



SCALING SMARTER

Unlocking the Power of Agent Credit Card Programs

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September 2026



TRK ADVISORS BACKGROUND

- Timothy Kolk, President.
- Started in credit cards as Head of Finance for a large bankcard program in 1994.
- Advisor to credit unions across the U.S. on how to best design and manage their credit card programs: product design, profitability analysis, portfolio management, reward programs, processing platforms, brand negotiations.
- 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 (more than \$1 billion in portfolio sales).
- By advising on either managing the program internally or selecting an agent provider, can remain dispassionate and solve for what is best for each client's needs and situation.

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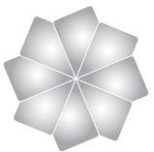


WHAT WE'LL TALK ABOUT TODAY

- How are agent programs different from direct credit card issuance?
- What is the expected financial structure?
- Impacts on the balance sheet and risk levels
- Operational comparison: self-issue vs. agent

but first...

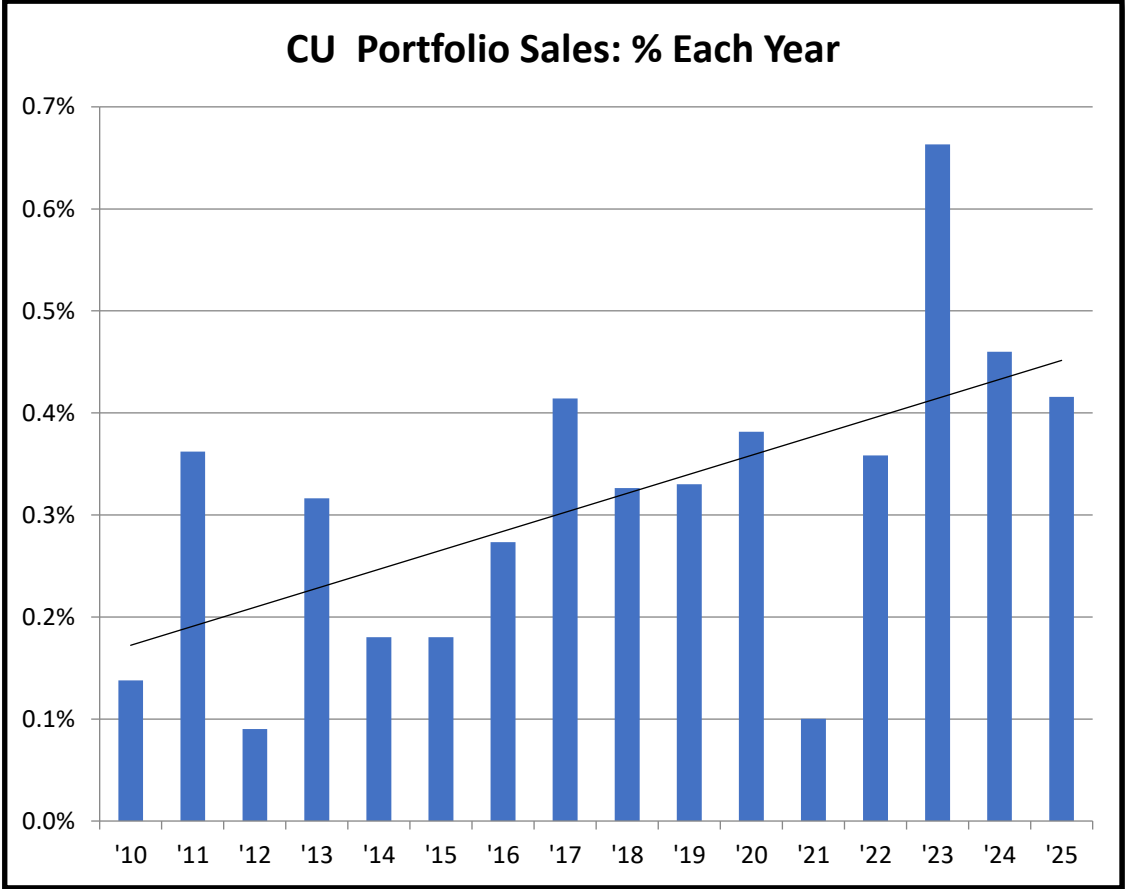
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MARKET CONTEXT/PRESSURES

