

Mascoma Savings Bank

Debit Card Reissue Fees

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Executive Summary

Charging a fee for reissuing a debit card is one of the easiest ways to help increase non-interest income for Mascoma Savings Bank. Based on the findings detailed in this report, the Bank has the potential to earn close to \$7,000 in non-interest income if all members of the front line staff charges a reissue fee when one is appropriate. Of that \$7,000, only approximately \$370 is actually collected on an annual basis.

Non-interest income is important to the Stakeholders program of Mascoma Savings Bank, especially when considering the increase in fraud related complaints the Bank has received over the past few years as well as the fact that the amount of interchange fees will continue to decrease as the current year goes on. Increasing awareness as to the expectations related to collecting reissue fees on debit and ATM cards, tracking and ensuring an 80% compliance rate for collecting fees, and increasing the fee that is charged would be the best ways to help increase non-interest income earned by the Bank.

Introduction

The reason for this report is to analyze new ways for Mascoma Savings Bank to increase non-interest income in light of the anticipated reduction of debit card interchange fees due to an agreement between the United States Department of Justice as well as Visa and Mastercard. As evidenced in this report, one way to help offset these losses would be to increase the instances of customers being charged for reissued debit cards. Section 1 analyzes how frequently fees are being charged to reissue debit cards in relation to how many cards were reissued over the course of one month. Section 2 takes the data gathered in section one and averages the data out over the previous six years in order to estimate the total cards reissued as well as the potential non-interest

income for the Bank. Section 3 suggests potential options to the Bank for increasing non-interest income for Mascoma Savings Bank. Finally, Section 4 details the recommended solution to increase non-interest income for the Bank by charging debit card reissue fees.

Section 1 – Frequency of Fees Being Charged By Front Line Staff

Debit card reissue fees charged by front line staff was tracked from January 6, 2011 through February 4, 2011. During that time period, 166 service events were received to reissue debit cards, and out of those 166 service events 112 were eligible for a \$5 reissue fee. As evidenced by the chart below, the \$5 fee was charged on 59 of the service events and the \$5 fee was not charged on 53 of the service events. This left the Bank with a net non-interest income of \$30 when the Bank potentially could have earned \$560.

Totals	26	27	59	54	166
					112
Fees Charged	59	\$295			
Fees Missed	53	\$265			
Net Income		\$30			
Potential Income	112	\$560			

In general, fees should be charged for reissued cards as follows:

- When a customer loses a card more than six months prior to the old card expiring.
- When a customer requests a new card due to damage more than six months prior to the old card expiring.

Fees can be waived for the following circumstances:

- When the customer reports a card as being stolen.
- When the customer reports fraud on their debit card.
- When the customer reports a lost card within six months of the old card expiring.
- When the customer requests a new card due to damage within six months of the old card expiring.

Section 2 – Total Potential Non-Interest Income

For the time period studied, 518 total consumer debit, business debit, and ATM cards were issued. Of those 518 cards, 166 were reissued cards and 112 of those cards were fee eligible. In order to calculate the average number of cards issued in a given month, 166 (total cards reissued) was divided by 518 (total cards produced) for a quotient of 0.320. To determine the number of reissued cards where a fee was possible, 122 (total fee eligible reissue cards) by 166 (total cards reissued) for a quotient of 0.675. To determine the number of times a fee would have been charged, 59 (total reissues where fee charged) was divided by 112 (total reissues where fee possible) for a quotient of 0.527. Lastly, to determine the average number of cards where the fee was not charged, 53 (total reissues where fee not charged) was divided by 112 (total reissues where fee possible) for a quotient of 0.473.

To find the average number of cards issued per month, the total cards produced for the years 2005 through 2010 were added together then divided by 6. The quotient of that number was then multiplied by 0.320 to determine the estimated number of cards that were reissued, by 0.527 to determine the estimated number of times the \$5 reissue fee would have been charged, and by 0.473 to determine the estimated number of times the \$5 reissue fee was not charged. As evidenced the chart on the next page, the average total events where a fee would have been possible was 1,390 and the potential fee income for one year is estimated to be \$6,950, out of which \$3,660 would have actually been reissue fees that were estimated as being collected and \$3,290 were fees that were estimated as not being collected. On average the Bank gains \$370 per year in non-interest income from debit card reissue fees and misses out on \$6,580 in non-interest income due to the fact that fees are not always collected.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2005	355	439	487	345	308	652	407	490	417	352	433	362	5047
2006	398	397	368	343	385	424	416	482	319	356	312	288	4488
2007	892	531	462	354	413	434	500	609	429	469	432	577	6102
2008	1056	457	936	690	937	830	867	815	616	697	475	583	8959
2009	706	473	641	576	535	901	630	613	633	538	550	529	7325
2010	548	512	542	491	426	589	563	656	521	597	585	626	6656
Total	3955	2809	3436	2799	3004	3830	3383	3665	2935	3009	2787	2965	38577
Average	659	468	573	467	501	638	564	611	489	502	465	494	6430
Est. Reissues	211	150	184	149	160	205	181	196	157	161	149	158	2060
Fee Possible	143	101	124	101	108	138	122	132	106	108	100	107	1390
Est. Fees Collected	\$375	\$265	\$325	\$265	\$285	\$365	\$320	\$350	\$280	\$285	\$265	\$280	\$3,660
Est. Fees Not Collected	\$340	\$240	\$295	\$240	\$255	\$325	\$290	\$310	\$250	\$255	\$235	\$255	\$3,290
Total Fees Possible	\$715	\$505	\$620	\$505	\$540	\$690	\$610	\$660	\$530	\$540	\$500	\$535	\$6,950
Avg. Estimated Net Income	\$35	\$25	\$30	\$25	\$30	\$40	\$30	\$40	\$30	\$30	\$30	\$25	\$370

