



TRK ADVISORS

Credit Card Market Overview & Credit Union Performance

April 2021

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Slide Link

Today's slides can be found online at:

<http://bit.ly/2021-04-08-card-market-overview>



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Please take our post-event survey. We value your feedback!



TRK ADVISORS

Credit Card Market Overview & Credit Union Performance

April 2021

Ok, Enough of That

Today's Topics

- Why credit card is the most rewarding & challenging
 - We didn't grow. How much didn't we grow?
 - Credit losses... well look at that
 - APRs went down while they went up? Say that again?
 - Profitability expectations for 2021
 - How can you (being a spectacular leader) properly support this product?
- ...and a free gift! (don't get too excited)

Why Is Credit Card So Interesting?

	Mortgages & Auto Loans	Credit Card
<i>New Accounts</i>	Be there when member is ready, make sure they know it	Member is ready any time you are, just give them the right reason
<i>Growth</i>	Add an account, take payments, find more accounts, rinse-lather-repeat	Active portfolio management: new account incentives, balance build campaigns, activation incentives, line management strategies...
<i>Revenues</i>	Interest & modest fees	Highest Yield & 5% fees on balances
<i>Credit Risk</i>	Underwrite well (or not). Once booked, little you can do after.	Continual monitoring, risk management strategies, grow good accts/balances...
<i>Profitability</i>	Modest. Average CU ROA < 1%; so these must be < 1%	2-5% ROA is 'normal' (but can be less if not watched closely or not 'normal')
<i>Strategies</i>	Pretty close to a commodity	Ubiquitous, but not a commodity
<i>Member Exp.</i>	Make payment, feel stress	Get value, feel valued (if it's good)

