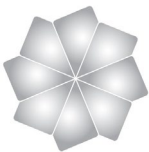




CREDIT CARD MARKET OVERVIEW & CREDIT UNION PERFORMANCE REVIEW

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

April 2024

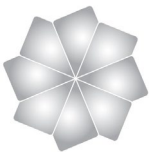


TRK ADVISORS BACKGROUND

- Timothy Kolk, President.
- Started in credit cards as Head of Finance for a large bankcard program in 1994.
- Founding partner of Brookwood Capital (2000-2009) and now President of TRK Advisors (2010-current).
- Works with credit card issuers across the US (and beyond) on all elements of program management success: product design, program management, performance and profitability analysis, processor and brand negotiations, affinity programs, ...
- Also, deep experience in credit card agent program analysis. Have evaluated hundreds of agent program opportunities and have negotiated the establishment of more than one hundred agent partnerships.
- Consistent presence in analyzing the card market and bringing that information to support this community's ability to compete effectively.

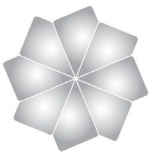
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WHAT WE'LL TALK ABOUT TODAY

- 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) How is Today Different than the Last Decade?
- 4) What Do Successful CU Issuers Do?



WHY IS CARD SO FUN?

More Levers, More Opportunities (and more work)

Growth Rates

Add Accounts
Activation Levels
\$ Activity per Account
Revolve Rates
=
Growth Drivers

Credit Quality

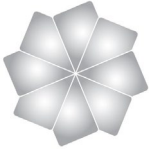
Charge-off Frequency,
\$ Loss per Charge-Off,
Balance per Good Account
Fraud Controls
=
Charge-off Results

Revenues (Yield)

Usually just APR
But Also
Interchange & Fees

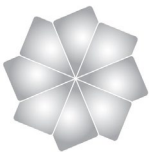
Profitability

All of that PLUS
Operating Expenses, Cost of
Funds, Marketing Campaigns,
Rewards...

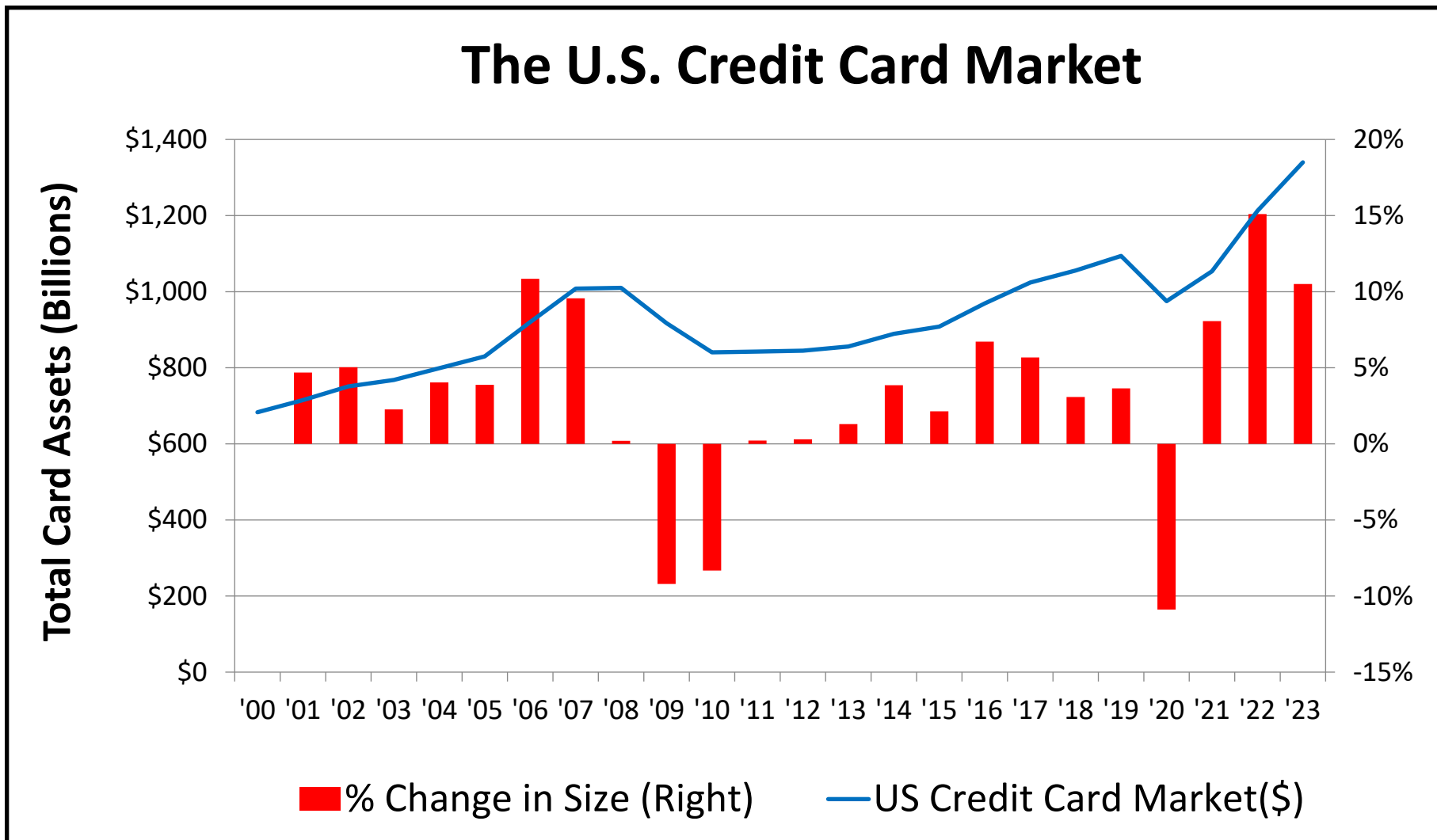


THE EVER-EVOLVING STORY OF THE CREDIT CARD MARKET

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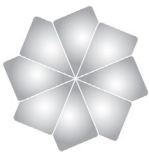


DO WE CARE ABOUT GROWTH? (YES)

