AFP® Annual Conference

Association for Financial Professionals®

November 7-10, 2010 | San Antonio

ORIGINAL
ESSENTIAL
UNBIASED
INFORMATION

Bank Relationship Management

Taking your Bank Fee Analysis & Bank Account Management to the Next Level

Stephen Weiland
VP, Strategic Development
The Weiland Financial Group

Daniel Gill
Director of Corporate Systems
The Weiland Financial Group

THE WEILAND FINANCIAL GROUP *

BANK ACCOUNT ANALYSIS & MANAGEMENT EXPERTS

Longevity

- Founded in 1981 – legacy company of 1969 Weiland Computer Group, Inc.

Innovation

- Primary author of the 822 account analysis statement & BSB global billing standard

Recognized Expertise

- Primary author of *AFP Guide to Account Analysis: Statement Standards & Transaction Set 822 Implementation Guide* and *BSB Requirements Document*

Matchless Perspective

- Only account analysis solutions provider serving both banks & corporations

* *The Weiland Financial Group is a wholly owned subsidiary of Open Solutions Inc.*

BANK FEE ANALYSIS AND BEYOND
A STRATEGIC & TACTICAL EXAMINATION

- Analyzing “Account Analysis”
- Minimize Your Service Fees
- Optimize Your Balances
- Use Electronic Statements
- Respond to Regulatory Reform

BANK FEE ANALYSIS AND BEYOND
A STRATEGIC & TACTICAL EXAMINATION

- **Analyzing "Account Analysis"**
  - Account analysis: why examine it?
  - Account analysis: a weighing process
  - Elements of account analysis
  - The baseline statement
- Minimize Your Service Fees
- Optimize Your Balances
- Use Electronic Statements
- Respond to Regulatory Reform

WHY DO IT?

REASONS TO MANAGE BANK CHARGES & BALANCES

- **Cost Control**
  - Reduce bank fees, optimize balances
  - Eliminate pricing errors, invalid services, bad volumes, closed accounts, etc.
  - Allocate costs to departments
  - Compare prices by bank and benchmarks
- **Investments**
  - Maximize return on investable balances
  - Track balances, offset fees, & invest the rest or fund other activities
- **Compliance**
  - Bank fees and balances merit oversight
  - SOX argues for bank fee and balance control and reporting
- **Metrics**
  - Your statements provide tremendous insight into your treasury operation
  - What divisions/departments are using what services and at what cost?
  - Is our service usage (volume) increasing or decreasing? Why?
  - What should we budget for the coming year?
  - Which bank offers the best prices?

BANKS MAKE MISTAKES

ARE YOU CATCHING THEM?

- 1,000’s of customers
- 100’s of pricing plans
- 1,000’s of contract dates
- 100’s of locations
- 1,000’s of services & chargeable events
- 1,000’s of accounts & relationships

Funneled (keyed) Through Multiple Systems → **Billing System as Catchall** = Mistakes

WHAT IS ACCOUNT ANALYSIS?

A MONTHLY STATEMENT BUT & SO MUCH MORE

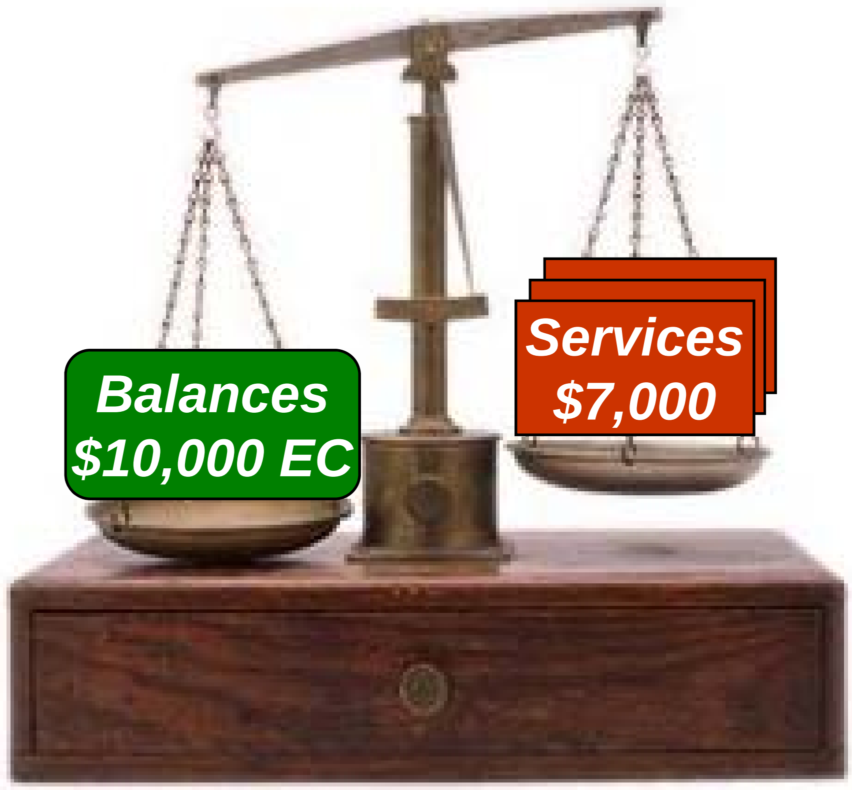
- A bill for services rendered
- A marvelous record of balances and services
- A weighing process
- For some…a flat out mystery