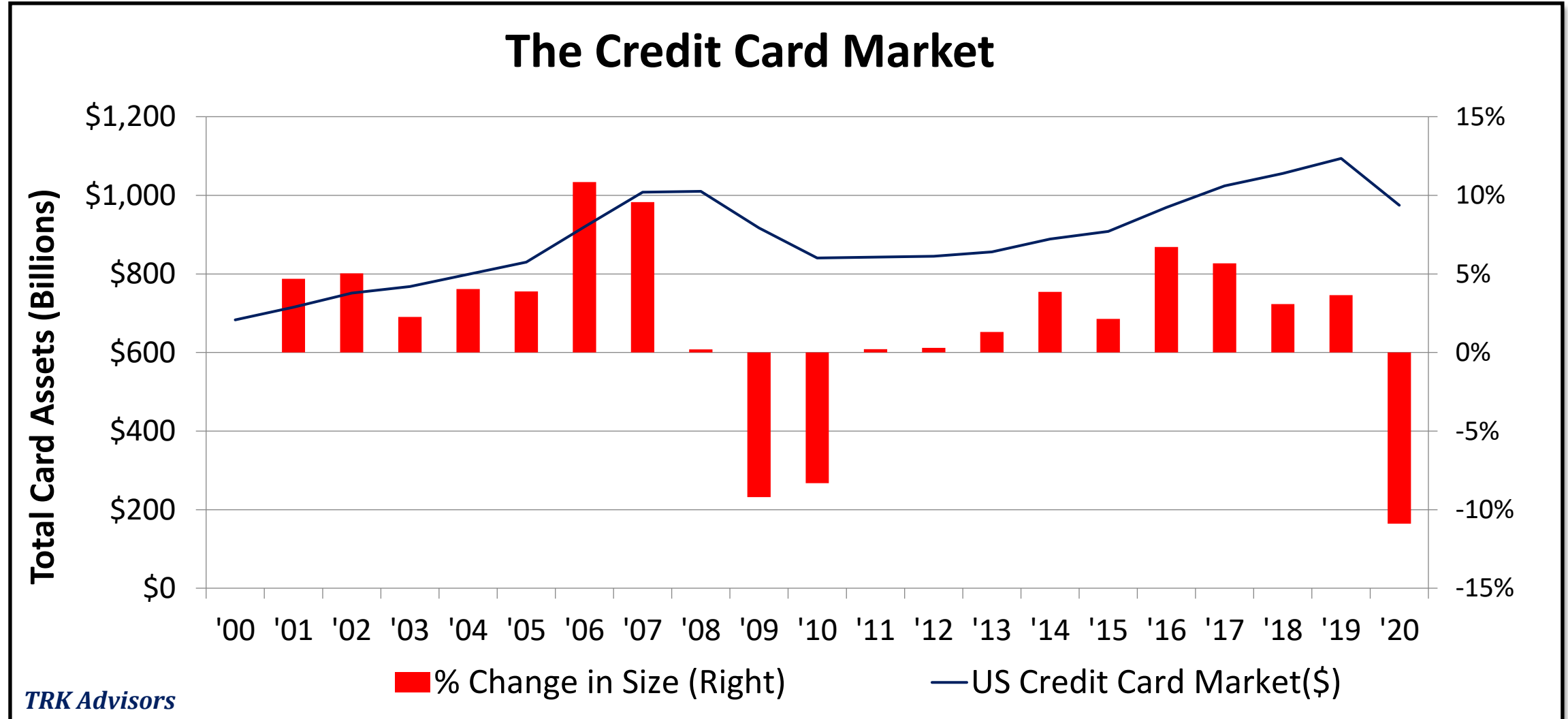


Market Trends

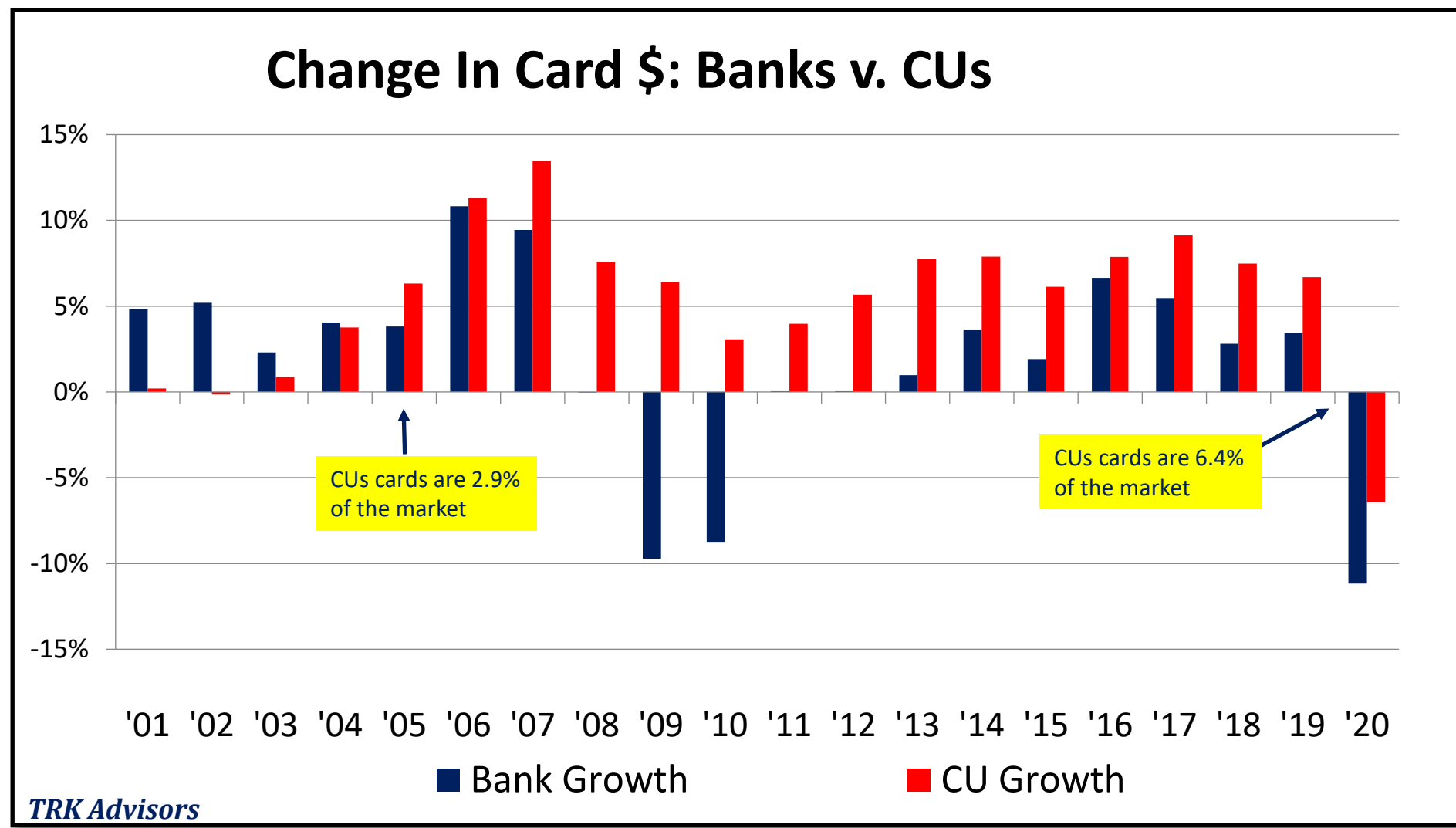
(spoiler: They broke in 2020)



Just When You Were Feeling Good...



But CUs Always Do Well. Right?



2012	
Banks	+0.4 Billion
CUs	+2.1 Billion
2013	
Banks	+7.9 Billion
CUs	+3.1 Billion
2014	
Banks	+29.6 Billion
CUs	+3.4 Billion
2015	
Banks	+16.2 Billion
CUs	+2.8 Billion
2016	
Banks	+57.1 Billion
CUs	+3.9 Billion
2017	
Banks	+50.1 Billion
CUs	+4.9 Billion
2018	
Banks	+27.2 Billion
CUs	+4.3 Billion
2019	
Banks	+33.5 Billion
CUs	+4.2 Billion
2020	
Banks	-114.8 Billion
CUs	-4.3 Billion

Large Issuer Results (so many #s!)

Top 10 Visa & MasterCard Issuers in the US, 2020

Issuer	Volume (\$MM)		Accounts (M)			Per Active		Turn Rate
	Balances	Purchases	Total	Active	% Act	Bal	Purch	
JP Morgan Chase	\$ 144,216	\$ 743,483	77,620	42,945	55%	\$3,358	\$17,312	5.2
CitiBank	100,825	394,647	57,423	38,900	68%	\$2,592	\$10,145	3.9
Capital One	87,929	353,147	91,773	48,721	53%	\$1,805	\$7,248	4.0
Bank of America	87,238	337,043	41,144	27,455	67%	\$3,178	\$12,276	3.9
US Bank	37,202	135,938	22,150	10,605	48%	\$3,508	\$12,818	3.7
Wells Fargo	29,890	98,290	12,331	6,877	56%	\$4,346	\$14,293	3.3
Barclays	20,789	66,384	9,413	6,611	70%	\$3,145	\$10,041	3.2
Synchrony	19,500	50,900	23,300	12,900	55%	\$1,512	\$3,946	2.6
Navy FCU	18,927	25,251	3,890	2,766	71%	\$6,843	\$9,129	1.3
USAA	14,100	40,647	5,458	4,035	74%	\$3,495	\$10,073	2.9
Total, Top 10	\$ 560,616	\$ 2,245,730	344,502	201,815	59%	\$2,778	\$11,128	4.0
2020 Change	-16%	-10%	-4%	-5%		-12%	-6%	

Large Issuers Drive (& Define) The Market

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2019 Change	5%	8%	2%	3%	59%	1%	4%	3.7
2018 Change	3%	10%	2%	2%	59%	1%	7%	3.6
2017 Change	8%	16%	5%	5%	59%	3%	10%	3.4

FUN FACT
In 1996 this was 1.5!