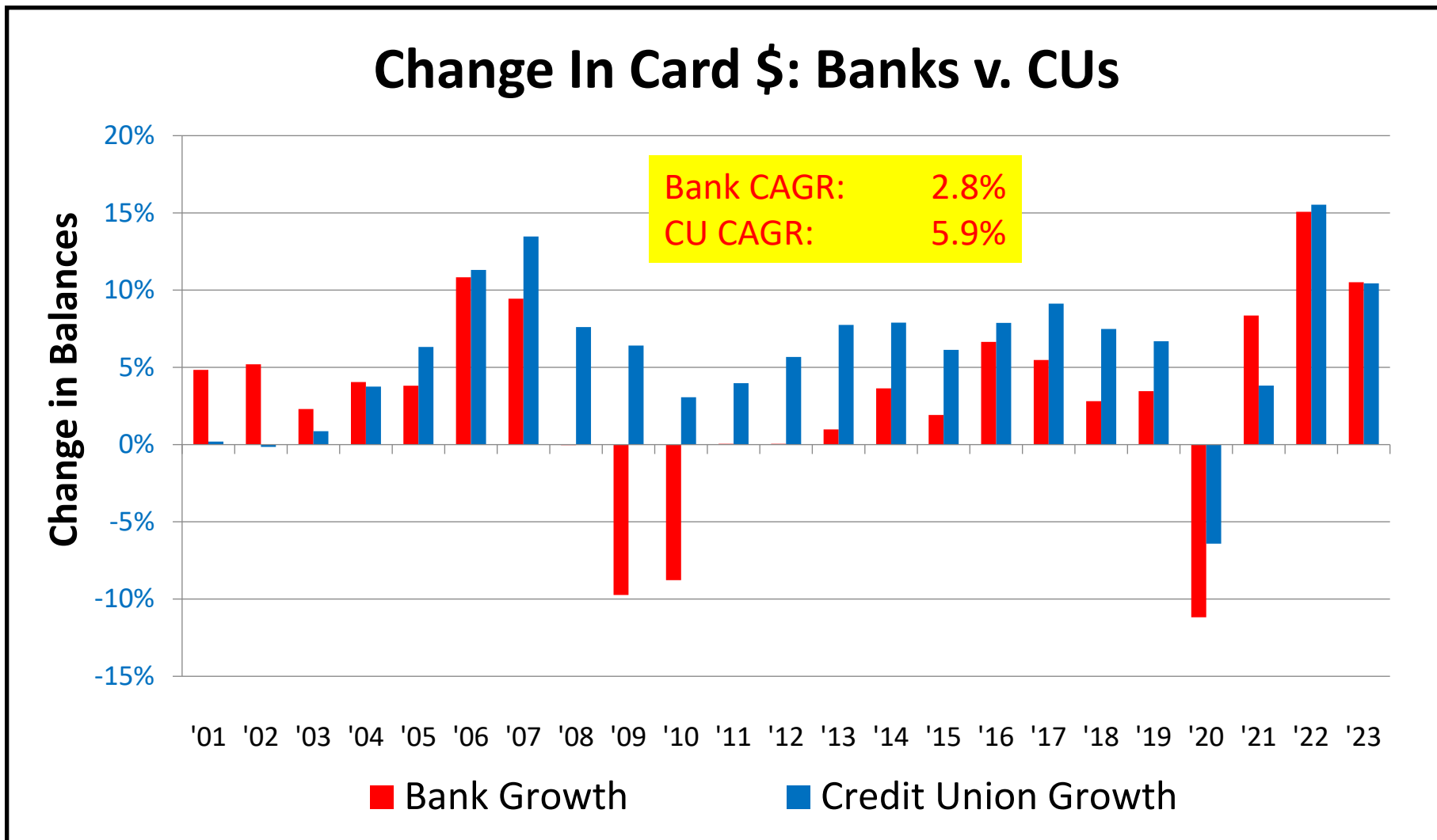


Sources: Federal Reserve G.19 Report, Total Outstanding Revolving Debt; Inflation Rates from Federal Reserve Bank of Minneapolis

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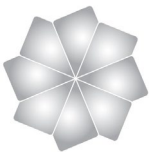


CAN CUs COMPETE WITH BANKS? (YES)

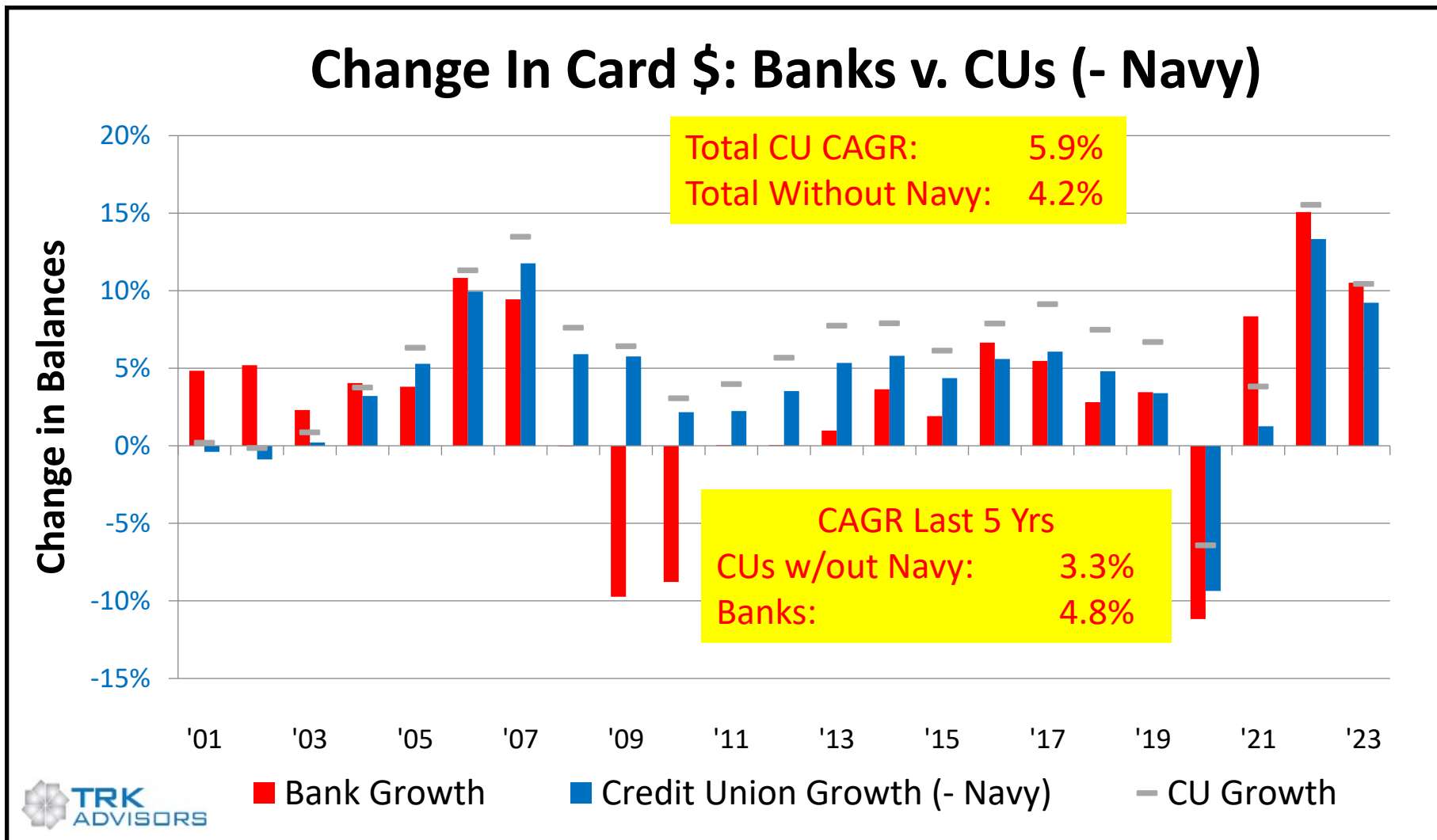


Sources: Federal Reserve G.19 Report, NCUA Call Report Data, Analysis by TRK Advisors

