
U.S. Payment Trends and Regulatory Developments

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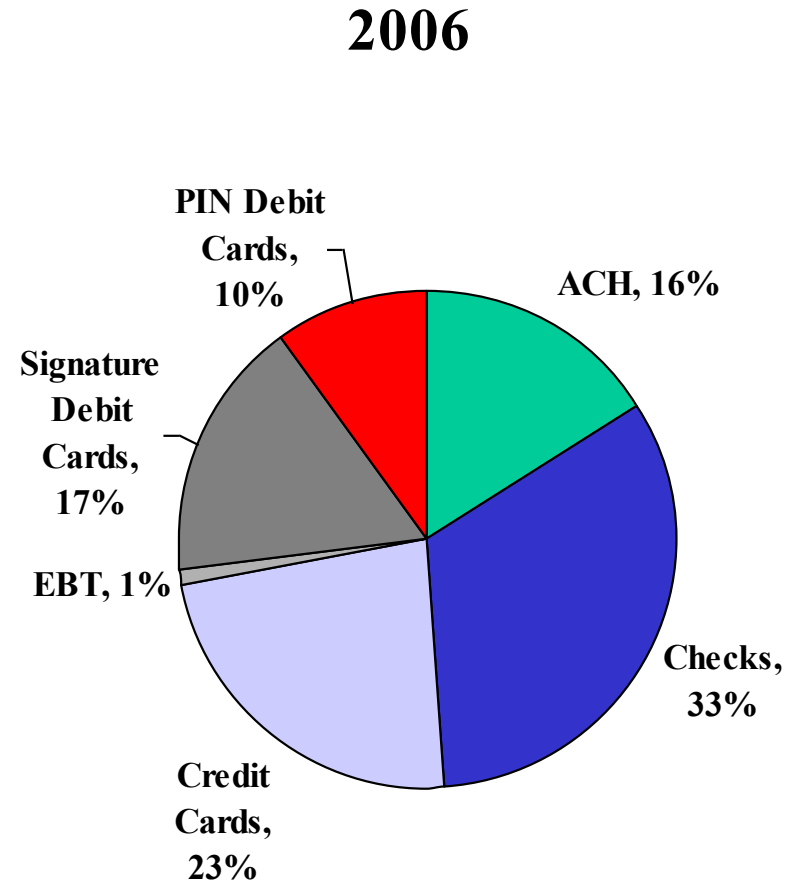
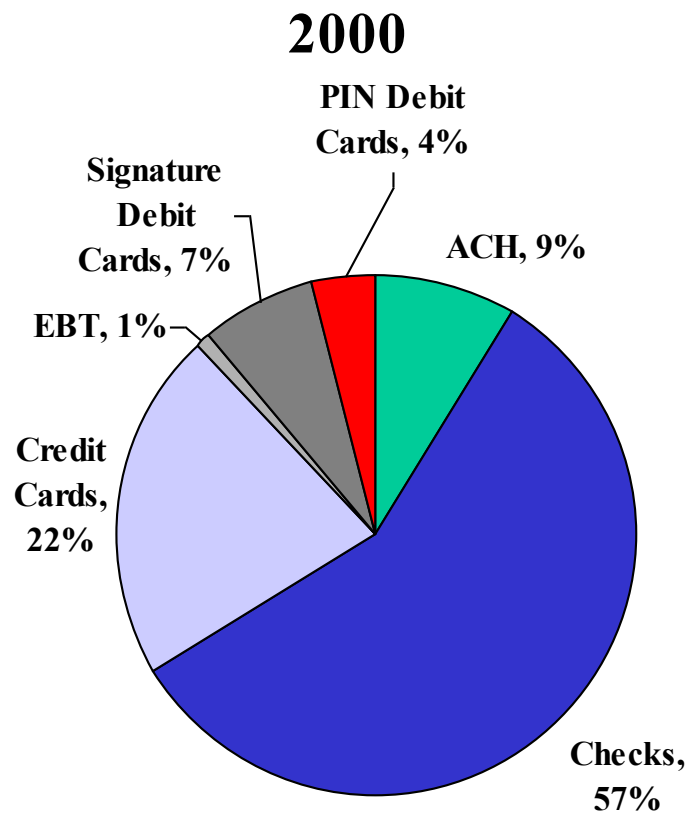
Outline