Capture payments, balances ~~will~~ may follow.

What is the better indicator of engagement: Balances or Purchases?

Credit Unions Did Well In Total, But...

Distribution of Credit Union Card Program Growth							
Size	Size	Balances (2020)		Share of 2020 Declines			% Shrinking
		\$ Bil.	% of \$	\$ Bil.	Rate	% of All	
Top 50	\$145MM-\$19.8B	\$36.4	59%	(\$1.0)	-3%	27%	86%
51-200	\$42-\$143MM	\$11.5	19%	(\$1.2)	-9%	31%	92%
201-500	\$14-\$42MM	\$7.6	12%	(\$0.8)	-10%	22%	93%
501-1000	\$4-\$14MM	\$4.0	7%	(\$0.5)	-10%	12%	89%
<u>1001-2004</u>	<u>\$1-\$4MM</u>	<u>\$2.2</u>	<u>4%</u>	<u>(\$0.3)</u>	<u>-12%</u>	<u>8%</u>	<u>92%</u>
Total		\$61.7	100%	(\$3.8)	-6%	100%	91%

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% Doing Worse than Average						
Size (>\$1MM)	2015	2016	2017	2018	2019	2020
Top 50	46%	46%	52%	50%	58%	62%
51-200	67%	67%	65%	68%	67%	72%
201-500	62%	64%	72%	73%	73%	76%
501-1000	73%	77%	75%	73%	76%	75%
<u>1001-2004</u>	<u>78%</u>	<u>80%</u>	<u>83%</u>	<u>80%</u>	<u>80%</u>	<u>80%</u>
Total	73%	75%	77%	76%	77%	78%

