

The Gas Crisis “Crunch” on Credit Cards

The reason is simple:

With gasoline prices soaring over \$4.00/gallon, credit card interchange fees have gone up. This is putting the squeeze on station operator profits.

In the past, interchange fees represented a little under two percent of per gallon expense that station operators had to pay as a consequence of buyers using credit cards. Now that gasoline prices are sky-high and the final purchase price of a tank of gasoline is so much greater, credit card interchange fees have moved from two cents to nearly ten cents a gallon. This is a difficult cost factor to manage when station operators' overall per gallon profit margin is around 11-12 cents.

There is pending legislation in the U.S. House of Representatives and in the Senate that would allow merchants to collectively bargain with major credit card companies to help relieve the pressure. The numbers from 2007 tell the story:

The National Association for Convenience Stores reported that in 2007, convenience stores paid roughly \$7.6 billion in credit card fees, while making \$3.4 billion in profits.

While the National Retail Federation argues that gas stations are paying more in interchange fees because the price of gas has gone up, while the cost of processing credit or debit cards remains the same—credit card companies are counter-arguing that fees are just part of the cost of doing business—and that credit cards offer convenient payment options to consumers and also give station operators greater security, lower labor costs, and speed for their customers at the pump.

If there is no congressional action, some gas station operators are considering offering discounts to customers who pay in cash. Others are starting to shop the credit card vendor market for smaller vendors offering lower interchange fees.

Changing the Game: Solutions for Youth and Young Adult Marketing
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Now let's look at the "scorecard" for traditional credit union marketing to youth and young adults:

Youth outreach in the schools

Credit unions have traditionally valued youth outreach programs in the schools because such programs go to the essence of what credit unions are about ("people helping people"). Younger Gen Y'ers will be receptive to these programs as long as the education is practical and yields immediate results. What younger Gen Y members do not want is a teaching approach that appears to be condescending and that assumes that young people do not know about money and the value of good credit. This is a generation that wants a modicum of personal respect going in—and that does not want to be characterized by Gen X's comparatively indifferent attitudes toward the value of good credit.



Youth and young adult card programs

Most credit unions adopt "mature adult" perks across the board for their card programs, missing the fact that youth and younger members may be looking for other benefits. Travel perks and downloadable iTunes may be more valuable than unexciting cash discounts to this generation, which thrives on instant gratification. This is a group that is also very brand-conscious. A "designer" card that a Gen Y'er can customize, or a "cool looking" card that can be flashed at a restaurant or a ballgame is a big deal—and may directly influence how often a Gen Y'er uses the card.

Youth and young adult card product bundling

Credit unions usually bundle card products with other financial offerings that are calibrated to the most profitable segment of credit union membership—mature adults in their forties. Internal decision-makers in credit union marketing departments and upper management also tend to be in their forties or fifties. The risk they run is being out of touch with what younger members value.

Appealing to Generation Y

Generation Y is confident, well nurtured and looking for sensible solutions for its financial needs. These teens and young adults have come from highly cohesive and supportive households. They are accustomed to being the center of attention, and they expect immediate need satisfaction. They also want to make a positive difference in the world in which they live.

To build Gen Y card program participation, credit unions should consider the following facts and strategies:

Gen Y talk and listens to its parents

Whether the Gen Y'er is in his teens or early thirties, he bounces ideas off his parents and it is sound marketing strategy to broadcast Gen Y-targeted card benefits to parents as well as to Gen Y'ers.

Rewards Programs with Instant Gratification

Generation Y likes results, feels pressed for time and hates waiting. Accumulating points toward future discounts doesn't bring much excitement—but card use that eliminates ATM fees, awards downloadable iTunes or contributes to a worthwhile social cause (like earth-friendly Green initiatives) does.

Straight Talk

Gen Y likes straight talk. The best way to conduct a market survey or a focus group—or to open an account or “sell” cards to Gen Y—is through other Gen Y'ers.

A 360-degree strategy behind credit and debit cards

If credit and debit cards are bundled with other financial products that create benefits, those benefits need to be targeted to Gen Y's needs. This is a generation that does not want to wait for home ownership, although it is well aware of home valuation increases. Gen Y also values independence and is inclined to be very entrepreneurial. Credit unions need to establish a resonating value proposition for their product bundles and card products that can show Gen Y'ers a roadmap into a productive and attainable financial future—and why the credit union is the best way to get there.

