



Dormancy Fee Research

January 2019 Spike in Fees

Executive Summary Overview

Example CU has 85,500 members and on average 1.7%, or 1,500 of the member base is dormant. This number currently grows by a net 125 – 200 memberships per month.

Do all of the 1,500 dormant memberships fall into the category of a “fee opportunity”?

No - Not all dormant memberships are eligible fee opportunities. 20 – 40% of Example CU's dormant members are not eligible to assess a fee. These are not considered an “opportunity”. A typical reason is when the membership has no balance available to charge.

How many memberships become newly dormant on a monthly basis? Total? Net?

Gross = For both pre- and post-January a typical volume of total new dormant-status events is 600 – 650 memberships.

Each month, some memberships will take action to be re-instated or will be manually re-instated by staff per policy.

Net = The final count at the end of each month currently increases by a net 125 – 200. Pre-January 2019 saw smaller net increases at 50 – 100 memberships.

The research in this report finds that the larger net increases for post-January months are a result of Example CU staff processing dormancies at a slower rate. In general, each month more members are allowed to remain at dormant status until EOM. These are more fee opportunities, therefore more fees charged.

How many memberships do Example CU staff re-instate to active-status on a monthly basis?

Pre-January = average 430 memberships per month are “deleted from dormancy” (re-instated or closed the membership)

January 2019 = an atypical month. It includes a larger than normal surge of new dormancies *and* a larger than normal purge of dormant memberships.

Post-January = average 300 memberships per month are “deleted from dormancy”.

Each month, at least 130 memberships are remaining at dormant status (rolling into the next month) which would formerly have been deleted from dormancy by end-of-month.

Fee Impact - As newly dormant memberships, they are highly likely to be a fee opportunity (have balances available to charge).

Net Growth Impact - Leaving more memberships at dormant status until end-of-month also impacts the net count of dormant members on a monthly basis.

| | |
|------------------|---------------------------|
| Total Members: | 85,500 |
| Dormant Members: | 1,500 (1.7%) |
| New Dormancies: | 600 – 650 / month (gross) |

Executive Summary

January 2019

January 2019 Focus - The following factors were found to be significant in attempting to explain the fluctuations within January 2019's dormancy activity.

The largest impact was a segment of memberships that all arrived to dormancy status on the 2nd and 3rd of January. Other contributing factors included a larger than normal jump in Indirect Lending memberships and memberships attached to one of two branches for what was formerly a credit union merged into Example CU.

Higher than expected number of members qualifying for dormancy *and still at dormant status by the end of the month.*

January 2nd and 3rd Surge ***+180 memberships***

This group appears to account for the majority of the higher than normal amount of new dormancies. The group can be broken into two different populations – Those who turned dormant due to their Last Contact Date on file, and those who turned dormant due to their Last Transaction Date.

Indirect Lending ***+50 memberships***

The increase in January may be a coincidental contributing factor. Or, it can be researched further.

Merger ***+30 memberships***

Although only minorly significant to the findings for January 2019's newly dormant members, Two branches from the merger (18 and 19) nearly doubled their dormant populations from December to January. Branch 18 went from 23 to 44 dormant members and branch 19 from 12 to 23 for a total of

Mass purge to close dormant memberships:

Unrelated to the early January surge in new dormancies – a mass purge of existing dormancies was processed in **January 15 – 17** by employees JP, JB, GT, ET, and DR.

Staff closed nearly 700 dormant memberships, representing collectively 1,860 dormant sub-accounts. The majority of these were already ineligible to have a fee assessed due to having no available balances to charge. No fee income impact. But, the work impacted net calculations on total dormant members.

Executive Summary

January 2019

January 2019 Focus - The following factors were also researched and found not to be significant related to the increase in fees charged.

Member birthdays

- Existing dormant members who turn 18 are newly eligible to be charged a fee.