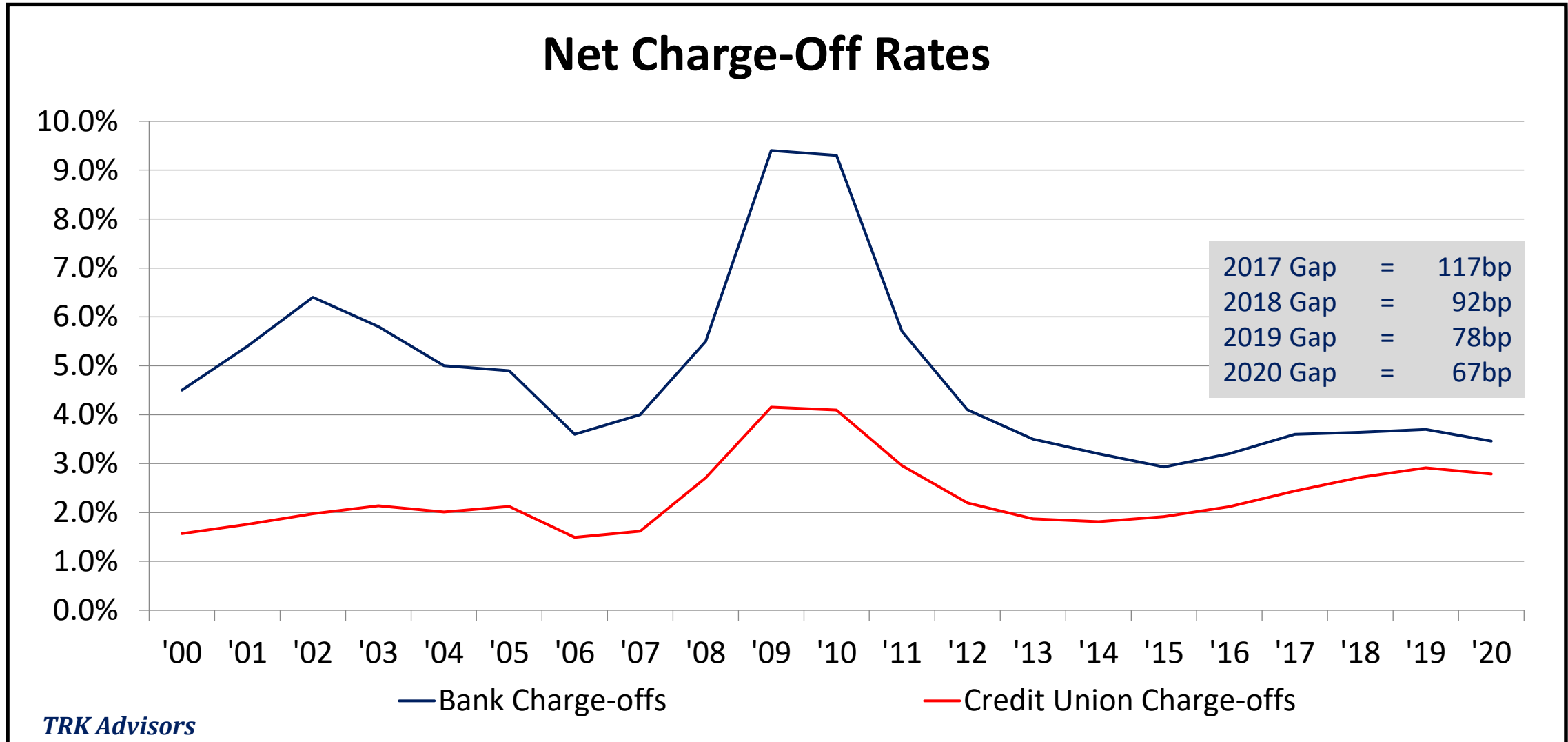
Smaller Means Harder

We Can't Let The Big Picture Distort Our Individual Situations

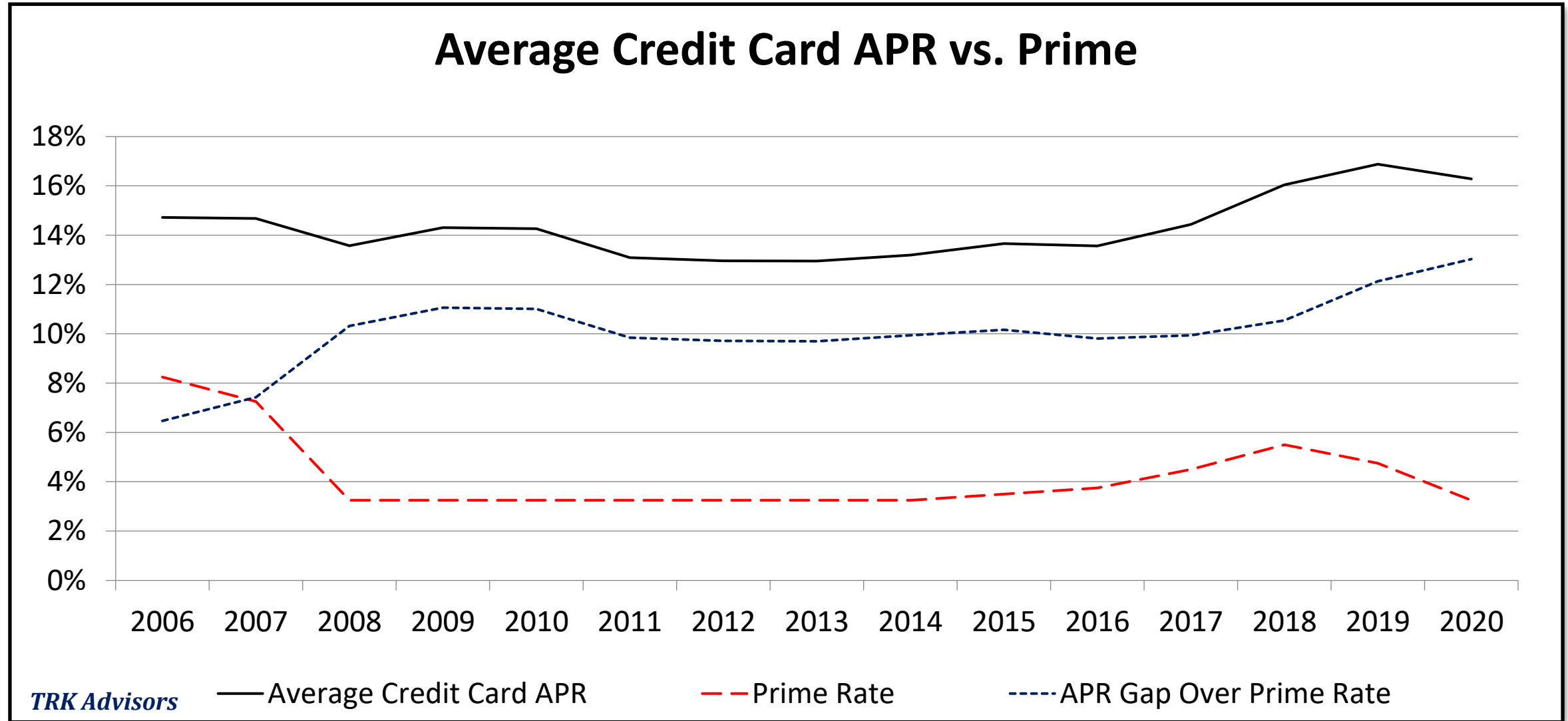
- Big get most: Navy has 32% of all CU balances, up from 30% last year
- Without Navy the credit union market shrank by 9+% (not 6%).
- % falling behind is increasing. 2020 amplified this pressure.

This is a bald-faced lie.