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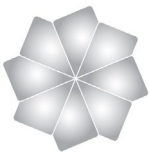


Is CU GROWTH GUARANTEED? (NO)



Sources: Federal Reserve G.19 Report, NCUA Call Report Data, Navy FCU Call Report, Analysis by TRK Advisors

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BIGGER IS HELPFUL, BUT...

Distribution of Credit Union Card Program Growth

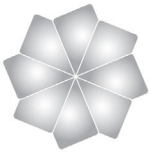
Size	Size	Balances (2023)		Share of 2023 Growth			% Shrinking
		\$ Bil.	% of \$	\$ Bil.	Rate	% of All	
Top 50	\$197MM-\$29.2B	\$51.9	63%	\$5.8	12%	71%	6%
51-200	\$52-\$196MM	\$14.4	18%	\$1.2	9%	15%	5%
201-500	\$16-\$52MM	\$9.0	11%	\$0.8	9%	9%	9%
501-1000	\$5-\$16MM	\$4.5	5%	\$0.3	7%	4%	16%
<u>1001-1960</u>	<u>\$1-\$5MM</u>	<u>\$2.2</u>	<u>3%</u>	<u>\$0.1</u>	<u>4%</u>	<u>1%</u>	<u>27%</u>
Total		\$82.0	100%	\$8.2	10%	100%	20%

Size (>\$1MM)	Size ('22)	% Doing Worse than Average							
		2016	2017	2018	2019	2020	2021	2022	2023
Top 50	\$197MM-\$29.2B	46%	52%	50%	58%	62%	54%	42%	66%
51-200	\$52-\$196MM	67%	65%	68%	67%	72%	64%	67%	84%
201-500	\$16-\$52MM	64%	72%	73%	73%	76%	73%	67%	80%
501-1000	\$5-\$16MM	77%	75%	73%	76%	75%	75%	75%	86%
<u>1001-1960</u>	<u>\$1-\$5MM</u>	<u>80%</u>	<u>83%</u>	<u>80%</u>	<u>80%</u>	<u>80%</u>	<u>79%</u>	<u>85%</u>	<u>88%</u>
Total		75%	77%	76%	77%	78%	75%	78%	86%

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

Sources: NCUA Call Report Data, Analysis by TRK Advisors

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LARGEST ISSUER RESULTS

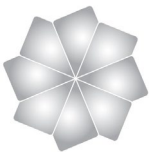
Top 10 Visa & MasterCard Issuers in the US, 2023

Issuer	Volume (\$MM)		Accounts (M)			Per Active		Turn Rate
	Balances	Purchases	Total	Active	% Act	Bal	Purch	
Chase	\$ 211,123	\$ 1,245,506	96,631	60,534	63%	\$3,488	\$20,575	5.9
CitiBank	138,471	587,915	69,922	43,924	63%	\$3,153	\$13,385	4.2
Capital One	135,253	575,366	99,735	54,630	55%	\$2,476	\$10,532	4.3
Bank of America	117,136	494,043	45,225	31,025	69%	\$3,776	\$15,924	4.2
US Bank	48,139	199,417	30,914	12,815	41%	\$3,756	\$15,561	4.1
Wells Fargo	46,834	188,314	17,418	11,076	64%	\$4,228	\$17,002	4.0
Barclays	32,084	112,327	19,557	11,263	58%	\$2,849	\$9,973	3.5
Synchrony	27,300	77,200	26,300	14,800	56%	\$1,845	\$5,216	2.8
Navy FCU	26,353	43,142	5,347	3,866	72%	\$6,817	\$11,159	1.6
Goldman Sachs	19,206	32,698	11,700	7,202	62%	\$2,667	\$4,540	1.7
Total, Top 10	\$ 801,899	\$ 3,555,927	422,749	251,135	59%	\$3,193	\$14,159	4.4
2023 Change	13%	7%	7%	2%		11%	5%	
2022 Change	14%	18%	9%	7%		6%	9%	4.7

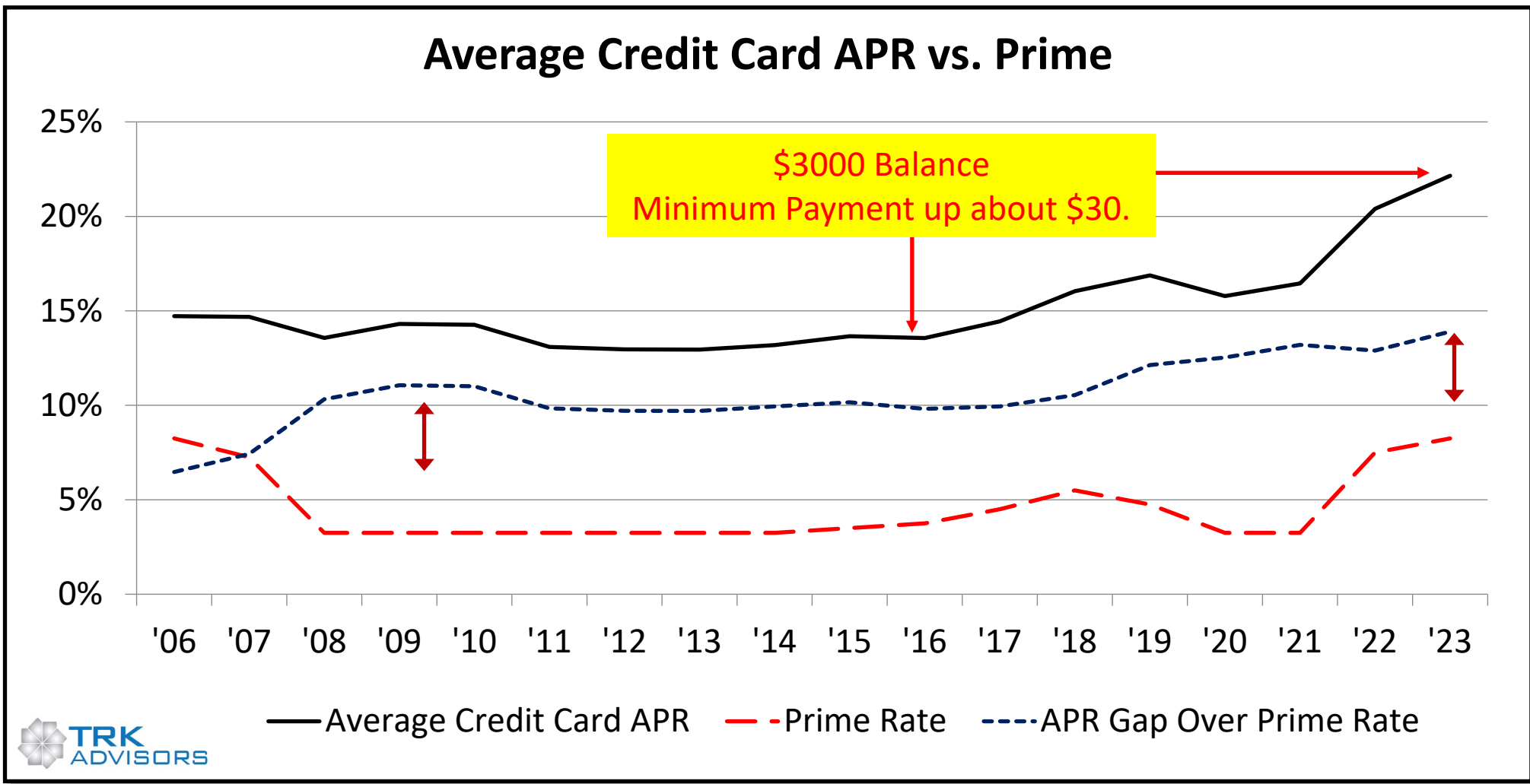
Growth → More Accounts + More Use Per Account

