



Managing Bank Fees and Balances

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Today's Agenda

- ◆ The Banking Dilemma – making money in a low interest rate environment
- ◆ We'll Make it Up in Fees – Understanding Bank Analysis Statements



The Banking Dilemma: How to make money in a low interest rate environment?



Supply & Demand: Banks Deposits Are Up; Spread Margins Are Down

THE WALL STREET JOURNAL.

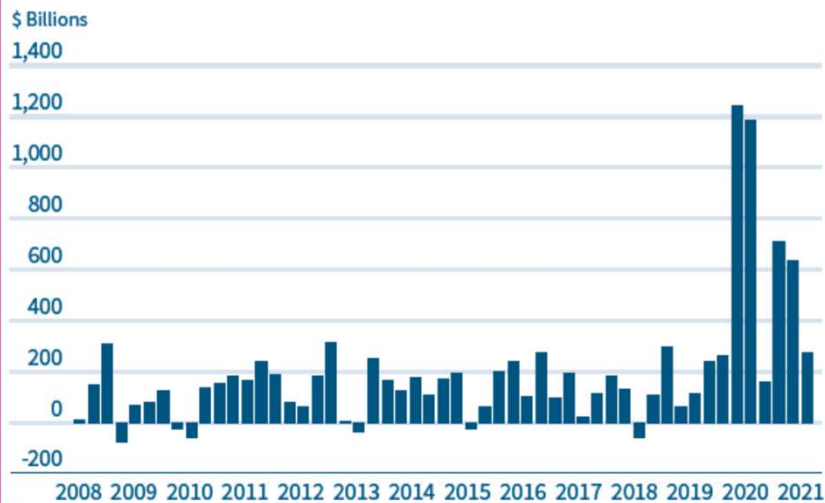
Coronavirus Has Left Banks With Lots of Cash and Little to Do With It

Profits are down. Margins are low. Banks are bracing for a wave of soured loans. On the other hand, they're raking in fees and deposits.

