Regulation E: The Changing Face of ANR

- Kitchen page currently contains 8 links, tables of projects and target release dates, ATM/Debit vendor updates, and even a new service from Xtend related to this regulation and our network response (last update posted May 13)
- 6 project sheets that will span several releases
- A plan to flood/un-flood your member data, based on the 45-day window in the reg (July 1 – Aug 15)
- Next up: Member opt in/out in It’s Me 247 (10.3 or possibly 10.4 release)
- Who did this affect?
  - Everyone that offers an ATM or Debit card (even if you do NOT have an ANR program!)

Randy’s compliance disclaimer: Move quickly to the spirit: Regulatory compliance starts with a spirit to comply, then taking the experience of trying to comply, we all develop the precision in complying
What’s different about Reg. E in your credit union’s operation?

- ATM/debit card NSF posting fees were thrown under the bus: unlike checks and ACH, all ATM/debit postings are force-posted

- All overdraft services programs are not created equal
  - Checks and ACH were left alone
  - ATM and debit card overdraft services are unique

- All debit card transactions are not the same
  - One-time vs. recurring (not all vendors can even tell us the difference yet)
  - Approved transactions vs. non-approved transactions

- Hold processes are not cut and dried
  - Matched transactions vs. unmatched transactions
  - Balancing the risk of expiring holds

- All negative balances are not created equal
  - Approved negative balance postings (Courtesy Pay) vs. non-approved (member opted out, or transactions beyond the negative balance limit)
Reg. E Requires a Lot of Artistry
Understanding Your Volumes and What's at Stake

**NSF Analysis (Summary)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Highlight values more than 20% Above or Below the monthly avg. for the year.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highlighted results: 23 out of 96 (23%)</td>
</tr>
</tbody>
</table>

### Below Available Balance

<table>
<thead>
<tr>
<th>Process</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHECKS</td>
<td>34,895</td>
<td>28,560</td>
<td>31,780</td>
<td>34,265</td>
<td>33,145</td>
<td>38,850</td>
<td>37,835</td>
<td>35,420</td>
<td>40,670</td>
<td>35,455</td>
<td>32,315</td>
<td>42,210</td>
</tr>
<tr>
<td>DEBIT</td>
<td>15,190</td>
<td>13,825</td>
<td>13,440</td>
<td>18,130</td>
<td>18,935</td>
<td>19,915</td>
<td>18,445</td>
<td>20,510</td>
<td>21,245</td>
<td>20,265</td>
<td>19,265</td>
<td>22,995</td>
</tr>
<tr>
<td>ATM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACH</td>
<td>22,925</td>
<td>19,775</td>
<td>21,000</td>
<td>18,620</td>
<td>20,825</td>
<td>22,995</td>
<td>22,968</td>
<td>24,640</td>
<td>24,920</td>
<td>24,105</td>
<td>22,600</td>
<td>29,645</td>
</tr>
<tr>
<td>TELLER</td>
<td>3,395</td>
<td>2,625</td>
<td>3,220</td>
<td>3,360</td>
<td>2,905</td>
<td>3,605</td>
<td>2,555</td>
<td>2,310</td>
<td>2,265</td>
<td>2,940</td>
<td>2,940</td>
<td>2,765</td>
</tr>
</tbody>
</table>

**SUBTOTAL**

<table>
<thead>
<tr>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>75,405</td>
<td>64,785</td>
<td>69,440</td>
<td>74,375</td>
<td>75,810</td>
<td>85,365</td>
<td>81,795</td>
<td>82,880</td>
<td>89,040</td>
<td>82,845</td>
<td>77,280</td>
<td>97,615</td>
</tr>
</tbody>
</table>

