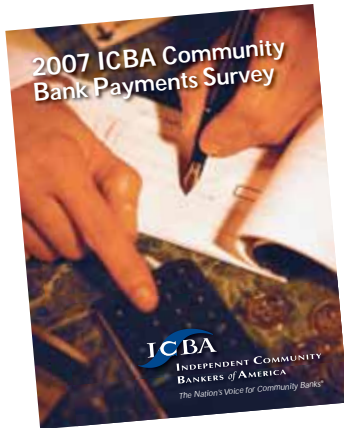




2007 Community Bank Payments Survey



Executive Summary

The Independent Community Bankers of America (ICBA) conducted its second biennial Community Bank Payments Survey during the first quarter of 2007. The Survey, designed to track community bank trends and strategies in payments, was sent to 8,329 community banks. A total of 1,107 community banks responded, yielding a response rate of 13 percent.

Community banks are implementing check image clearing and settlement at an unprecedented rate. Community banks are implementing image clearing and settlement on a large scale. Currently 45 percent of respondents deposit image cash letters, with 88 percent expecting to do so by 2009. Implementing image-based solutions was cited as a top strategic objective.

Community banks are leveraging technology to serve business customers and extend their reach. Community banks are seizing the opportunities created by new check processing options. Twenty-one percent of respondents already offer merchant remote deposit capture, with another 45 percent planning to do so within two years. Remote image capture was the most cited strategic objective. Seventy-two percent of respondents currently offer ACH origination services, and 11 percent are planning to do so in the next two years.

Debit cards are the most important payment product for community banks.

Ninety-seven percent of the responding community banks offer debit cards to consumers and 94 percent consider debit cards important to their banks' payments product line, the highest percentage of any payments product. Sixty-two percent of community banks offer debit cards to businesses.

An increasing number of community banks are processing more electronic transactions than paper ones.

Fifty-four percent of the respondents believe they are processing more paper checks than electronic payments, a 14 percent decrease from 2005 Survey data. Additionally, 81 percent of respondents expect paper check volume to decrease over the next two years.

Community banks with assets under \$100 million are less likely to offer consumer and corporate online bill payment/presentation. While 93 percent of community banks with over \$100 million in assets offer online bill payment and presentation, 53 percent of community banks with less than \$100 million in assets currently offer this product.

Managing all types of payments fraud is a key concern for community banks. Fraud is one of the top two challenges mentioned for all products surveyed. More than 70 percent of community banks believe fraud is a current and future challenge (within two years). Most respondents (68 percent to 74 percent) also view check, signature debit cards and ACH fraud as a top challenge. Only 30 percent of surveyed banks see prepaid card fraud as a top challenge in the next two years.

The 2007 ICBA Community Bank Payment Survey results confirm that, as a whole, community banks are vibrant, tactically nimble, and able to radically reengineer their payments operations to become more efficient and competitive. Additionally, they readily examine and implement new product opportunities as a result of efficiencies gained through technology such as merchant remote image capture.

The rapid adoption of check image exchange is an example of this nimbleness. Eighty-eight percent of community bank respondents, regardless of size, expect to implement check image clearing and settlement by 2009. The Federal Reserve's recent moves to close and consolidate check-processing locations and radically revise check transportation routes has further galvanized community banks to implement check image clearing and settlement services. Such services are necessary to avoid eroding service levels, punitive pricing by the Fed, and delayed funds availability and settlement in today's increasingly competitive image processing environment.

The rapid pace of change poses significant challenges for community banks under \$100 million in assets, which according to the Survey are less likely to issue debit cards to a large segment of their customers, even though these banks regard debit cards as an important payments product offering. These banks are also less likely to offer online products such as online bill payment compared with banks in larger asset categories.

Although the 2007 Survey results demonstrate that community banks are tactically vibrant, the Survey was inconclusive regarding whether community banks have a focused strategy for payments. While there is overwhelming interest in merchant remote image capture, for example, interest in other cash management applications—the building blocks of an overall payment strategy—is not as strong. And while most community banks cite payments fraud as a major challenge, few note risk management and fraud detection as a strategic objective. Tactical nimbleness and a fast-follower mentality will ensure a successful implementation, but they should not serve as substitutes for strategic vision and execution. A sound payments strategy ensures that community banks offer a robust suite of products, risk is successfully managed, and fraud is effectively controlled.

2007 Community Bank Payments Survey - Summary Results

Some results are displayed by bank asset size (**Large, Medium, and Small**) for more accurate comparisons.

Respondent Profile

Bank Group By Asset Size	Responses	Percentage
Large - \$501 million or more	131	12%
Medium - \$101 - \$500 million	496	45%
Small - \$100 million or less	480	43%
Total Responses	1,107	100%

Payments Strategies & Trends

Paper Checks vs. Electronic Transactions

Paper Checks > Electronic Transactions	54%
Electronic Transactions = Paper Checks	24%
Electronic Transactions > Paper Checks	17%

Change in Annual Gross Payments Revenue

Increasing significantly/slightly	66%
Remaining the same	24%
Decreasing significantly/slightly	4%

Payment Products Importance

(Response = Very Important or Somewhat Important)

Debit cards	94%
Checks	81%
ACH Origination	78%
Online Bill Payment/Presentment	76%
Business Banking (Cash Management)	72%
Merchant Processing	57%
Credit cards	42%
Prepaid cards	28%