Updated Aug. 30, 2020 9:59 am ET

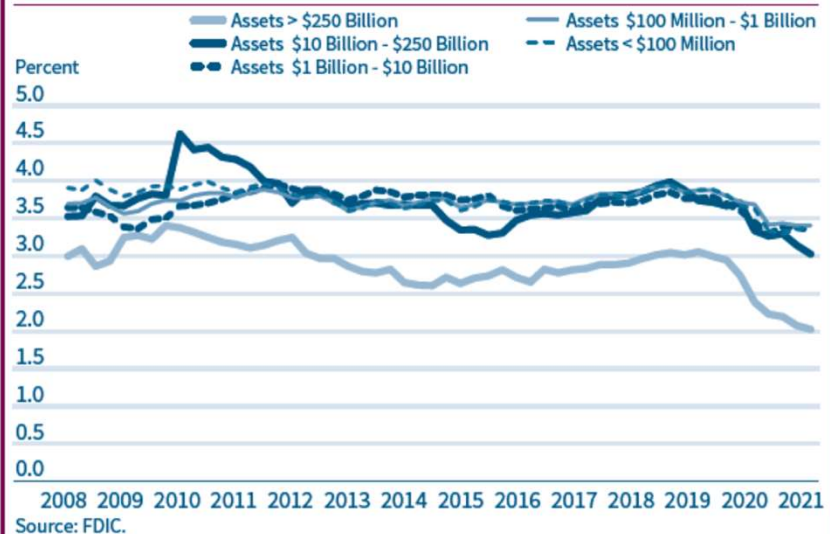
Quarterly Change in Deposits

All FDIC-Insured Institutions



Quarterly Net Interest Margin

All FDIC-Insured Institutions

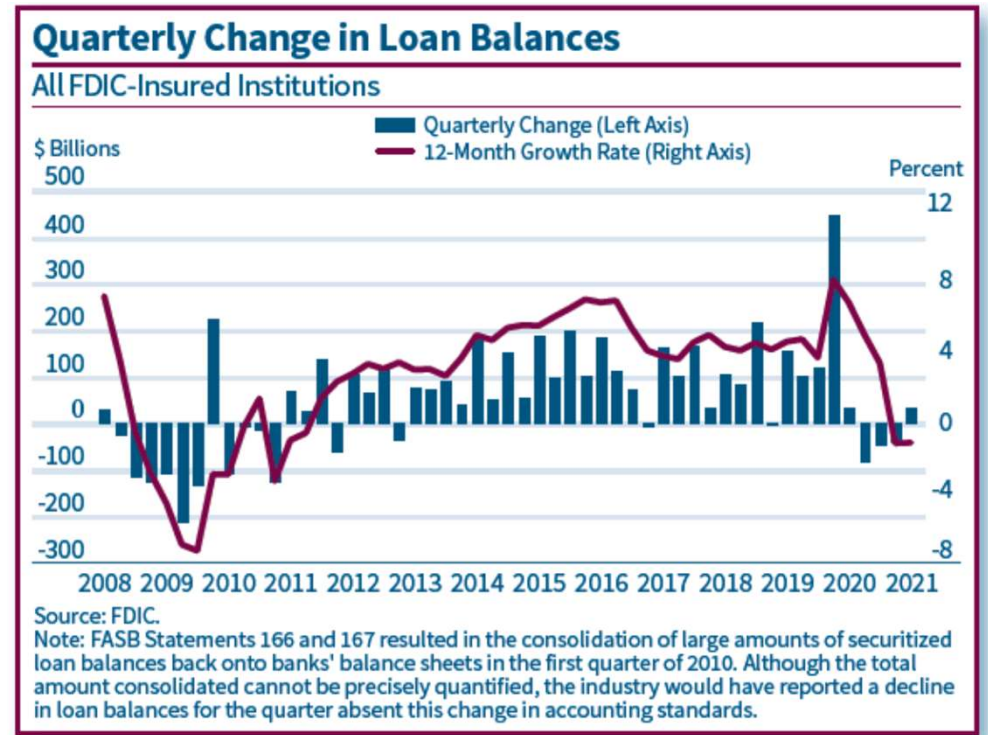




Deposits Up, Loans Down, Interest rates low....no where to go with money!

- ◆ The basic idea of banking is to take in money from deposits and lend it out at interest to borrowers. But with interest rates near zero, banks hardly make any money doing that, so taking in more money from deposits doesn't do much for them.
- ◆ Bank deposits have continued to surge this year. Between late March and May 26, they rose by \$411 billion to \$17.09 trillion, according to the latest available data from the Federal Reserve. That is slower than the pace last spring, but still nearly four times the average of the past 20 years, according to the Fed data.

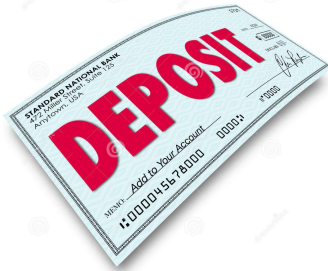
Source: Wall Street Journal and Capital Matters, June 9, 2021