Sponsored by:

Source: Nilson Report

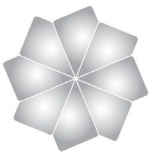


DO WE LIKE INTEREST REVENUE? (YES)

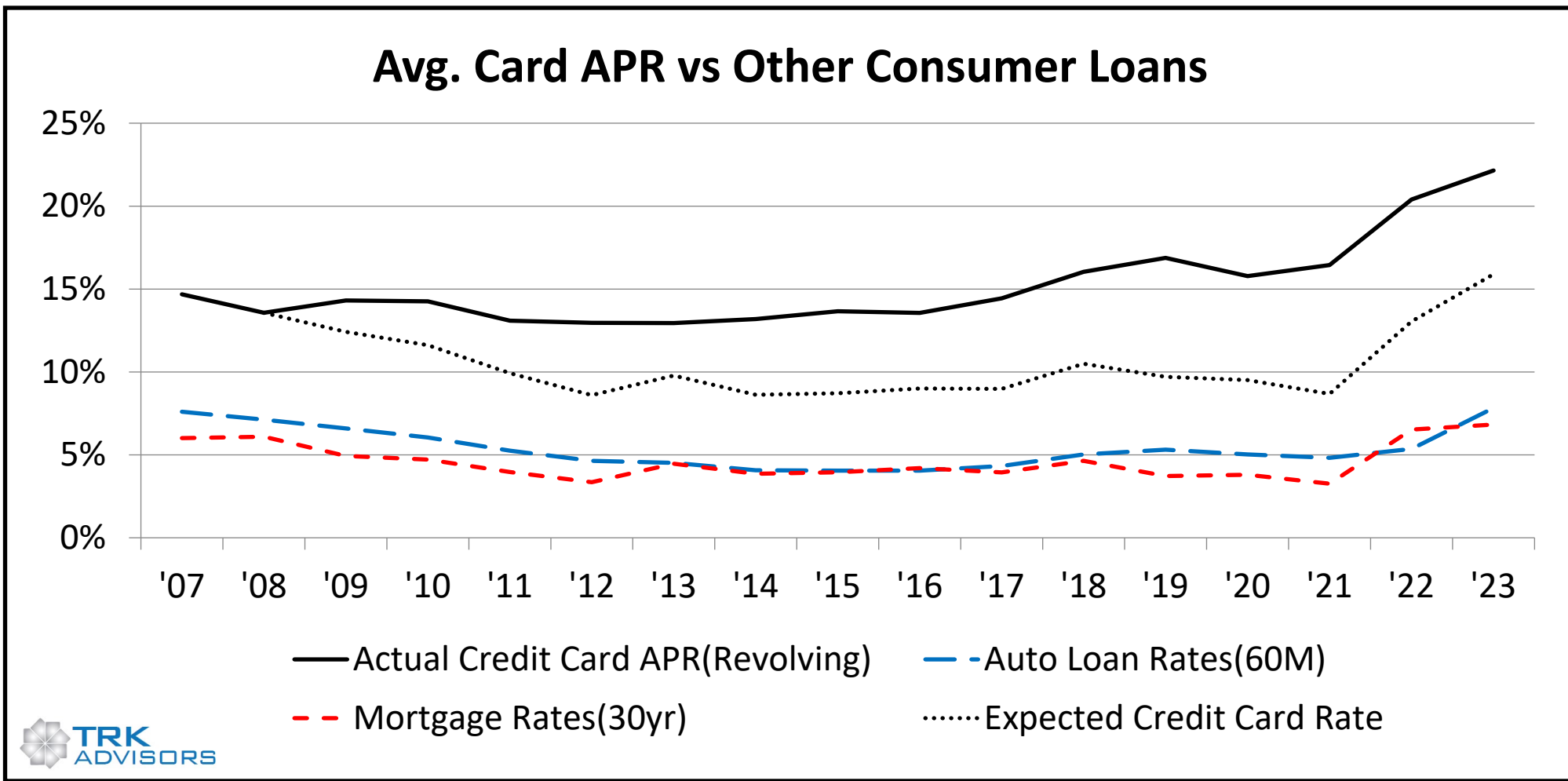


Sources: Federal Reserve G.19 Report, Analysis by TRK Advisors

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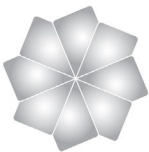
IS CARD YIELD DOING THE BEST? (YES)



