



Standing Strong in the Face of Adversity

While it's no secret that the card market has been significantly challenged from both a credit and debit perspective, several indicators point to an upswing in the economy (see sidebar on page 4) and an opportunity for community banks to capture market share from larger lenders—tarnished by lending practices and tightening credit standards to help stem rising losses.

For two community banks, it's further confirmation that their commitment to this market—tested over the last year—

While debit cards haven't seen the dip in usage as their credit card peers—there has been some effect on the portfolio, says Andrea Ortiz, product manager, second vice president for \$2.7 billion-asset American Chartered Bank in Schaumburg, Ill. "A lot of people may not be changing banks at this time as a result of economic conditions so it's a challenge to get new accounts period," which is why the bank continues to market

its debit card program aggressively even as others have pulled back, she explains.

The bank implemented a new rewards program with lower point redemption thresholds in the first quarter of 2009. For the launch in March, the bank rolled out a multichannel marketing effort—direct mail, e-mail blasts and Website banners—and continued to promote the program year round. "While we may have seen the average purchase price decrease a little with the stagnant economy, our overall portfolio has grown by 15 percent, and cardholders who

set up their account and see the value of our rewards program have increased their signature volume by 17 percent," Ortiz notes.

Educating customers about the benefits of the card is key, she says. In June the bank introduced "Check it Out," a campaign focused on converting heavy check users to plastic. A sweepstakes component incentivized card payments resulting in a 317 percent lift in usage by non-card users, a 55 percent lift by casual card users, and a 19 percent lift in sustained *(Continued on page 4)*

Tapping Small Businesses

Tapping the estimated \$3 trillion of eligible card spending by small businesses* requires an understanding of your potential customer base and its needs.

Community banks can present a persuasive argument to choose plastic over paper if they can leverage card features to help meet business owners' needs (see related story at www.icbabancard.org/BC) and use segmentation for more targeted promotions to drive activation and usage, say market experts.

Indeed community banks may have a leg up over their larger competitors according to a recent Barlow Research Associates of Minneapolis survey in which 46 percent of small business owners said they would switch to a community bank if they were to choose a different bank (versus 9 percent for regional and national banks).

One challenge to customer segmentation is a lack of ready-made sources of empirical data (like Nielsen). Banks can create processes as a workaround, but must contend with the limitations of such data, admits John Yarley, a senior business leader for Visa. "Product usage, for example, won't necessarily tell you about what the next logical product a customer may want. And if you're not the customer's primary account, your *(Continued on page 5)*

What's In This Issue

Opportunity Knocking	2
Ask Marlene	2
Payments Fraud Loss Major Concern for Banks	3
Ask TCM	3
Standing Strong in the Face of Adversity <i>continued from cover</i>	4
Tapping Small Businesses <i>continued from cover</i>	5
Ready for the CARD Act?	6-7
Passport to Payments	back

Opportunity Knocking



Is that knocking noise I hear coming from the engine of my clunker that missed the Cash-For-Clunker deadline, or is it coming from Opportunity

knocking on my front door?

The recent economic and political climate has caused some issuers to reassess their credit card operations. While certain national lenders—still smarting over poor lending choices—are pulling out, community banks like American Chartered Bank of Schaumburg, Ill. and Banner Bank in Walla Walla, Wash. (featured in this issue) are increasing their skin in the game.

Perhaps like many of their colleagues, these community bankers understand credit cards are a vital part of their payments arsenal. According to the 2009 ICBA

Payments Survey, among the banks that offer them, credit cards were rated as an important part of their payments strategy.

Perhaps they've just learned that the risk of a community bank underwriting its own cards is not as great as it might appear.

Or maybe their products, with reasonable rates and terms, are finding new favor with consumers who want to carry a card with a community bank logo over one with a bank that had to be bailed out.

As each of us evaluates our opportunities for new income sources in this New Year, don't forget that nearly every one of your customers already carries a credit and debit card in their wallet. Whose logo is on that card today?

