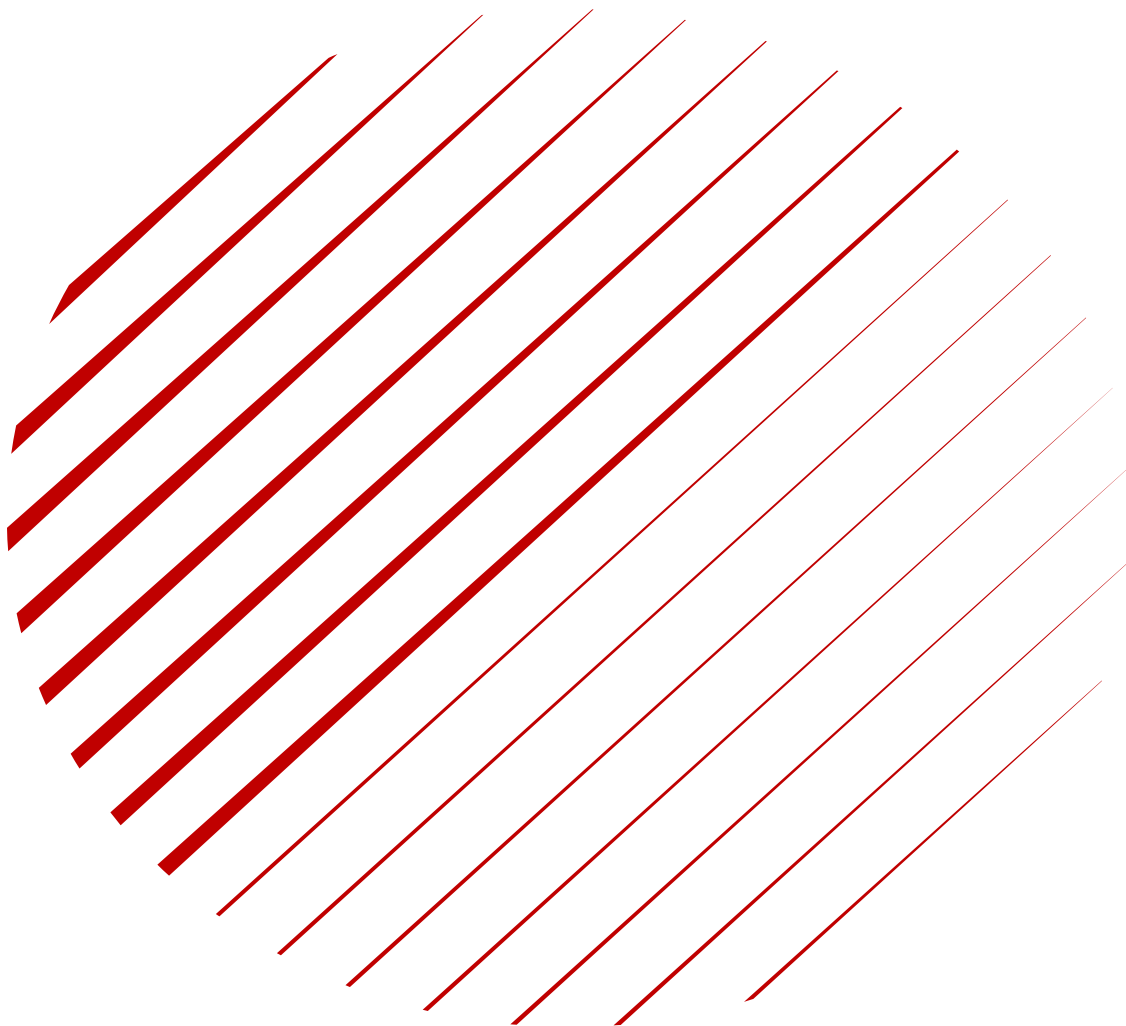


Research Analysis: Fee Income



Prepared: August 2020
By: Asterisk Intelligence

FEE INCOME RESEARCH – WAIVERS & REFUNDS

SUCCESS CU

This analysis evaluates the question = Why has yearly fee income for Success CU been generally static or declining in recent years?

Because fee postings are centralized into a single GL in the back-office realm, the analysis turns to alternative data collected from member transaction postings. Fee waivers and Fee refunds are specifically evaluated as possible causes of the static rate of growth.