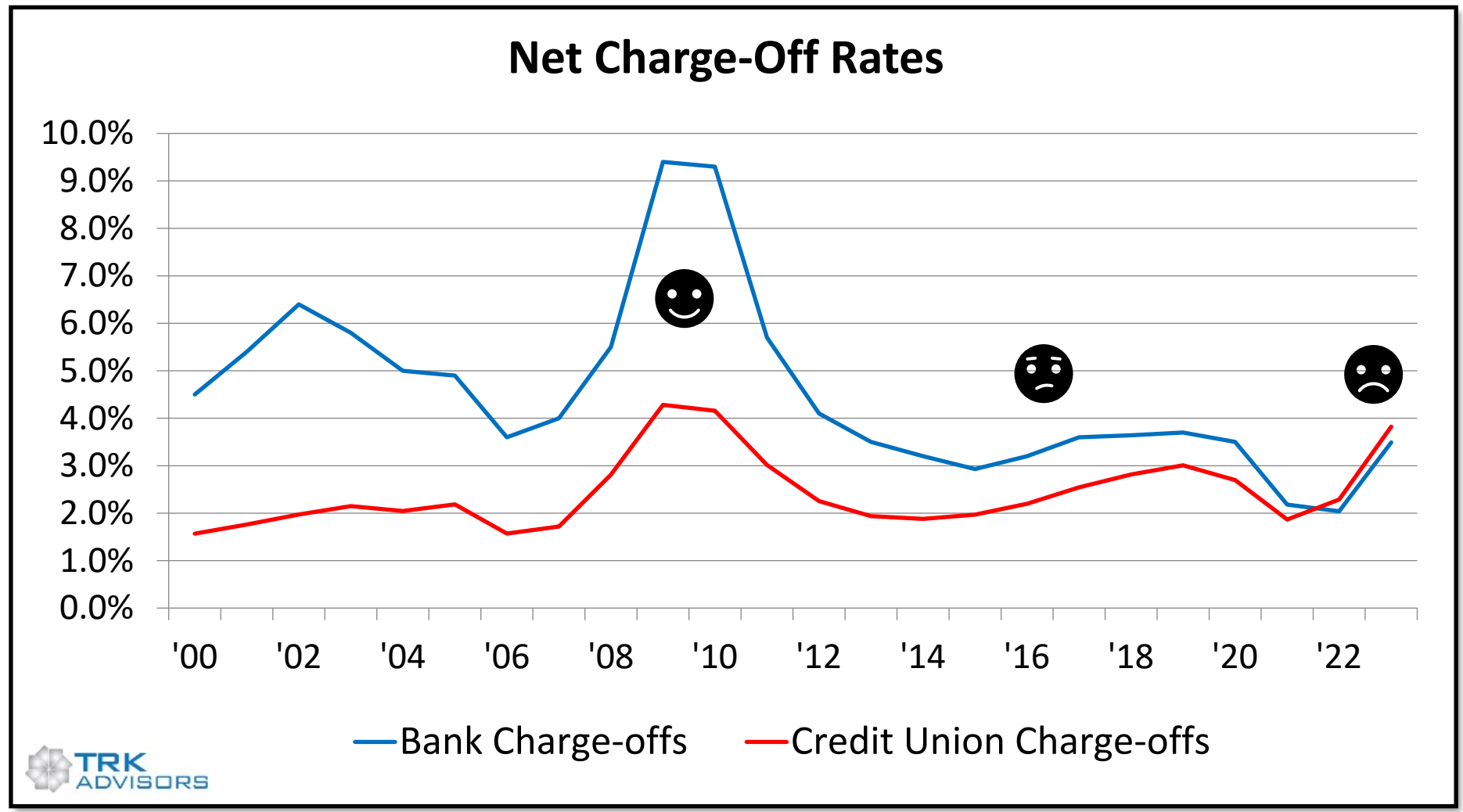
Sources: Federal Reserve G.19 Report, Mortgage News Daily, Analysis by TRK Advisors

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CREDIT RISK: YECH (MORESO NOW)



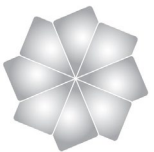
CU Advantage

2017 =	106 bp
2018 =	82 bp
2019 =	69 bp
2020 =	80 bp
2021 =	31 bp
2022 =	-25 bp
2023 =	-33 bp

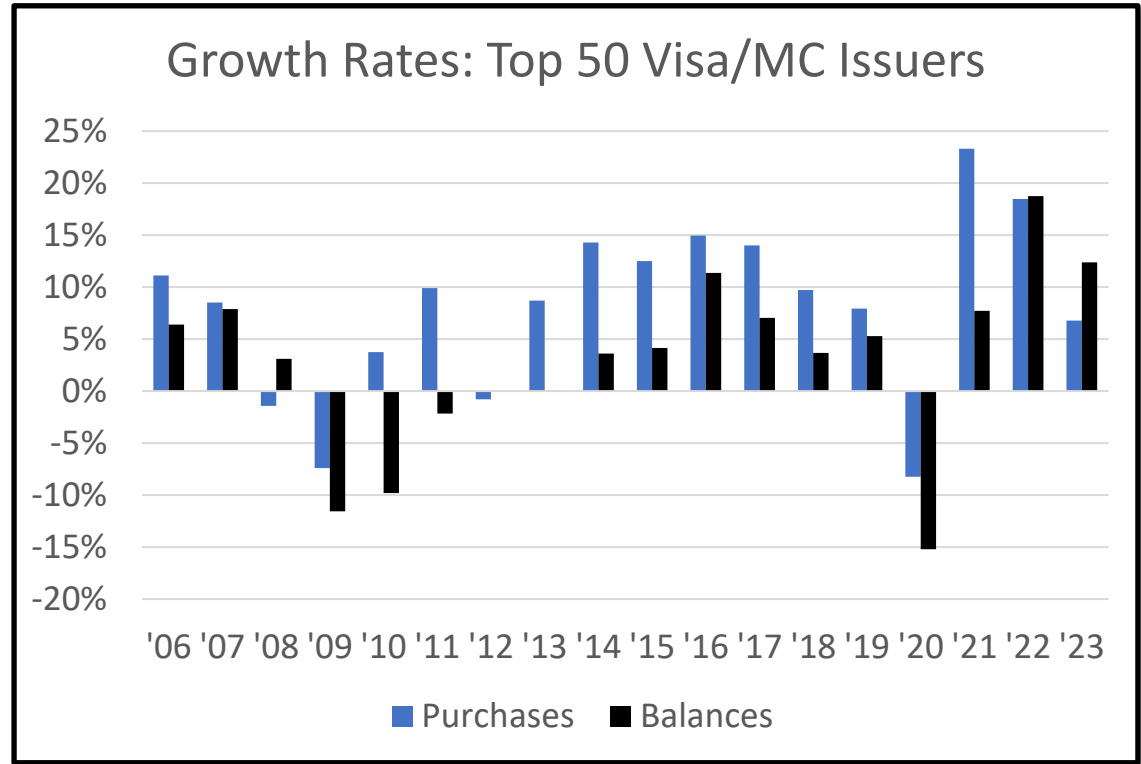
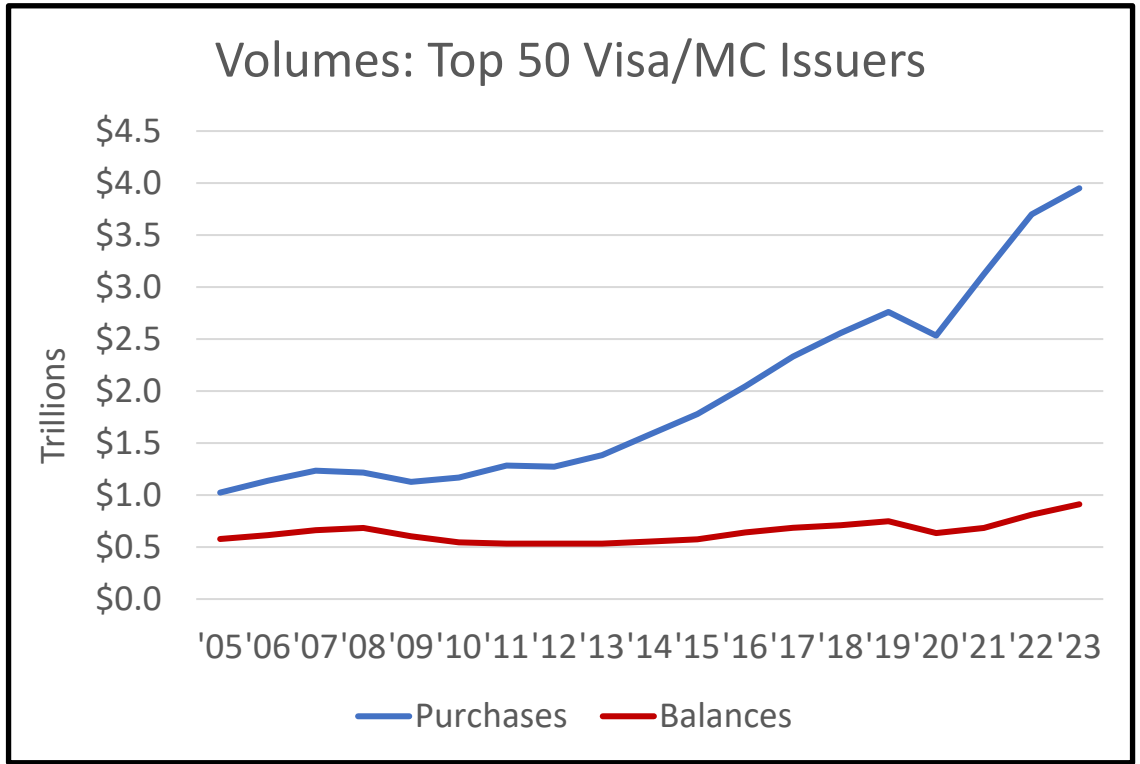
CU GCL %