ACCOUNT ANALYSIS

A WEIGHING PROCESS

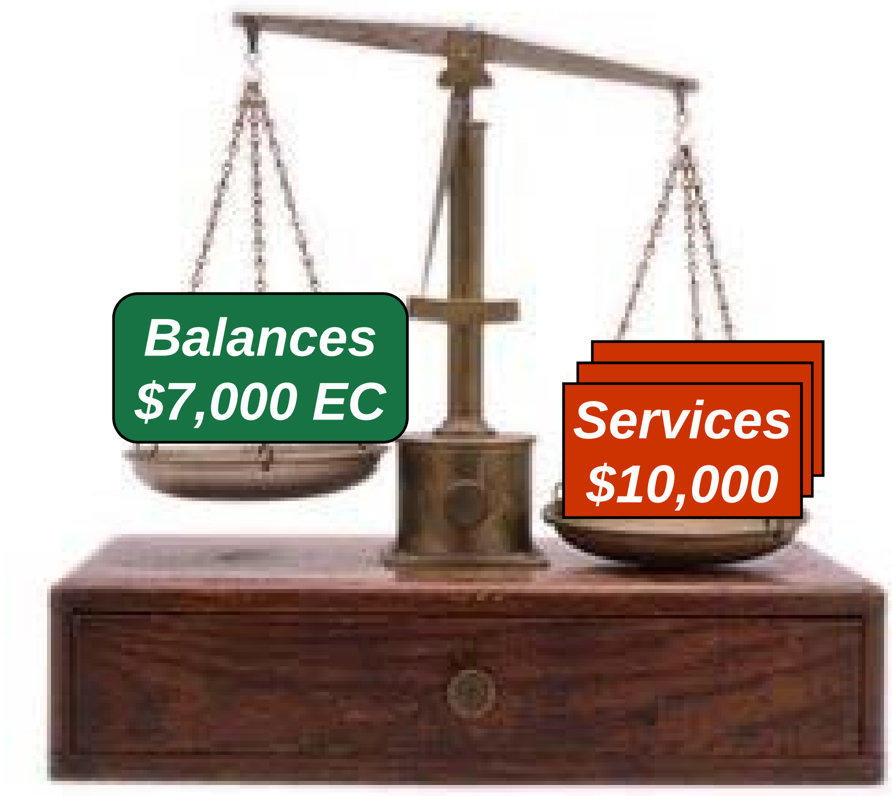
EARNINGS CREDITS > SERVICE CHARGES

PROFIT TO THE BANK



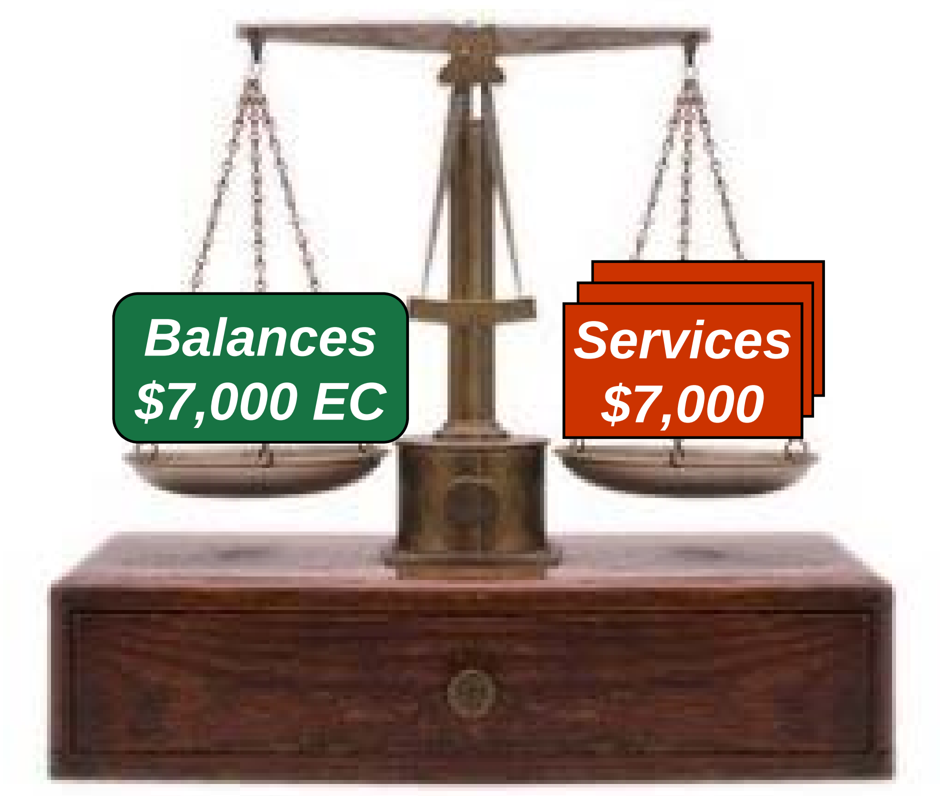
EARNINGS CREDITS < SERVICE CHARGES

YOU OWE THE BANK MONEY ($3,000)



EARNINGS CREDITS = SERVICES

BREAK EVEN – YOU OWE THE BANK NOTHING



ELEMENTS OF ACCOUNT ANALYSIS

CALCULATE THE BALANCE ON WHICH THE EC IS BASED

Balances

Average Daily Ledger Balance	$250,000
Less Float	50,000
Average Daily Collected Balance	200,000
Less Reserve Requirement (10%)	20,000 ????
Balance to Support Services	180,000

