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CardGenY
How to Prepare for Stress Between Banks and Co-Brand Partners During a Recession

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“All happy families are alike; each unhappy family is unhappy in its own way.”

- Leo Tolstoy

Anna Karenina
**Happy Partnerships**

😊 Each partner is making money in at least the expected amount

<table>
<thead>
<tr>
<th>Program Revenue</th>
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<tbody>
<tr>
<td>Budget Revenue</td>
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<tr>
<td>Actual Revenue</td>
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**Unhappy Partnerships**

😢 Bank tightens underwriting; approvals and credit lines go down

😢 Bank or Partner passes more costs through the Program

😢 Card Product is devalued or fails to remain competitive

😢 Bank or Partner de-prioritizes the Program
Underwriting vs. Program Growth

• Bank has “safety and soundness” regulatory obligations

• Bank needs to stem loss rates

• Partner profit share can be highly dependent on new accounts and continued spend

• See Neiman Marcus v. HSBC
Program Costs

• Revenue Share v. Profit Share

• What happens when:
  • Tax cuts or other laws change?
  • Card benefit funding costs change? (bags, miles, stays, etc.)
  • Bank funding costs change?
  • Charge offs increase?
Program Competitiveness

• Bank may want to raise rates and fees to maintain profitability
  • But what if competitive programs aren’t doing the same?

• Partner may want to devalue loyalty currency or make redemption less favorable
  • But what about the press scrutiny?
When the Program is Not a Priority

• Bank or Partner will do the letter of the contractual obligation, but no more
• Incremental resources are put in more profitable areas
• Program becomes a “zombie”
  • Problem is especially acute for Partner when the Partner goes back to market—is underperformance bank’s fault, partner’s fault, or a product of general market conditions?
What’s Your Program Stress Ball?

• Knowledge: Understand your contractual obligations and consider how the other side views the contractual intent

• Preparation: Understand your “red lines” and appetite for compromise

• Communication: Start discussions now together on what steps you might each take if profitability declines; forecast impacts
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