



**In the Cards: Innovative Credit Card Issuing for
Community Banks
Empowering Financial Institutions**

www.corservsolutions.com



Overview

Community Banks now have access to an innovative hybrid solution to enter Credit Card Issuing to better serve their local customers and realize high financial returns.

With interest rates and all-time lows, where do banks turn for revenue and profit? According to Federal Reserve data, the average Return on Assets (ROA) was less than 0.5% in 2020 and has never been higher than 1.4%. Average ROA on community bank credit card programs managed by Corserv is higher than 5.0%. Adding a credit card program is a great choice. However, according to FDIC reports, 83% of US banks own no credit card loans or associate interchange from the credit cards. Why?

Before Corserv's innovative hybrid credit card solution, there were only two choices for a community bank to offer credit cards by: 1) participating in an Agent Bank Program or 2) becoming a Direct Issuer. Becoming a Direct Issuer requires extensive credit cards specific knowledge and significant upfront investment. Specialty expertise and program features are required in several areas such as underwriting, fraud, disputes, risk management, marketing, and compliance. The technology required to integrate all the processes and customer experience is key. Due to the high investment required, the vast majority of the community banks do not own credit card assets. Direct issuance is more appropriate for larger community banks and regional banks who can achieve scale to justify the investment. Most banks lack the expertise and scale to launch their own Direct Issuer credit card program. The only alternative to most community banks has been to offer a branded card through an Agent Bank program. This is essentially giving their credit card customer to an issuing bank in a referral model. The community banks can't make their own credit decisions or access the credit card data for their own customers in this Agent Bank model. They also don't own the P&L or participate in any significant way in the issuer interchange or loan interest.

Thanks to an innovative business model from Corserv Solutions there is now a hybrid credit card issuing program for those 83% of US banks who own no credit card loans. In Corserv's Program, community banks get a turn-key credit card issuing program branded for their bank. They own the P&L, make the credit decisions for the applicants, and have access to the cardholder and program data. A Sponsor Bank leads regulatory compliance and is the issuer of record. All the credit card receivables are sold to the community bank each day at par. The Sponsor Bank delegates credit decision recommendations and provides access to program data to the community banks. The banks enjoy all the interchange, loan interest, and fees from their cardholders. Corserv can setup the turnkey program within 120 days for any bank.

CREDIT CARD PROGRAM FEATURE	Corserv Program	Agent Bank	Direct Issuer
Financial Institution (FI) owns all loans, interest, fees, Interchange and full P&L	Yes, all ★★★★★	No, may get interchange share ☆☆☆☆☆	Yes, all ★★★★★
Expected Net Operating Margin/ROA for FI	5+% ★★★★★	<1% ☆☆☆☆☆	Profitable only at high volume ☆☆☆☆☆
Time to market	< 4 months ★★★★★	<3 months ★★★★★	9+ months ☆☆☆☆☆
Internal Credit Card subject matter expert employees	None to be added ★★★★★	None to be added ★★★★★	Yes, in multiple card disciplines ☆☆☆☆☆
FI makes business and credit decisions with optimized criteria	Yes ★★★★★	No, Issuing Bank does ☆☆☆☆☆	Yes ★★★★★
Implementation Costs	Low upfront cost ★★★★★	Low to no upfront cost ★★★★★	Very high upfront cost ☆☆☆☆☆
Fully Functional Compliance, Marketing, Underwriting, Customer Service, Risk Management, Local Servicing and Detailed Reporting	Available immediately ★★★★★	Risk with no return (guarantees), Limited reporting ☆☆☆☆☆	Requires build out from scratch with processors ☆☆☆☆☆
Control of Credit Card Relationship/FI Franchise, Customer Experience and Credit and Transaction Data	Yes, FI retains relationship ★★★★★	No, Issuing Bank takes control ☆☆☆☆☆	Yes ★★★★★
Pre-built Product Set with continued improvement in functionality	Commercial, Business, Consumer ★★★★★	Consumer and Small Business ★★★★☆	Build from scratch and update ☆☆☆☆☆
Ideal FI Asset Size for consideration	\$500M-\$100B	Under \$500M	Over \$100B

Relationship-Based Credit Cards

Community banks have been successful in building and serving local relationships. Credit cards are a great product to deepen the relationship with the customer. Unfortunately, with Agent Bank programs with major credit card issuers, the banks cede control over decisions being made regarding their credit card portfolios. In agent bank arrangements, the local bank does not underwrite, fund, or keep the credit card balances on its books. Importantly, it has little or no say in the issuing bank's decisions to cancel a card; and if it guarantees the loan, it takes all the risk and receives no incremental reward or revenue.

