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Summary Results of Survey of Visa U.S.A. Board Members

CLOSED MEMBERSHIP WITH FREEZE OF DUALITY

I. ACTIONS TAKEN WITH REGARD TO EXISTING MASTERCARD PORTFOLIO

- No Member said they would sell their portfolio in the short-run.
- Almost all (22) said they would keep their existing MC portfolio.
- Several Members (3) would test market a solicitation of Visa to attempt to convert the portfolio.
- In the longer run, if brand differentiation were clearly successful in favor of Visa (in terms of profits), then a number of Members (8) would attempt to convert through a reissue at expiration of their MC account base.
- Over the longer run, Members will keep their MC portfolio as long as it continues to return a profit that exceeds the cost savings of eliminating carrying the few accounts. (Share would have to be much less than 5% of portfolio).

REASONS FOR RETENTION OF MASTERCARD PORTFOLIO

- Returns on keeping declining share of portfolio greatly exceed the expected returns on conversion after discounting for expected high attrition.

"Any contact with customer results in attrition"

- Having some MasterCard portfolio ensures flexibility for future aquisitions of portfolios with MC accounts.

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Summary Results of Survey of Visa U.S.A. Board Members

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II. IMPACTS ON PRICING

- Majority (16) said new entrants issuing only MasterCards would have no impact on pricing in the future, i.e., the trends we are experiencing today will continue regardless.
- Several (5) said that new entrants would result in less pressure downward on their current Visa pricing structure.

  Reason: Allow Visa to differentiate which would support premium pricing
- A few (3) said the new entrants would create additional competition on their Visa marketing and result in increased downward pressure on their pricing of accounts.
- One member said reactions would depend on the specifics of the offers.

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III. IMPACT OF BRAND DIFFERENTIATION

- **Virtually all Directors said that attempts to differentiate would drive up the costs to the Membership.**
- About half (13) said that true brand differentiation could be achieved.

  Of those who thought it possible to brand differentiate, just over half (7) believed they could charge a premium price for Visa products as a result.

  (i.e., Less than a third of the total believed that brand differentiation could be achieved and that it would allow for premium pricing.)

  A majority of those who believed that brand differentiation would support premium pricing also said that because efforts to differentiate would have to be "sustained" over time, the cost would likely offset or outweigh premium pricing.

Types of Differentiation

- Image Advertising was primary way, but this could be offset by MasterCard spending levels.

  Could allow for niche marketing and better integration of relationship banking with card products.

  Could result in Visa mandating increased customer service at Member level that would allow for improved differentiation.

- Although some felt differentiation would be limited to image, others believe true utility differentiation is feasible, but would require significant dependence on technology.

  One director said it would have to be "A Product Revolution"

- Several mentioned that as long as they had a MasterCard portfolio it would be in their best interest not to support efforts to differentiate.

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IV. VALUE OF HAVING TWO BRANDS

- Allows Members to generate dual fees from households.
- Some Members reported higher usage and profit per household from those holding both Visa and MasterCard than from a single account even after adjustment for credit limit differences.
- Dual solicitations result in lower marketing/acquisition costs.
- Allows flexibility to respond to customer demands for two brands.

  Consumers hold two brands to segment usage and provide alternative if one "doesn't work."
- Membership in both organizations limits a Member's dependence on a single organization.
- Joint ownership of Visa and MasterCard fosters cooperation between organizations that lowers costs to Members (e.g., risk management).
- Allows Members to offer both brands to correspondent banks and affinity groups. Cost of duality freeze would require renegotiation of contracts/relationships.

Second Brand Alternative

- 5-6 Members supported doing a cost/benefit analysis of this alternative.
- Some members are concerned that second brand would create customer confusion and further diffuse scarce marketing resources.

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Summary Results of Survey of Visa U.S.A. Board Members

CLOSED MEMBERSHIP WITH FREEZE OF DUALITY

V. IMPACT ON RELATIONSHIP BANKING CUSTOMERS

Almost all felt that credit card is not a relationship product, but it can be sold as a part of a relationship package of banking services.

For those who have significant banking relationships with their credit card customers, the vast majority said that freezing duality would have little or no impact on these relationships.

- One Director mentioned that not being able to solicit dual might limit their ability to offer a full banking relationship to new customers, and that this would create incentives to do side deals with MasterCard issuers.

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Summary Results of Survey of Visa U.S.A. Board Members

CLOSED MEMBERSHIP WITH FREEZE OF DUALITY

VI. AFFINITY RULES

- A majority (16) do not presently do affinity programs that are impacted by the rule differences. For them keeping the existing Visa rules on affinity with a freezing of duality would not impact their ability or desire to do affinity programs in the future.