Quick Conclusions

This analysis **rules out** the following factors as possible causes for the static growth in fee income:

- ◇ Manual waivers
- ◇ Manual refunds in general

The analysis **supports** the following factors as having an impact on reducing fee income. These may not fully account for the recent static growth, but they are at least a partial reason:

- ◇ System waivers (2015 re-shuffle of the Tiered Scoring configurations)
- ◇ Manual refunds

Fee Income Summary

Let's review the 10-Year Trend on GL 131.00 Fees & Charges:

Historically, 2012 and 2013 were periods of huge growth in fee and service charge income. However, since 2014 annual net income has remained generally stable at around \$1.13 Million with recent years slightly higher - \$1.18 Million in 2018 and \$1.16 Million in 2019.

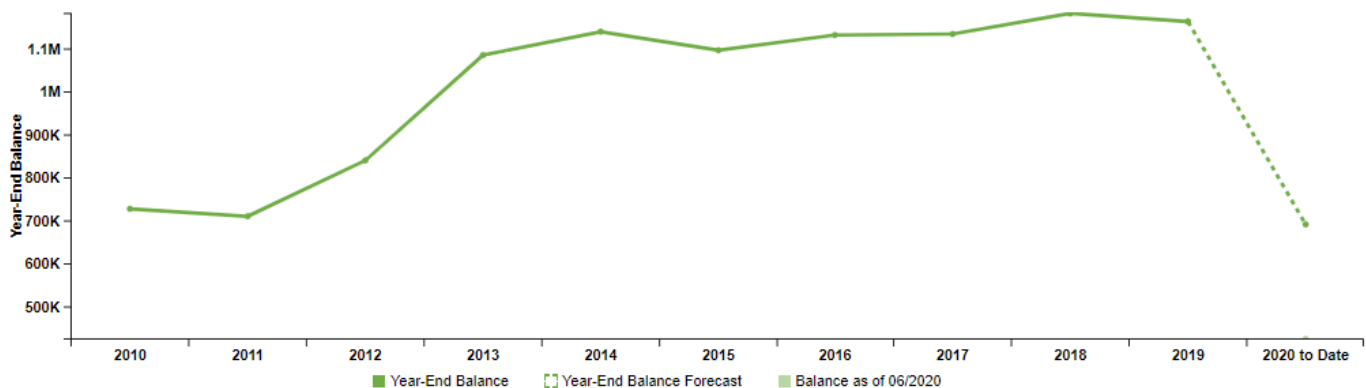


Table: 10-Year Trends on GL 131.00 Fees & Charges

Year	December Year-End Balance	Percent Change	Net Change
<u>2020 as of 06/2020</u>	424,925	-63.4	-737,230
<u>2019</u>	1,162,155	-1.6	-18,804
<u>2018</u>	1,180,959	4.2	47,683
<u>2017</u>	1,133,276	0.2	2,468
<u>2016</u>	1,130,807	3.2	35,188
<u>2015</u>	1,095,620	-3.8	-42,983
<u>2014</u>	1,138,603	5.0	54,432
<u>2013</u>	1,084,171	29.1	244,573
<u>2012</u>	839,598	18.3	129,662
<u>2011</u>	709,936	-2.4	-17,351
<u>2010</u>	727,286	3.2	22,316

Let's Review the Monthly Breakdown of GL 131.00 Fees & Charges:

2020 fee income is tracking \$125,000 lower than expected for the year. Net income at the end of June 2020 was \$424,925. Normally by this time of year income is roughly \$550,000.

Year →	<u>2018</u>		<u>2019</u>		<u>2020</u>	
Previous Ending Balance →	1,133,276		1,180,959		1,162,155	
Month	Change \$	Balance	Change \$	Balance	Change \$	Balance
January	105,596	105,596	101,407	101,407	96,038	96,038
February	94,712	200,308	80,946	182,353	86,808	182,846
March	84,367	284,675	83,092	265,445	77,891	260,737
April	88,685	373,360	89,999	355,444	49,655	310,392
May	97,906	471,266	101,104	456,549	54,067	364,459
June	98,306	569,572	94,079	550,627	60,466	424,925
July	105,818	675,390	101,712	652,339	0	0
August	102,794	778,184	95,798	748,138	0	0
September	95,356	873,540	99,818	847,956	0	0
October	103,673	977,213	110,243	958,199	0	0
November	99,806	1,077,019	91,350	1,049,549	0	0
December	103,940	1,180,959	112,606	1,162,155	0	0
Annual Change & Ending Balance →	1,180,959	1,180,959	1,162,155	1,162,155	424,925	0
Annual Growth →	4.2%		-1.6%		-63.4%	

Evaluating Fee Waivers and Refunds

A fee event or opportunity can have one of three outcomes:

- 1) Charge = Income. Fee was not waived and not credited back to the member later.
- 2) Waiver = No Income. Fee was proactively waived by either the system or staff. No transaction is posted.
- 3) Refund = No Income. Fee was reactively credited back to the member after the fee transaction posted.

