

# Business Servicing Fee Packages

## Proposed CU\*BASE Enhancement Project Overview

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## Background and Project Impetus

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### Replicating Bank Commercial Account Fees

Credit unions have traditionally followed banks into serving commercial accounts, treating them as *members* but attempting to replicate the fee programs that banks used for high-volume financial accounts.

Because at that time banks could not pay dividends on business checking accounts, they had to develop some kind of credit to offset fees for their best customers (people with high balances). To accomplish this, fees were bundled and totaled once a month, then compared to account balances to calculate a credit and post a net transaction. (Some systems post a single bundled fee transaction followed by a separate credit transaction, while others posted a single transaction that represented the net of fees and credits.)

By lumping all business activity into a single monthly fee transaction, business accounts were not given a great deal of detail as to what fees were included in the package. A published fee schedule might list things such as deposit item fees, check clearing fees, ACH fees, and other miscellaneous handling fees as being part of the business servicing package, but ultimately the bank customer saw these packaged in one lump sum with an offsetting credit (in some cases) based on their account balance. Some systems did include an activity analysis statement that could be communicated to the business, but that was mostly used by the bank to reconcile the transactions should the business challenge it.

### CU\*BASE Business Account Servicing Over the Years

To date, CU\*Answers has not had many clients who have elected to package their business account fees in this way. Because credit unions had the advantage of being able to pay dividends on a business member's checking account, these accounts were treated pretty much like any other member:

- The CU would publish an *a la carte* list of service fees that applied to the specific types of accounts businesses could open. (CU\*BASE credit unions use programs like the Deposit Item Fees or the Transaction and Account Service Charge programs to charge per-item fees for things like check clearing and ACH activity.)
- There was no need for an offset: the offset was the monthly dividend (which on CU\*BASE can be tiered according to the account balance).
- Because fees weren't packaged and advertised as a bundle of business servicing fees, there was also no need for an overall analysis of the fees included in the package.

These credit unions recognized that their business members came to the credit union to be treated like a *member* and were happy with the way the CU priced and serviced their accounts.

### Reaching a Broader Audience

As credit unions have started reaching out to a broader audience of business members, it has become harder to explain the difference, and they often find themselves having to reeducate a business that considers the bank's method to be more sophisticated (or maybe just more familiar).

So CU\*Answers is now planning to assist credit unions who want to design a more "classical" business member fee program.

## A New CU\*BASE Tool: Business Servicing Fee Packages

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We will be designing a new feature that will bundle and aggregate all business servicing fees, calculate some sort of offsetting credit (even subtracting dividends paid if desired) and post the business servicing fee at one time each month. This could appear to the member as either one net transaction that includes both fees and an offsetting credit combined. Or the CU can choose to post two separate transactions: a summarized fee debit transaction and a calculated credit transaction.

### Overview of Features

1. **Configuration of Business Servicing "Packages"** – The CU would be able to define as many packages as they wish, each with a unique set of fees and offsetting credit calculation parameters. Sample business account programs:

- Low Volume Checking
- High Volume Checking
- High Volume with Cash Management Services
- Community Organization/Non-Profit Free Checking

The individual fees included in each package, such as fees for deposited items, cleared checks, and ACH traffic, are designated as either **compensable** or **non-compensable** fees, meaning some qualify to be offset by a credit while others do not.

On CU\*BASE these would each be configured as a separate package, each with different fee amounts, # of free items, base maintenance fees, etc., as well as the credit calculation parameters. *See Page 5 for a more detailed list of the components of this configuration.*

2. **Linking Accounts to the Package** – Once the packages have been defined, the CU would flag individual accounts, at the sub-account level, to the package. The assignment would be made according to the member's request and/or at the credit union's discretion based on their policy rules.

- Unlike, say, a Marketing Club, CU\*BASE would not control any of these rules nor track whether the member was entitled to be in that group or not. At any time an account could be moved from one package to another, and a single member could even have one account under one package and a second

account under a different package. CU\*BASE will simply provide a way for the CU to flag which account belongs to which package, for the purpose of the monthly posting process.

- Links would be at the sub-account (account suffix) level, not controlled by Dividend Application code (DIVAPL) nor Membership Designation.

3. **Processing the Monthly Fees** – A new on-demand program run by the CU (usually around the 5th of the month) to calculate and post the business package fee/credit transaction(s). Can also produce a statement notice to be sent to affected members. See Page 4 for an outline of the work flow. See Page 6 for more details about how the fee and credit calculations will be done.

