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Memorandum

To: Foreign Transaction Working Group
From: Jean Malone
Date: March 6, 2008
Re: Algorithm Status Report – Alternate Scenarios for Option 2

We were asked to develop estimates using alternate scenarios. The scenarios are:

1. Estimates of Foreign Transactions Due to “Other Cards”
2. Option 2 Payment in Tiers

1. Estimates of Foreign Transactions Due to “Other Cards”

The following two tables show the results of varying the share of foreign transactions attributable to other credit/debit cards. Table 1 contains the base case from page 7 of the 3/1/08 memo, showing the application of a 16.5% share. Table 2 contains a revised base case showing the application of a 30% share. The expected typical refund would decrease from \$52.25 to \$43.80.

Table 1: Assuming a 16.5% “other cards” share

Purpose	Option 2 Percent of All Travel	Option 2 Days	Tourism Typical Spending	Expected Typical Total
Visiting Friends/Relatives	20%	16	\$32	\$516
Vacation/Leisure	38%	30	\$44	\$1,311
Business	29%	23	\$131	\$3,023
Other	13%	10	\$37	\$375
	100%	80		\$5,225

Table 2: Assuming a 30% “other cards” share

Purpose	Option 2 Percent of All Travel	Option 2 Days	Tourism Typical Spending	Expected Typical Total
Visiting Friends/Relatives	20%	16	\$27	\$433
Vacation/Leisure	38%	30	\$37	\$1,099
Business	29%	23	\$110	\$2,534
Other	13%	10	\$31	\$314
	100%	80		\$4,380

In our discussions of calculation of total refund for Option 2, the following assumptions were made:

- Option 2 claims received as of 2/20/08 = 2,114,446
- Forecasted future Option 2 claims = 105,722
- Minimum payment = \$25

If there are no limits on the number of days, allowing up to the highest reported value for days traveled (3,933), then using the 16.5% “other cards” estimate, the average Option 2 payment would be \$99.89 and the total Option 2 payment would be \$222 million.

If the “other cards” estimate is changed to 30%, the average Option 2 payment would be \$85.12 and the total would be \$189 million.

The average payment in these examples is higher than the “typical spending” because of the outliers in reported days of travel.

2. Option 2 Payment in Tiers

Calculations for four payment tiers are in the tables below. Both assume that all claims will be paid 100% for up to 100 days. For claims that have more than 100 days, up to 200 days will be paid at 50%. Claims with more than 200 days will be paid 25% for up to 500 days. Claims will be paid 10% for the excess over 500 days. Therefore, a claim with 1,000 days at \$1 a day payment would be paid \$275 as follows:

100 days @ \$1.00 = \$100
 100 days @ \$0.50 = \$ 50
 300 days @ \$0.25 = \$ 75
 500 days @ \$0.10 = \$ 50

Table 3 shows the results for Typical Spending that would return \$.52 per day (assuming a 16.5% Other Card share of spending). Table 4 shows the results for Typical Spending that would return \$.44 per day (assuming a 30% Other Card share of spending).

Table 3

Typical Spending estimate	\$52.25		
	Total	Interval Payment	Payable
	(\$Millions)	%	(\$Millions)
All Payments for first 100 days	\$88	100%	\$88
All Payments for 101-200 days	\$35	50%	\$18
All Payments for 201-500 days	\$43	25%	\$11
All Payments for more than 500 days	\$55	10%	\$5
Totals	\$222		\$122

Table 4

Typical Spending estimate	\$43.80		
	Total	Interval Payment	Payable
	(\$Millions)	%	(\$Millions)
All Payments for first 100 days	\$77	100%	\$77
All Payments for 101-200 days	\$30	50%	\$15
All Payments for 201-500 days	\$36	25%	\$9
All Payments for more than 500 days	\$46	10%	\$5
Totals	\$189		\$106