January 2015 vs January 2020 Comparison (Amounts)– Summarized by Fee Type

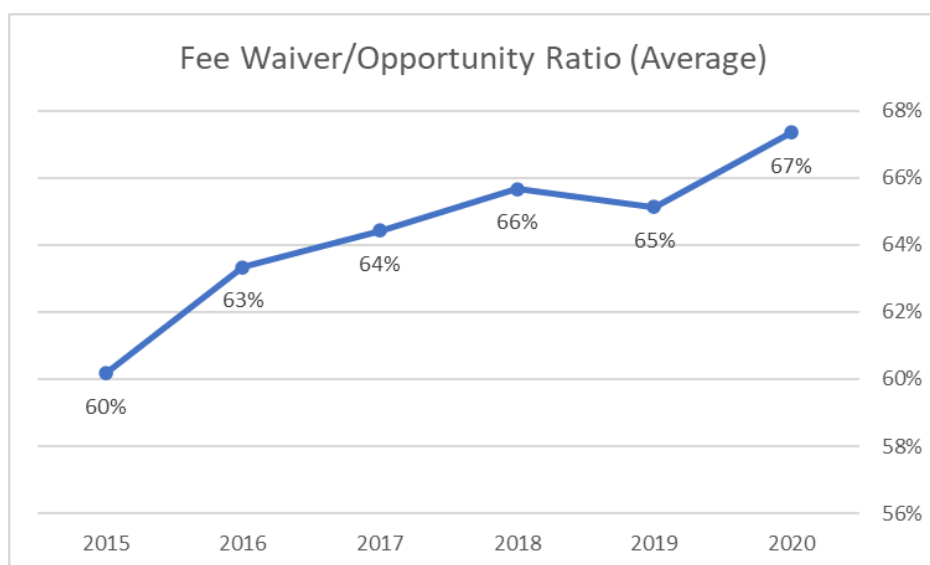
The table below is representative of *Tool 369 Fee Income/Waivers Analysis* in CU*BASE which notes maximum fee income possible (opportunities), then records how much of those amounts were waived, and how much was charged to the member. January 2015 is compared to January 2020, demonstrating an \$83,250 increase in potential fee income.

		Jan 2015				Jan 2020			
Description	Code	Opp	Charged	Waived	%	Opp	Charged	Waived	%
ACCOUNT SERVICE CHARGES	ASC	3,026	3,026	0		4,057	4,033	24	.5
CASHED CHECK FEES	CCF	84		84	100.0	65		65	100.0
DORMANCY FEES	DORMF	858	466	391	45.5	1,503	805	697	46.3
PRINTED CHECK FEES	PCF	2,212	84	2,128	96.2	3,276	87	3,189	97.3
PHONE TRANSFER FEES	PTF	58	19	39	67.2	18		18	100.0
SHARE DRAFT NON-RETURN FEES	SDNRF	13,468	13,468	0		96,060	95,970	90	
STOP PAYMENT FEES	STPPY	360	5	355	98.6	240		240	100.0
TRANSACTION HISTORY PRINT	THP	442	8	434	98.1	500	6	494	98.8
WIRE TRANSFER FEE VARIANCES	WIREX	471	356	115	24.4	1,077	522	555	51.5
OVERDRAFT TRANSFER FEE	ODT	16,581	3,933	12,648	76.2	24,153	3,192	20,961	86.7
Totals		37,560	21,365	16,194		130,949	104,615	26,333	

The Waiver/Opportunity Ratio (represented by the ‘%’ column above) helps to track whether the rate of waivers is increasing or decreasing for any of these fee types. *See Appendix B for further information about Tool 369.*