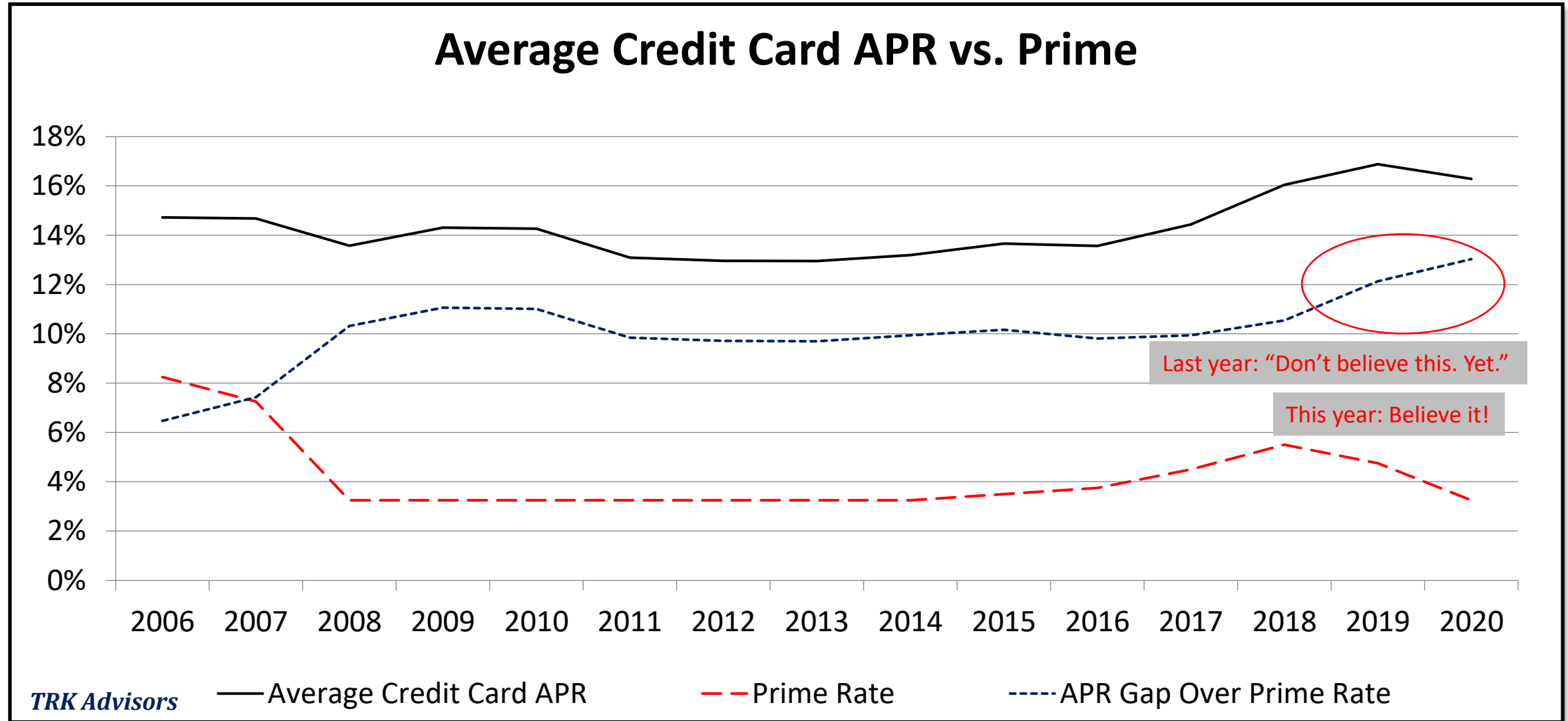
Credit Risk: Just Like We Predicted



Oh Yeah: What About Rates?

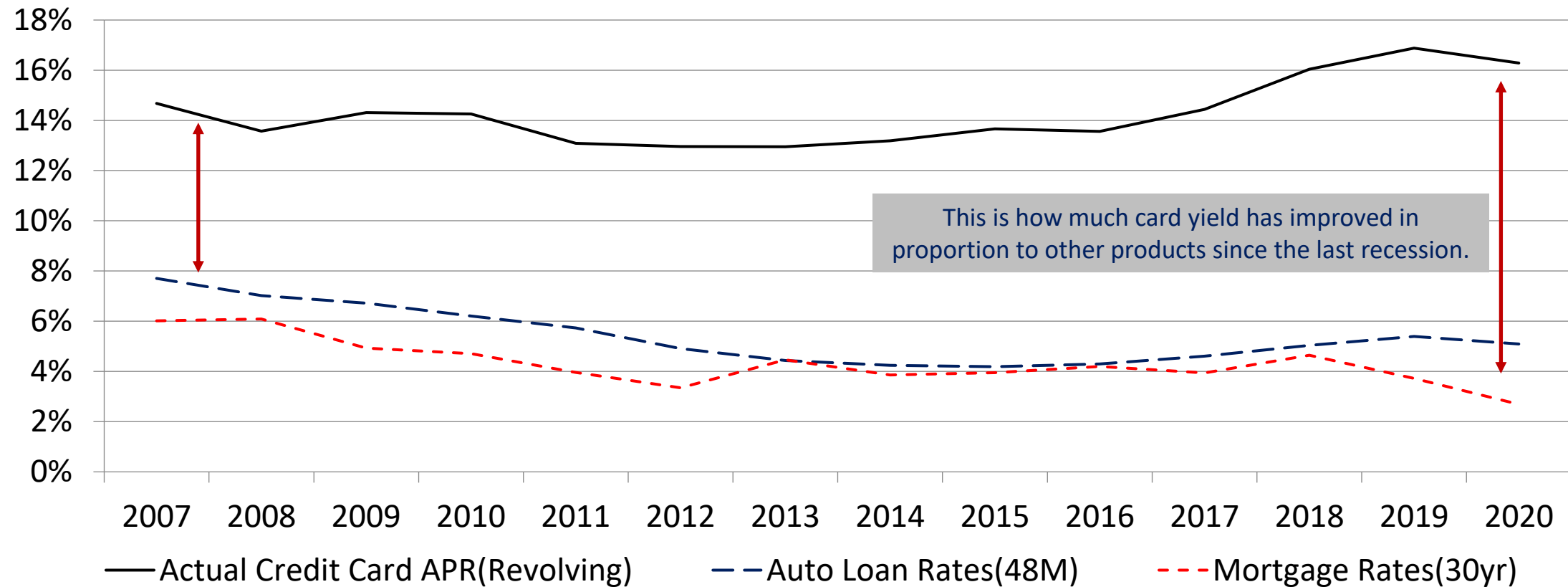


Oh Yeah: What About Rates?



Never Forget Why Card is Awesome

Avg. Card APR vs Other Consumer Loans



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Profitability, You Say?

Profitability Under Pressure

- Pretty typical CU example
- Balances down per account, 1st time ever
- APR declining with Prime
- Revolve rates trending down slowly, more Yield pressure
- Interchange revenue moves with IC rate, purchases and 'Turn Rate'.
- Let's be optimistic: operating expenses not increasing per account (but lower average balances hurt anyway)

	Typical Rewards Product			
Portfolio Drivers	2018	2019	2020	2021?
PER ACCOUNT \$				
Average Balance	\$3,000	\$3,100	\$2,900	\$2,900
Average Spend	\$6,000	\$6,400	\$6,000	\$6,250
APR & YIELD				
Average Prime Rate	4.8%	5.4%	4.4%	3.3%
+ Margin: Prime +	<u>7.9%</u>	<u>7.9%</u>	<u>7.9%</u>	<u>7.9%</u>
= Resulting APR	12.7%	13.3%	12.3%	11.2%
x Revolve Rate	<u>82.0%</u>	<u>81.0%</u>	<u>80.0%</u>	<u>79.0%</u>
= Yield	10.4%	10.8%	9.8%	8.8%
OTHER				
Interchange Rate	1.75%	1.78%	1.82%	1.85%
Reward Cost/\$	1.00%	1.10%	1.20%	1.30%
Breakage	25%	24%	22%	20%
Operating Expense	\$125	\$125	\$125	\$125

Profitability, You Say?

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- Pretty typical CU performance
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Does your 2021 Plan reflect this?