Moreover, agent bank programs generate limited income to the community banks that participate. And the inability to leverage valuable customer relationships can create potentially expensive problems and reputational risk for the participating banks when high-value cardholders have a question or concern.

Nevertheless, thousands of banks and credit unions are part of agent bank credit card programs because they are unaware of the innovative option available for them through Corserv. Banks who participate as agent banks or who have exited the credit card market altogether should

now reconsider their options. The attraction of non-interest revenue from interchange, coupled with federal and state regulators desiring to see more balance sheet diversification have presented community-based Banks with an attractive opportunity. Corserv's credit card program enables them to capitalize on their strong relationships with bank customers, own the loans and thereby enhance their profitability.

Corserv's management – credit card industry leaders who have decades of experience and expertise – have implemented new technology advancements and comprehensive turnkey services that mitigate the risks, accelerate the time to market and increase the financial rewards of owning credit card loan portfolios, which typically outperform other income-producing Bank assets. Importantly, Corserv's goals, policies and pricing structure align with the institution's own objectives and requirements.

Overcoming Barriers to Entry

Many Banks with strong balance sheets have been deterred from entering the credit card marketplace or “upgrading” from agent bank-based relationships. These barriers to entry that existed in the past are no longer applicable.

Time to market

If a Bank wanted to become a direct issuer, it required assembling the necessary resources (e.g. staff, technology and suppliers) to handle back-office processing, servicing, marketing and risk management. Not so in Corserv's program. It is turn-key, so banks don't need to add any staff or infrastructure.

Financial capital

Constructing the infrastructure to design, build, manage and process a credit card operation could have required a significant capital investment. Corserv's program is waiving the implementation fee for ABA banks, so they don't need to invest in any infrastructure.

Human capital

Most community-based Banks have typically had few employees in management with hands-on experience in the credit card industry. Corserv provides deep experience and expertise needed.

Risk Management

Often, Bank leadership have had understandable concerns with managing the risk associated with credit and fraud losses, credit policy and strategy, and relationship-based pricing. Banks participating in Corserv's program historically experienced very low credit and fraud losses by focusing on credit cards for their relationship customers.

Marketing

Many Banks are challenged to implement best practices in credit card product design, pricing, rewards program management, account acquisition marketing, and channel management. Corserv shares best practices from Banks participating in the program.

Technology infrastructure

Banks with little credit card experience may have concerns about their ability to manage customized credit card technology and related costs – including origination, credit decision making, processing, sales/servicing, data warehousing, acquisition, rewards and other components – to integrate seamlessly with its existing IT infrastructure. Corserv’s program already has this all covered.

Profitability timetable

Finally, Banks are concerned that a new or updated credit card program may take three or more years to recover the investment required and turn profitable. Banks in the Corserv’s program typically achieve profitability in the first year of the program; and many do so in the first few months.

Risk and Return

Relationship customers bring an advantage for community banks that national credit card issuers are unable to match. The relationship customer has enhanced loyalty and is lower risk than a non-relationship customer. Corserv leverages a proprietary model to include relationship-based characteristics related to tenure, deposits and number of products. This provides an edge to the community bank in allowing more customers to be approved while keeping the credit risk lower in the portfolio.

During the 2008-2009 recession, the overall industry credit card charge-off rates reached over 10%, driven by national issuers. The relationship-based credit card portfolios, on the other hand, maxed out at 4% in charge-off rates for the same time period. We continue to experience lower credit charge-off rates in the community bank credit card portfolio.