- Basic trends in payment cards
- Impact of financial crisis on retail payment systems
- Regulatory changes
- Conclusions

U.S. Payment Trends

- Electronic payments comprise over two-thirds of all noncash payments
- Card payments are now over half of all noncash payments
- Number of checks continues to decline

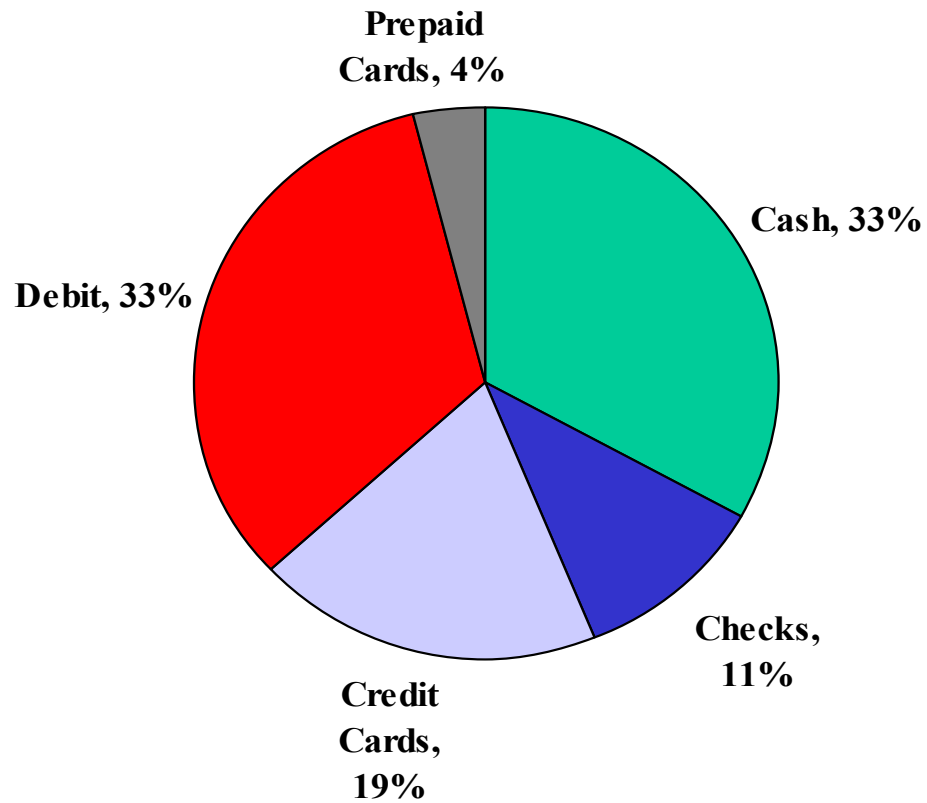
Non-Cash Retail Payments Volume



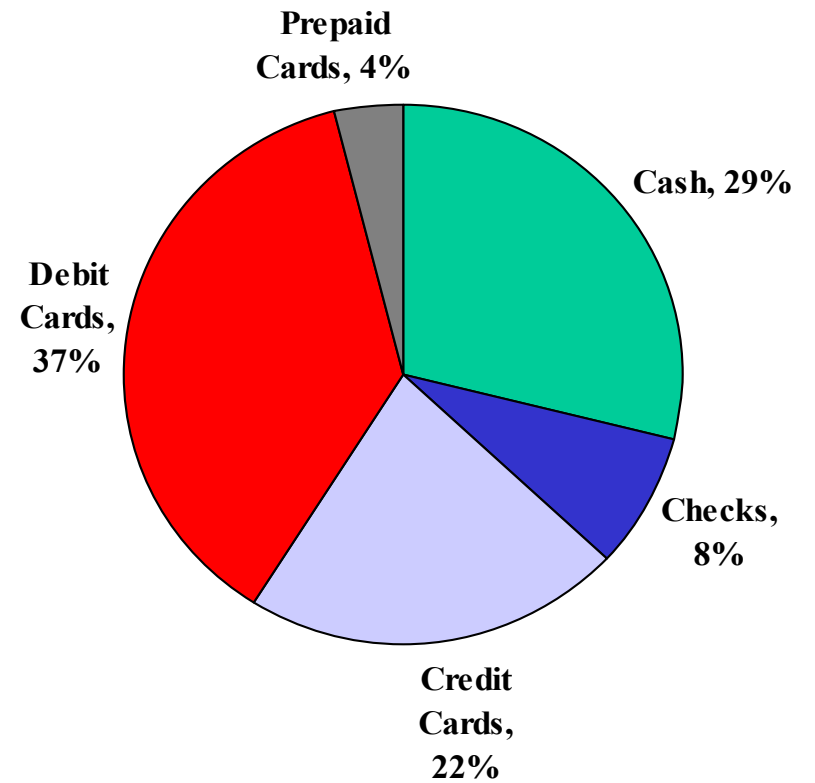
Source: The 2007 Federal Reserve Payments Study