How do banks make money

\$90 Inflow
to Bank



Depositor Paid
0% Interest

\$10 Capital Contribution



Investor Expects 10%
Return on Investment



\$100 Loan
to Customer



Bank Charges
3% Interest

Interest Margin Calc

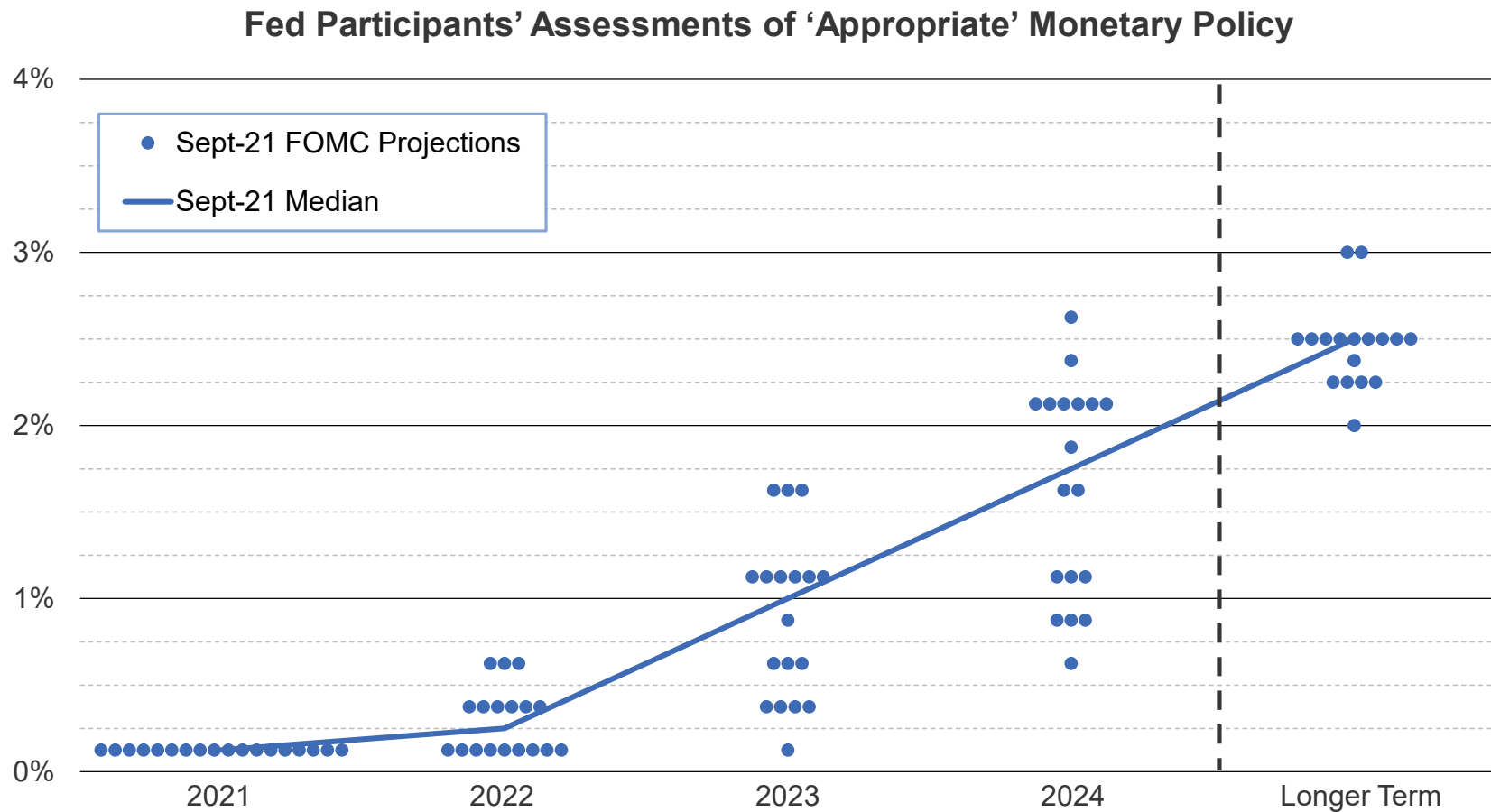
Loan Interest (\$100 * 3%)	\$3
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Cost of Funds (\$10 * 10%)	<u>\$1</u>
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Interest Margin	\$2
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Fed's September "Dot Plot" Signals Rate Liftoff in 2022



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.



We'll Make It Up in Fees: Understanding Bank Analysis Statements



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Sample Analysis Statement – Closer Look

Service	Unit		Service
Description	Price	Volume	Charges
RECOUPMENT MONTHLY IB	0.12750	1,500.13	191.27
RECOUPMENT MONTHLY	0.12750	28,371.73	3,617.40
BALANCE & COMPENSATION INFORMATION			3,808.67
CONT DISB CREDITS POSTED	0.35000	36.00	12.60
DESKTOP DEPOSIT-DEPOSIT CREDITED	0.35000	75.00	26.25
ACCOUNT MAINTENANCE W/ CHK RETURN	4.80000	5.00	24.00
ZERO BALANCE MASTER ACCOUNT MAINT	9.45000	1.00	9.45
ACCT MAINTENANCE	4.80000	4.00	19.20
ACCT MAINTENANCE CHEXSTOR-PLUS	4.80000	1.00	4.80
ZERO BALANCE MONTHLY BASE	6.75000	7.00	47.25
DEBITS POSTED	0.04000	765.00	30.60
GENERAL ACCOUNT SERVICES			174.15



Analysis Statement Summary

What Exactly is an Analysis Statement

- Summary of all fees and earnings credit (and interest earnings) for the month. First section is considered the composite account which compiles all fees into a single summary and lists accounts included.
- Earnings credit is considered in store credit – can only be used to offset fees and expires within month/ Qtr/ Yr
- Earnings Credit Calculation – Investable Balance X ECR Rate X Days in Month / Days in Year
- Analysis statement typically shows: # of items X per item fee = Total Cost and Balance needed to offset
- Review analysis statement regularly for new fees or anomalies in count or penalties not your fault.