'22 Q1	2.6%
Q2	2.8%
Q3	2.9%
Q4	3.4%
'23 Q1	3.8%
Q2	4.2%
Q3	4.2%
Q4	5.2%

Sources: NCUA Call Report Data, Federal Reserve Charge-off and Delinquency Rates Report



CARD'S SECRET SAUCE (TASTY!)

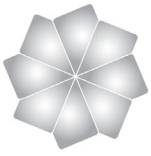


Turn Rate (Purchases / Balances) Over Time

2005 = 1.8x 2010 = 2.1x 2015 = 3.1x 2020 = 4.0x 2023 = 4.3x

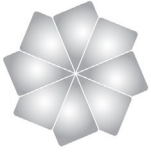
Sources: NCUA Call Report Data, Nilson Report, Analysis by TRK Advisors





FINALLY, DONE WITH ALL THAT

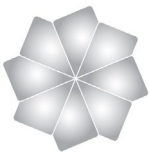
- Balances grew quite a lot in 2021 - 2023
 - If excluding Navy, banks outgrew CUs each of those years.
 - Last 3yr bank > CU time period was 2002-2004
- Larger issuers seem to have an easier time keeping inertia
- Credit card yield continues to rise, generating increasing revenues
 - Keeps getting higher, 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 pretty quickly
 - 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?
AND HOW ARE THEY CHANGING?

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TOP THREE: CHASE (NO FEE)



NEW CARDMEMBER OFFER Earn a \$200 bonus

Earn a \$200 bonus after you spend \$500 on purchases in the first 3 months from account opening.[‡]

Unlimited 1.5% cash back is just the beginning

Earn 3% on dining at restaurants, including takeout and eligible delivery services[‡]

Earn 3% on drugstore purchases[‡]

Earn 5% on travel purchased through Chase Travel^{SM, ‡}

Low intro APR

0% intro APR for 15 months from account opening on purchases and balance transfers.[‡] After the intro period, a variable APR of 20.49%–29.24%.[‡] Balance transfer fee applies, see pricing and terms for more details.[‡]

Removed 5% earn rate on groceries in first year

This is Prime+11.99%. Last year was Prime+11.49%

Save on interest with a low intro APR for 18 months

Purchases and balance transfers are interest free with 0% intro APR for 18 months, after that a variable APR of 20.49%–29.24%.[‡] Balance transfer fee applies, see pricing and terms for more details.

Lower your interest rate by 2% each year

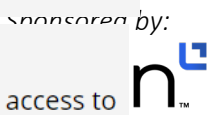
You will automatically be considered for an APR reduction by 2% when you pay on time, and spend at least \$1,000 on your card by your next account anniversary, until your APR reaches the Prime Rate plus 9.74% (currently 18.24% variable APR based on the Prime Rate of 8.50% as of 08/01/2023).[‡] Your final APR reduction could be less than 2% depending on the APR you receive with your card.

Raise your credit limit

Special welcome offer: Get an automatic, one-time review for a higher credit limit when you pay on time, and spend \$500 in your first six months.[‡]

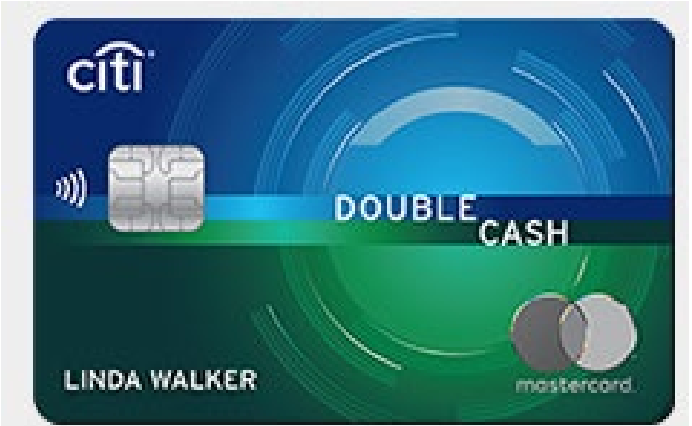
Keep tabs on your credit health

Chase Credit Journey helps you monitor your credit with free access to your latest score, real-time alerts,[‡] and more.