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P&L Items				
Yield	10.4%	10.8%	9.8%	8.8%
Cost of Funds	<u>-0.7%</u>	<u>-0.9%</u>	<u>-0.8%</u>	<u>-0.7%</u>
Net Interest Income	9.7%	9.9%	9.0%	8.1%
Net Charge-offs	-2.8%	-3.0%	-2.8%	-3.0%
Interchange	3.5%	3.7%	3.8%	4.0%
Reward Expense	<u>-1.5%</u>	<u>-1.7%</u>	<u>-1.9%</u>	<u>-2.2%</u>
Net Interchange	2.0%	1.9%	1.8%	1.7%
Fees	0.3%	0.3%	0.3%	0.3%
Operating Expense	<u>-4.2%</u>	<u>-4.0%</u>	<u>-4.3%</u>	<u>-4.3%</u>
Net Income	5.0%	5.1%	4.1%	2.8%
Net Income/Acct	\$151	\$158	\$118	\$82



How Are The Large issuers Evolving?

(Keep in mind those rate charts)



Market Offers: Chase



\$200 Cash Back

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

This product is available to you if you do not have this card and have not received a new cardmember bonus for this card in the past 24 months.



Earn cash back

Earn 5% on travel purchased through Chase Ultimate Rewards.*

Earn 3% on dining at restaurants, including takeout and eligible delivery services.*

Earn 3% on drugstore purchases.*

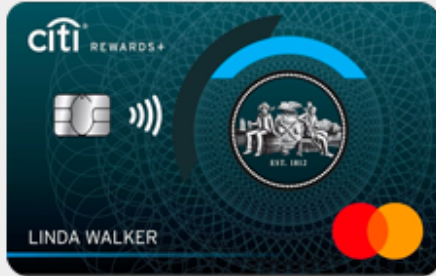
Earn 1.5% on all other purchases.*

2019

AT A GLANCE

Cash back on every purchase. Earn up to \$600 cash back. That's **3% cash back** on all purchases in your first year up to \$20,000 spent. After that, earn **1.5% cash back** on all purchases.

Market Offers: Citi



★★★★★ 1645 Reviews

[¹Pricing & Information](#)

Citi Rewards+® Card

Watch your rewards accumulate with the Citi Rewards+® Card: Citi's rewards credit card that automatically rounds up to the nearest 10 points on every purchase. Earn double ThankYou® Points at supermarkets and gas stations for the first \$6,000 per year—and earn a 10% bonus on the first 100,000 ThankYou® Points you redeem each year. Turn your everyday purchases into something bigger with the Citi Rewards+® Card.

Earn 15,000 bonus points after you spend **\$1,000** in purchases with your card within the **first 3 months**.

Purchase and Balance Transfer Rate:

0% Intro APR on purchases and balance transfers for 15 months; after that the variable APR will be 13.49% - 23.49%, based on your creditworthiness¹

[Learn More & Apply](#)

☐ Compare

2019

ThankYou® Credit Cards (4)

NEW: Citi Rewards+SM Card

Earn points for great rewards while having fun with the Citi Rewards+SM Card. Earn ThankYou anything through the ThankYou® Rewards program.



[PRICING & INFORMATION](#)

New Card Offer: Earn 15,000 bonus points after spending \$1,000 within the first 3 months of account opening.

Purchase and Balance Transfer Rate: 0% Intro APR on purchases and balance transfers for 12 months; after that the variable APR will be 15.74% - 25.74%, based on your creditworthiness.¹

Market Offers: Citi



★★★★★ 14073 Reviews

[Pricing & Information](#)

Citi® Double Cash Card

Earn 2% on purchases, with 1% cash back when you buy, plus an additional 1% as you pay. There are no caps on the cash back you can earn, no categories to track, and your rewards can be redeemed for a statement credit, a direct deposit, or a check. Cash back made easy: that's the promise of the Citi® Double Cash Card.

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:

13.99% - 23.99% variable APR, based on your creditworthiness¹

Balance Transfer Rate:

0% Intro APR on balance transfers for 18 months; after that the variable APR will be 13.99% - 23.99%, based on your creditworthiness¹

[Learn More & Apply](#)

☐ Compare

2019

Cash Back Credit Cards (1)

Citi® Double Cash Card

Citi® Double Cash Card is one of the most popular cash back cards, earning you 2% cash back for those purchases.



[PRICING & INFORMATION](#)

★★★★★

11579 Reviews v

Earn 2% cash back on purchases: 1% when you buy and 1% as you pay.

Balance Transfer Rate:
0% Intro APR on balance transfers for 18 months; after that the variable APR will be 15.74% - 25.74% based on your creditworthiness.

Purchase Rate: 15.74% - 25.74% variable APR based on your creditworthiness.

Lowest APRs

2019 P+10.24%

2021 P+10.74%

Market Offers: Capital One



2019

0% intro APR for 15 months; 16.24% - 26.24% variable APR after that

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

Lowest APRs

2019 P+10.74%

2021 P+12.24%

Interest Rates and Interest Charges

Annual Percentage Rate (APR) for Purchases and Transfers

0% introductory APR for the first 15 months that your account is open.

After that, your APR will be **15.49%**, **21.49%** or **25.49%**, based on your creditworthiness.

This APR will vary with the market based on the Prime Rate.