Increase in **partial fee postings** (which appear as duplicate fees in some counts)

Employee maintenance

- Yearly purge did happen in January 2019 – unrelated to the increase in fees posted.
- Most branches saw increase in dormancy at similar rates. The few exceptions are considered contributing factors and explained further in this report.

Insider fraud

- Not definitive – but relatively equal growth rates on dormant members across branches.

Software Changes

- No projects released that directly affect dormancy configuration or data sets in December 2017 or 2018.
- No systemic spike was found for January 2019 when reviewing other CUs who use CU*BASE.
- Members charged fees in January were truly dormant-eligible (did not exist on December's dormancy list and had last contact date *or* last transaction dates from January 2018).
- No cases were found of dormancy dates unexpectedly changing from one month to the next.



January 2019 - What does the total "Opportunities" mean? Why don't the Charged + Waived Fees add up to total Opportunities?

The fee "reason" of **Fee Partially Waived** is counted in both the Charged and Waived equations. Drill down on a month to review the details of each individual fee reason.

| | | Dec 2018 | | | | Jan 2019 | | | |
|---------------------------------|--------------|------------|------------|------------|-------------|--------------|------------|------------|-------------|
| Description | Code | Opp | Charged | Waived | % | Opp | Charged | Waived | % |
| ACCOUNT SERVICE CHARGES | ASC | 54,012 | 1,504 | 52,769 | 97.6 | 53,907 | 1,463 | 52,681 | 97.7 |
| CASHED CHECK FEES | CCF | 33,368 | 10 | 33,358 | 99.9 | 27,986 | 9 | 27,977 | 99.9 |
| DEPOSIT ITEM FEES | DTE | 4,638 | 7 | 4,631 | 99.8 | 4,342 | 2 | 4,340 | 99.9 |
| DORMANCY FEES | DORMF | 790 | 319 | 616 | 77.9 | 1,058 | 507 | 766 | 72.4 |
| MINIMUM BALANCE SERVICE CHARGES | MBSC | 656 | 649 | 7 | 1.0 | 657 | 650 | 7 | 1.0 |

Opportunity = Dormant sub-accounts eligible for a fee. This is not a count of memberships eligible for a fee. A small number of memberships may require posting the fee to two sub-accounts in order to charge the full \$50 – These cases are counted as two opportunities.

$$\text{Opportunity} = \text{Fee Not Waived} + \text{Full Waiver (age requirement)} + \text{Fee Partially Waived}$$

Charged = At least 1 fee posting was recorded on a membership, either partially or the full \$50.

$$\text{Charged} = \text{Fee Not Waived} + \text{Fee Partially Waived}$$

Waived = Fee-eligible memberships that are either fully waived, or posted as partial amounts. Partial fee postings always bring at least 1 sub-account's balance to \$0.

$$\text{Waived} = \text{Full Waiver (age requirement)} + \text{Fee Partially Waived}$$

| EXAMPLE - DECEMBER 2018 | |
|--------------------------------|------------|
| Fee Not Waived | 174 |
| Fee Partially Waived | 145 |
| Full Waiver (age) | 471 |
| TOTAL | 790 |



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|----------------------|------------|
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| Full Waiver (age) | 471 |
| TOTAL | 790 |

| JANUARY 2019 | # Opp |
|----------------------|-------------|
| Fee Not Waived | 292 |
| Fee Partially Waived | 215 |
| Full Waiver (age) | 551 |
| TOTAL | 1058 |

Increased Opportunities
 +67%
 +32%
 +15%

188 total additional fees were charged in January compared to the count of fees charged in the prior month of December.

Note that the significant increases within the categories where fees were charged signify that the newer fee opportunities in January were much more likely to have high enough balances in their accounts to cover the full amount of the fee.



Overview - How many dormant memberships do staff normally "Delete from Dormancy" to process within each month?