Source: Issuer web site as of 4/4/23

TOP THREE: CITI (NO FEE)



This is Prime+10.74%.
Last year was Prime+10.49%

Low Intro APR on balance transfers for 18 months
0% Intro APR for 18 months on balance transfers; after that, the variable APR will be 19.24% - 29.24%, based on your creditworthiness. ¹

2% Cash Back
Unlimited 1% cash back when you buy, plus an additional 1% as you pay, on every purchase.
+ No category restrictions or enrollment needed. ² No limit on the amount of cash back you can earn. ²
Limited time offer: **Earn 5% total cash back on hotel and car rentals** booked on the Citi TravelSM portal through 12/31/24. ²

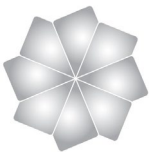
No 5% accelerator last year.

\$200 Cash Back
Earn \$200 cash back after you spend \$1,500 on purchases in the first 6 months of your Citi Double Cash[®] card account opening. ²

No sign-up bonus last year!

Source: Issuer web site as of 4/4/23





TOP THREE: CAPITAL ONE (NO FEE)



Unlimited Rewards

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

New Cardmember Offer

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

Unlimited Rewards

Earn unlimited 1.25 miles per dollar on every purchase

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

Low Intro APR

0% intro APR for 15 months on purchases and balance transfers; 19.99% - 29.99% variable APR after that; Balance transfer fee applies. See pricing and terms for details

**This is Prime+11.49%.
Last year was Prime+11.24%**

Low Intro APR

0% intro APR for 12 months on purchases and balance transfers; 15.99% - 25.99% variable APR after that; Balance transfer fee applies. See pricing and terms for details

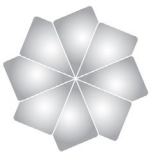
Our Lowest Variable APR

Was 15 months last year

**This is Prime+7.49%.
Last year was Prime+11.24%**

Source: Issuer web site as of 4/4/23

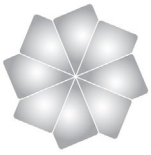
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AND ALWAYS NEW OPTIONS



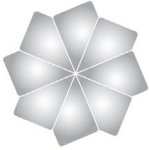
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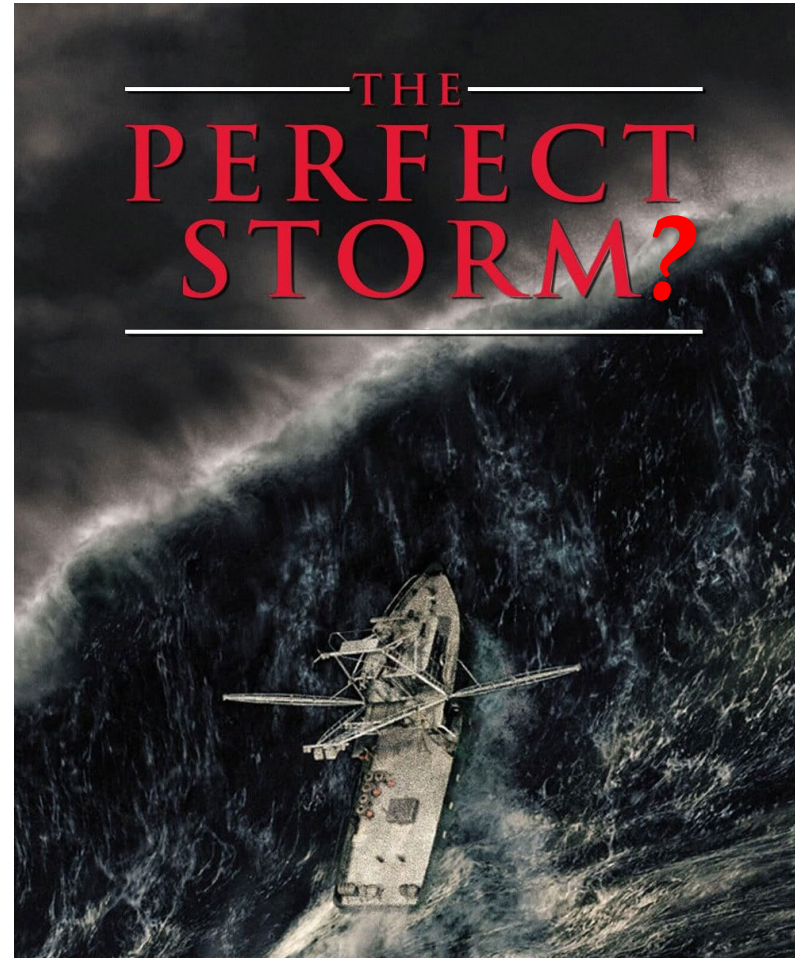
KEY TAKEAWAYS

1. Up-front elements are promoted
2. “Go To” APRs are higher than ever
3. Reward value at least 1.5% baseline
4. Reward amplifiers are creative, vary by product, and evolve quickly as the market moves
5. Big banks have little interest in low rate competition

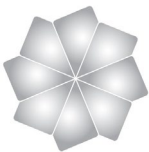
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ARE WE IN ...



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PROFITABILITY: THE END RESULT

As % of Balances: 2023

Total Revenues
12-24%

Total Expenses
9-27%

Other Fees

Late, BT, CA, Other

0-1%

1-5%

Cost of Funds

Interchange

Purchase \$ x IC Rate

4-8%

3-6%

Credit & Fraud Losses

Interest

APR x % Revolving

8-15%

1-4%

Processor

1-4%

Internal Management

2-5%

Reward Expenses

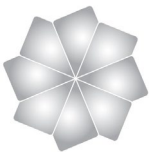
1-3%

Marketing & Related



Profit (typically 0-6%)

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IT'S PRETTY WINDY OUT THERE

<i>Reward Card P&L (% of Balances)</i>		
	<u>2021</u>	<u>Today</u>
Average Balance	\$2,800	\$3,200
Average Spend	\$7,000	\$8,000
Avg APR (P+9.9%)	13.2%	18.0%
x Revolve Rate	75.0%	75.0%
= Yield	9.9%	13.5%
Interest Income	9.9%	13.5%
Cost of Funds	-0.1%	-5.4%
Net Interest Income	9.8%	8.1%
Interchange	4.3%	4.3%
Reward Expense	-3.0%	-3.0%
Net Interchange	1.3%	1.3%
All Other Fees	0.5%	0.5%
Net Charge-offs	-2.1%	-4.5%
Opex	-4.5%	-4.5%
ROA	4.9%	0.9%
Net Inc./Mature Acct	\$124	\$21

2024 as Compared to 2021

Revenues

Interest: Up, but now level (and expected declines later)
Interchange: That's a great question: Place your bets!
Fees: Well, that depends

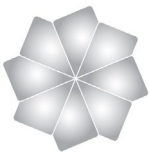
Expenses

Cost of Funds: Up (methodologies may vary)
Credit Losses: Up
Opex: Up
Rewards: Up
Marketing: Up

2011-2021 were as good as it's been for card issuers.

