



NEWS

AUGUST 2000



AN ELECTRONIC REPORT FROM THE CUNA CHIEF FINANCIAL OFFICER COUNCIL

And That's the Way it Was....

The note of excitement rose to a high falsetto, and crooned, trembling slightly, in the thick Florida air. We—experienced peers in the business—rubbed shoulders, chatted on the open pool deck, greeted those we haven't seen since the last time, and those with whom we've kept in touch with for many years, and toasted friendship.

The 2000 Annual CFO Conference and Roundtable offered credit union professionals the opportunity to catch up on the latest financial trends, delve in some of the more complex issues of analysis, plan for the long term, and network with colleagues from diverse backgrounds. The annual conference was intended to provide a range of educational sessions to release creativity and help gain the leading edge in the financial arena. Even though the sun was shining and the temperature was up to 85 degrees, over 100 financial experts attended the pre-conference workshop.

Dr. Bill McGuire, president and CEO of McGuire Performance Solutions, LLC, Scottsdale, AZ, shared his ALM expertise and discussed ALM model implementation, core deposit behavior and value assessment, and verification audits. The main point stressed was documentation, documentation, and more documentation. The following day, Randy

Harrington, CEO, Extreme Arts & Sciences, Inc., Eugene, OR, presented the opening general session. His enthusiastic presentation challenged credit unions to budget for an Internet branch. In the new millennium, he said, it will be

necessary to provide empowered leadership for web and call centers as well as face-to-face transactions. "Crawl, walk, run into the world of wireless!" he urged.

The choice of an afternoon session wasn't made easy: CFOs scrambled to attend one of four breakout sessions, each guided by a seasoned expert. Stan Brach, Regional VP, Bear Stearns, Inc., New York, NY, speaking in a standing-room only auditorium, discussed risk management for complex credit unions, demonstrated and tested techniques that measure and analyze interest rate risk, and strategies to improve interest rate risk without forgetting about earnings. The true bean counters attended the breakout session led by Mark Taylor, CPA, Crowe Chizek, South Bend, IN, which summarized current and anticipated accounting changes for 2000. Later, regulatory changes were discussed by Kathy Thompson, Senior VP, Regulatory Affairs, CUNA & Affiliates, Washington, DC.

One of the topics discussed at the ongoing roundtable and networking breaks was the changing role of the CFO. The notion of a one-sided, specialist CFO is becoming quickly outdated. Instead, a multi-talented, multi-tasking organizer is taking the executive offices. Most CFOs agreed that responsibilities now take on a broad spectrum of credit union operations, including information technology, electronic card services, ATM processing, and facility management.

Executive committee members Vince Market and Larry Hoffman did an outstanding job with "ALM Best Practices." They reviewed the best ideas from various ALM policies which included goals for five key ratios (Net Income/ Avg. Total Assets; Interest Margin; Equity/ Assets' Non-interest Income/ Average Assets; non-interest expense/ Average Assets and expected CAMEL Rating). Another credit union's focus was reporting the results for their Key Risks, their measurements, and their

established guidelines. This session alone was worth the price of admission. Several ALM reports were shared and attendees gained insight through seeing the results of fellow credit unions.

Tom Dorety, CEO of Suncoast Schools FCU, a \$2.1 billion plus credit union in Tampa, Florida, gave an inspirational talk on the topic of "Visioning from the Trenches." It was a unique presentation that illustrated the importance of how basic, fundamental human actions can be used to create a "vision" and a sense of purpose for a credit union and its employees. Tom interjected humor with good, solid recommendations to get his message across about "visioning" to the attending CFOs. He told us all to step back from the numbers and work towards creating a sense of purpose among all employees within our respective credit unions. He emphasized the importance of communicating with staff on a regular basis. In particular, Tom shared with us his methods of communication. He stated that a good portion of his daily communication with Suncoast Schools' employees is informal. This, he feels, significantly benefits his whole staff. It keeps him and the staff informed as to how the credit union is serving the members. Tom closed his presentation with an inspirational video, which was created by one of Suncoast's employees. It demonstrated that humor and communication go a long way to creating a "vision" for a great credit union.

We were honored to have Kathleen Camilli, Director of Economic Research at Tucker Anthony, New York, NY, and winner of Business Week's Accurate Forecaster for 1999. Her forecast for 2000 included year-end Fed Funds at 7% and stated that the gap between personal spending and income must come together because consumers are spending more than they earn.

Barbara Sanfilippo, author of *Five Star Service Solutions* and *Dream Big*, spoke of personal success and happiness as determined by daily choices: Learn to create more "Cappuccino moments"—designated times of reflection. Learn to value time and say "no" when needed. Make free time. Seek assistance with and delegate chores. "Trust your intuition, for it is your best friend. Ignore your fears, for they are your enemies. Believe in your dreams, for they are your future."

Mark your calendar for next year's conference at the Seattle Westin Hotel in Seattle, WA May 20-23. Our conference is the only conference designed by your peers to give you the advanced education that is needed to succeed in an ever-changing economic environment. Help us make your conference a success, e-mail your ideas on educational sessions or speakers to executive committee members Alan Wade, SVP/CFO, Member One FCU, Roanoke, VA at awade@memberonefcu.com or Bill Kennedy, CFO, Sarasota Coastal CU, Sarasota, FL at billkennedy@sccu.org. ♦

Deposit Reclassification Can Increase Your Credit Union's Income

Since 1993, the Federal Reserve Bank, under a set of clearly defined parameters, has allowed share draft (checking) accounts (defined as "transaction accounts" by the Federal Reserve) of financial institutions to be structured so that a portion of each member's balance is maintained in a linked savings subaccount. In this article, we look at how to reclassify your accounts and how to calculate the savings portion.