Checks

Check Products Offered	Current	In 2 Yrs
Image statements	80%	14%
Check images via online banking	63%	23%
Image cash letter deposit	45%	43%
Image cash letter receipt	42%	44%
Branch remote image check capture	36%	39%
Merchant remote image check capture	21%	45%

Change in Paper Check Volume Within 2 Years

Increasing significantly/slightly	9%
Remaining the same	9%
Decreasing significantly/slightly	81%

Check Challenges	Current	In 2 Yrs	No Challenge
Managing check fraud	74%	13%	8%
Implementing/enhancing image exchange	40%	24%	22%
Courier schedules & fees	31%	20%	29%
Reengineering back room	30%	21%	29%
Managing declining paper check volumes	20%	23%	44%

Automated Clearing House (ACH)

ACH Products Offered	Current	In 2 Yrs
Payroll	78%	8%
Recurring debits	75%	9%
Internet-initiated entry (WEB)	33%	15%
Telephone-initiated entry (TEL)	22%	10%
Point-of-purchase check conversion (POP)	13%	21%
Back-office check conversion (BOC)	9%	28%
Lockbox check conversion (ARC)	7%	17%

ACH Challenges	Current	In 2 Yrs	No Challenge
Managing ACH risk	74%	16%	6%
Managing ACH fraud	68%	20%	7%
Enhancing profitability	55%	26%	9%
Managing exception items	41%	30%	24%
Handling check conversion	42%	25%	24%
Growing origination volume	40%	31%	19%

Automated Clearing House (ACH)

Change in ACH Exception Volume vs. Last Year

Increasing significantly	12%
Increasing slightly	55%
No change	29%
Decreasing slightly	2%
Decreasing significantly	<1%

Business Banking (Cash Management)

Business Banking Products Offered	Current	In 2 Yrs
Wire transfer	86%	6%
ACH origination services	72%	11%
Overnight investments/sweeps	45%	17%
Balance reporting	44%	16%
Zero balance account	40%	13%
Cash services	40%	14%
Account reconciliation	36%	19%
Merchant remote image check capture	21%	45%
Lockbox	21%	10%
Positive pay	17%	25%
Controlled disbursement	12%	16%

Card Merchant Processing Deployment

Authorize Independent Sales Organization (ISO), share profits	27%
Set up and manage merchants	27%
Relationship with ISO, get fees, no profits	13%
Relationship with correspondent, get fees, no profits	7%
Authorize correspondent, share profits	7%
Do not offer merchant processing	15%

2007 Community Bank Payments Survey - Summary Results

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Debit Cards

Debit Card Products Offered	Current	In 2 Yrs
Consumer combination	89%	2%
Business combination	55%	15%
Consumer PIN Only	27%	3%
Consumer signature Only	15%	3%
Business PIN Only	13%	6%
Business signature Only	10%	6%
Contactless	2%	9%

Signature Debit Card Challenges	Current	In 2 Yrs	No Challenge
Mitigating fraud losses	74%	13%	4%
Increasing card usage	60%	15%	14%
Decreasing interchange fees	43%	21%	16%
Decreasing fee income	41%	23%	15%
Offering new products	30%	25%	18%
Increasing reward program costs	15%	27%	12%

Prepaid Cards

Prepaid Card Products Offered	Current	In 2 Yrs	No Interest
Visa/MasterCard gift	43%	15%	26%
Travel	20%	10%	49%
Health savings	13%	17%	46%
Private label gift	6%	8%	66%
Benefits/flexible spending	5%	11%	60%
Payroll	3%	16%	52%
Incentive	1%	8%	69%

Prepaid Card Challenges (Excludes "Not Applicable" Responses)	Current	In 2 Yrs
Understanding & managing risks	54%	26%
Understanding & complying with regulations	53%	26%
Mitigating fraud losses	47%	30%
Providing cardholder & merchant education	41%	31%
Understanding profit model	40%	31%
Identifying appropriate vendors	34%	32%
Providing cardholder balance	31%	31%

Credit Cards

Credit Card Products Offered	Current	In 2 Yrs
Visa/MasterCard consumer	69%	3%
Visa/MasterCard business	61%	6%
Purchasing	4%	4%
Fleet	2%	2%
Other brands (AMEX, Discover)	<1%	1%
Contactless	<1%	4%
Other	<1%	1%

Credit Cards, Cont.

Credit Card Challenges (Excludes "Not Applicable" Responses)	Current	In 2 Yrs
Mitigating fraud losses	52%	19%
Increasing card usage	51%	23%
Offering new card products	36%	28%
Decreasing income	39%	24%
Increasing reward program costs	29%	29%

Online Bill Payment/Presentation

Online Bill Payment/Presentation Products Offered	Current	In 2 Yrs
Online consumer bill payment	75%	12%
Online corporate bill payment	48%	18%
Electronic consumer bill presentment	21%	17%
Electronic corporate bill presentment	15%	18%
Telephone consumer bill payment	11%	10%
Money transfer services for immigrants	3%	8%

Payments Fraud

Current and Future Challenge by Payments Product	Current	In 2 Yrs
Checks	74%	13%
Signature debit cards	74%	13%
ACH origination	68%	20%
Credit cards	52%	19%
Prepaid cards	47%	30%

Comments or Questions

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