Recent Changes to Debit Economic Model Substantial; Durbin Has Unintended Effect As Consumers Will Absorb Negative Impacts

Payments consultancy's comparison of the debit value chain before and after implementation of the Durbin Amendment's interchange provision shows variable impacts to all involved in the transaction. Impacts are likely to be negative, directly or indirectly, to large financial institutions, to some merchants, and in particular, to consumers.

OMAHA (October 14, 2011) – TSG Metrics, a division of The Strawhecker Group (TSG), released details today on the economics of debit signature and PIN debit transactions for three purchase amounts ($100, $40, and $5) before and after new interchange fee regulations were implemented on October 1. This provision is a cap on the fees that the largest U.S. debit card issuing banks (those with more than $10 billion in assets) can collect when their customers use a debit card to make a purchase (bank interchange fees).

Interchange is only one component of the cost of the transaction as shown on the charts on this and the following pages. Beyond the banks that issue cardholders debt cards, there are thousands of companies that make debit card transactions possible, from merchant acquiring companies who provide merchants the ability to accept debit cards, to various technology and transaction execution players in between. Consequently, these companies collect fees for the services they provide - these are in addition to the regulated interchange fees.

HIGH-LEVEL FINDINGS INCLUDE:

- Most merchants will see substantial debit fee savings for transaction amounts of $100 and $40 and have no incentive to pass on savings to consumers.
- Changes to the economics of small-ticket debit purchases have potential to drastically alter the overall debit market place:
  - Merchants who sell predominantly small-ticket items (e.g. coffee shops) will see increases in their interchange fees compared to pre-Durbin costs. As such, merchants will not be inclined to actively push debit acceptance to consumers for small-ticket items.
  - Banks are incented to push consumers towards debit usage for these smaller purchases and are no longer incented to drive towards higher-ticket usage since no additional revenue is produced from a larger ticket. Additionally, banks are now more inclined to drive consumers towards credit card usage instead which may be achieved by increasing fees for debit services. (Bank of America, Citibank recently announced new fees)
  - Consumers prefer using debit cards now more than ever as their volumes surpassed credit cards' for the first time in late 2008. Despite this, consumers are now disenfranchised as merchants and banks will fight to push merchants towards utilizing payment methods that favor their new situations.

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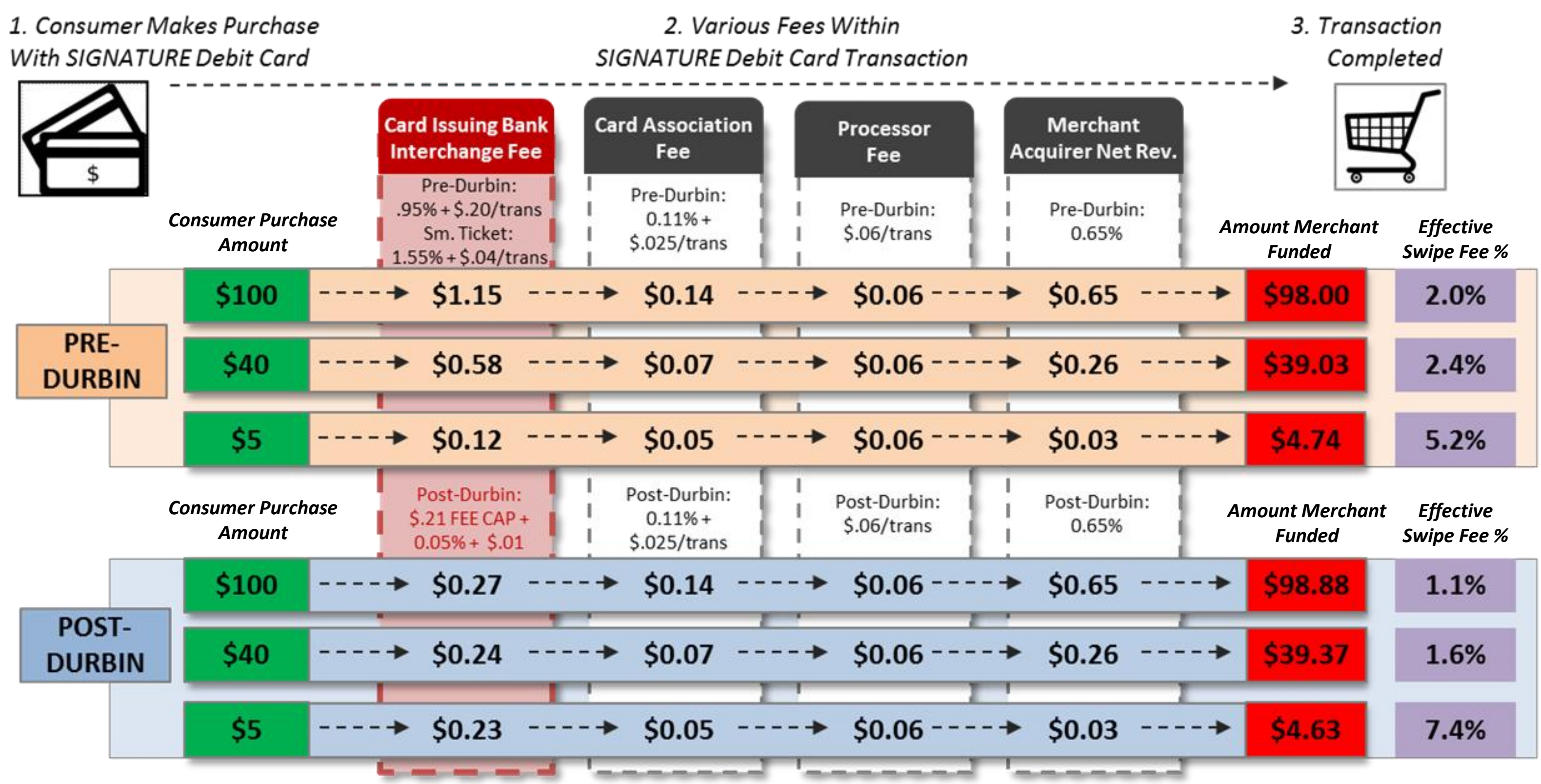
SIGNATURE Debit Transaction Economics: Pre-Durbin vs. Post-Durbin*