For those that do decide the risk is worth the reward, ICBA Bancard has solutions compatible with every community bank's

risk tolerance—from direct issuing options to reduced or zero-liability agency credit card programs. This era of big bank backlash presents opportunities to grow your debit card business too, with ICBA Bancard there to help you with strategies and products!

I hope that you hear that knocking as well, because as we have all learned, opportunity rarely knocks twice. There may yet be a silver lining from this economic crisis after all. Contact ICBA Bancard at (800) 242-4770 for help on maximizing yours.

Sincerely,

John H. Buhrmaster
ICBA Bancard chairman

Ask Marlene!

Below are a few questions commonly asked by our credit and debit issuing banks.

Q: Are Partnership Growth Program (PGP) goals based on growth of number of accounts, or total net sales volume?

Answer: The PGP goals are based on growth of your card program's net sales volume year over year. Growth of account base is a good way of increasing total sales volume for your entire portfolio. There are several other

ways to grow your portfolio, including marketing (i.e. statement stuffers, in-branch promotions), adding a rewards program, and upgrading Classic and Gold cardholders to Platinum cards.

Q: Does ICBA Bancard provide educational Webinars?

Answer: Yes, ICBA Bancard sponsors several educational opportunities in which our bankers may participate. Several are hosted by ICBA Bancard, many of which are in tandem with our partners, Fiserv, FIS, Visa, MasterCard and others.

Registration and a complete calendar of events can be found on the Education & Events Calendar on our Web site: www.icbabancard.org/Info/events.cfm

For more answers to FAQs go to www.icbabancard.org/BC

Payments Fraud Loss Major Concern for Banks, Survey Shows

While debit cards ranked as the most important payments vehicle and checks were the second most important, the outside fraud associated with both payment options has been a challenge for community banks, according to the 2009 ICBA Community Bank Payments Survey.

Debit cards have been hit particularly hard, with 91 percent of survey respondents citing the need to reissue cards due to fraud, while 78 percent said they experienced a monetary fraud loss from a debit card account. Check fraud continues to be a problem as well, with 56 percent of community banks experiencing monetary losses involving check fraud last year.

Community banks that issue credit cards and tend to be more selective in issuing cards reported less fraud. Forty-five percent of community banks reissued credit cards as a result of fraud. Of those that reissued cards, 32 percent reported a monetary loss last year due to credit card fraud. Less than 1 percent decreased their resources to mitigate payments fraud.

ICBA Bancard's Fraud Loss Protection plan safeguards your portfolio from large losses stemming from lost or stolen cards, counterfeit cards, cards not received and identity theft.

To learn more visit:
www.icbancard.org/protectme.

About the Survey

The ICBA Community Bank Payment Survey was conducted from June 1–26, 2009, and included 43 questions with responses from 909 community banks with asset sizes from under \$100 million to more than \$500 million.

Read more findings at:

[www.icba.org/
goto/2009paymentsurvey](http://www.icba.org/goto/2009paymentsurvey)

...fraud associated with both payment options has been a challenge for community banks...

—SOURCE: 2009 ICBA Payment Survey

Ask TCM!

Q: We haven't done much with our credit card program, where do you suggest we start?

Answer: Finding out how your credit card stacks up against others in your marketplace will assist in your competitive edge. Review offers in your mailbox and consider a visit to a competitor's branch to view brochures and talk to their representatives. A good way to get psyched to promote your credit card is to get together with others

on your team to search for and review rival credit card offers. What is their annual fee? Is there a balance transfer fee? How is the Annual Percentage Rate (APR) determined? These questions can be answered by comparing the important disclosures of each offer. It's also a great way to familiarize yourself with competitive features.

Q: How can we make our staff more comfortable selling credit cards?

Answer: The secret to "cross-selling without stress" is to ask a question that's framed around a potential benefit. All of a sudden you're not pushy—you're trying to help a valued customer! Develop phrases and/or questions for staff use to help establish a dialogue with customers who may be frustrated with larger issuers and ready to hear your community bank's credit card pitch. When your staff understands the marketplace as well, they can back up their soft-sell with offers they've gathered. Instead of hearing "no, I don't want it," you might hear "you know what they did to me." Use that as a spring board to promote your product.