- The tool will allow for **additional special fees to be added manually** to the list of fees used in the calculation, so that the CU can assess specific business-related servicing charges on individual accounts. (For example, a CU charges fees for “cash management services,” which include things like posting an employee payroll; other CUs might have a fee for special services to retail organizations that need to make change to maintain bill and coin inventories. *These fees would not be posted throughout the month as activity happens, but rather in a batch at the time the monthly process is being run.*) Will use misc. posting codes to define the G/L interface for these fees.
- As described already, the package configuration will include the option of **posting either one (net) or two (separate debit and credit) transactions** to the business account.
- The existing **Deposit Item Fees** feature would need a minor modification so that we can continue to use the basic infrastructure that prompts the teller to request and tally the # of deposited items. But at the time DI fees are posted, any account linked to a business package would be excluded in lieu of being charged by the new batch process run by the CU. (That month’s fee counters would still need to be retained, of course, until such time as the fee was actually charged through the new process.)
- **Over-the-counter and day-to-day interactive fees** such as NSF, ANR/Courtesy Pay, overdraft transfers, etc., would be posted throughout the month as usual and not affected in any way by this new process, nor would any of these fees be part of the monthly tally or analysis.
- Tool will allow for an **audit run** that would generate a report showing the transactions that would be posted, to allow the CU to verify before final posting.
- Once posted to the member, all of the detail and calculation components will be **stored in a new file** for up to 3 months to allow for future analysis/reconciliation (see below).

4. **Analysis Inquiry** – An online inquiry tool so that the CU can look at the prior history used to calculate an individual member’s business servicing fee/credit. This would allow the CU to reconcile and provide supporting detail to a business member who wishes to dispute a fee or needs clarification of how the fee and credit were calculated.

- We will save the last 3 months of posted fee data. (For example, during March you could look at the fees you posted on March 5 for February activity, as well as what was posted in February for January’s activity, and what you posted in January for December’s activity.)
- Inquiry needs to summarize the fees by type and show the balances on which the credit was calculated, as well as allow drill-down into the individual fees that made up the total posted.
- CU\*BASE will allow a PDF to be produced and emailed to the business member showing the analysis information.

## Sample Workflow for Posting Business Servicing Fees

Each month the CU would take a special menu option which would walk through a series of screens to calculate, review, and post business servicing fees, by package:

Session 0 CL/BASE GOLD  
Backup F3  
Choose a package   
For month of

CL/BASE GOLD - Secondary Names Inquiry  
Post Business Servicing Fees  
HIGH VOLUME fees for March 2011

Acct	Name	Fee Type	Fee Amt	Compensable
1234-110	ABC CORP	Dep Items	\$152.30	Y
1234-110	ABC CORP	ACH Debits	\$399.47	N
1483-113	JK REALTY	Dep Items	\$334.03	Y
1483-113	JK REALTY	ACH Debits	\$783.37	N
1483-113	JK REALTY	ACH Credits	\$43.89	N
15553-119	R&J CORP	Dep Items	\$334.73	N
15553-119	R&J CORP	Post Payroll	\$50.00	N

Fee Summary  
Deposited Items: \$xxxx.xx  
ACH Debits: \$xxxx.xx  
ACH Credits: \$xx.xx  
etc...

Buttons: Add fee, Continue

Session 0 CL/BASE GOLD  
Backup F3  
Add a Fee  
Account #   R&J CORP  
Fee amount   
Tran description   
Posting code  or G/L acct   
 Compensable

Session 0 CL/BASE GOLD  
Backup F3  
Process Credits  
(somehow show the credit and net calculations based on the config)  
Continue

Session 0 CL/BASE GOLD  
Backup F3  
Post / Produce Statements  
(final confirmation screen)  
 Print statement notices  
POST

Post to member accounts (1 or 2 trans) and G/L; generate posting/exception reports; produce statement notices

## Project Details

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### Configuration Components

- Program code and name
- G/L account and transaction description
- Post (1) single net trans or (2) separate debit and credit trans
- Credit calculation parameters:
  - Offsetting credit factor (to be used in the credit calculation; see Page 6), such as **12.123%** (can even be 0% if no credit is desired)
  - Subtract dividends paid? (yes or no)
- Base maintenance fee (like a membership fee), including fee amount (can be left at \$0.00 for no base fee) and these waivers (specific to that fee only):
  - e-Statement enrollment
  - Bill pay enrollment
  - # of online banking logins
  - Tiered Service level(s)
- List of eligible activity fees\* to be charged to the member, including:
  - # of free items
  - Fee amount
  - Compensable or non-compensable (included in the credit calc or not)
  - For ACH activity fees, possibly an “include subsequent distribution transactions” yes/no flag

#### **\*Eligible Fees:**

*We set up the list of fees we can support; CU chooses from that list which ones apply to that particular package. The following will be included in this initial phase:*

- Deposit Item Fees – See Page 7 for more details on adapting this existing CU\*BASE feature
- Checks cleared (“items paid”) – Will need a program to analyze this activity from the prior month

**Question:** This would include the same things as our own checks cleared transaction fee includes (ODP, NSF, etc.), correct?

- ACH incoming credits – Will need a program that analyzes ACH activity from prior month and counts deposit/payment transactions
- ACH incoming debits – Will need a program that analyzes ACH activity from prior month and counts withdrawal/disbursement transactions

**Question:** How do you handle distributions from a single incoming ACH item? (For example, a debit comes in and is posted to a checking account with a distribution to a savings account and a loan account.) Do we need to add a flag to the configuration to include distribution transfers as an individual item to be counted toward the fees?