Assets	BANKS			CREDIT UNIONS		
	Total #	Issuers	% Issuing	Total #	Issuers	% Issuing
>\$100 B	31	24	77%	1	1	100%
\$10-\$100 B	121	50	41%	20	20	100%
\$1 - \$10B	905	252	28%	446	417	93%
\$250MM - \$1B	1,703	243	14%	673	600	89%
<\$250MM	1,634	129	8%	3,234	1,839	57%
Total	4,394	698	16%	4,374	2,877	66%

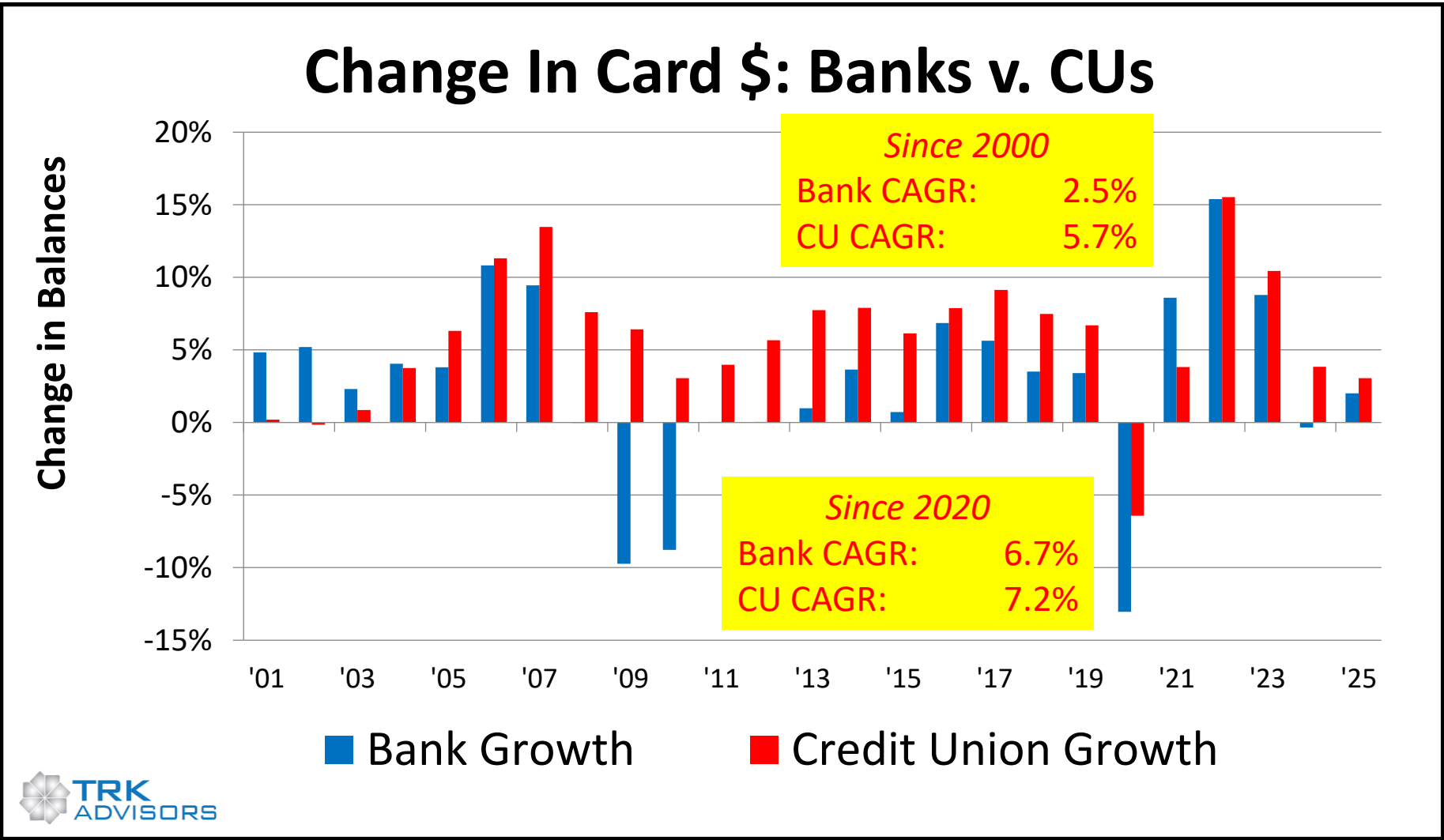
- Banks have long preferred agent programs to self-issuance, even up into the largest FI size ranges.
- Banks have been more concerned with performance ratios related to operating expenses and fee-income. They also prioritize reduced interest rate risk and returns on capital.
- Credit card programs do generate fees, but also have high operating expense ratios and consume/require a lot of capital.
- Processor consolidation, increasing technology requirements and overall inflationary trends have increased expenses.
- Credit unions, particularly with risk-based capital in place, are experiencing similar pressures. Credit card is in the highest capital allocation category.