Brand matters

Brought up with brand-name consciousness, Gen Y likes attractive-looking cards that make them feel proud to be

partakers of the brand. Credit union marketing departments should not underestimate the power of an attractive or customized credit or debit card.

Advanced technology

Brought up with computers and cell phones, Gen Y expects slick Websites, online product demos that work right every time and rapidly arrive at the bottom line, and mobile communications that use text messaging. Gen Y members are attracted to stored value and gift cards, and to instant card issuance. This generation also expects telephone and Website support that is instantaneous.

Don't forget High Touch

Highly computer savvy, Gen Y has paradoxically also shown itself to be very reliant on personal interactions with parents, friends and others. A personal introduction into a card product and how it can help from a knowledgeable member service representative—followed by excellent and personalized customer support—will go a long way in gaining the loyalty of this new generation. ■

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Taking Stock of Generation Y

Top Goals

To get rich	81 percent
To become famous	51 percent
To help people	30 percent
To become community leaders	22 percent
To become more spiritual	10 percent

Top Problems

Money, finances and debt	30 percent
College/education	18 percent
Career/job	18 percent
Family relationships	7 percent
Health	2 percent
National/International conditions	2 percent
No problems	12 percent

Educating Members on Safe ATM Practices

Credit unions work hard to avail ATMs to their members no matter where they are at any time of day. However, this doesn't mean that members shouldn't try to exercise safe ATM use so as to minimize their exposure to breach and fraud.

The latest Gartner research reveals that ATMs located at financial institutions are safer than they are in a public place, such as a sports stadium or a convenience store. ATMs in highly trafficked public places are more exposed to tampering or even to malicious software that can be installed on a banking server to capture an encrypted pin as it passes through.

Thieves often use skimming, where they insert a device into the card slot on an ATM that steals data right off a card's magnetic strip. There is reduced exposure to skimming at bank and credit union branches, because these branches are videotaping and maintaining their ATM on a regular basis.

Members can further reduce their odds of being victimized by:

- Regularly changing PIN numbers;
- Using different PINs for different accounts;

- Using credit instead of debit cards when they go shopping, since credit cards have 100% fraud liability, and debit cards may not;

- Avoiding the use of PINs as much as possible, and Checking accounts frequently, immediately reporting any suspicious activity.

Online Banking Relationships Boost Membership and Credit Union Wallet Share

The next time you meet with your Marketing Department to discuss building member participation in card programs, don't forget to ask for information on members who are active online bankers and bill payers.

ForeSee Results and Forbes conducted a 2007 survey which found that customers who pay bills through their financial institution's Website are more satisfied with their institution and their online banking experience than those who don't. They are also more likely to purchase additional services—and to recommend their financial institution to others.

The same survey revealed that online billpayers had the highest satisfaction level with their financial institutions, at 79 percent. Online

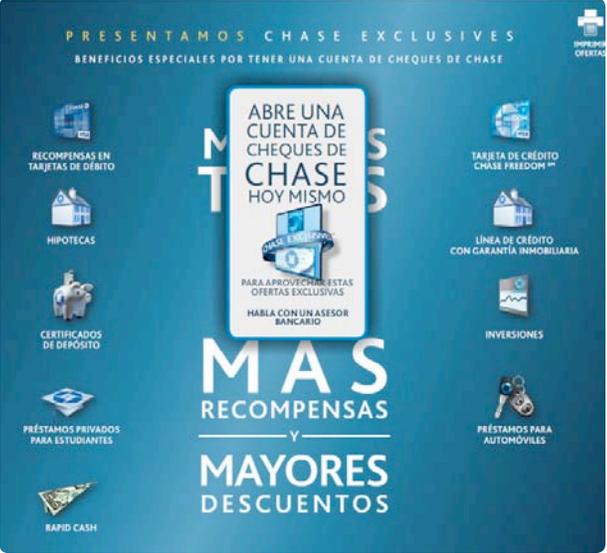
bankers came in at a close second at 76 percent, while non-online users came in at a 70 percent satisfaction level.

The Forbes survey indicated that credit unions have higher overall customer satisfaction scores (84 percent) than either large banks (77 percent) or community banks (74 percent). Survey researchers felt that part of the reason was credit unions' edge in getting members to use online technology. ■



More Financial Institutions Pursue Hispanic Market

Financial institutions increased their focus on the large U.S. Hispanic market, led by JP Morgan Chase's Spanish language advertising campaign targeted to Hispanic consumers. Chase launched its campaign on both radio and television, targeting its messages to both the banked and unbanked Hispanic market segments.