### NSF

<table>
<thead>
<tr>
<th>Process</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHECKS REFU</td>
<td>11,865</td>
<td>7,455</td>
<td>9,840</td>
<td>10,570</td>
<td>10,500</td>
<td>12,390</td>
<td>12,635</td>
<td>9,450</td>
<td>14,175</td>
<td>10,675</td>
<td>10,115</td>
<td>14,945</td>
</tr>
<tr>
<td>ACH REFU</td>
<td>13,195</td>
<td>10,990</td>
<td>13,615</td>
<td>11,165</td>
<td>10,255</td>
<td>15,065</td>
<td>13,615</td>
<td>12,705</td>
<td>14,700</td>
<td>12,460</td>
<td>10,220</td>
<td>14,420</td>
</tr>
<tr>
<td>ATM NOT RTN</td>
<td>665</td>
<td>245</td>
<td>490</td>
<td>805</td>
<td>1,085</td>
<td>1,155</td>
<td>560</td>
<td>560</td>
<td>1,155</td>
<td>945</td>
<td>1,050</td>
<td>1,660</td>
</tr>
<tr>
<td>DBT NOT RTN</td>
<td>2,835</td>
<td>2,975</td>
<td>3,500</td>
<td>2,730</td>
<td>4,165</td>
<td>5,818</td>
<td>4,165</td>
<td>4,620</td>
<td>4,375</td>
<td>4,655</td>
<td>4,690</td>
<td>5,355</td>
</tr>
</tbody>
</table>

**SUBTOTAL**

<table>
<thead>
<tr>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>28,560</td>
<td>21,655</td>
<td>27,545</td>
<td>25,270</td>
<td>26,005</td>
<td>33,810</td>
<td>30,975</td>
<td>27,930</td>
<td>34,195</td>
<td>28,840</td>
<td>26,705</td>
<td>37,630</td>
</tr>
</tbody>
</table>

**GRANDTOTAL**

<table>
<thead>
<tr>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>104,965</td>
<td>86,450</td>
<td>96,985</td>
<td>99,645</td>
<td>101,015</td>
<td>119,175</td>
<td>112,770</td>
<td>110,810</td>
<td>123,235</td>
<td>111,685</td>
<td>103,905</td>
<td>134,645</td>
</tr>
</tbody>
</table>

---

**MNMGMT #26 NSF Statistics Dashboard**

Click on a process name to see details by member.
For a long time, members have struggled with “why did I get a fee when I never went negative?”

This pressure on credit unions to define hold processing has everyone looking for more information and definition

- What determines if a hold is placed or not?
- How are misc. secured funds for debit card transactions removed?
- How do Automated Fuel Dispenses (AFDs) work?
- How are transactions posted in CU*BASE when there is a matching record?
- Rules and exceptions by switch
The biggest wrinkle in Reg. E is that you now have to legitimize the member’s desire to actually use the service...you have to SELL it.

Therefore, you have to design a program worth taking, and **sell the service** to the member as a member advantage.

There are multiple perspectives:

- “No one would opt in to pay a fee when they could avoid negative balance fees by simply saying no.”
- “Everyone is going to want to opt in to this service; it’s a no brainer, it saves members money and embarrassment to avoid transactions being turned down or services being suspended.”
- “Only time will tell. Members who are used to these fees and doing business this way will come back to the service if we sell it openly and candidly.”

Your perspective on how to sell this is important to how you configure the software in future releases.
How do you interpret this statement?

“Member wants the CU to authorize and pay overdrafts on ATM and everyday debit card transactions”

When you set up your ANR/Courtesy Pay settings for ATM and debit card processing, you’re telling CU*BASE to communicate in a very distinct way to your ATM and debit card networks.

### Overdraft Protection / ANR Activation

<table>
<thead>
<tr>
<th>Origin/Process</th>
<th>Overdraft Protection</th>
<th>ANR/Courtesy Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Use ODP Balances for</td>
<td>Use Negative Balance Limit for</td>
</tr>
<tr>
<td>01 TI Inhouse</td>
<td>☑ Posting</td>
<td>☑ Posting</td>
</tr>
<tr>
<td>11 ACH</td>
<td>☑ Posting</td>
<td>☑ Posting</td>
</tr>
<tr>
<td>02 Checks</td>
<td>☑ Posting</td>
<td>☑ Posting</td>
</tr>
<tr>
<td>13 PIN ATM/debit</td>
<td>☑ Posting ☑ Authorization</td>
<td>☑ Posting ☑ Authorization</td>
</tr>
<tr>
<td>16 Debit Card (Sig)</td>
<td>☑ Posting ☑ Authorization</td>
<td>☑ Posting ☑ Authorization</td>
</tr>
<tr>
<td>20 Bill pay</td>
<td>☑ Posting</td>
<td>☑ Posting</td>
</tr>
</tbody>
</table>

MNCNFA #9 NSF/OD Transfer Configuration

Have you done the scenario planning with your staff to empower them to sell your program’s unique advantage and exactly how it will work?