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COMPETING IS GETTING HARDER



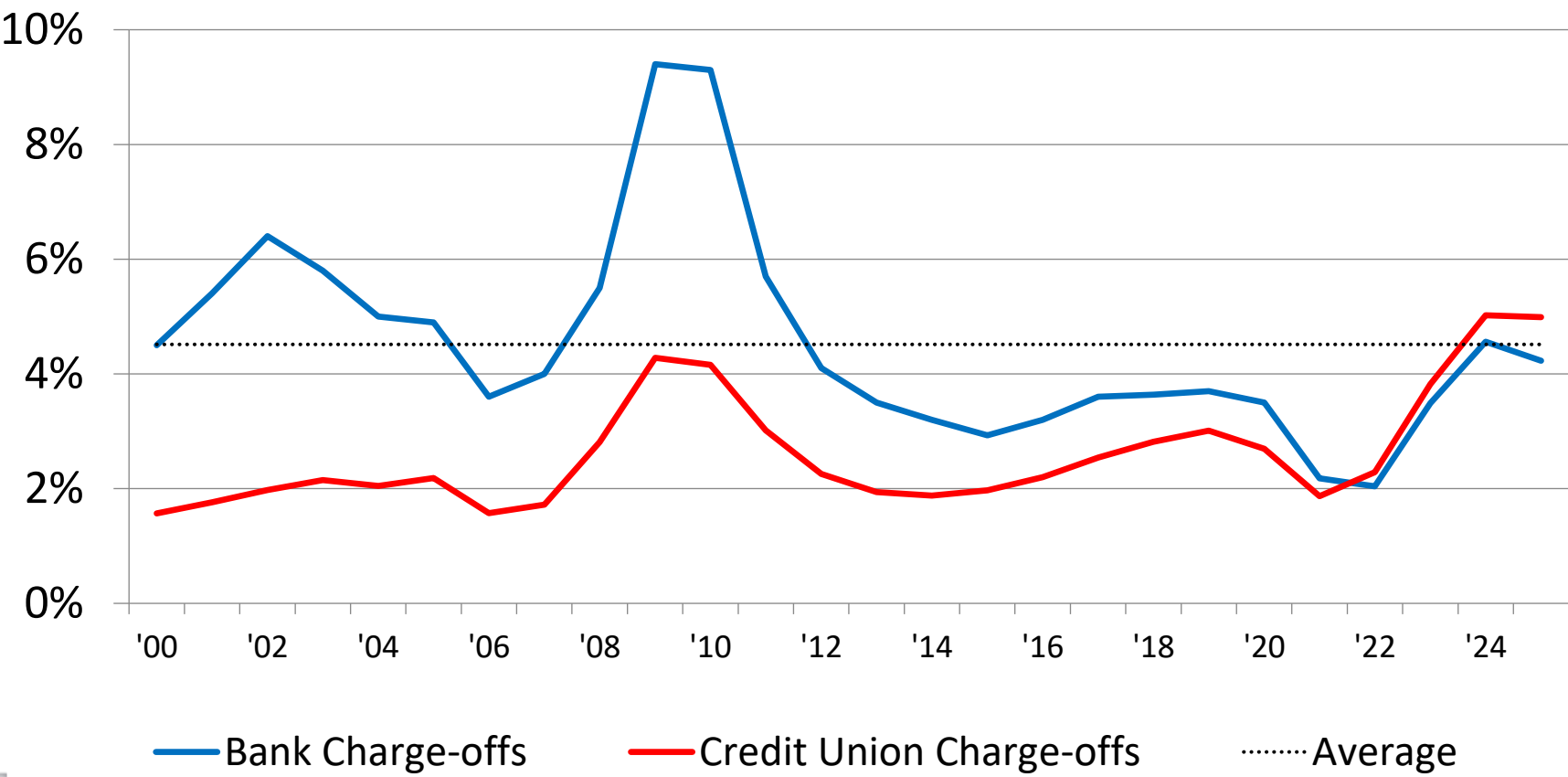
Sources: Federal Reserve G.19 Report, NCUA Call Report Data, Analysis by TRK Advisors