		Jan 2015				Jan 2020			
Description	Code	Opp	Charged	Waived	%	Opp	Charged	Waived	%
MINIMUM AGE		312		312	100.0	426		426	100.0
FEE PARTIALLY WAIVED		129	39	89	68.9	357	76	280	78.4
MAX FREE TRX NOT REACHED		1,249		1,249	100.0	1,412		1,412	100.0
HAS MARKETING CLUBS		5		5	100.0			0	
FEE MANUALLY INCREASED		25	45	20	-			0	
FEE MANUALLY WAIVED		1,018		1,018	100.0	1,422		1,422	100.0
TIERED SERVICE LEVEL		13,542		13,542	100.0	22,679		22,679	100.0
NON-RETURN FEE				0		90		90	100.0
Fees not waived		21,281	21,281			104,563	104,563		
Totals		37,561	21,365	16,195		130,949	104,639	26,309	

5-Year Trend Fee Waiver/Opportunity Ratio, Monthly Average



Are there any significant years which see lower or higher than normal amounts of fees being waived?

Yes, Overdraft Transfer Fees stand out as having seen the largest 5-year change. But 2019 records the highest rate of waivers for any year that was studied. Also, several small-volume fees have significant 5-year changes – Phone Transfer and Wire Transfer fees.

Fee Impact – Overdraft Transfer Fees appear to be a factor in explaining recent static growth of fee income. A higher percent of opportunities are getting waived. However, this does not completely explain the static level of fee income.

WAIVER/OPP. RATIO	2020*	2019	2018	2017	2016	2015	'15 - '20 Swing
Account Service Charges	0.60%	0.59%	0.61%	0.63%	0.11%	0.00%	0.60%
Cashed Check Fees	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	0.00%
Dormancy Fees	42.27%	39.92%	45.19%	43.81%	44.27%	44.63%	-2.36%
Overdraft Transfer Fees	85.80%	88.15%	86.29%	83.27%	83.43%	77.65%	8.15%
Printed Check Fees	97.13%	97.92%	97.97%	97.47%	96.97%	95.70%	1.43%
Phone Transfer Fees	100.00%	100.00%	100.00%	100.00%	92.10%	67.94%	32.06%**
Draft Non-Return Fees	0.06%	0.31%	0.08%	0.17%	0.03%	0.15%	-0.09%
Stop Payment Fees	90.79%	85.25%	86.25%	85.14%	82.26%	86.19%	4.60%
Transaction History Print	98.76%	98.77%	99.04%	98.70%	96.78%	98.40%	0.36%
Wire Transfer Fee	58.12%	40.42%	41.22%	35.12%	37.45%	31.05%	27.07%**
Average Fee Waivers	67%	65%	66%	64%	63%	60%	

*2020 data represents partial-year. Data is averaged for each month through July 2020

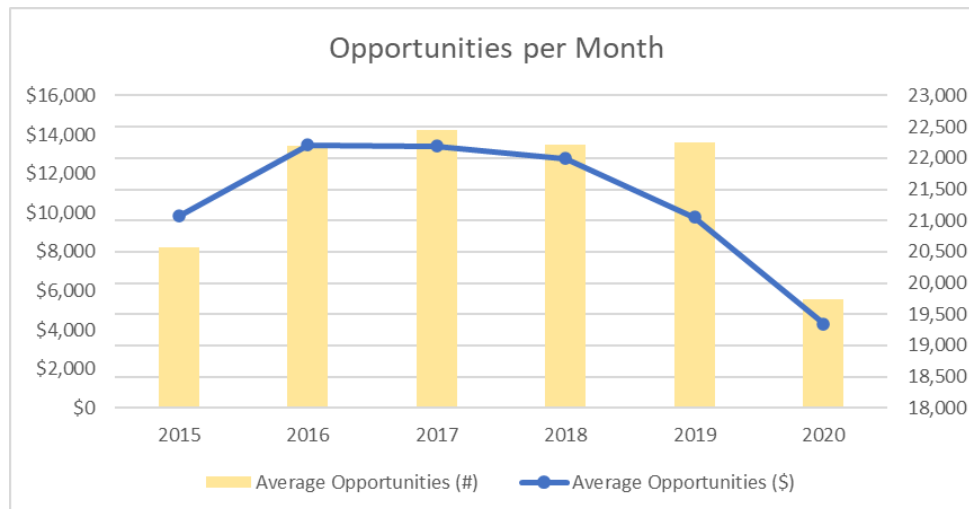
**The sample size for each fee is extremely small and therefore although the ratio of waivers has significantly changed, the impact on fee income is extremely minimal.