Market Offers: Capital One



2019

Earn 20,000 bonus miles once you spend \$1,000 on purchases within the first 3 months from account opening*

0% intro APR for 12 months; 14.24% - 24.24% variable APR after that

Lowest APRs

2019

P+8.74%

2021

P+12.24%

Unlimited Rewards

Earn unlimited 1.25 miles per dollar on every purchase, every day

New Cardmember Offer

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

Interest Rates and Interest Charges

Annual Percentage Rate (APR) for Purchases and Transfers

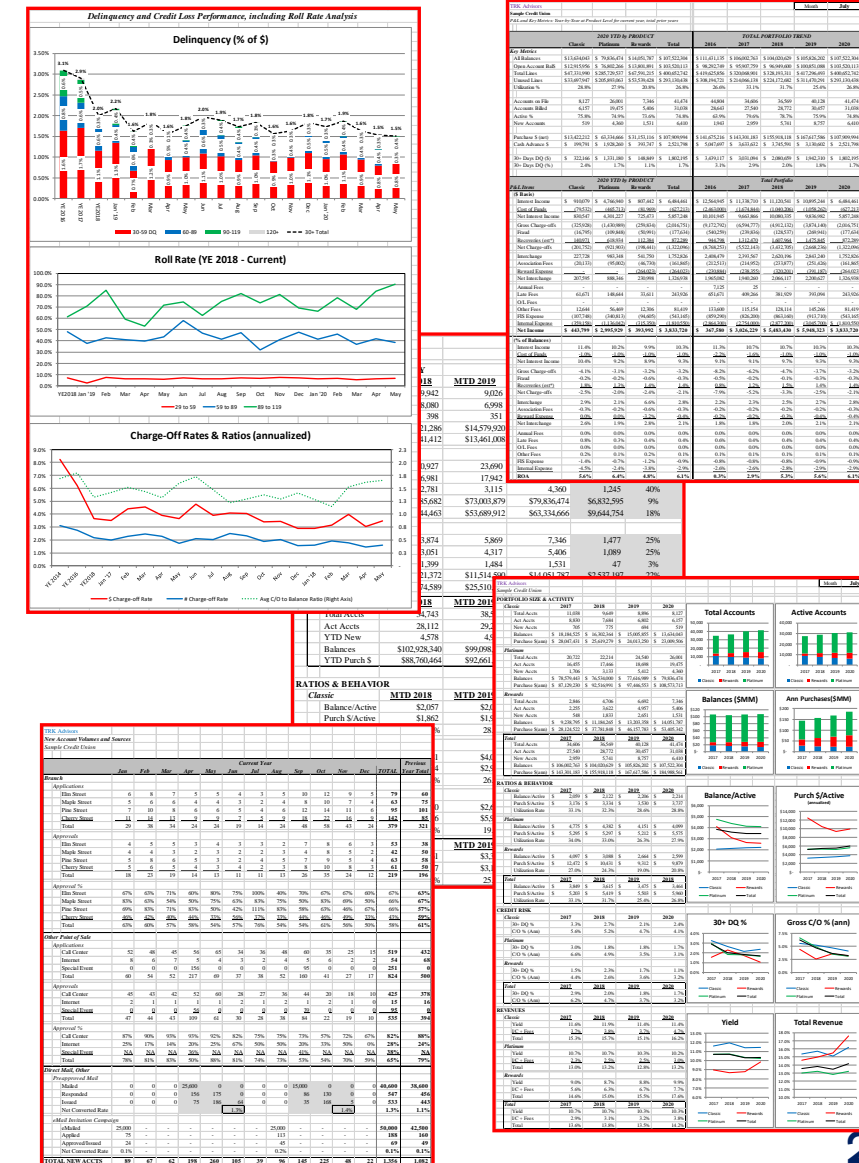
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We All Know What It Takes

- Make sure you are always measuring and reporting on portfolio performance, including profitability results and pressures.
- Regular, scheduled ongoing marketing: new accounts (by channel), activation campaigns, spend and balance campaigns.
- Analyzing member segments by how they use their credit cards, and mapping products and messaging against those segments.
- Reviewing pricing and other value proposition elements against the market, and make sure you are getting properly compensated for risk and expense.
- Build an annual plan (evergreen, really) and manage to it.