ELEMENTS OF ACCOUNT ANALYSIS

LIST AND TOTAL ALL PERIOD SERVICE CHARGES

Services

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	8,000	6.00%	40.77H	
FDIC Premium/Thou ????	250	.06	15,00H	
Monthly Maintenance	1	30.00	30.00	40,000
Deposit Items	1,000	.10	100.00	133,333
			-----	------
Total Charges Before Credit			185.77	173,333
Compensable Subtotal			130.00	173,333
Hard Charge Subtotal (H)			55.77	

ELEMENTS OF ACCOUNT ANALYSIS

ESTABLISH THE COMPENSATION POSITION

ACCOUNT POSITION.......	..FEES	BALANCES
Earnings at 1.0%	150.00	180,000
Less Compensable Charges	130.00	173,333
Earnings Excess	20.00	6,667
Hard Charges (H)	55.77	
Total Due	55.77	

THE "BASELINE" STATEMENT

Balances

Average Daily Ledger Balance	$250,000
Less Float	50,000
Average Daily Collected Balance	200,000
Less Reserve Requirement (10%)	20,000
Balance to Support Services	180,000

ACCOUNT POSITION	FEES	BALANCES
Earnings at 1.0%	150.00	180,000
Less Compensable Charges	130.00	173,333
Earnings Excess	20.00	6,667
Hard Charges (H)	55.77	
Total Due	55.77	

Services

SERVICE TOTALS	CHARGE	BALANCE
Total Charges Before Credit	185.77	173,333
Compensable Subtotal	130.00	173,333
Hard Charge Subtotal (H)	55.77	

BANK FEE ANALYSIS AND BEYOND

A STRATEGIC & TACTICAL EXAMINATION

- Analyzing "Account Analysis"
- **Minimize Your Service Fees**
  - Fee-based (hard charged) vs. compensable
  - Volume discounts / threshold pricing
  - Service based considerations
  - Discounts
  - Working with services
- Optimize Your Balances
- Use Electronic Statements
- Respond to Regulatory Reform

FEE-BASED (HARD CHARGE) V. COMPENSABLE

BASELINE

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	8,000	6.00%	40.77H	
FDIC Premium/Thou	250	.06	15,00H	
Monthly Maintenance	1	30.00	30.00	40,000
Deposit Items	1,000	.10	100.00	133,333
			------	-------
Total Charges Before Credit			185.77	173,333
Compensable Subtotal			130.00	173,333
Hard Charge Subtotal (H)			55.77	

FEE-BASED (HARD CHARGE) V. COMPENSABLE

CHANGED HARD CHARGE TO COMPENSABLE

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	8,000	6.00%	40.77	54,360
FDIC Premium/Thou	250	.06	15,00	20,000
Monthly Maintenance	1	30.00	30.00	40,000
Deposit Items	1,000	.10	100.00	133,333
			------	------
Total Charges Before Credit			185.77	247,693

FEE-BASED (HARD CHARGE) V. COMPENSABLE

BASELINE

ACCOUNT POSITION.......	..FEES	.BALANCES
Earnings at 1.0%	150.00	180,000
Less Compensable Charges	130.00	173,333
Earnings Excess	20.00	6,667
Hard Charges (H)	55.77	
Total Due	55.77	

FEE-BASED (HARD CHARGE) V. COMPENSABLE

CHANGED HARD CHARGE TO COMPENSABLE

ACCOUNT POSITION.......	..FEES	.BALANCES
Earnings at 1.0%	150.00	180,000
Less Compensable Charges	185.77	247,693
Compensable Charges Due	(35.77)	(67,693)
Total Due	35.77	

Baseline was 55.77 due

VOLUME DISCOUNTS / THRESHOLD PRICING
BASELINE

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	8,000	6.00%	40.77	54,360
FDIC Premium/Thou	250	.06	15,00	20,000
Monthly Maintenance	1	30.00	30.00	40,000
Deposit Items	1,000	.10	100.00	133,333
			------	------
Total Charges Before Credit			185.77	247,693

VOLUME DISCOUNTS / THRESHOLD PRICING

CHANGED TO VOLUME DISCOUNT

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	8,000	6.00%	40.77	54,360
FDIC Premium/Thou	250	.06	15,00	20,000
Monthly Maintenance	1	30.00	30.00	40,000
Deposit Items	400	.10	40.00	53,333
	600	.08	48.00	64,000
			------	-------
Total Charges Before Credit			173.77	231,693

Baseline was 185.77 before credit

TAKEN TOGETHER, VOLUME DISCOUNTS ON TOP OF COMPENSABLE CHARGES LOWER YOUR FEES

ACCOUNT POSITION.......	..FEES	.BALANCES
Earnings at 1.0%	150.00	180,000
Less Compensable Charges	173.77	231,693
Compensable Charges Due	(23.77)	(51,693)
Total Due	23.77	