### Account File Changes

- A field will be added to MEMBER1 (savings excluding IRAs) and MEMBER2 (checking) account files. This field would contain the configured package code to which the account has been assigned.
- Not supported for IRA savings, certificates (MEMBER3) nor tax escrow (MEMBER4) files at this time.
- This field would appear on both the account information maintenance and inquiry screens.

## Calculating the Fee and Credit

The following outlines the basic steps the monthly process will use to determine the amount(s) that will be posted to the member's account. Dollar amounts in parenthesis (\$x) are samples figures to illustrate the calculation:

- *Step 1: Tally two fee totals by looking at prior month transaction activity (see "Eligible Fees" above)*  
Total non-compensable fees (\$500) + Total compensable fees (\$250) = Total fees (\$750)
- *Step 2: Calculate the credit*  
Average daily balance<sup>1</sup> × Offsetting credit factor<sup>2</sup> = Offsetting credit amount (\$350)  
Offsetting credit amount (\$350) - Dividends paid prior month (\$125)<sup>3</sup> = Net offsetting credit amount (\$225)  
⇒ **If this math results in a negative number, then set to \$0**
- *Step 3: Calculate the net*  
Total compensable fees (\$250) - Net offsetting credit amount (\$225) = Net compensable fees (\$25)  
⇒ **If this math results in a negative number, then set to \$0**  
Net compensable fees (\$25) + Total non-compensable fees (\$500) = Total fees to post (\$525)
- *Step 4: Post the transaction(s)*  
Using the sample figures above:
  - If the CU wants a single net transaction, one transaction for \$525 would be posted to the member's account.
  - If the CU wants separate debit/credit transactions, a debit transaction for \$750 and a credit transaction<sup>4</sup> for \$225 would be posted.

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<sup>1</sup>On CU\*BASE, Average Daily Balance represents the actual balance (CURBAL) as of the end of each day. Does not subtract check holds, outstanding debit card authorizations, frozen funds, or other factors that are included in the available balance calculation.

<sup>2</sup>Since the config could theoretically be set to a factor of 0% (meaning no credit factor), need to make sure the math still flows through to charge the fee total anyway.

<sup>3</sup>This may be \$0 if dividends paid should not be subtracted per the package configuration.

<sup>4</sup>Although this matches the net offsetting credit amount in this particular case, this actually needs to be calculated as *Total fees to post* minus *Total fees to handle* other scenarios where there is no net offsetting credit or the net compensable fees is \$0. There will also be situations where, when posting two separate transactions, the second one would be \$0 but we would post it anyway (to avoid confusion when comparing from one month to another).

## Changes to Deposit Item Fees Config/Posting

CU\*BASE already has a Deposit Item fee feature that gathers # of items deposited at the teller line and keeps that counter for the purpose of posting monthly fees. We want to keep the teller/item count functionality as is; we will simply need to make some minor adjustments to the DI configuration (which is by DIVAPL) and the monthly fee posting routines:

- Add a flag to the DI fee config to either charge (1) normally at EOM as configured or (2) as part of a business servicing package. If (2), none of the other fields on that config screen are used nor should be filled in; all fee parameters come from the new config. That way the teller system can still use the existing DI mechanism config to decide about gathering the # of deposited items (per new functionality added in release 11.0).

Possible alternative: Rather than add a flag to the config, simply look for the presence of a package code on the MEMBERx record and just treat those differently and ignore any fee parms from the DI config itself. Needs further analysis to determine the best method.

- Monthly DI fee program needs to exclude accounts under that DIVAPL that are flagged with a business servicing fee package code, but somehow retain the counters until they can be used to post fees via the new process. Needs programmer analysis to determine a technique.

Remember a member might deposit a batch of items on the 3rd before the prior month's fee counters have been used and cleared. Need to resolve this: maybe a month-end version of the fee counters file, or add a date to the records and allow multiple months in the same file, or extract the DI numbers into a separate file at month end to be used by this process, or ????

- NOTE: This does not break out deposited items by foreign/local/on-us, but that is a dated concept and no longer in effect because of Check 21 anyway.

## Other Project Considerations

- The fee process is intended to be run every month based on the prior month's transaction activity; will not support quarterly processing.
- Other than very limited relationship waivers described above (for the base maintenance fee only), the program does not contain relationship management or pricing components. However, nothing will preclude a CU from combining this program with other relationship tools like Marketing Clubs (for active status tracking, qualified or automated club dues, dividend rate benefits/loan interest rebates, etc).
- Dividends are configured as part of the Dividend Application and will work exactly as they do for all other accounts, with no special treatment based on this new functionality. Dividends paid can, of course, be subtracted at the time the business servicing credit is calculated, as already discussed.
- Fees/credit transactions are always posted to the linked account; if insufficient funds are available,???

Should this post to a negative balance? Pull funds from somewhere else? Not post and put on an exception report? Do we need a config flag?