The Return on Assets has been highly attractive, as seen below:

Total Bank Portfolio Performance	2019	2020
Total Yield	24.1%	23.6%
Interest & Fees	7.7%	6.9%
Interchange	16.4%	16.7%
Total Expenses (%)	-17.8%	-18.6%
COF, Credit Losses	-3.3%	-2.4%
Rewards	-5.5%	-6.6%
Operating and Marketing	-9.0%	-9.6%
Return on Assets	6.2%	5.0%

Average ROA for Corserv Bank Partners

Untapped Potential in Commercial Cards

Commercial cards, in particular, presents an opportunity for community banks to extend their reach and continue building revenue and relationships with the businesses in their community. The Net Operating Margin (NOM) on Commercial Card portfolio can exceed 10%. Providing full-service card issuing programs, especially with technology and support for commercial cards, are becoming an increasingly important part of a successful financial institution's fiscal success. The card programs, especially commercial, are designed to meet the business needs of an ever-changing corporate environment, while being flexible to continue to adapt as business needs change. It is for this reason; bankers are keenly aware of the impact of these services from a revenue and relationship building perspective. The COVID-19 pandemic accelerated the move to digital and virtual environments for many industries, payments included.



Commercial Cards

High Interchange Revenue

24%+

Low Loss Rates

< 1%

Typical annual spend per company

\$500K+

Note: Percentages are per dollar of annualized loans

Corserv Card Types

- ✓ Traditional Plastics
- ✓ Ghost Cards for Preferred Vendors
- ✓ Virtual Cards for AP Invoices
- ✓ Fleet Cards

Corserv Key Features

- ✓ Company-Level and Employee-Level Credit Limits
- ✓ Consolidated or Individual Level Billing & Payment
- ✓ Extensive Spend Controls, Alerts and Configuration Settings
- ✓ Expense Reporting Built-In at No Additional Cost
- ✓ Rebates Set at Company Level

Commercial Cards are an Untapped Opportunity for Community Banks

Notably, commercial credit cards are a complex offering that requires integration of sophisticated services. Corserv's technology offers four products in commercial cards: Corporate Card, Corporate Card with Rewards, Purchasing Card and Fleet Card. Our commercial card offering is highly innovative in bundling a comprehensive set of advanced features:

- Virtual cards: unlimited number of single-use virtual cards can be generated on a commercial account
- Ghost cards: business administrators can create ghost cards for specific vendors
- Spend controls: extensive level of spend controls and account and card levels
- Fraud and custom alerts: Custom alerts can be set by the customer. Fraud alerts allow 2-way text messaging to verify transactions
- Supplier enablement: easy onboarding of suppliers to accept payables via credit cards
- Expense reporting: Built-in expense reporting that allows employees to submit expense reports for their business spend
- ERP Integration: enables easy integration with third-party ERP systems
- Detailed reporting: Extensive set of reports with self-service custom configurations

What You Need to Participate in Corserv's Program

With the barriers to entry overcome, many Banks are deciding to enter the credit card business as active participants in a well-structured program with Corserv. Doing so propels them into a profitable business, but in lockstep with a knowledge and experienced practitioner who can help them navigate unfamiliar waters.

Using the best-of-breed network of Corserv-managed partners, Banks can aggressively enter, compete in a profit from the burgeoning credit card marketplace, while effectively managing risk. Here are some functional areas Bank's will optimize with Corserv to enable an efficient, well-managed and profitable credit card program:

Determination of a credit card strategy

In creating the program, Corserv works with the Bank to set goals and parameters for a comprehensive credit policy and strategies that optimize Bank control of the decision-making process. They collaboratively establish score cutoffs, debt to income ratios, relationship values and other criteria so that even automated decisions reflect the policies and priorities of the Bank.

Establishing a multi-year Financial plan

Corserv will work with Banks to establish a long-term financial plan designed to meet its strategic objectives while addressing risk management criteria, including credit, collection and fraud exposures. Significantly, Corserv will share in the responsibility for transaction fraud-related financial losses.

Understanding and agreeing to all support requirements.

Corserv's program limits the Bank's need for dedicated personnel to operate or manage the portfolio. Corserv has the resources to handle accounting/settlement, risk management, technology infrastructure, product development, compliance and customer service functions to the Bank's level of satisfaction.

Next Steps

Among the many lessons learned from the Covid-19 is that Banks must have the mindset and infrastructure in place to anticipate, adjust to and react to economic and marketplace challenges or opportunities.

As this white paper has illustrated, now is the time to proactively assess a Bank's willingness and ability to re-enter the credit card marketplace aggressively but prudently.

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Corserv Solutions Inc. is a leading provider of credit card issuing solutions and support services for banks. To learn more about the Corserv's program and other innovative credit card solutions, visit www.corservsolutions.com; or call 404-939-6949.