The unbanked ads focus on free checking and explain how debit cards work. Ads for both the banked and unbanked focus on mobile banking.

It's estimated that nearly 45 million Hispanics live in the U.S. and that roughly one third of these remain unbanked.

Free remittance services that allow customers to send funds to Mexico from their accounts, and similar services, appeal to this population segment . ■

Industry News

The House Judiciary Committee passed the Interchange Fee Bill on a 19-16 vote. The Bill compels card networks to negotiate new interchange rates with retailers. Survey results indicate that 77 percent of Americans support this Bill, known as The Credit Card Fair Fee Act. Merchant acquirers pay card issuers interchange fees and pass the expense on to their retail clients as part of the discount rate. Interchange can be as high as two percent of the sale on Rewards card transactions. The Merchants Payments Coalition applauded the committee's vote, while MasterCard, Nordstrom, Inc., the Black Chamber of Commerce and the Southern Christian Leadership Conference took a stand against the bill, preferring free market competition to regulation.

Wells Fargo card charge-offs rose 72 percent in second quarter, 2008. Wells charged off \$329 million in credit card loans, up 72 percent from \$191 million during the same quarter last year. Card interest income totaled \$561 million, up nearly 4 percent from \$540 million. The average of consumer credit card receivables during the second quarter was \$19 billion, up 27 percent from \$15 billion during the second quarter of 2007. Wells Fargo said it expected tighter credit standards to help reduce risk and increase earnings of the bank's card portfolio, and that it had made significant investments in default management.

Twenty percent of Americans paid down credit card debt with tax stimulus checks, according to a recent survey by the Consumer Credit Counseling Service of Greater Atlanta. Another 30 percent of respondents said they used the funds to pay for everyday expenses such as food and gasoline. Nine percent said they would use the money to make an additional payment on another debt, such as a car or student loan.

Forty-five percent of consumers surveyed say unreliable ATMS would make them switch banks. Another 28 percent of those surveyed said they would be "very likely" to switch banks if their networks proved unreliable. The survey was conducted by Level Four Americas LLC, manufacturer of Bridge ATM software.

VISA News

Visa Responds to High Gas Prices

Gas prices have increased from an average of \$2.98 a gallon in June 2007 to \$4.07 in June 2008. Not only are cardholders paying more for gas, but many fuel retailers have responded to the increases by aggressively steering customers to cash payments, and by turning off pumps when a sale reaches \$75 or more. The impact of these practices can potentially reduce overall acceptance of card payments, and inhibit payment growth in the fuel industry.



Responding to the crisis, Visa has re-evaluated its programs in order to mitigate the impact of shut-offs at the pump.

In April 2008, Visa announced a new real-time clearing capability for fuel transactions that will provide interchange and other significant processing benefits to acquirers and gas retailers. Real-time clearing will launch in October 2008, and can reduce Chargebacks and shut-offs at the fuel pump while improving issuer authorization and availing Visa's best-available interchange rates to transactions up to \$500. Acquirers will need to adopt real-time clearing to receive this benefit.

Additionally, Visa is restructuring interchange rates for consumer debit cards and prepaid products at service stations with caps at \$0.95 per item, thereby reducing the total interchange paid on these transactions. The change was effective as of July 18, 2008.

Meanwhile, interchange for credit will be realigned into a single rate for all consumer credit card types. The new rate of 1.15 percent + \$0.25 will lower the overall level of Visa interchange across the credit category and provide greater predictability to acquiring institutions and station owners. This adjustment will take effect in October 2008, but Visa is also exploring other options that may help acquirers process transactions at these lower rates before October.

Visa Moves Forward with Contactless Card Technology

On July 2, Visa announced significant milestones in the adoption of Visa's contactless technology feature, Visa payWave, demonstrating continued global momentum for the technology around the world. Visa payWave-enabled cards allow consumers to simply "wave and go," making every day transactions faster and more convenient. The technology is expanding to new merchant segments and is being added to an increasing number of Visa credit, debit and prepaid cards globally.

Visa has also announced that it is currently migrating to an enhanced global specification, Visa Contactless 2.0, to further support the growth of Visa payWave around the globe. The new global contactless specification is based on the international EMV chip standards, enabling Visa to take advantage of the industry's most advanced cryptographic techniques for Visa payWave transactions, regardless of where the card was issued or where the transaction takes place. According to Javelin Strategy & Research, 24.8 million consumers worldwide will use chip-embedded credit cards for contactless payments this year, and the firm estimates that the number will double within five years.