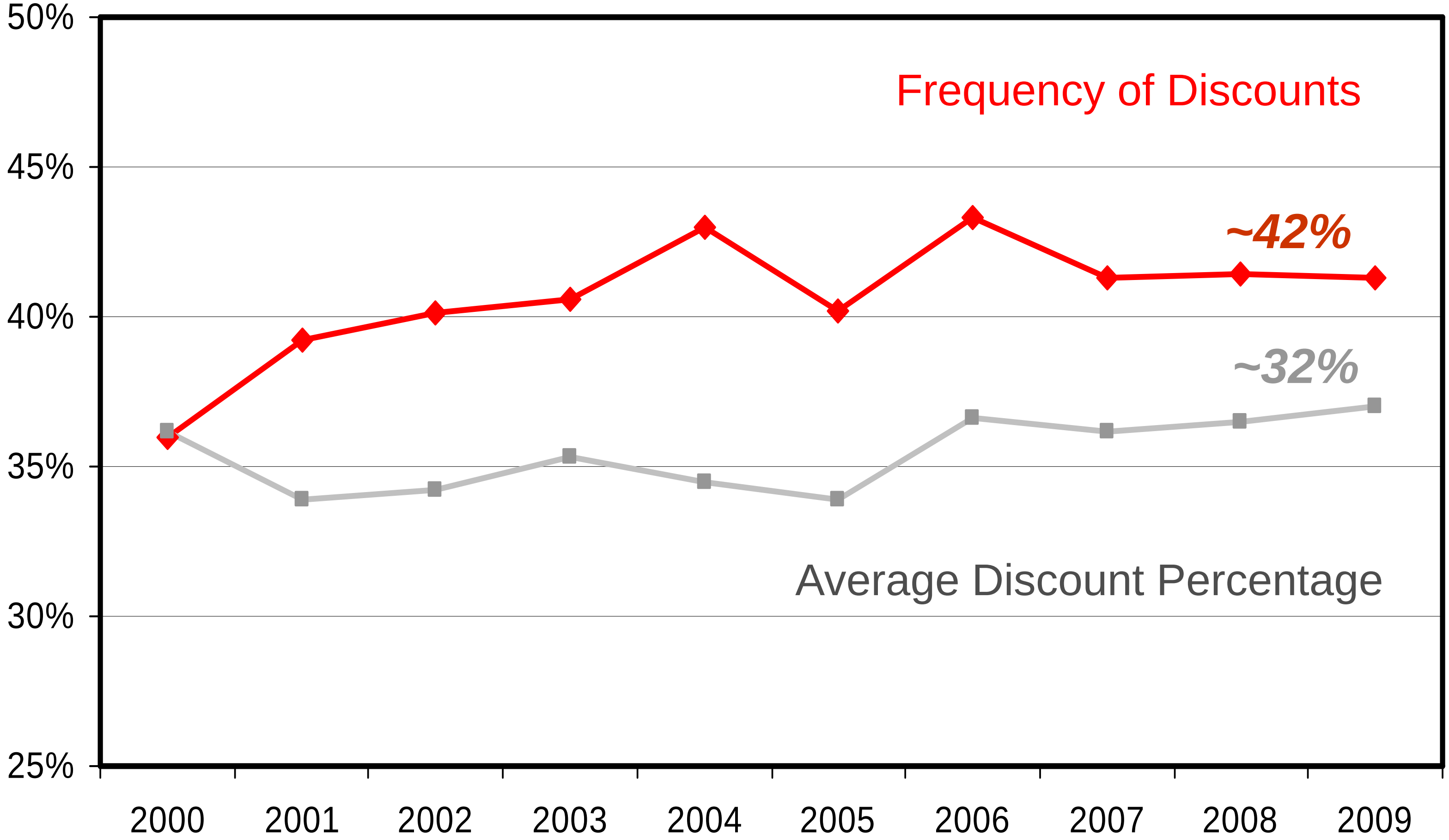
Baseline was 35.77 due

SERVICE CONSIDERATIONS & QUESTIONS

- Wrong Price
- Not my Service
- Volume Discounts, Threshold Pricing (.05/first 500, .04/next 1,000 …….)
- Percent-of-Volume Tier Pricing (first “x%” of volume at “y” cents, etc.)
- Volume Tier with 1st Tier Flat Charge
- Balance-Based Tier Pricing (discounts based on collected balance tiers)
- Fee-based (Hard Charged) vs. Compensable
- Base Charge plus Volume ($20 plus volume charge)
- Min / Max Charge Limits (never less than & never more than)
- Basket Pricing (chargeable volume is sum of other volumes)
- ODIC on Book, Collected, Compensating Balance ODs
- Waivers Based on Balance Levels
- Percentage Discount on Charge Total

DISCOUNTS

FAIRLY CONSISTENT OVER TIME



Source: 2009-2010 Blue Book of Bank Prices™

DISCOUNTS

WHO GETS THEM?

- **Most knowledgeable customers**
- High transaction volumes
- Most profitable relationships
- New relationships
- Geographic location
- Target discounts at selected services
- Product profitability pricing

WORKING WITH SERVICES

- Examine Your Accounts & Service Mix with your Banker
  - How do your products and services relate / overlap?
  - What about: *Wholesale/Retail Lockbox, Controlled Disbursement, ZBAs, Investment Sweeps, Line of Credit Sweeps, Direct Deposits, Positive Pay, Information Reporting, Deposit Concentration and Recon, Imaging?*
- Your Banker can point out services you don't need
  - Multiple transfer charges replaced with ZBA account
  - Multiple lockbox accounts replaced with a single, multi box account
  - Why are you getting both photocopies and imaging?
  - Could positive pay cut down your stop orders?
- Your Banker can recommend services you should have
  - Rule based logic can identify worthwhile services
  - Hundreds of paid checks every month but no reconciliation
  - Excess balances suggest a sweep service
  - Your banker is an expert – use this resource!