The Case for Small Business Lending

- SBA lending down 30 percent; large lenders pulling back on credit card lending
- The business optimism index has risen for the last three months
- Historically post recession activity includes aggressive small business growth
- Government intervention and tax changes may benefit small businesses. Some states are creating assistance programs to help revive the local economy.

Credit Cards: Improves Returns, Reduce Risk

For strategies on limiting your portfolio's risk outlook go to:

www.icbabancard.com/news/index.cfm?ItemNumber=58209

users on a 3-month average. "For 2010 we're definitely going to focus on lower usage categories because every time we focus on them we see a lift.

We believe, that by dealing with customers we know, and have a deposit relationship with, we will get a little more loyalty and better performance.

—Gary Wagers, Banner Bank

Partners in Progress

American Chartered Bank also took advantage of ICBA Bancard's sponsored *Choose Your Next Adventure* Visa branch acquisition campaign with good results—1,850 new debit cards over the two-month period.

"What we've tried to do for these campaigns is look at both new accounts and existing accounts that don't have cards, an effort that resulted in 200 new cards, or nearly 9 percent of the bank's prospect list," explains Ortiz.

"Visa does a great job of bundling the program together in meeting all the goals that are required to have a successful card business. They offer [employee] training; the instant prizes, which we found work very well in adding value to the experience; and all the marketing created as well.

"For someone in my position... it's one-stop shopping. I don't have to spend a lot of time creating every single piece of a promotion," says Ortiz. "I can take it off the shelf and implement it. For most of the ICBA members that's got to be super attractive."

Walla Walla, Wash.-based Banner Bank reaped positive returns for its participation in Visa's *Choose Your Next Adventure* retail branch acquisition campaign as well. In an average month the bank receives 200 credit

card applications through the branch system compared to 673 applications in a four-week period during the Visa campaign, reveals Gary Wagers, executive vice president and manager of retail products and services at the \$4.4 billion-asset bank.

Still, economic conditions in the Pacific Northwest have affected Banner Bank's card portfolio. Average cardholder transactions per active card and average sales size on active cards are down from a year ago. Losses are up too—about 3.2 percent on an annualized basis, "which is higher than we'd like to see, but is certainly far less than the industry averages," Wagers contends.

Banner Bank has even been able to grow its card base 14 percent this year, and measures progress by penetration rates. More specifically, its number of credit card accounts compared to its number of checking accounts (currently at 11.9 percent bank wide).

And while the bank hasn't put goals in place for consumer versus commercial cards, Wagers is betting that allocating income to branches in 2010 based on their share of total credit card accounts will serve as an incentive to drive additional growth. (Commercial cards represent 20 percent of its card base and 40 percent of the card portfolio.)

"Some relatively adverse" actions by its larger competitors like raising interest rates and implementing fees on customers that pay balances in full every month, hasn't hurt its play for business either.

"We've been successful in getting people to move from large banks," Wagers says proudly, though the bank does not actively go after non-customers. "We believe (and that belief is getting tested during the current recession), that by dealing with customers we know, and have a deposit relationship with, we will get a little more loyalty and better performance."

Wagers says he was concerned at the outset of the program (four years ago) whether the venture would be a money maker and it has "actually performed better than we expected and provided incremental profitability to existing customer relationships. Hopefully [as] the economy comes back [we] will see that [increase]."

Of the estimated small businesses the vast majority—20 million—are sole proprietorship.

—SOURCE: Small Business Administration

profitability assessment model may not be accurate,” he reasons.

Community banks that can overcome these challenges with selective targeting and on-point messaging can reap huge benefits. While the total opportunity for payment cards is difficult to size, it is much larger than the roughly \$400 billion* that small businesses spend on credit and debit cards today, says Tom Misson, vice president, Small & Medium Enterprises at MasterCard Worldwide.

