and skill enhancement.
- ❑ Identify renewal dates for all related vendor agreements and build schedule for renewal/renegotiation projects. Allow ample time for all. Build your 'wish list' before you start conversations.
- ❑ Card-specific staff education and advocacy training for new hires as well as ongoing refreshers for others (including senior management!)

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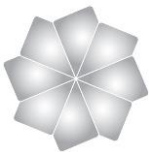
QUESTIONS FOR SR MGMNT TO ASK

Do you have the right people in the job(s)? Ask these questions:

1. How have our balance and purchase volume trends compared to the overall market (including big banks) last year? Last 3 years?
2. How are different products doing? What is growing best? What is the most profitable? Where do you see the most opportunity for us?
3. What is our current ROA and Net Income on the product? What is changing from last year? Will it keep changing, do you think? How?
4. What worries you most about our card program? What have we not addressed that matters?
5. What would you do with more marketing \$? More technology \$? (If I just made you flinch, good.)
6. What card-management colleagues at other credit unions talking about these days?
7. Do you need me to get involved with any vendors? Anything bottlenecked that shouldn't be?
8. Is this product as interesting to manage as it seems to be from my seat?

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THANK YOU

About TRK Advisors:

Having analyzed hundreds of credit card programs we can bring an unrivaled experience and value to your program no matter your needs. Our work focuses on developing specific tactical plans to help your program reach its goals, whether they be improving financial performance, redeveloping your products, generating marketing plans that work, improving your portfolio management techniques, looking to buy or sell credit card accounts, develop co-branded or affinity programs, begin issuing anew, or evaluating agent program options.

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About Elan Credit Card:

Elan partners with credit unions through our outsourced credit card program, mortgage solutions, and all-in-one merchant processing platform, talech®. Our dedication to our partners, growth philosophy, and investment in technology has made us a leader in the industry since 1968. Learn more about our innovative solutions for consumer and business accounts of all sizes.

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