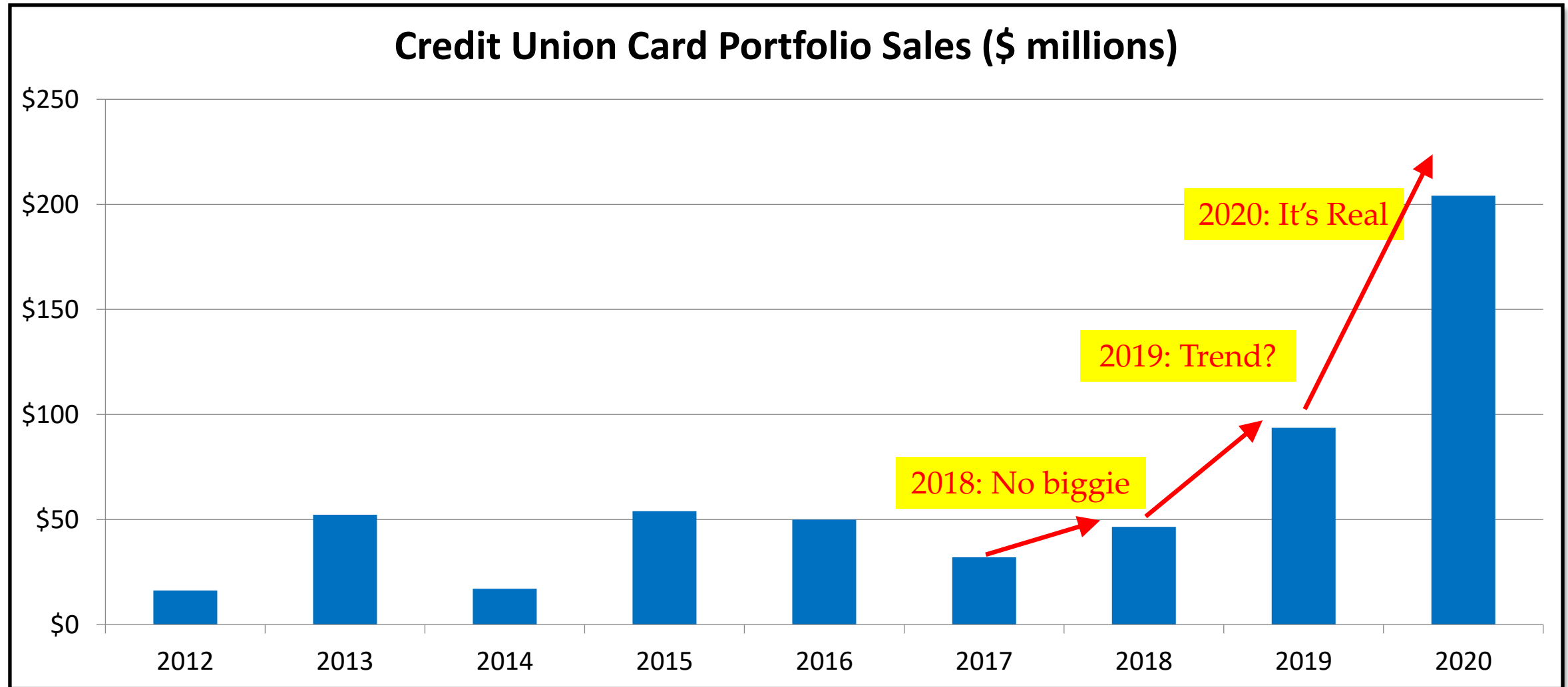


How To Support Your Card Manager

- Pay attention to what they are reporting to you. Spend an hour each month reviewing their performance reports. If you don't find them useful, improve them. Talk with them about the business.
- Be clear about what you are managing to. Balance growth? Purchase volumes? Satisfaction scores? Penetration of specific segments? Profitability baselines? Prioritize your goals.
- Be ready to implement their suggestions rapidly. They are the experts. Other functional areas support them, not direct or distract them.
- Understand the resources they will require (\$, IT support, marketing analysis and calendar space, ...). We all have weaknesses, help them overcome theirs.
- Agree on the market segments you are not going to pursue. At least for now.
- *PLEASEPLEASEPLEASE* try not to offer suggestions that start with "My Amex card...", "My American Airlines card...", etc

If you feel anxious about this, maybe you don't have the right card manager.

This Is Happening For A Reason



But Wait, There's More!

Thank you for your
attention & time

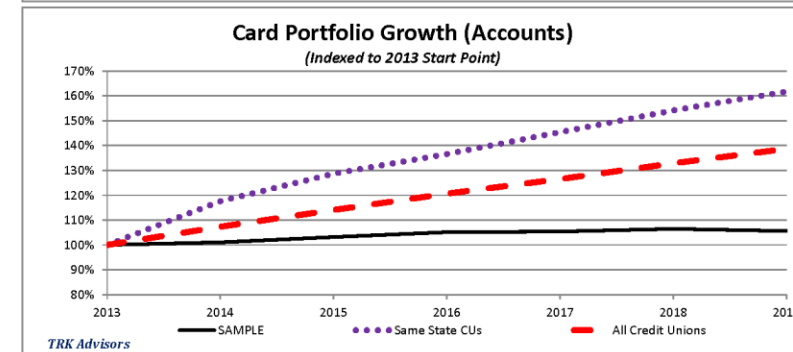
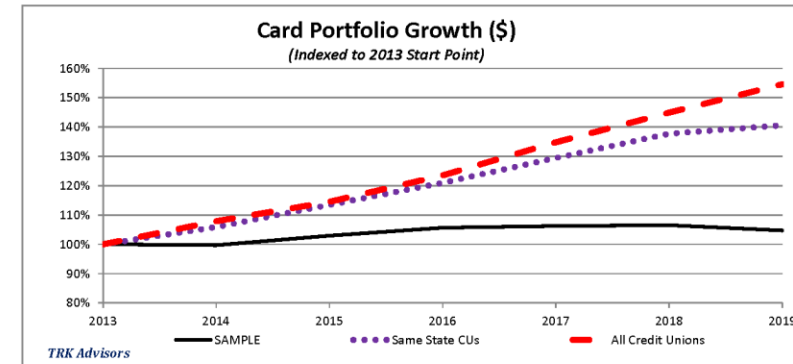
Door Prize, if you'd like

2020 Benchmark Analysis

Email me at tkolk@trkadvisors.com

TRK ADVISORS

TRK Advisors
Trend Overview and Peer Comparison for:
SAMPLE CREDIT UNION
Current Portfolio Size: \$50.3 million



Per Account Metrics (YTD 2019)				Methodology Note
	Balance	Credit Line	Line Utilization	
SAMPLE	\$4,076	\$12,869	31.7%	All comparisons are based on average of individual credit unions in each Peer Group except YTD Growth Rates, Delinquency, and Credit Loss Figures (which are all based on aggregate performance of the entire Peer Group).
Group #1: In State	\$2,138	\$6,752	31.7%	
Group #2: Similar Size (+/-50%)	\$2,677	\$9,459	28.3%	
Group #3: All CUs > \$1MM	\$2,224	\$7,079	31.4%	

Program Sizing (YTD 2019)							
	Program Size		Percent of all:			YTD Change	
	\$MM	Accounts	Assets	Loans	Penetration	Balances	Accounts
SAMPLE	\$50.3	12,345	5.0%	8.0%	14.2%	-1.7%	-0.8%
Group #1: In State	\$20.9	8,742	2.9%	4.5%	15.3%	2.1%	4.9%
Group #2: Similar Size (+/-50%)	\$42.7	17,066	4.1%	5.8%	20.0%	-0.2%	-0.9%
Group #3: All CUs > \$1MM	\$31.5	10,077	3.6%	5.7%	17.7%	6.8%	4.5%

Credit Indicators (YTD 2019)				
	Del Rate	Net Credit Loss Rates (ann):		
		Gross	- Rec.	= Net NCL
SAMPLE	1.6%	2.7%	-0.3%	2.4%
Group #1: In State	1.5%	3.0%	-0.3%	2.7%
Group #2: Similar Size (+/-50%)	1.0%	2.5%	-0.4%	2.1%
Group #3: All CUs > \$1MM	1.4%	3.3%	-0.4%	2.9%

Prepared as of:
3/30/2020

Contact
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