Finding the Gems Within

Propensity models can also help identify the probability that a customer is in a certain business line by examining things like the type of merchants where transactions take place, the days of the week transactions are made, and even the time of day for those transactions, adds Misson. “On the checking side we can go further and pull check transaction volume” from which appropriate product features can be touted accordingly, he explains.

Once you’ve identified a prospect—and even after a card is issued—the hard work begins: creating differential marketing messages.

Banks should have a trigger-based communication for non-activity at set time intervals asking how things are going, outlining the card’s benefits or even incentivizing usage through rewards, says Misson. Likewise, for lax users with strategies to spur activity, he adds.

Capturing product usage is relatively easy and you can gain some insight into the company by examining its lifecycle stage (See: “Four Degrees of Segmentation” sidebar), agrees Yarley.

From there a compelling product offer can be made. While a start up may be interested in access to capital, a flourishing business may be a candidate for cash management services or an expansion of daily credit limits, he explains.

Avoid creating hard and fast rules around lifecycles, however, he cautions. A company in the transaction stage could revert back to a high-growth business, says Yarley, citing his dad’s decision to sell his pharmacy to become a pharmaceutical supplies distributor with the rise of pharmacy chains like Walgreens that could out service and out price him.

Channel Considerations

Remember to consider the channel in crafting messages as well. An in-branch pitch may be improved with a specialized script highlighting product features likely to appeal to one business segment, while a mobile pitch may resonate for online savvy customers, say experts.

In either case, Yarley notes, the message must match the business owner’s needs. For example, a property manager in need of tax preparation services may respond to a solicitation noting a business debit card’s account reporting functionality while a business credit card rewards program featuring a gas offer might appeal to a trucking company owner, he explains.

And the value of the product must be clearly communicated, says Misson. When asked, only a third of small business owners say they use their debit card, he says, but when queried whether they would use their card if it carried fraud protection against unauthorized use close to 50 percent say they would, he notes.

**Source: Hitachi Consulting 2008 report*



Degrees of Segmentation

I. Company demographics

including: business type (ownership structure), size (sales volume, number of employees), location and years in business.

II. Product usage

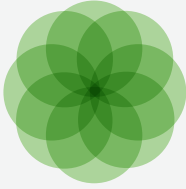
Additional information on where or how card holders spend (transactors, blenders or revolvers) is also optimal.

III. Profitability

Overall profitability may be difficult to quantify initially.

IV. Lifecycle management

Represented by four core stages: Early or formation stage (beginning to execute or refine the business plan); high-growth stage (have a refined plan and are rapidly growing); mature stage (have been around and are stable); and the transition stage (peak number of employees).



Points to Ponder

- Remember timing, coordination and language used for disclosure/changes in terms remains the card issuer's responsibility.
- Review your current inventory of applications, agreements and other materials to plan an "optimized reorder" incorporating necessary changes.
- Consider staff training needs to prepare for new regulations.
- Auto-letter options (with issuers providing verbiage, letter generation criteria and conditions) can be generated by FIS when a cardholder meets set criteria (i.e. to assist issuers in disclosing changes in account terms and penalty rates, etc).
- Take advantage of a special introductory offer (through March 1, 2010) to receive new, compliant applications and marketing materials. (See FIS Update GEN 054 or contact your FIS client relations representative.)

Contact your FIS representative at (800) 423-7497, option 6 with any questions regarding CARD Act compliance.



Are You Ready for the CARD Act?

The deadline is fast approaching to make the changes required by the Credit CARD (Consumer Accountability, Responsibility and Disclosure) Act of 2009. Are you familiar and ready to make the necessary changes?

FIS' *Countdown to Compliance 2010* (CTC) bulletin series reviews the measures FIS has implemented and what actions issuers must take. Below are a few CARD Act rules to consider. As with all parts of the CARD Act, consult your FIS or ICBA Bancard client representatives for clarification.

All creditors must provide the renewal notice prior to imposition of any annual or other periodic fee to renew a credit or charge card account including any fee based on account activity or inactivity. A notice must be provided to the consumer at least 30 days or one billing cycle, whichever is less, prior to the imposition of the fee. FIS is currently developing the logic needed to affect this change on cardholder statements.