Benefits of Reclassification

The savings portion of a transaction account is not subject to the 10 percent noninterest-



bearing Federal Reserve balance that is required for transaction accounts. Funds are automatically transferred to the transaction portion of the combined account on a daily basis to cover activity within the checking account. At the sixth transfer during a statement month, the entire balance in the linked savings account is transferred back to the transaction limitations of Reg D.

Many of the nation's largest financial institutions have already restructured their transaction accounts. Since the reclassification process began, an estimated 2,000 institutions have received Federal Reserve Bank approval

to make this change.

On average, financial institutions that have made this change have increased pre-tax profits by over \$1,000,000 each!

Credit unions were slow to take advantage of this opportunity, but are now beginning to implement the necessary changes. In fact, six large credit unions have now converted to the re-classification process and are enjoying an average of almost \$700,000 per year in increased profit!

Essential Steps in the Reclassification Process

If an evaluation of your transaction accounts indicates an opportunity to decrease your reserve account, follow these required steps to implement the necessary changes:

Obtain Federal Reserve Bank approval. Prepare a letter to your Federal Reserve Bank outlining in detail how the reclassification process will work in your credit union. This is the first and most important step.

Develop an appropriate disclosure strategy. In the letter to your Federal Reserve bank, include a detailed description of how you will disclose the new account structure to your members. Include a copy of the actual wording to be used. This step is crucial due to new directives and requirements that have been recently communicated by the Board of Governors of the Federal Reserve in Washington, DC.

Develop the percentage threshold amounts for creation of the savings portion. This step includes a detailed analysis of randomly selected checking accounts in order to develop an algorithm for the percentage of account dollars to be reclassified to the savings portion. The savings portion is established by using percentages from a bank control record table that shows percentages by balance range and by product type for the reclassified accounts. These threshold percentages are applied to the ending balance of the reclassified account to determine the savings portion.

Forecast the impact on Federal Reserve balances. For deposit reclassification to work, you must plan on managing your credit union so that you maintain lower balances at the Federal Reserve. This may include opening or increasing your clearing balances (an interest-bearing account) to minimize the occurrence of overdrafts in these accounts.

Reduce vault cash levels. Many credit unions will need to reduce their cash levels in

order to maximize the benefits of the reclassification process. If this is the case, you may want to conduct a separate vault cash reduction review.

Complete implementation of required systems modifications. Implementation of the process does not require changes to the share draft (checking) posting program, which greatly accelerates the implementation efforts. The following work steps describe this process:

- Existing fields from the account master file are captured on a daily basis and extracted to a separate database program, the Deposit Reclassification Processing Module. These fields include:
 - Account number
 - Type code
 - Average balance (previous month-to-date (MTD) average preferred)
 - Ending ledger balance
- Based on this data, a user-defined threshold percentage table, and the previous day's file, the Deposit Reclassification Processing Module calculates, utilizing methodology from the algorithm, the savings portion and MTD debit counter for each account for that day. This savings portion amount for each account is then totaled for reserve requirement reporting purposes and for completing the FR2900 Report.
- Specific rules for daily calculation of the savings portion include:
 - The savings portion field and the debit counter field should be established within the processing module with a zero balance in each. The balance ranges within the table reference the average ledger balance of the account at the end of the day. The savings portion is calculated using the ending balance of the account.
 - Each account makes the following calculations, using database logic statements, each day. The logic statements can be written in COBOL or such programs as Easytrieve or Microsoft Access.
- If the debit counter is equal to six, the savings portion is equal to zero and the debit counter is not incremented.
- If the debit counter is less than or equal to five and the current balance is greater than or equal to the previous day's savings por-

tion but less than the previous day's savings divided by the previous percentage, the savings portion is equal to the previous day's savings portion and the debit counter is not incremented. (If the percentage from the table is zero, substitute one (1) as the divider.)

- If the debit counter is less than five and the ending current balance is greater than zero and less than the previous day's savings portion, then the savings portion equals the current balance times the percentage in the table, and the debit counter is incremented by one.
- If the debit counter is less than or equal to five and the current balance times the percentage from the table is greater than the beginning savings portion, then the savings portion is equal to the current balance times the percentage from the table. The debit counter is not incremented.
- If the debit counter is less than five and the ending ledger is less than or equal to zero, then the savings portion is equal to zero. If the savings portion is less than the previous day's savings portion, the debit counter is incremented by one.
- If the debit counter is equal to five and the ending ledger balance is less than the previous day's savings portion, then the savings portion is equal to zero and the debit counter is incremented to six.

Many financial institutions use a personal computer-based deposit reclassification processing module with Microsoft's Access, a database program. This allows the module to be developed and processed by the finance

department. Access, a part of Office 97, runs most efficiently on Windows 95, Windows 98, and Windows NT, using Access 7.0.

Should Your Credit Union Reclassify?

The conversion process can be done fairly quickly (usually within 30-60 days), with virtually no negative member reaction and with little time required on the part of credit union personnel. This is an excellent opportunity for credit unions to convert non-earning assets now held at their Federal Reserve bank to earning assets.

As noted earlier, many banks have already taken action. As a result of the number of financial institutions that have performed the reclassification process, reserve balances held by their Federal Reserve bank have dropped from around \$30 billion in 1993 to approximately \$5 billion today. Now is the time for more credit unions to act since the Federal Reserve is systematically increasing reserve requirements to re-coup some of the reserves lost due to the extensive amount of re-classification that has occurred. This means that the level of your non-earning assets held at the Federal Reserve Bank will continue to increase! Why not investigate this profit improvement opportunity now? ♦

About the Author

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