In-Store Payments Volume

2005



2008



Source: ABA and Dove Consulting Group and First Data Market Brief

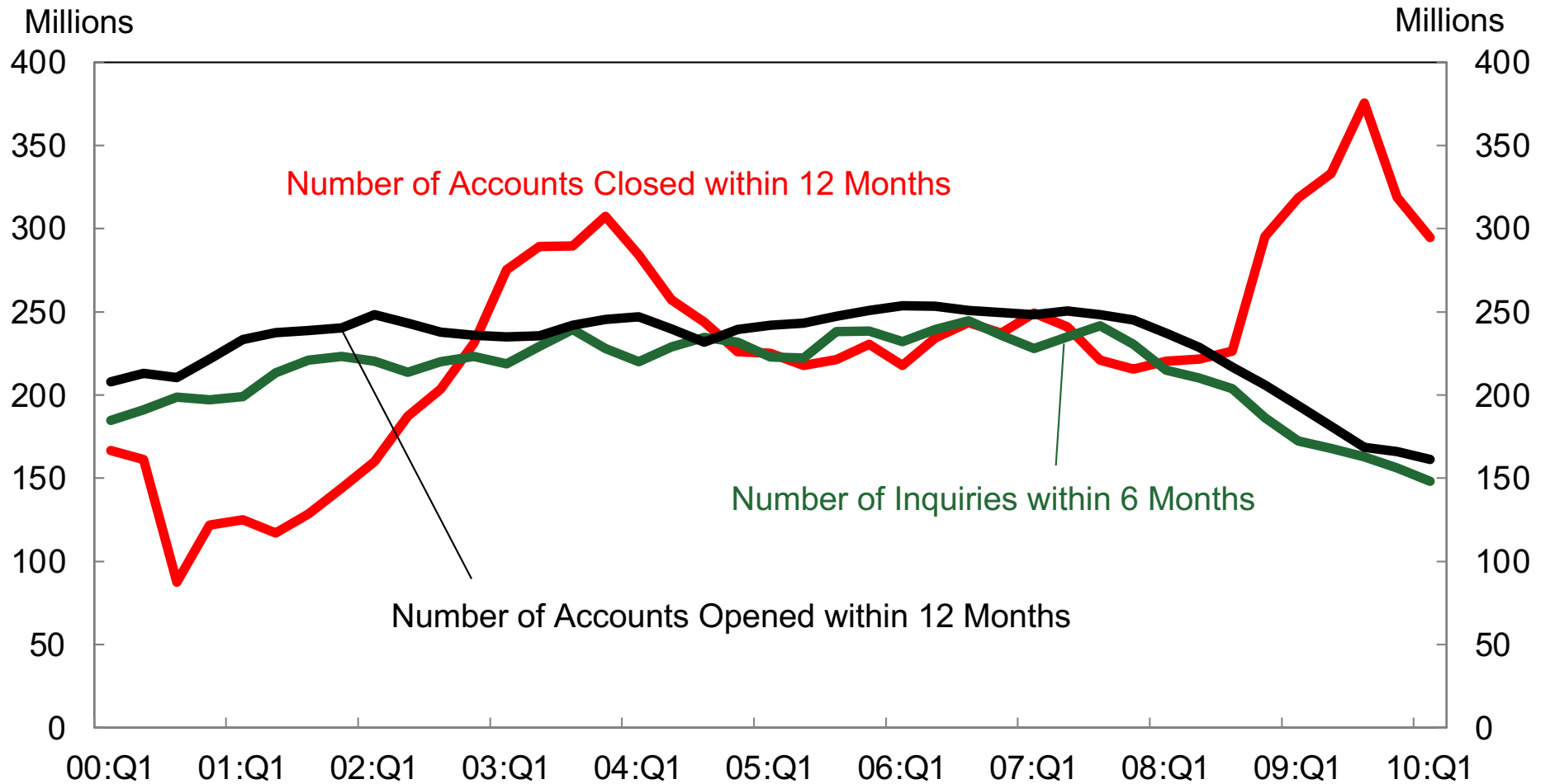
An Emerging Product: Prepaid Card

- Originally developed as cash substitute but now also substituting for checks
- Factors driving usage:
 - ▶ Ability to reach unbanked individuals
 - ▶ Restrict purchases
 - ▶ Reduce paperwork
 - ▶ Increase loyalty
- Starbucks recognized \$13.6 million unredeemed stored value balances for fiscal year ending 9/2008 (Starbucks Annual Report)