Average Annual Net Income

\$370

Average Net Income Not Realized

\$6,580

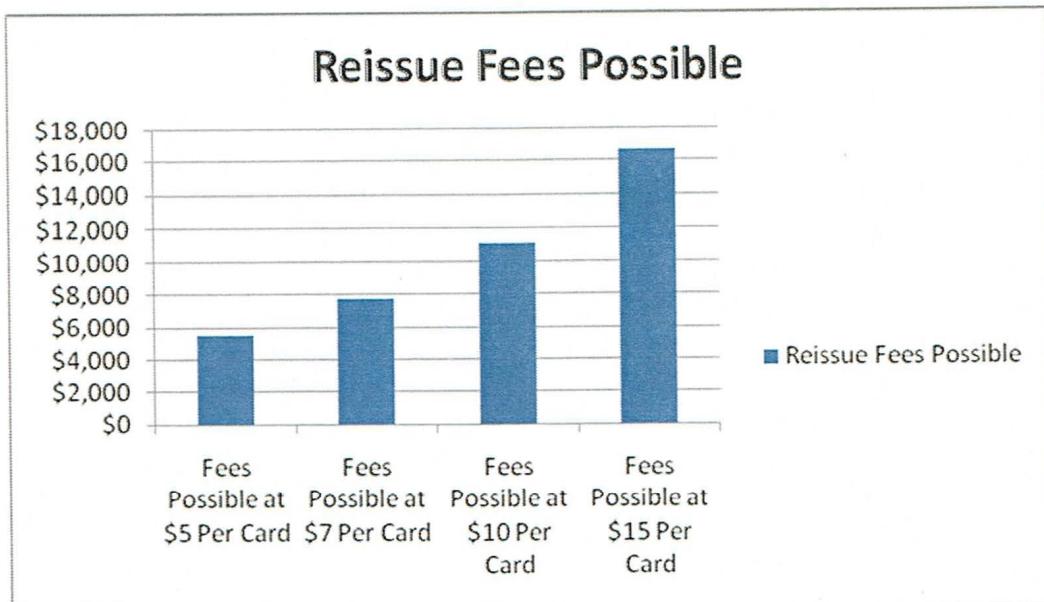
Section 3 – Possible Solutions

Based on the findings of this study there are several routes that Mascoma Savings Bank could take to increase the collection of reissue fees from debit cards in order to increase non-interest income for the Bank.

The first possible solution would be to increase awareness of when it is expected that front line staff charge a fee to reissue a debit card and strive for an increase in the instances where a fee is being charged. Currently a fee is being charged for 52.7% of all reissues that are fee eligible. A reasonable goal would be to charge a fee in 80% of all cases where a reissue fee is possible.

The second possible solution would be to increase the fee that is charged with each debit card reissue. Having surveyed several banks in the same service area as Mascoma Savings Bank, it has been discovered that the average reissue fee that banks typically charge ranges between \$5 and \$15 per card. The chart below and the graph on the next page demonstrates the increase in non-interest income that could be achieved by raising the current fee to \$7, \$10, or \$15 per card. The figures shown are based on an 80% reissue fee compliance rate.

	Reissue Fees Possible
Fees Possible at \$5 Per Card	\$5,560
Fees Possible at \$7 Per Card	\$7,785
Fees Possible at \$10 Per Card	\$11,120
Fees Possible at \$15 Per Card	\$16,680



A third possible solution would be for operations staff to charge a debit card reissue fee whenever appropriate. To do this, front line staff would need to increase customer awareness of the fee being charged and it would be recommended to disclose this fee on the Bank's external website as well.

Section 4 – Recommended Solution and Strategy for Implementation

The recommended solution to increase non-interest income with debit card reissue fees would be to increase awareness among Bank staff of the importance of charging reissue fees as well as increasing the debit card reissue fees to a more nominal amount of either \$7 or \$10 to reflect the fees of the current external market.

Several steps should be taken to ensure that branch staff is aware of reissue fees. The importance of charging fees is gone over in the Electronic Services Orientation class by the debit card specialist, however refresher courses on the importance of charging the fee should be part of an ongoing refresher course put on by Electronic Services where department staff visit branches during meetings to update branch staff on front line staff expectations and to answer any questions front line staff may have to ask the members of Electronic Services. Branch visits should be conducted on a semi-annual or annual basis to ensure that all branches have the latest information.

Electronic Services staff should actively track the instances where a debit card reissue fee should be charged and whether or not a fee should be charged and report their findings on a monthly basis to branch managers and head tellers so that they may address situations where front line staff is not charging a fee when one should be charged.

Offering a small incentive to front line staff for achieving the target compliance rate for charging fees would be highly recommended. Items could include candy, small office supplies, or other small office items.

Increasing the fee for reissuing a debit card would need to be done in a careful and strategic manner. Front line staff should be notified of when the change will take place and how much the new fee will be so that they will be able to advise customers of the fee increase. All

schedule of fee materials should be updated in timely basis so that they will be available for distribution at the branch when the fee increase takes place. A schedule of fees should also be posted on the Bank's website so that customers may look up various fees at the Bank anytime they wish.