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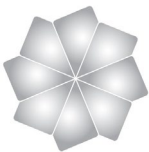


2023 CFPB REPORT: KEY THOUGHTS

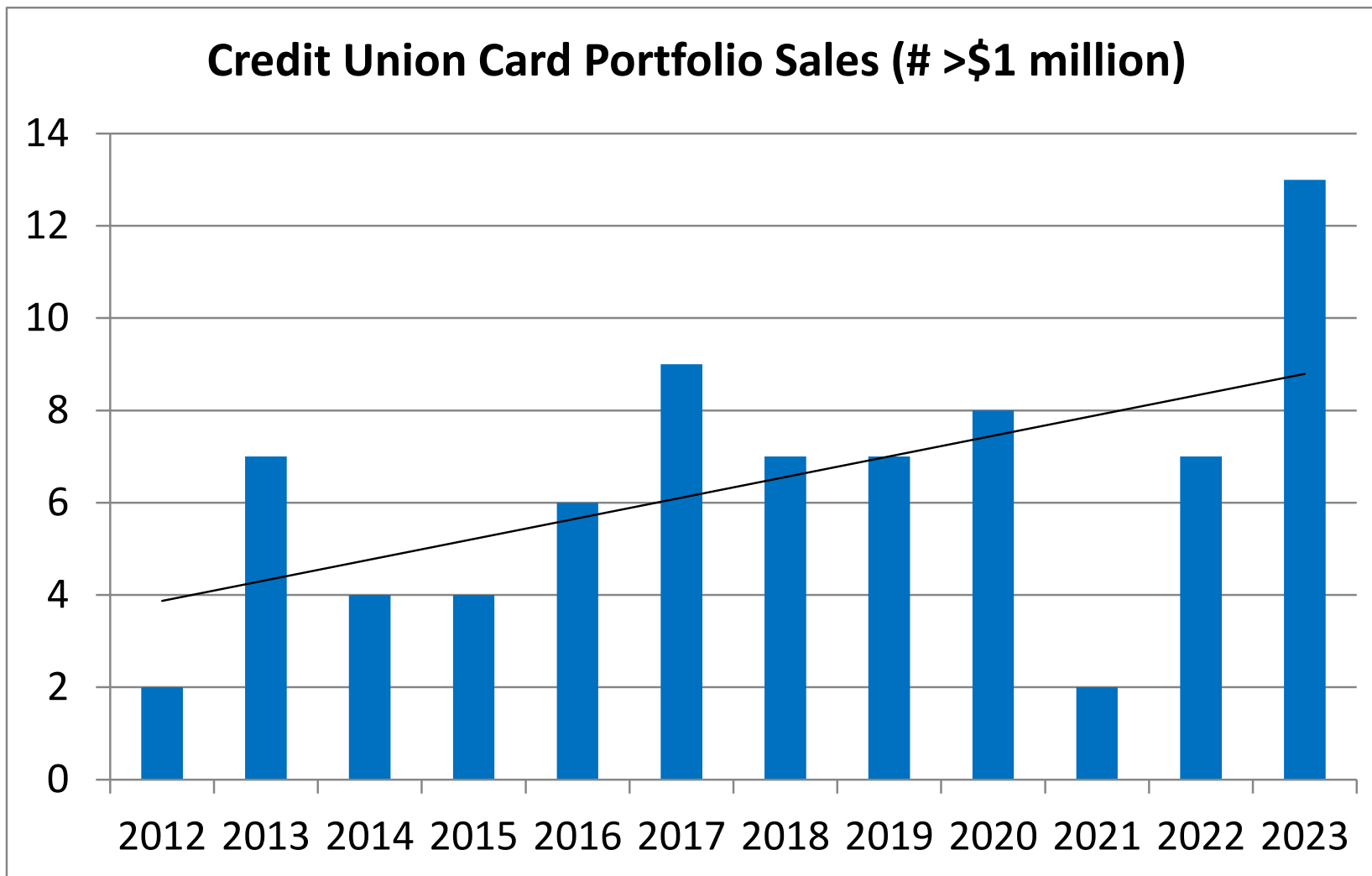
1. Almost 4000 issuers. But Point-of-Sale, BNPL and fintech loans increasingly relevant.
2. Some market share moving from top 10 to #s 11-30 (cutoff about \$30 billion)
3. Growing adoption by younger consumers: 2013 56% < 25 had a card, now 64%
4. Interest + Fees = 18% (again, 2022, Avg Prime = 5.0%). *Now more like 20-21%.*
5. Average 2022 pretax ROA of 6%
6. About 45% pay in full, so about 50% of accts revolve. 800+ = 20%, 720-799 = 40%
7. Rewards:
 1. 75% of cards have a reward feature, 90% of spend on rewards cards
 2. Earnings: 50% pts (trending up), 37% CB (slight down), 13% miles (slight down)
 3. In 2020 avg reward redemption per acct = \$115. In 2022 = \$167.
 4. Avg earn rate = 1.6%, up from 1.4% in 2019

Source: CFPB 2023 Consumer Credit Card Market Report

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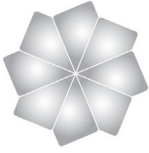
SOME ARE MOVING AGENT PROGRAMS



- Prior to the Great Recession, 40-80 made this decision every year (when there were 9000 credit unions).
- After the great recession everyone had excess liquidity and card profitability was at all time highs.
- Interest started to pick up in 2018 as interest rates started to rise, reward value kept escalating, and
- Then Covid.
- Now interest has increased dramatically.
- With about a one year lag between interest and sale, we expect to 2024 to increase yet again.

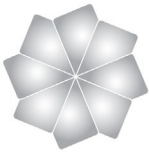
Source: TRK Analysis of NCUA Call Report Data

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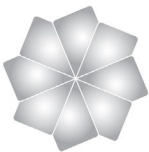
OK, SO HOW DO WE STAY (OR BECOME) SUCCESSFUL?

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Credit Card



IT'S AN OPERATING BUSINESS.

- ❑ 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. Match to YOUR member segments. 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. Include product set term review and updates against market levels.
- ❑ 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!)



THANK YOU & QUESTIONS WELCOME!

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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