*** See Fee Sources & Assumptions on Page 3**

VALUED MERCHANT SERVICES

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- As regulated banks add debit-related fees to customers, non-regulated banks have an opportunity to gain debit cardholder market share, using the heavy media coverage of the new fees (and its inherent portrayal of big banks as the 'bad guy') to their benefit. (Bank of America, for example)

- A distinct advantage is clear for large merchants over small merchants in regard to this regulation:
  - Large national retail chains already experience much lower 'non-interchange' fees (processor fee, etc.) for taking debit cards than their small merchant counterparts, as their high sales volumes provide leverage in fee negotiations.
  - Traffic at small 'mom and pop' merchants is likely to cater to consumers who bank with local community financial institutions which do not fall under the umbrella of the interchange fee cap. Therefore these merchants will not benefit from the break in interchange fees. To make matters worse, these merchants already likely pay more to other companies within the payments supply chain due to their smaller card based sales volumes. This is the case geographically as well, as rural consumers are more likely to be customers of banks that fall outside the regulation's reach.

- There are potential influences in regards to new payment method adoption:
  - Merchants are less inclined to invest in the ability to accept new payments methods such as mobile payments devices, as these are often tied to debit cards and are often intended for small-ticket purchases.
  - Consumers' role in driving new payments technology adoption and demand is even greater than before, as the hurdles of adoption on the acceptance-side of the transaction have been raised.

PIN Debit Transaction Economics: Pre-Durbin vs. Post-Durbin*

1. Consumer Makes Purchase With PIN Debit Card → *2. Various Fees Within PIN Debit Card Transaction* → *3. Transaction Completed*

PRE-DURBIN

Consumer Purchase Amount	Card Issuing Bank Interchange Fee (Pre-Durbin: .75% + $.15/trans)	Debit Network Fee (Pre-Durbin: $.05/trans)	Processor Fee (Pre-Durbin: $.06/trans)	Merchant Acquirer Net Rev. (Pre-Durbin: 0.65%)	Amount Merchant Funded	Effective Swipe Fee %
$100	$0.90	$0.05	$0.06	$0.65	$98.34	1.7%
$40	$0.45	$0.05	$0.06	$0.26	$39.18	2.1%
$5	$0.19	$0.05	$0.06	$0.03	$4.67	6.6%

POST-DURBIN

Consumer Purchase Amount	Card Issuing Bank Interchange Fee (Post-Durbin: $.21 FEE CAP + 0.05% + $.01)	Debit Network Fee (Post-Durbin: $.05/trans)	Processor Fee (Post-Durbin: $.06/trans)	Merchant Acquirer Net Rev. (Post-Durbin: 0.65%)	Amount Merchant Funded	Effective Swipe Fee %
$100	$0.27	$0.05	$0.06	$0.65	$98.97	1.0%
$40	$0.24	$0.05	$0.06	$0.26	$39.39	1.5%
$5	$0.22	$0.05	$0.06	$0.03	$4.64	7.2%