Financial Crisis and Retail Payment Systems

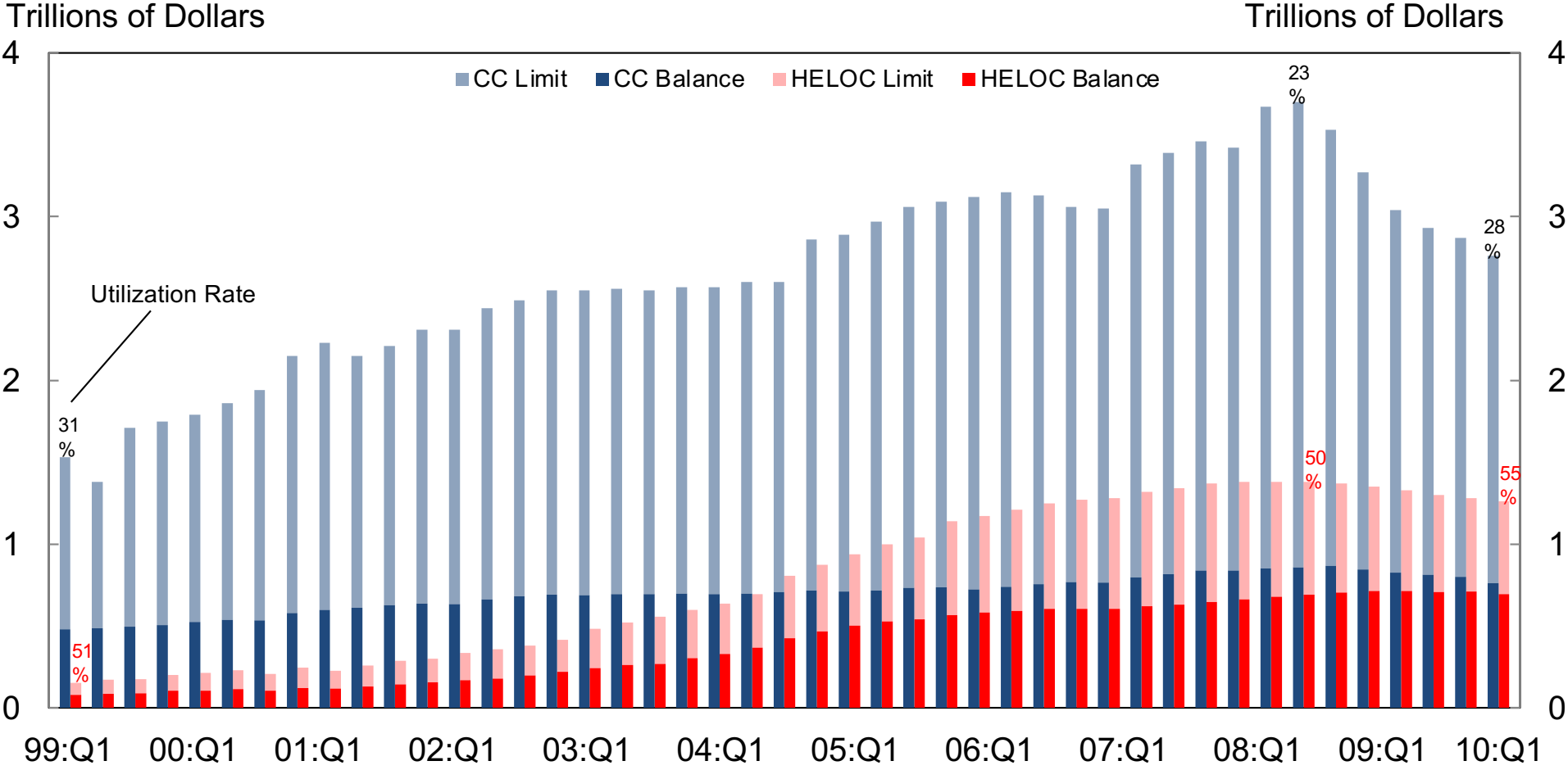
- Systems were stable
- Shift away from credit cards
- New regulations post financial crisis

Total Number of New and Closed Accounts and Equifax® Inquiries



Source: FRBNY Consumer Credit Panel

Credit Limit and Balance for Credit Cards and HE Revolving



Source: FRBNY Consumer Credit Panel

The Card Act of 2009

- Restricts when interest rates can increase and minimum 6-month period for promotional rates
- Restricts certain fees such as fees to make payment except for live services to make expedited payments, over-the-limit fees unless cardholder approves, and penalty fees to be reasonable
- Statements to be mailed 21 days before due date
- Applicants under 21 need cosigner and proof independent means to repay credit extended
- Promotes financial literacy

Debit Card Overdraft Fees

- Consumers must opt-in for debit card overdrafts for POS and ATM withdrawals
- Significant income for financial institutions (press reports greater than \$30 billion)
- To some extent replaced bounced check fees
- One large bank removed these fees

Dodd-Frank and Debit Cards

- Gives the authority to the Federal Reserve Board to set rules regarding debit card interchange fees
- Debit cards include cards linked to DDAs and prepaid cards
- The interchange fee shall be “reasonable and proportional to the cost incurred by the issuer with respect to the transaction” (incremental cost)
 - ▶ Consider functional similarity with checks
 - ▶ Consider costs related authorization, clearance, and settlement
- Board may allow adjustment to interchange fee for fraud costs

Dodd-Frank and Debit Cards

- Exemptions
 - ▶ Financial institutions with less than \$10 billion in assets are exempt
 - ▶ Government-administered program cards are exempt
 - ▶ Reloadable cards not marketed as gift card or certificate are exempt

Conclusion

- Migration to electronic payments continues
- New products being introduced such as mobile payments and greater adoption of prepaid cards
- New regulatory structure may impact bank payments revenue