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CU PORTFOLIOS RISKIER VS BANKS?

Net Charge-Off Rates



CU Advantage

2017 =	106 bp
2018 =	82 bp
2019 =	69 bp
2020 =	80 bp
2021 =	31 bp
2022 =	-25 bp
2023 =	-33 bp
2024 =	-46 bp
2025 =	-76 bp



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

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WHAT IS AN AGENT PROGRAM?

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WHAT IS AN AGENT PROGRAM?

1. Another issuer will be the source of credit cards for your members under your name and branding.
2. They buy your existing accounts and balances; balances are removed from the CU balance sheet and accounts from the processing system/vendor.
3. They develop all marketing materials, website, mobile tools... (again, under the CU's name).
4. They market for new accounts and portfolio growth.
5. They accept, process and decision applications under their rules.
6. Once approved they set up the account, issue the plastics and welcome package, and begin processing transaction on their system.

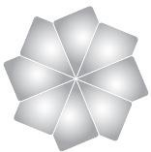
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WHAT IS AN AGENT PROGRAM?

7. Partner issues all statements, handles cardholder servicing (incl. disputes).
8. Handles delinquency and collections processes.
9. Responsible for keeping products and value propositions competitive in the overall market. Introduces new products as the market and consumer expectations require.
10. Maintains and invests in all ongoing technology: servicing, application processing, digital, reward redemptions...
11. Assumes economic, fraud, charge-off, regulatory, compliance and similar risks.

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HEADLINE DIFFERENCES

- Credit card no longer a balance sheet/interest margin business. It becomes a fee income business with no assets/capital required.
- Almost all related expenses disappear. No need for a processor, servicing staff or systems for credit card, no out-of-pocket marketing expenses, product development, funding of rewards, or collections...No charge-offs or fraud losses. No CECL modelling and related variability.
- Partner responsible for keeping products market competitive and delivering to as many members as possible.
- Market risk sits almost entirely with the partner. For example: interchange regulation or erosion, impact of stablecoin innovations, recessions, FinTech end-arounds like BNPL tied to debit accounts...