*** See Fee Sources & Assumptions on Page 3**

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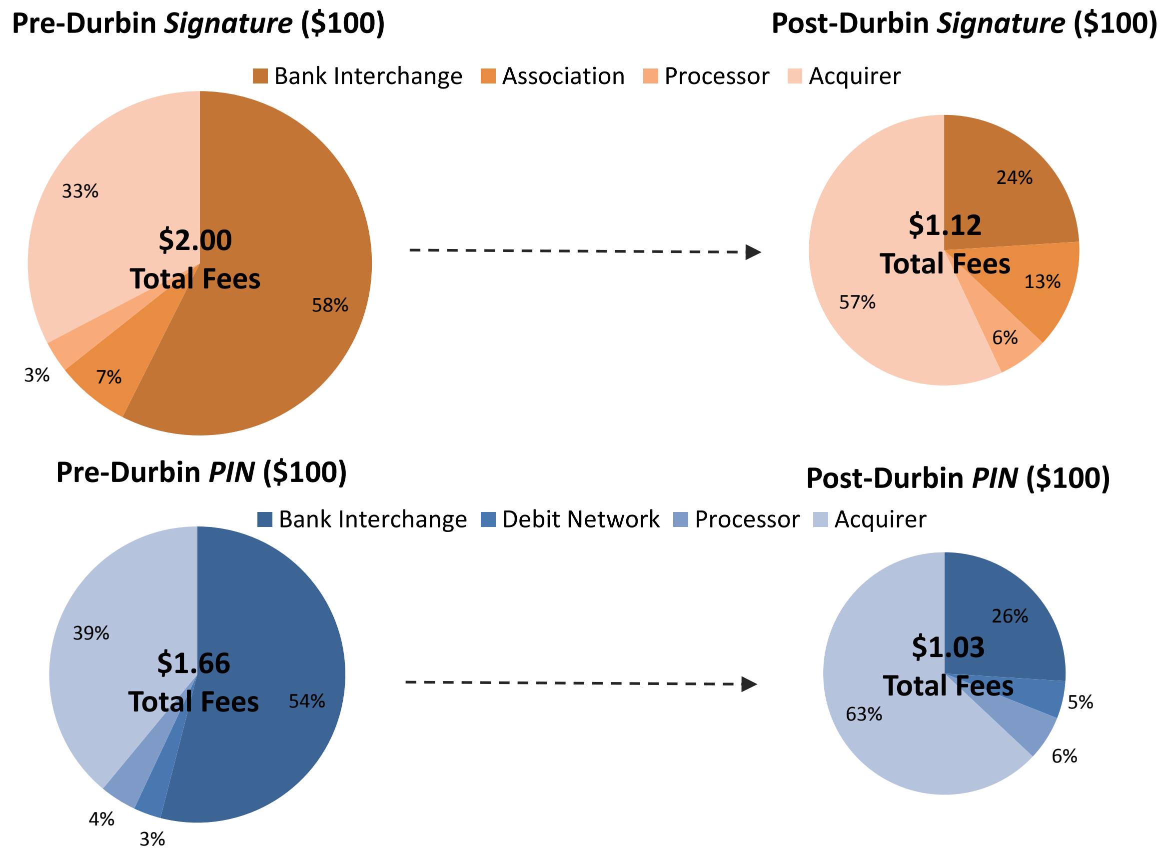
- The charts below offer the ability to plainly illustrate the changes in dynamics to debit transaction economics and its negative effects on consumers. Looking at the orange pie charts below, for example:
  - Pre-Durbin:
    - A consumer buys a $100 product from a merchant using a signature debit card issued by a large national bank.
    - The merchant's expense for accepting that transaction is $2.00 total in fees.
    - The consumer uses their debit card free of charge from their issuing bank.
  - Post-Durbin:
    - A consumer buys a $100 product from a merchant using a signature debit card issued by a large national bank.
    - The merchant's expense for accepting that transaction is $1.12 total in fees. The merchant saved $0.88 due to Durbin and has zero incentive to pass on its savings to consumers.
    - The consumer's issuing bank makes up the lost revenue by charging new debit usage fees to its customers.
    - Customer still pays $100 for same product while now also paying new bank fees.

Debit Transaction Economics: $100 Transaction – Where the Fees Go By %



Fee Sources & Assumptions

- Card Issuing Bank Fees Sources:
  - Pre-Durbin Signature: Visa Interchange Reimbursement Fee Table - CPS Retail Debit (April 2011)
  - Pre-Durbin PIN: Interlink Interchange Reimbursement Fee Table - All Other (Retail) – Tier III (April 2011)
  - Post-Durbin Signature: Visa Interchange Reimbursement Fee Table - (October 2011)
  - Post-Durbin PIN: Interlink Interchange Reimbursement Fee Table - (October 2011)
- Card Association Fees: TSG estimates based on proprietary information
- Debit Network Fees: Baseline fees derived from published multiple debit network switch fees as well as inclusion for assumption of additional other apropos fees
- Processor Fees: Assumptions based on TSG Metrics' proprietary MPPS database
- Merchant Acquirer Net Revenue: Assumptions based on TSG Metrics' proprietary MPPS database