

CREDIT CARD RELATED MERCHANT ACTIVITIES

Expanded Analysis Decision Factors

This section evaluates the significance of deficiencies or other specific concerns identified in the Core and Expanded Analyses. Click on the hyperlinks found within each of the Expanded Analysis Decision Factors to reference the applicable Expanded Analysis Procedures. If needed, proceed to the accompanying [Impact Analysis](#).

E.1. Are deficiencies immaterial to management’s supervision of credit card merchant activities? Refer to Expanded Analysis [Procedures #1-7](#).

E.2. Are deficiencies immaterial to the bank’s financial condition? Refer to Expanded Analysis [Procedures #8-9](#).

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Expanded Analysis Procedures

Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. The flexible guidelines specified for the Core Analysis also apply to the Expanded Analysis.

Expanded Analysis Procedures

1. Investigate why the policy deficiencies identified in the Core Analysis exist. Discuss recommendations with management. Possible reasons for policy deficiencies may include the following circumstances:

- **Management overlooked issues**
- **Management is unfamiliar with prudent credit card related merchant activity guidelines and procedures**
- **Management is unwilling to create or enhance policies and procedures**

2. If poor compliance with policies and procedures exists, determine the reasons. Possible reasons are detailed below:

- **Lack of awareness**
- **Disregard for established policies**
- **Misunderstanding the intent of policy guidelines**
- **Poor internal communication of subsequent revisions to policy and procedures**
- **Weak internal controls, audit procedures, or reporting mechanisms**

3. Determine why management and board reports are deficient. Seek management’s responses to and corrective actions taken for these deficiencies. The cause(s) of deficient reports may stem from the following circumstances:

- **Inaccurate information is contained in reports, and input and output has not been tested**
- **Management information system is unable to generate necessary reports**
- **Management is unfamiliar with the information system’s capabilities**
- **Management is unfamiliar with important monitoring reports**

4. Determine whether management supports proper controls and monitoring to ensure policy guidelines are followed in the future.

5. Research the reasons for weak controls, and evaluate management’s plan to correct these weaknesses. Perform additional internal control evaluations as necessary, such as:

<ul style="list-style-type: none"> • Determine whether access to merchant and ISO reserve accounts is restricted to authorized bank personnel • Review exception reports on merchants experiencing unusual activities, and determine the reasons for the exceptions
6. Investigate the causes of operating losses in the merchant credit card operations, and evaluate the prospects for profitability.
7. Determine the reasons for inadequate chargeback reserves.
8. If the bank suffered significant losses on chargebacks from a particular merchant or group of merchants over the past several years, determine: <ul style="list-style-type: none"> • Why certain merchants are generating significant chargebacks • What actions management takes to reduce losses (e.g., implementing additional controls or terminating an arrangement with a merchant)
9. Investigate reasons for merchants with low profitability or actual losses. Only review those that are significant: <ul style="list-style-type: none"> • Review a sample of written onsite inspections • Review a sample of merchant profitability accounts, and compare actual pricing against the pricing policy • Review the most recent financial statement, and assess the financial capacity of the merchant • Determine whether management is giving the merchant a favorable discount rate because of an existing commercial loan or deposit relationship¹ • Review any corrective actions management intends on implementing
End of Expanded Analysis. If needed, Continue to Impact Analysis.

¹ Although this is an acceptable practice for non-insiders, management will generally assess the overall profitability of the merchant account to ensure the other banking relationship offsets the favorable discount rate.

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Impact Analysis Procedures

Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition, and directs the examiner to consider possible supervisory options.

Impact Analysis Procedures

1. Determine the impact merchant processing deficiencies have on earnings and capital. Consider potential losses due to inadequate reserves and any other contingent liability.

2. Consider whether an informal or formal enforcement action is warranted.

3. Discuss the possibility of administrative and enforcement actions with appropriate supervisory or agency personnel before discussing the matters with bank management and the board.

4. Prepare appropriate recommendations for administrative and enforcement actions and associated memorandums.

End of Impact Analysis.