BANK FEE ANALYSIS AND BEYOND

A STRATEGIC & TACTICAL EXAMINATION

- Analyzing "Account Analysis"
- Minimize Your Service Fees
- **Optimize Your Balances**
  - – Interest on reserves
  - – OD interest on negative or net
  - – Right of offset: daily or monthly
  - – Tiered earnings credit rates
  - – Extended compensation cycles
  - – Pay with balances or fees?
- Use Electronic Statements
- Respond to Regulatory Reform

INTEREST ON RESERVES

FINANCIAL SERVICES 2006 REGULATORY RELIEF ACT

- Effective date moved from Oct 1, 2011, to Oct 1, 2008 **REPEAL???**
- Authorizes interest payments on funds maintained by a depository institution at the Fed
  - **On Required Reserves**: average targeted Fed funds rate less 10 points
  - On Excess Reserves: lowest targeted Fed funds rate less 75 points
  - On Clearing Balances: implicit earnings credit against Fed services
- Depository institutions not required to pass along interest to their customers but can in the form of soft earnings credits
- **NOTE:** Dodd-Frank's repeal of Reg Q will allow hard interest payments to DDA accounts starting July 2011
- How (and will) corporate checking accounts benefit?

INTEREST ON RESERVES

WILL A CORPORATE CHECKING ACCOUNT BENEFIT?

Average Daily Ledger Balance		$250,000
Less Float		50,000
Average Daily Collected Balance		200,000
Less Reserve Requirement (10%)		20,000
Balance to Support Services		180,000
NIF Earnings at 1.0% = 150.00		180,000

Classic Approach

Reserve reduction with ECR of 1.0%

Average Daily Ledger Balance		$250,000
Less Float		50,000
Average Daily Collected Balance		200,000
NIF Earnings at 1.0% = 166.67		200,000
NIF Earnings at 0.9% = 150.00		200,000

New Approaches

Eliminate reserves with same rate of 1.0%

Eliminate reserves with reduced rate of 0.9%

Average Daily Ledger Balance		$250,000
Less Float		50,000
Average Daily Collected Balance		200,000
Less Reserve Requirement (10%)		20,000
Balance to Support Services		180,000
NIF Earnings at 1.0%	= 150.00	180,000
Reserves Earnings at 1.9%	= 31.67	20,000
	181.67	

Reserve reduction with ECR of 1.0% *and* earnings on reserves at 10 points less than the Fed Funds rate of 2.0%

OD INTEREST ON NEGATIVE OR NET

Example Assumptions:

30 day month

Ending OD balance on day one: (90,000)

Ending balance on each of the other 29 days: 13,448.28

Aggregate Balance Results:

Positive: 29 * 13,448.28 =	**390,000**
Negative: 1 * (90,000) =	**(90,000)**
Net:	**300,000**

Average Balance Results:

Positive: 390,000 / 30 =	**13,000**	
Negative: (90,000) / 30 =	**(3,000)**	**Charge**
Net: 300,000 / 30 =	**10,000**	**No Charge**

RIGHT OF OFFSET – DAILY OR MONTHLY

Example Assumptions:

Two accounts in the relationship, # 111 and #222, and a three day month

	#111		#222		Parent
Day 1 Balance:	(9)	+	9	=	0
Day 2 Balance:	15	+	9	=	24
Day 3 Balance:	15	+	9	=	24
Avg Pos:					16
Avg Neg:					0
Avg Net:					16
Avg Pos:	10	+	9	=	19
Avg Neg:	3	+	0	=	3
Avg Net:	7	+	9	=	16

With Daily Offset there is No Parent OD at day's end.

With Daily Offset there is No OD charge at Parent.

Add detail account balances Monthly.
There is an OD charge!

TIERED EARNINGS CREDIT RATES

BASELINE: EARNINGS AT 1%, ANY BALANCE

ACCOUNT POSITION.......	..FEES	.BALANCES
Earnings at 1.0%	150.00	180,000
Less Compensable Charges	173.77	231,693
Compensable Charges due	(23.77)	(51,693)
Total Due	23.77	

TIERED EARNINGS CREDIT RATES

IN EFFECT, 1.5% ECR IF BALANCES OVER $100,000

ACCOUNT POSITION.......	..FEES	.BALANCES
Earnings at 1.5%	225.00	180,000
Less Compensable Charges	173.77	154,461
Earnings Excess	51.23	32,739
Excess	51.23	

Baseline was 23.77 charges due

No fees due and now a Balance Excess.

EXTENDED COMPENSATION CYCLES
DO YOU HAVE EXCESS EARNINGS?

MONTH	CREDITS	CHARGES	EXCESS/ DEFICIT	
Apr	50.00	40.00	10.00	Goodbye!
May	59.00	47.00	12.00	Goodbye!
Jun	40.00	48.00	(8.00)	Pay Bank!
	------	------	-------	
	149.00	135.00	14.00	Yes!

Not so fast. What about hard interest on excess balances?

PAY WITH BALANCES OR FEES?

Assumptions:

IMPORTANT!

Monthly Compensable Charges = $1,000
Bank Net-of-Reserves Earnings Rate = 1.0%
Requirement Factor = 1/(.01 * (30/360)) = $1,200
Explicit, Hard Interest Rate = 1.5%

Balance Approach (Earnings offset Fees):

Monthly Balance Required: $1,000 * $1,200 = $1,200,000
Plus 5% balance cushion: $60,000
Total Monthly Average Balance Used: $1,260,000

Fee Approach:

	Income	Expense		
Monthly Fees:	0	$1,000		
Monthly Hard Interest:	$1,575	0	($1,260,000 *1.5% *30/360)	
Transfer Fees:	0	$50		
Net Monthly IBT:	$1,575 -	$ 1,050	=	$525.00
	Less 20% Tax on Net:			$105.00
			Net Gain:	$420.00

PAY WITH BALANCES OR FEES?