The number of dormant memberships being processed by Example CU staff each month has gone down – After January, **an average of 130 more net memberships are remaining on the system in dormant status at each end-of-month cycle** (and fee posting cycle) arrives. As memberships new to dormancy – they are much more likely to be fee opportunities with balances available to charge.

Keep in mind – The influx of memberships becoming dormant has not gone down. It has remained consistent (January is an exception) and has not significantly increased.

| Accounts Deleted from Dormancy | | | | | | | |
|--------------------------------|-----|-----|-----|------|-----|-----|-----|
| Employee | Oct | Nov | Dec | Jan | Feb | Mar | Apr |
| DR | 0 | 0 | 0 | 51 | 0 | 0 | 0 |
| ET | 0 | 0 | 0 | 126 | 0 | 0 | 0 |
| GT | 319 | 218 | 162 | 155 | 159 | 259 | 42 |
| JB | 0 | 0 | 0 | 168 | 0 | 203 | 21 |
| JP | 277 | 491 | 345 | 1360 | 272 | 205 | 291 |
| 25 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Totals | 596 | 709 | 507 | 1860 | 431 | 667 | 356 |

Pre-January
604 average accounts

Post-January
484 average accounts

Are there new policies in place for processing dormancies?

Are there new policies for defining a dormant member internally?

(E.g. On one membership historically a tracker was noted to mention that the person was joint on a 2nd membership which did have a recent transaction date. For this reason, staff manually removed the 1st membership from dormancy status)

Are the staff who normally process dormancies no longer able to find time to keep up with processing at the same pace?

Why is employee 25 unexpectedly processing a dormant membership in April 2019?

Membership = Counted as a unique account base relationship, regardless of how many sub-accounts the membership may have.

Account = Counts as all individual sub-accounts within a membership.

Delete from Dormancy = There are two typical reasons to process a "delete from dormancy" action – 1) re-instate the membership as active, or 2) close the membership.



Overview - How many new dormant memberships will typically stay dormant through the end-of-month and be evaluated for a fee?

Total individual cases of memberships going dormant has not significantly changed month-to-month – with January as an exception, and a slightly heavier segment of dormant members in March, the more typical result is to see 600 or just a bit more total memberships turn dormant each month.

At the same time, the amount of these newly dormant memberships who are still on file at a dormant status has continued to stay higher than normal. This is due to the fact that fewer of the new dormancies are being processed by staff to either re-instate them as active or close the membership.

More members allowed to remain at dormant status until EOM = more fee opportunities. Therefore, more fees charged and more fee income.

| Memberships Added to Dormancy | | | | | | |
|---------------------------------|-----|-----|-----|-----|-----|-----|
| | Nov | Dec | Jan | Feb | Mar | Apr |
| Total New Added | 601 | 595 | 965 | 610 | 782 | 639 |
| New Still Dormant at EOM | 189 | 256 | 489 | 386 | 501 | 408 |

Pre-January
600 average
total added

Post-January
670 average
total added



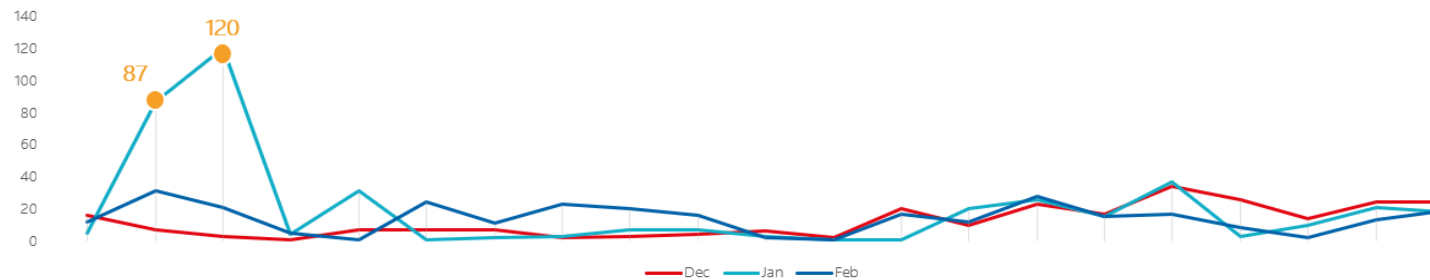
January 2019 - Are there any significant dates in January which see larger than normal amounts of memberships becoming dormant?