Visa Offers free Merchant Offer Plan to Credit Unions

As part of its Loyalty Marketing Program, Visa is offering a Merchants Offer plan to credit unions and other financial institutions that allows them to bundle special offers and discounts from well-known merchants with Visa statements and promotions to cardholders. These offers reward member loyalty, and encourage member card account retention.

The value of merchant offers to consumers is reflected in the numbers:

- Almost 142 million consumers used coupons in the past 12 months.
- 71 percent of those aged 18-34 were more likely to use coupons during times of recession, compared with 68 percent aged 35-54 and 63 percent aged 55 or over.

- Nearly half of Visa cardholders surveyed said they would have a more positive opinion of their financial institution if they received discounts.
- 40 percent of Visa cardholders surveyed said they would use their card more often if they received offers.
- 49 percent of Visa cardholders surveyed said they would like to receive offers once a month.

The Visa Merchant Offer Program can enhance your brand value, and will motivate cardholders to use your card again and again because they are motivated by deals.

Visa provides Merchant Offer statement inserts that the credit union can customize to the needs of its members via direct mail, email campaigns and Web page offers. The Visa merchant library contains more than 100 offers from leading brands, and is available for free at www.us.visaonline.com/merchantoffers.

Participating merchants for fall of 2008 include:

- Barnes & Noble.com
- Carnival Cruise Lines
- Papa John's Pizza
- Hollywood Video
- Target.com
- Small Business
- Alamo Rent-A-Car
- Dell Outlet
- Lenovo
- Red Roof Inn
- Verizon Wireless
- Visa Signature
- Godiva Chocolatier®
- Marriott Hotels & Resorts
- Royal Caribbean Cruises
- Smith & Hawken
- Wynn Las Vegas.

Letter from the CEO



Cyndie Martini, CEO- MAP

At MAP, we believe that education is key in managing a strong, viable portfolio and remaining competitive. Free training for the life of your agreement with MAP is one more way we want to show you that we are committed to your success.

The economy continues to bring about interesting new challenges and opportunities. Members are tightening their focus on personal finances and seeking better ways to gain value on each dollar they spend. As decision makers our responsibility revolves around minimizing the risk from any economic trials while maximizing opportunities that increase our message of value, loyalty and membership to a diverse and broad range of credit union consumers.

MAP's development of new products, such as the recent addition of a loyalty and rewards solution and our broad range of prepaid card products, fulfill consumer needs and position your credit union with member driven solutions that are both viable and economical.

MAP is aggressively forming business partnerships that support the goals of your credit union and members. Cbsi, a speaker at the MAP Users Conference in August 2008, is an example of one of these partnerships. Cbsi's programs will add desirable value to your card products. As a leader in point based credit/debit loyalty and reward programs, their products allow your members to redeem points as merchandise, gift cards or cash back, through Total Access® which includes over 300,000 merchandise items, gift cards, travel, green products, experiences, and charitable donations.

Tying MAP's prepaid cards with our network partners PLUS and CU24 provides cardholders No-Surcharge access at thousands of ATM's nationwide. Our reloadable prepaid cards provide a premium cardholder solution that can be marketed to many segments including travel, gifting, lending solutions, incentives, business accounts, and the estimated 1/3 of the 45 million Hispanics that are un-banked and looking for cost effective and convenient ways to send money back home.

Along with the growing un-banked or non-banked population are the developing trends of the "Y" generation. This generation has a primary focus on being successful while at the same time, effectively managing their finances. They are simply looking for products that bring value. MAP has been working hard to respond to the needs of this broader, more diverse member base within your credit union in efforts to build cardholder value and in turn, loyalty.

Visa has also been aggressively responding to the growing trends of a more diverse consumer group. As gas retailers are starting to impose pump limits due to the rising interchange rates, Visa has developed a real-time clearing system that will allow merchants to take advantage of Visa's best-available interchange rates on transactions up to \$500. Visa has also announced significant milestones in their Visa PayWave-enable cards allowing consumers to simply "wave and go", making transactions more convenient. These products, along with Visa's Loyalty Marketing Program allowing credit union's to bundle special offers and discounts from well-known merchants with Visa statements and promotions, will go a long way in establishing consumer longevity.

Membership needs will always change and evolve. With MAP as your long term partner, we'll keep you informed of industry trends, network changes, and new products so that your credit union can focus on the daily business of supporting your members.

Best regards,

Cyndie Martini
President/CEO