Remember this is online only (PBFs are custom!)
Consider the day-to-day automation of negative balance postings:

- The member has opted in to your overdraft services for ATM/Debit card transactions – the computer still has some decisions to make about when to assign a limit, when to suspend the service, and when to reactivate the service.

- What does it mean to a member when they’ve opted in, but you have suspended their ANR service? Can you charge them your NSF fee? Can someone opt in without ever getting a negative balance limit?

- And remember that your ANR program doesn’t stop at ATM and debit card transactions!
Your Opportunities to Sell

- Selling the member when opening their membership (starting July 1)

For new members, will force a decision, but when updating an existing member (maybe for another reason), will not.

How will you sell new members on opting in?
Your Opportunities to Sell

- Selling existing members from now on (starts now, required as of August 15)

(The jury's still out on this "what's in your wallet" screen...and we're listening!)
The regulation confuses the idea of the member opting in for an ATM or debit card service, versus the member opting in at the individual account level.

Why would someone opt in or out on a Christmas Club account?

One thing to remember: when you have the member in front of you, you sell them, even before they get their first piece of plastic. You want them to default to taking your service.
38 CUs using Xtend in some capacity for Reg. E, including 2 non-CU*BASE

Another two dozen are corresponding with Client Services to data-mine CU*BASE for targeted response

Over 125,000 mail pieces being sent from Sage... most will be hitting the mail during Leadership Conference week

More than two dozen credit unions are using the Xtension Call Center as part of their Opt In execution strategy
In 2011, CU*Answers plans to add more information to the transaction record related to what the available balance was that caused the NSF/ANR to be posted in the first place.

This will enable us to add a new secondary transaction description to NSF and ANR fee transactions, to explain the available balance that resulted in the fee.

<table>
<thead>
<tr>
<th>Tran Amount</th>
<th>Resulting Balance</th>
<th>Transaction Description</th>
<th>Current Secondary Description</th>
<th>Suggested NEW Secondary Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.00</td>
<td>12.66</td>
<td>CHECK 00508300210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30.07</td>
<td>17.41</td>
<td>DBT/WDR</td>
<td>MARTHAS VINEYARD GRAND RAPIDS MI</td>
<td></td>
</tr>
<tr>
<td>20.00</td>
<td>37.41</td>
<td>COURTESY PAY FEE</td>
<td>MARTHAS VINEYARD GRAND RAPIDS MI</td>
<td>AVAIL BALANCE WAS $12.66 BEFORE DBT/WDR TRANS</td>
</tr>
<tr>
<td>3.74</td>
<td>41.15</td>
<td>DBT/WDR</td>
<td>MEIJER GARDEN CAFE NE GRAND RAPIDS MI</td>
<td></td>
</tr>
<tr>
<td>20.00</td>
<td>61.15</td>
<td>COURTESY PAY FEE</td>
<td>MEIJER GARDEN CAFE NE GRAND RAPIDS MI</td>
<td>AVAIL BALANCE WAS -$37.41 BEFORE DBT/WDR TRANS</td>
</tr>
<tr>
<td>11.46</td>
<td>72.61</td>
<td>DBT/WDR</td>
<td>MEIJER INC</td>
<td></td>
</tr>
<tr>
<td>20.00</td>
<td>92.61</td>
<td>COURTESY PAY FEE</td>
<td>MEIJER INC</td>
<td>AVAIL BALANCE WAS -$61.15 BEFORE DBT/WDR TRANS</td>
</tr>
</tbody>
</table>
CU*BASE will now have to interpret how to **authorize** member transactions at the member level, not just the credit union level