OTHER CONSIDERATIONS

- If you are in a short-term borrowing mode it would be foolish to leave balances in the deposit account because your earnings credit rate (ECR) will always be lower than the bank's interest rate on borrowed funds. In this case, use available cash to avoid borrowing.

- ***Some*** banks may still deduct a 10% reserve requirement from the deposit balance before calculating the earnings credit rate (ECR). That automatically makes it 10% more expensive when compensating the bank with balances as compared to a fee approach.

- The repeal of Reg Q allows for a compensation with both soft & hard interest, eliminating the risk of excess soft credits going to waste

T

- An ed?
- Wh
  - C
  - F
  - Et
  - **Sex**

BANK FEE ANALYSIS AND BEYOND

A STRATEGIC & TACTICAL EXAMINATION

- Analyzing “Account Analysis”
- Minimize Your Service Fees
- Optimize Your Balances
- **Use Electronic Statements**
  - What are they?
  - What’s the purpose?
  - A “raw” 822
  - Who’s producing them?
- Respond to Regulatory Reform

WHAT ARE THEY?

ELECTRONIC STATEMENT STANDARDS

	822	BSB
Standards Body	ANSI ASC (US)	TWIST (Global)
Format	X12 Looping Format	XML
Balances	Important – earnings credits, reserves	Not required but desirable (No Reg Q)
Compensation	Yes – single currency	Yes – multiple currencies
Services	Very important – AFP codes, balance required	Very important – AFP codes optional, no balance required
Taxes & Currencies	NA	Very Important
Relationship Structure	Yes	Yes
Adjustments	Yes	Yes
A Tool for Treasury?	Absolutely!	Absolutely!

WHAT'S THE PURPOSE?

AUTOMATE THE ANALYSIS PROCESS

- **Validation**
  - Check all bank calculations & validate expected balances, volumes, prices
  - Audit each and every line item charge and tax
  - Automatically capture and communicate all billing errors for cash savings
  - Satisfy SOX and EU directives by thorough statement examination
- **Analysis**
  - Improve negotiations by knowing more than your bank
  - Compare service prices across banks and benchmarks
  - Perform modeling and "what if" scenarios
  - Allocate bank charges to sponsoring departments
  - Compare divisions, departments, regions, etc...
  - Analyze global fees in one common currency
- **Productivity**
  - Eliminate the paper (and the paper statement charge)
  - Gain faster delivery and automate bank payment
  - Export data to existing systems (GL, Budgeting, Payables)
  - Archive statements electronically for easy access

WHAT'S THE PURPOSE?

FASTER & MORE COMPREHENSIVE ANALYSIS

- **One** service line item buried within **thousands** of lines across **hundreds** of statements
  - –What can this line tell me?
  - –What questions can I ask about this service?

```
  AFP   DESCRIPTION          PRICE   VOLUME     CHARGE     TAX
------ ----------------   -----   ------   ---------   ------
050100 Lockbox Processing .1200   12,000   1,440.00   144.00
```

I don't recognize this service!

Is that the special price I negotiated?

Hold it, there's been a price change.

I think that volume is unreasonably high.

Is this the exact volume I expected?

Is this close to the average charge over the last six months?

Is there supposed to be a tax on this service?

How does this price compare to other banks and peer averages?

A “RAW” 822

WHY YOU NEED SOFTWARE

ISA*00*   *00*NOPASSWORD*ZZ*07500002   *ZZ*112319
120   *901218*1700*U*00302*000004914*0*T*]\GS*AA*SENDERCO
DE*RECEIVERCODE*950801*083000*123456789*X*003020\ST*822*0001
\BGN*00*0001*930920*1036*LT\DTM*009*930920\DTM*150*930801\DT
M*151*930831\N1*BK*Gotham Trust*13*1234-56789\N3*One Gotham
Center\N4*Gotham City*NY*999999999\PER*IC*I. M. Gridley*TE*2
121234567\RTE*9*12*7.898*164.674*175.06*930831\CUR*BY*USD*1.
20*SE*CAD*NY*007*840821*1400\N1*AO*N.C. CEEMA\N3*7001 Boxwoo
d Drive\N4*Oldtown*CT*123459999\PER*IC*Jason Brown*TE*212333
4444\ACT*232323*Division B****AB-12345 6\ADJ*F*775000*-25000
*930515*930801*1*FLOAT ADJUSTMENT\ADJ*L*59520*9600*930702*93
0815*5*WIRE ERROR\ADJ*L*74400*2400*930728*930820*1*CHECK ERR
OR\ADJ*L*-1200*-1200*930728*930729*1*DEBIT ERROR\RTE*9.83*12
****930131\RTE*9.943*12****930228\RTE*9.568*12****930331\RTE
*9.341*12****930430\RTE*8.807*12****930531\RTE*7.841*12****9
30630\RTE*8.182*12****930731\RTE*8.125*10*7.898*161.015*175.
06*930831\BAL*M*AL*1234567.89\AMT*AC*.12\AMT*AD*123456789.12
\AMT*8*1212121212.12\AMT*SC*232322323.23\AMT*NP*-3434343434.
34\AMT*CB*987654321.11\DTM*151*930131\BAL*M*AL*300000\AMT*AC

WHO'S PRODUCING THEM?

