

Tough Love for Credit Cards

Despite positive growth in credit union credit card programs in 2008, today's uncertain economic times necessitate more stringent risk management policies.



Effective card management requires not only a historical review, but also ongoing analysis of your cardholders' credit profile. If credit union card managers regularly analyze the daily, monthly, and annual performance of their card portfolio and their cardholders' credit scores, they can identify patterns and trends that enable better management of delinquencies,

reduced charge-offs, and maintenance of profitability to keep the portfolio healthy.

As the credit card issuing partner for credit unions across the nation, TNB Card Services offers a wealth of risk management expertise and capabilities. Following are a few best practices we follow that credit unions can utilize to better manage their exposure.

Score more frequently. Instead of scoring cardholders on an annual or semi-annual basis, review scores more often. This ensures that you have an up-to-date risk exposure profile. Look beyond FICO and spending patterns and include bankruptcy scores in your assessment. Analyze the data, identify trends, and take appropriate action where necessary to align your portfolio with your credit risk policy.

Be vigilant with your credit lines. Closely evaluate credit lines and align with a cardholder's risk based on their most recent scores and payment history. Reduce credit lines of inactive accounts, or

perhaps even close the account if the cardholder's credit score falls below your risk threshold. Reduce risk exposure by limiting cash advances to a portion of the total credit limit.

Establish performance metrics and review daily. Conduct daily or weekly analyses to evaluate the credit quality and risk exposure of your portfolio. Then measure against internal and external metrics to assess ongoing performance. Monitoring cardholder behavior and using that information to manage your accounts can reduce your risk.

Don't exceed your authorization parameters. Authorization strategies are key to managing risk. Link your strategies so your most profitable and valuable cardholder segments have some flexibility in their spending. For riskier account segments, consider more restrictive authorization policies. Assess risk mitigation measures for cardholders with historically high credit utilization and who repeatedly go over-limit.

Increase outreach before collection is necessary. Proactive intervention on high-risk accounts will improve collection results. Early detection of cardholder issues gives you more flexibility and options to offer the cardholder, which can help keep an account from defaulting. It also improves cardholder service, giving you the opportunity to talk to cardholders and enroll them in convenience services, such as Auto-Pay.

Credit unions of all sizes can use these risk management strategies to keep their portfolios healthy in 2009 and beyond.

VIP PortfolioPro®

Finding the data necessary to evaluate your portfolio for risk can be right at your fingertips with TNB Card Services' VIP Portfolio Pro® and ScoreWorks™.

VIP Portfolio Pro provides a suite of reports to help you evaluate the performance of your portfolio. Presented in customized formats and multiple layers – from cardholder detail to full portfolio overview – users can review data in tables, charts, or graphs to help make informed decisions. Working in conjunction with Portfolio Pro, ScoreWorks provides up-to-date credit scores, directly related to your member's cardholder account. Using Portfolio Pro and ScoreWorks, your credit union can put the power of your cardholder data to work and better manage your portfolio risk!

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Executive Viewpoint

by Scott Wagner, Executive Vice President

With the economic challenges of 2008, most of us were glad to put the year behind us. But, what will 2009 bring? Certainly, the economic fallout is not over—unemployment is rising, consumer spending is slower, and many homeowners are still facing foreclosure. Despite weaknesses in the economy, consumers are conducting more electronic payments via credit and debit cards rather than using cash or checks. This means that the electronic payments industry continues to grow despite the downturn.

Many credit unions throughout the country are seeking ways to increase ROA by looking for growth opportunities within their loan portfolios or other product offerings. A credit card portfolio and debit card program can be high-yielding when you offer the products your members want and need combined with the right management strategies.

TNB Card Services is well positioned to help you build revenue and increase ROA. By utilizing our expertise and world-class processing platform we are able to help credit unions improve their yield and achieve their goals. Our clients tell us they are looking for ways to better manage portfolio risk, build balances, retain high-quality cardholders, and attract Gen-Y members. Our cover story focuses on several of the strategies and tools TNB suggests implementing to achieve some of these objectives.

What will you see from us in 2009? One key focus this year is delivering a number of new products and service innovations to help you effectively manage your card programs. For example, we are enhancing our e-services with an upgraded GoToMyCard.com website that includes online balance transfer capabilities and several other new features. Watch for news about an exciting new product your Gen-Y members will want: a personalized card they can design with their own digital photos. In addition, look for added functionality to make our easy-to-use VIP CardStation™ and VIP Portfolio Pro® program administration products even more feature-rich.

TNB Card Services has the capabilities and is committed to "Empowering Your Mission" in 2009 and beyond.

One key focus this year is delivering a number of new products and service innovations to help you effectively manage your card programs.

Summer Promotion



Plan Now for a Transaction-Rich Summer

Even as the winter fires burn bright, it's time to start planting seeds to generate a summer harvest. Reward your cardholders with low rates, convenience checks, a month with no credit card payment and more, so they can more freely enjoy the pleasures of summer.