- If the member has a negative balance limit, and the credit union has activated that balance for use in authorizations, now the system has to see whether the member has opted in or out to **determine the amount that can be approved**
- Remember, just because the member opted out for ATM/Debit, we cannot touch the negative balance limit that is still being used for ACH and checks

CU*BASE will now have to interpret how to **post** fees at the member level

- If the member has a negative balance limit, and the credit union has activated that balance for use in posting, now the system has to see whether the member has opted in or out to **determine whether to charge the fee**
  - Remember, these items can’t be returned (like checks or ACH can)
- Opt out: no NSF or ANR fee will be charged in the first round
- Opt in: both NSF and ANR fees are in play

These changes are scheduled for the 10.2 release (July 18 or 26)...just under the wire
Members who opened their memberships prior to July 1, 2010

- A decision must be made on how to sell the member on opting in now (even though the posting programs won’t be ready until later in July)
- We will opt them in on July 1 (except if you manually set their flag prior to then) and opt them out on August 15 (unless you’ve set their flag)
- But until July 18 (or 26), we will post fees same as now

Members who open their memberships between July 1 and August 15

- These members must make a decision when they open their account (you can set a default according to your Workflow Control configuration)
- You’ll need to monitor any members who: open an account, opt out, get a piece of plastic, and overdraw their new account prior to when the posting programs are in (you may have to manually refund these fees/update counters)

Members who open their memberships after August 15

- These members must make a decision (default per your Workflow Controls) and the new posting rules will immediately be in play
Members who opened their memberships prior to July 1, 2010

- A decision must be made on how to sell the member on opting in now (even though the posting programs won’t be ready until later in July)
  - We will opt them in on July 1 (except if you manually set their flag prior to then)
  - And opt them out on August 15 (unless you’ve set their flag)

- But until July 18 (or 26), we will post fees same as now

Members who open their memberships between July 1 and August 15

- These members must make a decision when they open their account (you can set a default according to your Workflow Control configuration)
- You’ll need to monitor any members who: open an account, opt out, get a piece of plastic, and overdraw their new account prior to when the posting programs are in (you may have to manually refund these fees/update counters)

Members who open their memberships after August 15

- These members must make a decision (default per your Workflow Controls) and the new posting rules will immediately be in play

This was a no-win situation:

- Manually track new members who opt out and reverse fees for 45 days
  vs.
- Lose income on all existing members who opted out early, prior to August 15.

Some people wanted fee programs to start working July 1; some wish they wouldn’t start working until August 15. What was the Fed thinking?
Projects for Reg. E range from “already released” to “still on the drawing board”

<table>
<thead>
<tr>
<th>Project</th>
<th>Release Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>New configuration, Opt In/Out flags, and maintenance features</td>
<td>10.1 release (already in for online, June 28 for everyone else)</td>
</tr>
<tr>
<td>Changes to all ATM/Debit posting programs</td>
<td>10.2 release (July 18 or 26)</td>
</tr>
<tr>
<td><strong>ONLY supported under the new Standard ATM/Debit platform</strong></td>
<td></td>
</tr>
<tr>
<td>Member setting their own Opt In/Out flag in It’s Me 247 online banking</td>
<td>Target: 10.3 or 10.4 release</td>
</tr>
<tr>
<td>Notices for when members Opt In</td>
<td>Target: 10.5 or 10.6 release</td>
</tr>
<tr>
<td>File maintenance analysis tools</td>
<td>Target: To be determined</td>
</tr>
</tbody>
</table>
As these regulations become mature, it will become clearer to everyone how to make compliance more convenient for the credit union employee, the member, and the credit union’s income statement.

We all just need the time and experience with the reg. to prioritize the changes.

One thing that has been clear this year, is that all of this activity has everyone focused on compliance and regulations at every level.

- Nothing has slowed down when it comes to the latest and greatest improvement to OFAC, BSA, Reg. D, etc.
- The industry, like the nation, is in a regulatory mode.

Randy’s compliance disclaimer: Move quickly to the spirit: Regulatory compliance starts with a spirit to comply, then taking the experience of trying to comply, we all develop the precision in complying.

Of course this is nothing new...let’s take a look at a few more compliance-related projects we’ve have been dealing with or will deal with in 2011.