AGENT PROGRAM FINANCIAL STRUCTURE

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WHAT PEOPLE TEND TO FOCUS ON

Purchase Price

Asset Purchase Agreement

- Defines what accounts are purchased and at what price
- Price is expressed as a Premium/(Discount) on the portfolio balances
Example: A 5% premium on a \$10 million portfolio = \$500,000 in immediate income.
- Reverse Loan Loss Allowance on Credit Card
- Reverse Reward Accrual
- **But lots of potential wrinkles.** Partners vary on what accounts they will not purchase, discounts on certain segments, what accounts will require risk-sharing by the credit union, reward liabilities adjustments, and other areas.

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BUT THERE IS ALSO....

Ongoing Revenue to Credit Union

Agent/Joint Marketing Agreement

- Memorializes what comes after sale
- Defines roles and responsibilities of each party
- Includes marketing responsibilities of each party
- Includes compensation terms for purchased and new accounts.
Example: \$25 per new account and 20% on interchange earned each year going forward
- May include other elements such as bonus revenue conditions, portfolio rights, and other elements as negotiated by the credit union.
- Sets the length of the original term and end-of-term process
(almost always autorenewal)

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WRAPPING IT ALL TOGETHER

Financial Framework

Financial Components	At Sale	Yr 1	Yr 2	Yr 3	==>
Premium	5.0%				
Reverse Allowance	4.0%				
Conversion Fees	-0.4%				
Ongoing Revenue Share		1.0%	1.0%	1.0%	==>
<u>New Account Fees</u>		<u>0.3%</u>	<u>0.3%</u>	<u>0.3%</u>	==>
Total "Direct" Revenue	8.6%	1.3%	1.3%	1.3%	==>
+ <u>ALSO: Reinvestment</u>		<u>2.5%</u>	<u>2.5%</u>	<u>2.5%</u>	==>
Total With Reinvestment	8.6%	3.8%	3.8%	3.8%	==>

Related Financial Impacts

- All direct revenue is fee income and tends to be quite stable over time. Fee income ratios improve.
- No assets required to support these revenues. Can increase ROA even if Net Income is break-even.
- Can eliminate virtually all related expenses. Expense ratios improve.
- Dramatically reduces risks of economic cycles.
- Virtually eliminates credit and regulatory risks that come with issuing.
- No need to maintain Allowance for Loan Loss, meaning CECL swings are not a concern.
- With no balance sheet assets, capital (basic and risk-weighted) ratios increase.
- Reinvestment value is CU-specific. Not sure? T-bills are at 4+%. Support a strategic priority? Great!

This is only part of the work. To properly evaluate this option one must create a detailed and rigorous forecast of what could be done if kept. Don't get enamored with a sale price by itself.



BUT ISN'T ALL ABOUT THE NUMBERS

This is a Strategic Decision Across Many Considerations

- Internal staff skills and resources available for credit card management
- Technical support and expenses required (internal and/or third party)
- Willingness to live with the variability of the product most susceptible to overall economic swings
- Understanding what the members will experience for the product set, application and issuance path, and servicing platforms/experience.
- Whether members will experience an improvement overall

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THE MEMBERS' VIEWS

Well, Is It Better for the Members?

- If your brain immediately says “No” you could be wrong
- If your brain immediately says “Yes” you could be wrong
- Requires careful inventory around the member priorities Including:

Is the current product set competitive in ways most consumers want?

Is the product set broad enough to appeal to as many segments as possible?

Are all our servicing channels at market level?

Do we manage the portfolio well enough (e.g. line increases/management, upgrades...)?

Are we growing balances and purchases at market rates? If not, what does that tell us?

Questions like this must be carefully evaluated in any such analysis.

Be organized & inclusive!