  Several directors mentioned that the margins in affinity programs are so small and will get only smaller so that these programs will not be attractive regardless of rule differences.

- Among those active or potentially active in affinity programs, there was concern that Visa's affinity rules would have to be "loosened" in order to mitigate the impact of duality freeze.

  "Looser" rules did not mean matching all rules.

  Several Directors mentioned that "moving to looser affinity rules potentially could negate/dilute the effect of closed membership".

- One mentioned they would be forced to rethink their relationship with the affinity groups impacted.

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Summary Results of Survey of Visa U.S.A. Board Members

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VII. IMPACT ON BACK OFFICE/OPERATIONS

Nobody believes that appreciable savings would be achieved since they were not likely to discontinue MasterCard support, for the following reasons:

- Volumes/account base would have to decline significantly (below 5% of portfolio) to justify eliminating the dual systems and back office operations.

  Reason: Profit stream on an extremely small portion of the portfolio will offset costs of maintaining dual systems.

- Would want to continue two systems to ensure flexibility in acquiring potential MasterCard portfolios.

- Continuation of acquirer duality requires maintaining both systems.

A general feeling was that costs of operating both systems will increase with attempts to brand differentiate and both organizations compete with different rules and operating regulations.

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Summary Results of Survey of Visa U.S.A. Board Members

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VIII. IMPACT ON PREMIUMS IN THE MARKET FOR PORTFOLIO ACQUISITIONS

Short-Term:

- Even though no Board Members said they would sell their portfolios as a result of closing membership/with duality freeze, a sizable number (13) said that premiums would likely decline.
- A slightly smaller number (7) said that there would be no impact on premiums.
- Several (2) said that there would likely be some impact but they were not sure what would happen.

Long-Term:

- About one-third (7) said that if brand differentiation were successful in boosting profitability of one brand over the other, then premiums would reflect this differential.

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Summary Results of Survey of Visa U.S.A. Board Members

CLOSED MEMBERSHIP WITH FREEZE OF DUALITY

IX. IMPACT ON THE SECURITIZATION MARKET

- Slightly under half (10) said that closing and freezing duality would have no impact on the securitization market.
- A comparable number (11) said the market would likely separate Visa from MasterCard portfolios.

  Some (4) Directors mentioned they would do so to maintain the flexibility to sell their MasterCard portfolio.

  Another group said that if Visa and MasterCard portfolios began to show differences in profit performance, then the relative cost of funds could be impacted by differences in portfolio performance by brand.
- A number of Directors (3) mentioned that this action would clearly add more uncertainty on to a market that is already being affected by uncertain events and would therefore result in higher funding costs (regardless of brands?).

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Summary Results of Survey of Visa U.S.A. Board Members

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X. POTENTIAL REACTIONS BY MASTERCARD

- A large number (10) said that in the short term MasterCard would likely aggressively pursue banks to line up on its side, potentially using price incentives.
- Over half of the Directors said that MasterCard would aggressively try to attract the "non-banks" to become members.

  Several Directors said this action would accelerate the declining trend in profits for the entire bankcard business.

  Several also mentioned that MasterCard might try to convert Discover or JCB.
- A significant number (8) of Directors mentioned that MasterCard itself would take legal action against Visa as a result of this action or would underwrite and support a Member effort.
- A number (6) of Directors said MasterCard would raise its pricing, maybe to punitive levels, for those banks who decided to become Visa Members.
- By comparison, a slightly smaller number (4) of Directors suggested that MasterCard would not shut out Visa Members or engage in punitive pricing until survival of MasterCard is guaranteed.
- Several (3) Directors suggested that MasterCard could seek Merchant exclusives, including those from retailers owned by non-bank members, affinity partners or issuers.
- One Director said this is "the most uncertain aspect of this entire process, and that MasterCard's reaction will likely be more emotional than based on business sense".

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XI. OTHER COMMENTS/REACTIONS

- One Member said it would ignore the rule and continue issuing and promoting both cards.
- REDACTED
- Side deals to maintain duality would become commonplace.

REDACTED

- Potential impact on valuations in bank acquisitions would be negative.

REDACTED

- Establish equity for current members.
- International impact of this could be significant.
- A limited number of Directors said a phase-in of duality freeze is a better approach.
- Drive more banks out of the merchant business.
- Visa service levels could deteriorate at merchant and bank locations serviced by MC banks.
- Both brands may lose momentum against Discover, Amex and JCB as they increase their focus on one another.
- Lack of non-bank investment in Visa could damage long-run survival of Visa.
- MC brand will degenerate into generic brand; non-bank owners.