Opt-in required for over-the-limit transactions if fees are imposed. Notice must be given to cardholders prior to resuming the assessment of overlimit fees. FIS must be notified of the issuer's decision and will, as appropriate:

Develop the logic necessary to control the timing of fee assessment as outlined in the regulation.

Provide the right to revoke this option via a message on any billing statement where an overlimit fee is assessed.

Enhance systems to support new requirements, including a new cardholder opt-in field.

Ensure overlimit fee processing will allow for direct authorization responses based on whether the account has or has not opted in to the fee.

Cardholder statements must include more detailed payoff information for the cardholder. No issuer action is needed; FIS is developing a new statement design to implement these requirements on future monthly statements and will include:

Length of time required to pay off balances if only the minimum is paid.

Notification if the customer will never pay off the balance if only the minimum payment is made.

Payment required to eliminate debt in 36 months, and associated savings.

A toll-free phone number for credit counseling and debt management services.

As of December, legislation was still be considered to impose an **immediate interest rate freeze** on all consumer credit accounts until **Feb. 22, 2010**.

For More on Issuer Requirements Under the Card Act

Consult the CTC bulletin series on the "FIS Updates" section of ICBA Bancard's Website at:

www.icbabancard.org/news/UBListFIS.cfm

Visit ICBA Bancard's revamped Website, packed with practical information to help you:

Grow your portfolio—From pricing card products and setting fees and terms to using direct mail to accurately track and analyze card performance.

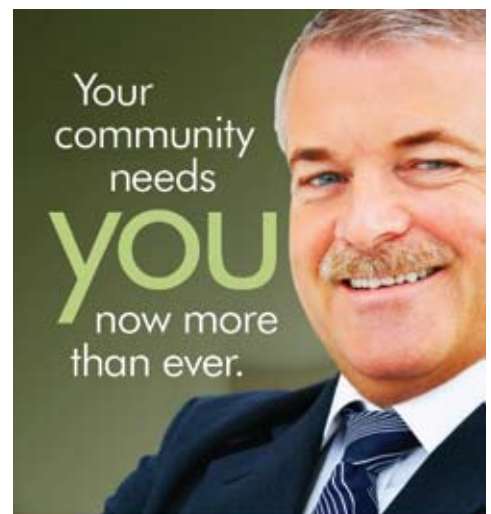
Promote your services—Press releases, advertising tips and more.

Build your card base—Increase retention and acquisition by developing and marketing a strong rewards program that is easy to customize and administrate.

Analyze your holdings—Peer comparisons, management reporting and graphing features, Automated Card Expert (ACE) helps track metrics.

Protect your earnings—ICBA Bancard's Fraud Loss Protection Plan: immediate, protective action in the event of a breach.

Visit our Website at:
www.icbabancard.org



Your customers are looking for a reliable source of credit. Naturally, you're looking to minimize your own risk. As the nation's premier provider of payment services exclusively for community banks, ICBA Bancard has the solutions you need: credit and debit card programs, marketing support and most importantly, fraud loss protection.

When your customers turn to you for payment solutions, you can turn to ICBA Bancard. Find out how we can help today; call 1-800-242-4770 or visit www.icbabancard.org



One Mission.
Community Banks.™



Contact Us

For conference questions and updates as they become available, please contact us at:

Toll-Free

(800) 242-4770

E-mail

bancard@icba.org

Website

www.icbabancard.org



Passport to Payments

ICBA Bancard will bring community bankers and credit and debit card experts from across the country together once again for the premier card payments event.

Attend **ICBA Bancard's User Conference September 26–28, 2010 in St. Louis, Mo.** and hear from industry leaders on payments issues impacting your business. Whether

you're looking to jumpstart a stagnant portfolio, introduce a new service or offering, or expand your existing footprint, this is the conference for you!

1615 L Street NW
Suite 900
Washington, DC 20036-5623



PRESRT STD
U.S. POSTAGE PAID
SAUK CENTRE, MN 56378
PERMIT NO. 73