822 – ALL MAJOR BANKS; BSB – GROWING STEADILY

822

- First usable version (v 2040) released in 1990
  - Distinct lack of interest from banks
  - Ardent pressure from corporates
- Now over 100 US banks provide 822's to over 800 corporations
- Fully accepted, standard offering

BSB

- First usable version (v 3.1) released in late 2006
  - Effort led by International Bank Compensation (IBC) group and TWIST
- 18 banks producing, testing, or committed
- Growing acceptance, ISO 20022 pending

AFP Global Service Code Project

WHO'S PRODUCING THEM?

BSB: PUBLICLY PRODUCING, TESTING, OR COMMITTED

And more coming soon >>>>>>>>>

BANK FEE ANALYSIS AND BEYOND
A STRATEGIC & TACTICAL EXAMINATION

- Analyzing “Account Analysis”
- Minimize Your Service Fees
- Optimize Your Balances
- Use Electronic Statements
- **Respond to Regulatory Reform**
  - Bank fee landscape
  - FDIC fees
  - Repeal of Reg. Q
  - Variables in the Reg. Q mystery

BANK FEE LANDSCAPE

- **Crash & Burn**
  - Devastation of banks' balance sheets
  - Too Big to Fail
- **Government in Action**
  - Bailout bill
  - TARP
  - Interest on reserves
  - Changes in consumer fees
  - FDIC changes
  - Dodd – Frank
  - Reg. Q changes

WHAT DOES THE FINANCIAL CRISIS HAVE TO DO WITH ACCOUNT ANALYSIS?

Income Statement of Insured Commercial Banks, Quarterly from 2Q2009 - 1Q2010 (billions of dollars)

	31-Mar-10	31-Dec-09	30-Sep-09	30-Jun-09
Number of Institutions Reporting	*6772*	*6839*	*6911*	*6995*
Interest on loans	98	369	277	188
Interest on securities and investments	26	113	86	58
Total interest income	124	482	363	246
Interest Expense	24	122	96	68
Net interest income	100	360	267	178
Service charges on deposit accounts	**9**	**41**	**31**	**20**
Other operating income	47	201	155	108
Net operating income before expenses	156	602	453	306
Salaries and wages	38	151	114	76
Other operating expenses	97	433	322	220
Net operating income	21	18	16	10
Securities gains (losses)	1	-5	-5	-2
Taxes	6	4	3	4
Net Incomes after taxes	**16**	**9**	**8**	**4**

Source: FDIC Statistics on Depository Institutions

FDIC CHANGES

- The banking crisis has brought so many changes to how the FDIC operates that we could spend an entire day talking about them
  - Coverage increased to $250,000
  - Coverage eliminated with TAGP
  - TAGP opt-out
  - Assessment prepay
  - Special assessments
  - TAGP required
  - Changes in assessment calculations
  - Reg. Q

FDIC CHANGES

- The changes in FDIC fees, and how they are passed through account analysis has already been dramatic
  - Most of us felt the more than 200% increase that happened in FDIC fees in early 2009
  - That stabilized somewhat as the various TAGP programs came and went
  - Through it all, we have been able to count on the basic premise that our FDIC fees were basically just a pass through of the charges our banks were paying to insure those balances

FDIC CHANGES

- **That has changed**
  - Under new FDIC rules, the method used to calculate what a bank pays for coverage is no longer just a function of the balances that are covered
  - Banks are faced with many additional changes and costs associated with FDIC coverage
- **What does it mean?**

AMBIGUITY

HANDLING FDIC IN THE NEW WORLD

- Lets look at FDIC fees from a new direction
- On account analysis FDIC appears as a service line
- What are we buying for that fee?
  - We are buying insurance coverage for one of our company's assets

HANDLING FDIC IN THE NEW WORLD

- If we look at the FDIC from our point of view:
  - We put ourselves in a position where we can negotiate from
  - We put ourselves in a position where we can watch for errors
  - We eliminate any complex explanations we get from our banks
- By looking at FDIC fees for what they are, we can develop the mathematical ratio of the total cost for the coverage vs. the total balance covered

Interest on DDA

- Since the 1930s, banks have not been allowed to pay interest on corporate checking accounts

Interest on DDA

- This restriction is responsible for many of the complex banking situations we see today
  - Earnings credits
  - Sweep arrangements
  - Complex concentration schemes
  - Immediate or very short availability of funds

- For years, most of the treasury world has been looking to get it repealed without success – Congress would not act

THE REPEAL OF REG. Q

- The Dodd-Frank Wall Street Reform and Consumer Protection Act repeals Reg. Q and may become effective as early as 07/21/2011

- This promises to be the biggest game changer ever and turns the review of account analysis statements from a chore that we had to struggle through into a mandatory function within Treasury

HOW WILL BANKS REACT?

- Like most changes in the banking world, the primary consideration on how banks deal with Reg. Q will be technology
  - The capability of their existing billing systems to pay interest on account analysis
  - The capability of their core systems to pay interest
  - Their ability to adopt new technology fast enough

MODELS BANKS MAY FOLLOW

- I believe there are three likely options that banks will offer their corporate customers

1. Hard Interest on all balances; no earnings credit
   Out with the old & in with the new

2. No Hard Interest; only earnings credit
   If it ain't broke, don't fix it

3. Earnings credit on compensating balances; hard interest on the excess
   The best of both worlds

MODELS BANKS MAY FOLLOW

- Like everything in account analysis it all comes down to the math
  - To evaluate the model that would best suit my company, we need to take a holistic look at the way we manage cash and the way we pay our fees
  - This will allow us to guide our banks to the interest programs that best meet our needs

- There are a huge number of variables to be evaluated in order to determine which model best suits the cash management situation at your company

VARIABLES IN THE REG. Q MYSTERY

- Typical total analyzed charges
- Typical hard charges
- Earnings credit rate offered by the bank
- Deficit premiums
- Funds availability schedule
- Typical collected balances
- Monthly concentration transfer fees
- Hard interest rate offered by the bank
- Average daily float
- Typical excess or deficit balance position

EVALUATING REG. Q OPTIONS

- By working out our mathematical modeling now based on the cash management situation at our company, we can determine how best to position ourselves for the repeal of Reg. Q.