Temporarily lower rates with TNB's Summer Usage and Retention promotion to encourage summer spending. Select from rates as low as 3.9 percent and give your members a reason to take your card on the road wherever their vacation may take them.

Our vacation convenience checks make it even easier for your members to get away. Qualified cardholders will receive three checks, which can be used as they wish, allowing them to enjoy the vacation of their dreams. Cardholders will appreciate the ease of use, while you'll add extra income to your bottom line.

Summer is also a great time to motivate and encourage inactive cardholders to activate their cards. TNB's 2008 Summer Reactivation Promotion generated a 22 percent response rate, leading to more than \$2 million in purchases. Give your inactive cardholders a reason to enjoy the summer with your great rates, rewards, and more!

Also, don't forget to compensate creditworthy cardholders with some extra spending power this summer. Higher credit limits will give cardholders more reason to use your card and increase your earnings.

Cardholders will appreciate a reprieve from their summer spending when you allow them to skip a payment without a penalty. Our summer skip payment promotion is ideal for generating interest income.

Enrollment for these fantastic promotions starts as early as March. If you aren't sure which promotions best fit your portfolio needs, our client relations team can help you develop the right plan. See our promotion calendar on page four for enrollment dates in any of these programs.

Debit Card Usage Continues to Grow, Despite Economy

Debit card usage has grown steadily since 2004, replacing check volume and reducing cash usage. While consumer spending has slowed due to the economy, the debit card market is still expected to grow as consumers turn more to their debit cards, opting to pay now rather than incurring debt.

Merchants have made it easier for consumers to use debit cards for everyday purchases, including small dollar items at convenience stores and fast-food establishments. In fact, signatureless debit transactions, typically for amounts under \$25, are now widely accepted. This is good news for issuers, since signature debit transactions are more profitable compared with PIN POS.

Debit cards are extremely important to a credit union, both for income generation and for building strong relationships with members. The average debit cardholder completes 16 transactions per month, with an average ticket of \$39.72 for signature and \$41.53 for PIN. Although the dollar average of signature purchases is slightly lower than PIN transactions, signature debit generates more than twice the revenue of PIN POS.

BREAKDOWN OF AVERAGE REVENUE GENERATED BY DEBIT TRANSACTIONS

	SIGNATURE	PIN
Average transaction	\$39.72	\$41.53
Average # transactions per month (national average)	16	16
Average interchange rate (national average)	128 basis pts	52 basis pts
Average income per month	\$8.13	\$3.45

Understanding the average interchange rate on both signature and PIN debit transactions can help you establish measurable performance goals. It can also help you determine how and when to guide cardholders toward signing for purchases instead of using their PIN.

Most debit cards today are dual-purpose cards, meaning they can be used for both PIN and signature purchases. While merchants such as Walmart often steer members to use their PIN, issuers can encourage cardholders to use their signature over PIN by offering rewards. For example, high-volume signature debit card users could be offered a lower credit card rate or merchandise rewards.

Encouraging members to get cash back from the grocery store instead of an ATM can also make a difference to your bottom line. An ATM transaction at a competitor's machine will cost you \$0.47, but you can earn \$0.50 for the transaction if cash back is received at the grocery store.

Don't forget the importance of offering your debit cardholders a credit card, too. According to First Annapolis Consulting, consumers with a debit and a credit card from the same institution have more debit activity and debit spending than those that have only a debit card with the financial institution.

Consumer spending may slow indefinitely, but debit cards can still be used to drive revenue and create a lasting bond with your members.

Making it Easy to Market Your Cards

One of the most cost-effective ways to market your card products is through your member newsletter. Whether you produce a monthly or quarterly newsletter, every issue should include something about your debit and credit cards. A simple, small graphic ad or 50-word article addressing the benefits of your cards can make a world of difference in acquiring new cardholders and increasing card usage.

TNB has made it easy for you to integrate regular card features into your newsletter and even online. With more than a dozen themed articles to choose from, you can promote your rates, online bill pay, card security, platinum card, rewards and more.

Visit the Client Center to browse our library of marketing articles and ideas. These materials are available at no cost. Use as many as you like, as often as you please. You can take it a step further by launching an entire in-branch promotion around our marketing themes.



Card Promotion Rocks

East Texas Professional Credit Union in Longview, Texas, brought in more than 850 new cardholders in the last year through low-cost in-branch promotions. The most recent campaign, linked to MasterCard's Roots of Rock consumer card promotion, brought in more than 500 new cardholders.

The credit union used TNB's promotion-in-a-box marketing kit, which included rock-themed materials, including flashing guitar magnetic lapel buttons, window clings, tent cards, posters, and giveaways, to create excitement for the promotion. The credit union also decorated each of its seven locations with vintage rock music posters and inflatable guitars.

A branch-wide sweepstakes gave employees a chance to win prizes for each card application they received. Prizes included MP3 players, T-shirts, music downloads, cash, and a chance at the grand prize, a \$1,000 MasterCard gift card.