Potential Pitfalls

- Bank errors
- Each account costs money in a) Account Maintenance b) Ancillary Services Per Account (Pos Pay, etc.)
- Balance Fee (formerly FDIC Charge) – Can be #1 Fee on analysis.
- Excess Earnings Credit goes to bank

******Make sure that every dollar deposited has value through either ECR or Interest Earnings



Compensating Balances

<i>Potential Advantages</i>	<i>Potential Disadvantages</i>
<ul style="list-style-type: none">• Offer of “free” services in lieu of paying interest on deposit balances• No need to budget for banking expenses• Potential for above-market exception rates for select clients	<ul style="list-style-type: none">• Effective rate can be severely reduced by reserve requirements and balance-based charges• Bank has the ability to change rates with no notice; may deviate from market rates• Excess, unused earnings credits that expire represent lost value



Bank Charges Can Significantly Reduce the Benefit of the ECR

<i>No Reserve Requirement or FDIC</i>			<i>Reserve Requirement and FDIC Assessed</i>		
Earnings Credit on Compensating Balance			Earnings Credit on Compensating Balance		
Total Collected Balance		\$25,000,000	Total Collected Balance		\$25,000,000
Less Reserve Requirement	0%	\$0	Less Reserve Requirement	10%	\$2,500,000
Available Balance		\$25,000,000	Available Balance		\$22,500,000
Earnings Credit	0.25%	\$5,308	Earnings Credit	0.25%	\$4,777
	$\$25,000,000 * 0.25 * 31/365$			$\$22,500,000 * 0.25 * 31/365$	
Less FDIC Assessment	0%	\$0	Less FDIC Assessment	0.10%	\$2,123
	$\$0 / (\$25,000,000 * (31/365))$			$\$2,123 / (\$25,000,000 * (31/365))$	
Net Earnings Credit	0.25% on Collected Balance	\$5,308	Net Earnings Credit	0.125% on Collected Balance	\$2,654

For illustrative purposes only.



Sample Analysis Statement

*FDIC-like charges are typically
included in line item portion of
monthly analysis statement*



ACCOUNT SERVICES STANDARD

DISB CHECKS PAID	15 0100	503	0.1200	60.36	209,822.83
ELECTRONIC DEBITS TRANSACTIONS	15 0100	38	0.1100	4.18	14,530.47
COMMERCIAL DEPOSITS	01 0101	30	0.4000	12.00	41,714.28
COMPOSITE GROUP	01 9999	1	0.0000	0.00	
CHK RETURNED ITEM OR CHARGEBACK	10 0400	3	15.0000	45.00	156,428.55
UNENCODED ITEMS DEPOSITED	10 022Z	15	0.0800	1.20	4,171.43
MONTHLY MAINTENANCE	01 0000	7	14.2500	99.75	346,749.97
WIRE INCOMING STRUCTURED	35 0300	1	11.2500	11.25	39,107.14
HYBRID ACCT MONTHLY MAINT	99 9999	5	0.0000	0.00	
ACH CREDIT RECEIVED	25 0201	72	0.1200	8.64	30,034.28
ACH DEBIT RECEIVED	25 0200	14	0.1200	1.68	5,840.00
ACH ADDENDA RECEIVED	25 0202	18	0.0859	1.54	5,353.33
DEPOSIT ADMINISTRATION FEE	00 0230	13,915	0.1350 *	1,878.55	6,530,196.71



What to Look for?



Account Balance Fee



Huntington

Deposit Administrative Fee

J.P.Morgan

Balance Based Charges

Bank of America



Deposit Bank Assessment



Balance Admin Fee



Deposit Coverage



Recoupment Monthly



Deposit Administration Fee



Earnings Credit Calc

NET AVERAGE COLLECTED	EARNINGS CREDIT	BALANCE REQUIRED	ANALYZED CHARGES
12,622,289	3,631	10,062,527	2,894.70
58,660	16	459,204	132.10
36,722	10	133,763	38.48
603,683	173	2,818,008	810.66
23,584	6	132,686	38.17
149,400	42	182,395	52.47
321,076	92	2,474,004	711.70

ON DEPOSIT			0.00
		13,815,417.79	
		<u>13,815,417.79</u>	

Bank ECR Math

*Investible Balance * ECR Rate / 365 days in year * 30 days in month*

*\$13,815,417 * .0035 ECR rate / 365 * 30 = \$3,974 earnings credit to offset fees*

Earnings Credit Rate 0.350% (Store Credit)

Deposit Admin Fee 0.135% (aka FDIC Charge)

Net ECR 0.215%

IMPORTANT NOTE: EXCESS ECR DEFAULTS TO BANK



What should you do?

- Regularly monitor your bank analysis statement and relationship (put in calendar!)
- Determine the “Net” Earnings Credit Rate your bank is paying
 - Reserve requirements and FDIC/balance-based fees cost you real dollars
- Ensure that you are not earning more credits than you can use
- Understand your alternatives at the bank: Does the bank offer a sweep into a government money market fund or a hard dollar interest structure?
 - Calculate the potential benefit of these alternatives
- Consider other short-term investment options for liquid funds
 - LGIPs
 - Fixed-income liquidity portfolios



Questions?



Thank You!

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