Yes – January 2 and 3 respectively saw 87 and 120 memberships become dormant and remain at that status until end-of-month (EOM). This is far above the normal daily rate of new dormancies that “stick” and are not quickly re-instated. In prior months. If we assume 27 is the volume we’d have expected to see, then there are **~180 more memberships than expected.**

In total, January saw 469 memberships reach dormant status in January and remain in dormancy until the end of the month. Other months (December and February) respectively average 12 and 14 per day and total 257 and 386 new dormant memberships remain to EOM.

Fee Impact – 100% of these 207 memberships were fee opportunities. **73%, or 152, memberships were charged at least a partial fee.**

Daily New Dormancies – 207 Memberships on January 2 & 3



Jan 2 volume was almost entirely due to a surge of memberships with a **last contact date** on record of Jan 1st, 2018.

A spot check into 5 memberships found all 5 to have history of being manually re-instated to active status without any transactions performed on the membership.

Jan 3 volume was almost entirely due to the member’s **last transaction date** being January 2nd, 2018.

Further research could determine if there are commonalities to the type of transaction that each membership had posted on this date back in 2018.



January 2019 - Why did the total number of dormant members *decrease* while fee opportunities and fees charged simultaneously increased?

This net decrease in dormant memberships can be explained by a mass closure that was performed on January 15, 16, and 17, likely per credit union policy. In total, nearly 700 dormant memberships were closed. Once the closed memberships are included in the net January activity, an estimate on expected total dormant members for January comes close to what is actually seen in January.

| Month | Dormant Members | Members Charged Fee | Dormant Members | Members Charged Fee |
|----------|-----------------|---------------------|-----------------|---------------------|
| | TOTAL | TOTAL | NEW ONLY | NEW ONLY |
| November | 1181 | 238 | 189 | |
| December | 1320 | 272 | 256 | 129 |
| January | 1085 | 432 | 489 | 293 |
| February | 1170 | 343 | 386 | 144 |
| March | 1374 | 397 | 501 | 207 |
| April | 1541 | 348 | 408 | 144 |

NET JANUARY DORMANCY

| | |
|-----------------------------|--------------|
| January Start Actual | 1,320 |
| + New Dormancies | + 489 |
| - Closed Memberships | - 700 |
| January End Expected | 1109* |
| January End Actual | 1085 |

*This is very close. Although not exact, it is an acceptable result with the data sources that were used.

Dormant Member = at least 1 record in DIMAST at end-of-month (EOM); **New** = unmatched December DIMAST from January DIMAST

Member Charged Fee = at least 1 record in FWHIST for reason Fee Not Waived or Fee Partially Waived; **New** = unmatched December FWHIST from January FWHIST



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Although we see significantly higher end-of-month counts of new dormant memberships post-January on February, March, etc. – **The members in each group of new dormancies are only minimally more likely to be charged a fee** compared to pre-January.

January is an exception. Members who hit dormant status in January 2019 and stayed until end-of-month were highly fee-able compared to prior and following months.

Total fees charged stays slightly higher than pre-January history. This is due to the highly fee-able segment of new January memberships remaining at dormancy status and incurring fees in February, March, etc as well.



January 2019 - Are any branches more significantly represented in the January dormancies compared to December?

Yes – Six branches saw more than 74% increase in their net count of dormant members from December to January.