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My MOST IMPORTANT ADVICE

**Don't start from an offer and work backwards.
Start from a strategy and work forwards.**

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THE PROCESS MATTERS

- Logical timing
 - ✓ (At least) 1 year out from processor and/or brand agreements
 - ✓ When contemplating a need to make significant program changes
 - ✓ When other uses of funds are available and compelling
 - ✓ When the program performance is disappointing, especially if prior 'fixes' didn't help
 - ✓ When staff transitions remove internal expertise; hard-to-staff area
- Objective process
 - ✓ Develop clear objectives and critical success factors
 - ✓ Control the process: Small team with clear focus (can expand later)
 - ✓ Get a handle on portfolio performance: Profitability and competitive success vs. market levels
 - ✓ Compare carefully to the portfolio if it is kept (including any change scenarios)
 - ✓ Carefully catalog the tradeoffs: No surprises, clear understanding of pros and cons



Who is Elan?

55+ years of credit card expertise, purpose-built to help community financial institutions grow their card business



U.S. Bancorp is the fifth-largest financial institution in the United States

\$701 B

Total assets

A

Rating



Elan is a discrete operating business of U.S. Bancorp specializing in credit card issuing for financial institutions across the U.S.

\$11 B

Credit card receivables

1,300+

Banks & Credit Union Partners

\$38 B

Annual cardmember spend

FIRE WALLS

Between Elan & the broader bank; cardmember information is never shared.

100%

Partner-branded cardmember experience, Elan marks only where legally required in fine print

OUR GOAL

A collaborative partnership focused on delivering a high value card program for cardmembers and partners

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How The Elan Model Works

The pillars that power our commitment to drive a high value card program for our partners and their members

ALL-INCLUSIVE PROGRAM GROWTH

- Strategic marketing plan
- Underwriting strategies to approve more members across the credit spectrum

INNOVATIVE PRODUCTS

- High-value rewards products
- Deep breadth of consumer & business card options
- Apply & buy — instant line access
- Digital first cardmember tools that rival national issuers

STABLE FUNDING STABLE CAPITAL

- Fund loans
- Support partnership
- Invest in growth

TECHNOLOGY & INTEGRATIONS

- Simple and fast digital servicing tools at the cardmembers fingertips
- An API library to create seamless experience across environments

SUSTAINABLE GROWTH ECONOMICS

- Straightforward model to drive direct fee income
- Capital efficient growth
- No credit and fraud risks
- No investments are required

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What Is The Value Created Through an Executive Decision Lens

Elan's value is most compelling when the financial institution values simplicity, capital flexibility, and competitive capabilities over direct card asset ownership.

1

RISK

Transfer credit, fraud
and all major card
operating expenses

2

ECONOMICS

Exchange spread upside
for capital-efficient fee
income

3

CONTROL

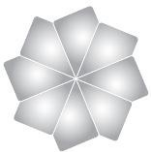
Retain brand and strategic
influence, with major
reduction in operational
responsibility

4

GROWTH

Access highly scaled
marketing, products,
servicing and digital
experience

CORE QUESTION | Which card issuing model produces the stronger risk-adjusted enterprise value?



Potential Questions / Due Diligence Priorities

Confirm that the strategic value created is supported by your processor or agent partner

1

ECONOMICS

What is the risk-adjusted value versus retaining the portfolio?

2

MEMBER EXPERIENCE

Which model provides the most competitive cardmember experience?

3

DATA & DIGITAL

What data, APIs, reporting and integration capabilities are available?

4

GROWTH

What commitments will the partner make to marketing and portfolio optimization?

5

RISK & GOVERNANCE

How are compliance, third-party risk, issue escalation and change management handled?

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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 is the leading agent credit card issuer trusted by more than 1,300 financial institutions. By fully funding program operations and providing digital servicing tools, Elan helps partners streamline operations, reduce administrative burdens, and drive sustainable portfolio growth. Visit www.elancreditcard.com to learn more and explore additional payment solutions.

Click [here](#) or scan the code to download a copy of this presentation.

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PRESENTATION DATA RESOURCES

- 1: TRK Advisors proprietary analysis of the NCUA 5300 CALL REPORTS (credit unions) and FFIEC CALL REPORT data (banks)
- 2: TRK Advisors proprietary analysis of the NCUA 5300 CALL REPORTS

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