CONCLUSION

- There has never been a time in history where we have been faced with so many moving parts in bank fees and bank account management

- If we don’t develop our strategies early, we could get sucked into higher fees, inefficient operations and ineffective controls

WE'VE REACHED THE FINISH LINE!

ANY QUESTIONS?

APPENDIX: BANK ACCOUNT RELATIONSHIP CONSIDERATIONS

ORGANIZATIONAL CONSIDERATIONS

- Do I have a comprehensive bank account management policy?
- How many accounts do I have? Where are they domiciled?
Do I know all my accounts and account numbers held at each bank?
- What types of accounts are they?
Can I easily get a list of all my disbursement accounts, collection accounts, custodial accounts?
- Is the account a member of a hierarchy?
Is the account a relationship parent, a detail account or some level in between?
- Who are my signers? Who can sign an account as an individual or as part of an identified group?
Are digital signatures allowed and controlled? What happens when signing authority is removed?
- Who are my account contacts? Who are my primary and secondary account bank contacts for each of my accounts?
- What are my signers' signing limits? Are dollar limits established for each signer?
- How often do we run a bank audit and is it accurate? Is the required information current, reliable and easily sampled?
- How easy is it to import/export data to existing systems (GL, Budgeting, Payables, HR)?
- Should I be receiving electronic statements?
Can I and should I receive and analyze the 822 and BSB electronic statements?
- Can I format all bank statements into a common format for ease of use, cross-bank reporting and comparison?
- Can I archive account statements electronically for analysis and review?
- Are controls in place so that account openings, closings and critical maintenance are performed in the proper sequence by the proper people with the required authorizations?
- Am I ready for eBAM?

COST CONTROL CONSIDERATIONS

- Do I have any unnecessary accounts or services? Are there more cost effective services available?
- Am I managing my bank charges? Am I recognizing pricing errors, invalid services, bad volumes, closed accounts, redundant services, etc.?
- Are my earnings rates competitive? Do they reflect the bank's earnings on my reserve balances?
- Should I be paying bank service charges with balance earnings or with hard dollars?
- Can I allocate account costs to the relevant departments?
- Do I have a reliable system to detect, track and resolve bank pricing and charging errors?
- Do I have a way to score my satisfaction with the resolution of bank disputes to inform negotiations?
- Can I easily perform service price comparisons with other banks and benchmarks?
- Do I have enough historical account balance & charge information for informed and persuasive negotiations?
- Can I store statements electronically and eliminate paper statement fees and storage charges?
- Can I review the taxes levied on services & convert multiple currencies into a common currency for review?
- Can I reasonably forecast future account charges for budgeting purposes?
- Can I examine each and every line item charge on my analysis statements? Am I checking expected balances, expected volumes, and contracted prices?
- Have I established the most beneficial service charge calculations available from my banks?

INVESTMENT CONSIDERATIONS

- Am I managing the investable balances in all my deposit accounts?
- Have I examined balance compensation versus fee compensation in order to free up balances?
- Am I tracking the average balances used to offset charges and then investing the remainder or using it to fund other activities?
- Am I in a short-term borrowing mode? If so, am I optimizing the use of my deposit account balances as the earnings "credit" earned from the bank will always be lower than the interest rate paid to the bank on borrowed funds?
- Will I be ready for the repeal of Reg Q? Do I have the tools & data required to decide which compensation approach works best for my situation?
- What's more important to me – unlimited balance coverage or hard interest on my balances? How will my choice affect my FDIC fees?

COMPLIANCE CONSIDERATIONS

- Am I properly overseeing my accounts, service charges, and balance usage?
- Am I able to report my service charges as an element of cost and demonstrate proper price management in compliance with SOX?
- Can I demonstrate proper account controls for
  - My banks, accounts, signers and related documents?
  - All the processes involving them such as account openings, mandates and closings?
- Is my sensitive account data secure?
- SOX 302 Financial Statements
  - CEO and CFO certification required
  - Validation = complete inventory of accounts and balances (for cash, investments, etc.)
- SOX 404 Internal Control Framework
  - Auditors must certify that they have a framework
  - Auditors must certify that the framework will identify discrepancies and has been tested
- Are EU directives satisfied?

METRICS AND ANALYTICAL CONSIDERATIONS

- Do I have an easily accessible record of every service volume, price, and charge; every balance and earnings credit rate, for every account at all my banks going back months if not years?
- Am I analyzing the wealth of information contained in my bank account statements to gain transparency into my treasury operation, attain insights into my corporation's business practices, and discover hidden saving opportunities?
- Do I compare division, department, or regional performance in terms of services used, service volumes, account costs, and balance usage?
- Do I perform modeling and "what if" scenarios to test different rate, balance level, volume, and pricing assumptions?
- Do I have confidence in my budgeting assumptions for the coming year?
- Are my service prices escalating? Are volumes increasing or decreasing? Are services not being used?
- Do I include bank pricing and charging mistakes/problems in my bank report cards?
- Do I document conversations with my bankers and include these in my bank report cards?