Several of these situations seem to suggest a few sub-populations of members having an outsized impact compared to their historical patterns

1. Merger members
2. Indirect Lending members

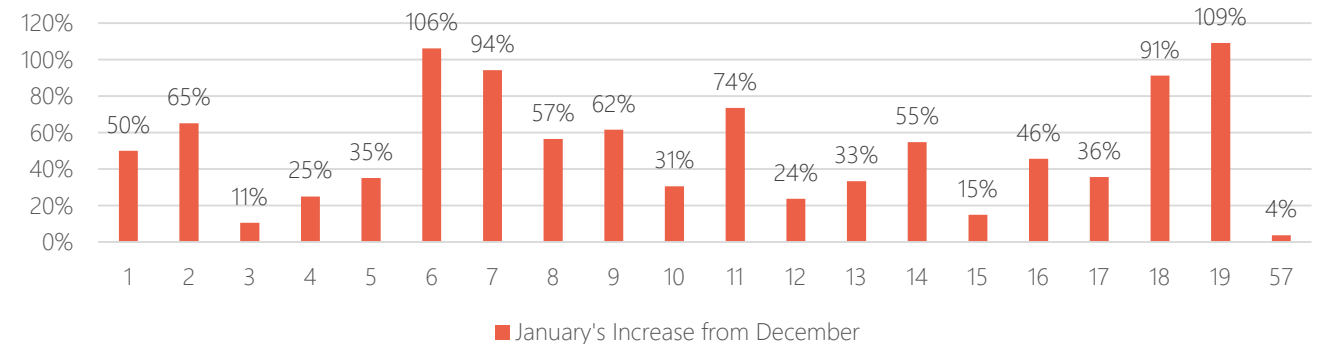
In the case of the two branches from the merger, it could be considered that the October 2018 merger produced a number of members who began to use their account less often. These would be expected to arrive at dormancy at a higher rate from November 2018 through mid-2019.

In the case of Indirect Lending, it is normal to see fluctuation in memberships who become dormant. The increase in January may be a coincidental contributing factor. Or, it can be researched further.

Further research may be able to establish a reason for branch 6,7, and 11's particularly substantial increases.

Increase in Dormant Accounts from December to January

(adjusted for the yearly dormant membership purge)



| Branches with > 74% Increase from Dec to Jan - Total Dormant Accounts | | | | | |
|---|------------------|-----------------|-------------------|----------------|-------------------|
| Branch | Name | December Actual | January Expected* | January Actual | Unexpected Growth |
| 6 | Be | 49 | 60 | 101 | 52 |
| 7 | Colo | 36 | 44 | 68 | 32 |
| 11 | Cold | 34 | 39 | 59 | 25 |
| 18 | Ba | 23 | 23 | 44 | 21 |
| 19 | BC | 11 | 12 | 23 | 12 |
| 50 | Indirect Lending | 11 | 7 | 61 | 50 |
| Totals | | | 185 | 356 | 192 |

*January Expected = December Actual x (1 + % Increase from Nov to Dec)



January 2019 - Are any first-time fees charged on pre-existing dormant-status members?

Yes - but only for the legitimate reason of members' newly qualifying based on the age waiver configurations.

Results = 1 member

This result assists in confirming no software error was in place to charge fees to existing dormant members who had been getting their fees previously waived. It also confirms that a wave of dormant minors recently turning 18 is not responsible for the increased fees.

Member *86 was charged his first dormancy fee in January 2019, at 5 months of dormancy, because he had turned 18 years old on January 20, 2019.

Dormancy Date: 2018, Aug 20
 Account(s): 000 Share
 Balance: \$5.00

18th Birthday: 2019, Jan 20
 First Fee Date: 2019, Jan 31

| | Dormant? | Fee? |
|----------|-----------------|-------------------------|
| December | Yes 4 months | No waived - under 18 |
| January | Yes 5 months | Yes charged \$5.00 |

Pre-Existing Dormancy = record in DIMAST for December 2018

Charged Fee = record in FWHIST for January 2019 where REASON = NW or MW
 NW = Fee Not Waived
 MW = Fee Partially Waived