"This promotion was successful because it was easy to implement and manage and it generated a high return on our investment," said Chris Graham, card services administrator for East Texas Professional Credit Union.

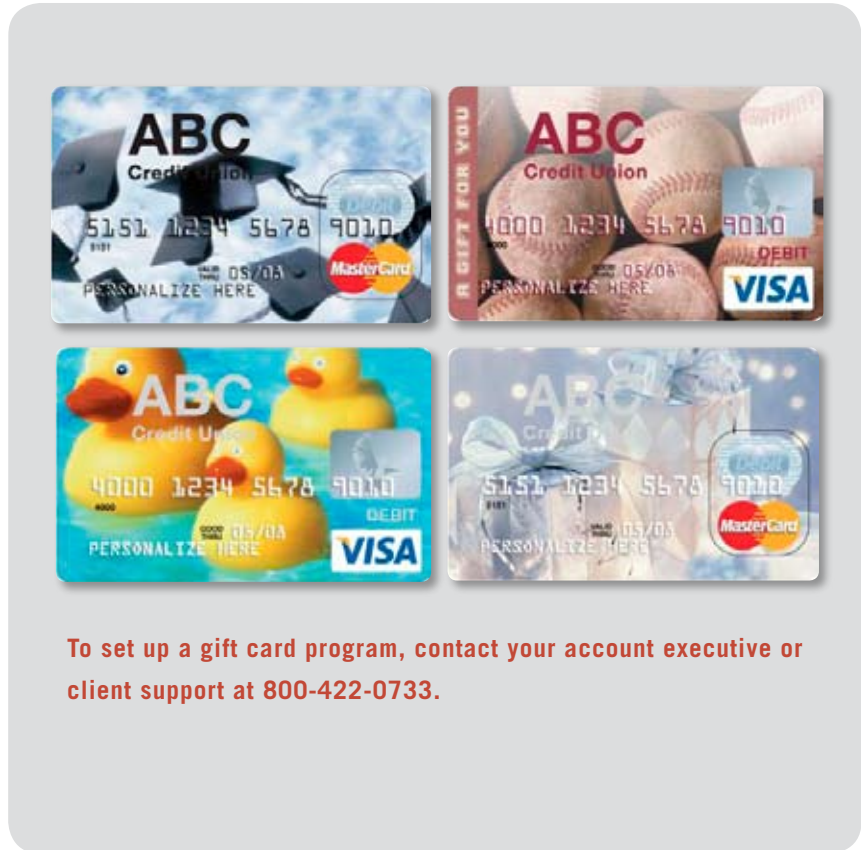


Ruth Holden, senior vice president and loan officer for East Texas Professional Credit Union, rocked away with the grand prize. Her name was drawn from among all of the credit unions that participated. She had 62 entries in the contest, representing the number of approved card applications she generated during the promotion.

Cards for all Occasions

We all know holiday spending on gift cards has grown in the last decade, but did you know that birthdays actually lead the list for the top occasion to purchase a gift card? According to the 2007 U.S. Gift Card Consumer Insights Survey, 68 percent of gift card purchases were bought as a birthday present. Christmas, graduation, weddings, and Mother's Day and Father's Day follow suit as significant occasions for gift cards.

MasterCard and Visa gift cards offer a convenience service for your members. They can also be used as a tool to promote your services to members that may not be eligible for a credit card, but need an electronic payment tool. In addition, gift cards are an ideal way to reach the unbanked market or the Facebook Generation, whose members want cards but aren't old enough to establish credit.



To set up a gift card program, contact your account executive or client support at 800-422-0733.

CALENDAR OF EVENTS

Summer Promotions:	Enroll by:
Reactivation Promotion	3/05/09
Credit Line Increase	3/13/09
Summer Usage and Retention	3/20/09
Vacation Convenience Checks	4/07/09
Summer Skip Pay	5/25/09

Training Webinars:

Disputes and Security
April 7, 2009

Card Program Classroom Training: Dallas, TX

Cardstation Users Attend
July 21-22, 2009

Vip Access Users Attend

July 22-23, 2009

Card Program Classroom Training: Houston, TX

April 22-23, 2009

Recent Credit Union Partnerships

New Credit Processing Clients

Carter Federal Credit Union
Springhill, LA

Security One Federal Credit Union
Arlington, TX

XCEL Federal Credit Union
Seacaucus, NJ

ISU Credit Union
Normal, IL

Communication Federal Credit Union
Oklahoma City, OK

Palisades Federal Credit Union
Pearl River, NY

Gesa Credit Union
Richland, WA

Chetco Federal Credit Union
Harbor, OR

Money One Federal Credit Union
Largo, MD

MINNCO Credit Union
Cambridge, MN

Olean Area Federal Credit Union
Olean, NY

Salem VA Federal Credit Union
Salem, VA

Anoka Hennepin Credit Union
Coon Rapids, MN

New Debit Processing Clients

Security One Federal Credit Union
Arlington, TX

Gesa Credit Union
Richland, WA

Chetco Federal Credit Union
Harbor, OR



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