Has there been any significant change in either Opportunities, Waivers, or Refunds data that could explain reduced fee income?

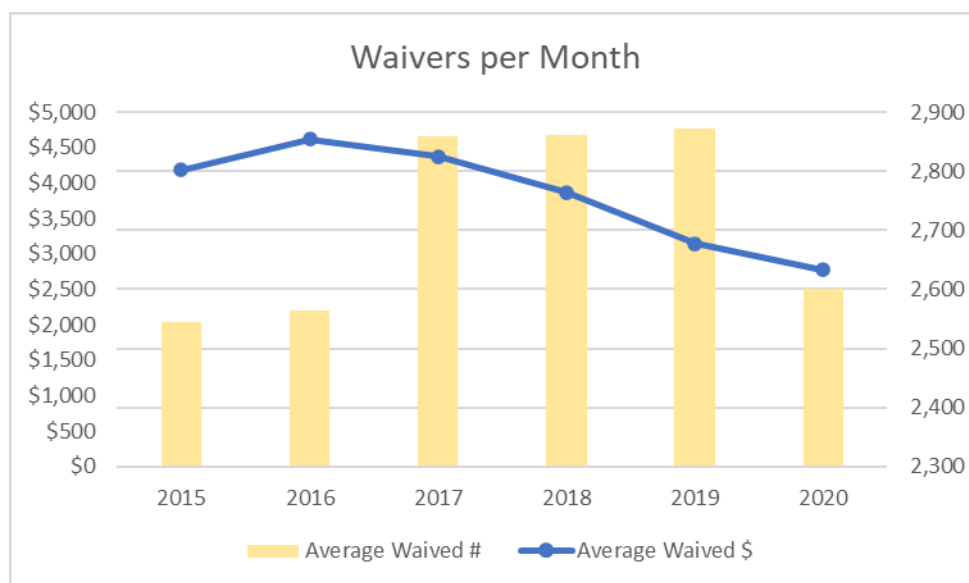
Beginning in 2016, the number (#) of fee *waivers* per month increased dramatically although fee opportunities remained stable and the average amount (\$) of waivers per month only slightly declined.

2016 Adjustment Notes – Although not evident in this data, the explanation is likely the Tiered Scoring shift in 2015.

The year 2020 to-date is well below average compared to the prior three years, most significantly on fee opportunities (less fee events are occurring).



On waivers, the portion of fees getting waived is lower than average, but generally comparable to prior years' downward trend. COVID stimulus funds provided to members and special programs/assistance are surely some impact to members' available funds and ability to pay fees, although the exact impact is not studied in this analysis.



Fee Waiver Data (Jan 2015 – Jul 2020)

Data - Fee Outcomes

Average Amounts per Month (Result/Waiver Reason)

FEE OUTCOMES (\$)	2020	2019	2018	2017	2016	2015	'15 - '20 Swing
Not Waived/Charged	\$73,113	\$106,778	\$107,887	\$104,375	\$75,614	\$23,636	\$49,477
Waived Non-Return	\$60	\$313	\$84	\$68	\$42	\$49	\$11
Waived Partially (\$ waived)	\$226	\$211	\$176	\$166	\$123	\$77	\$149
Waived Manually	\$1,388	\$1,342	\$1,361	\$1,112	\$1,177	\$1,060	\$328
Waived Minimum Age	\$461	\$501	\$500	\$451	\$411	\$350	\$111
Waived Free Transaction	\$1,246	\$1,408	\$1,518	\$1,176	\$1,171	\$1,289	-\$43
Waived Tiered Service	\$21,717	\$23,900	\$22,609	\$20,204	\$19,086	\$16,602	\$5,114
Waived Marketing Club	-	-	-	-	\$6	\$6	*
Average Waived \$	\$4,183	\$4,612	\$4,375	\$3,863	\$3,145	\$2,776	

Average Count per Month (Result/Waiver Reason)

FEE OUTCOMES (#)	2020	2019	2018	2017	2016	2015	'15 - '20 Swing
Not Waived/Charged	4,139	5,025	5,057	5,291	4,244	2,759	1,381
Waived Non-Return	2	10	3	2	2	2	0
Waived Partially (# waived)	96	95	76	75	61	40	57
Waived Manually	304	318	344	305	313	307	-3
Waived Minimum Age	154	168	167	151	138	117	37
Waived Free Transaction	7,806	8,665	9,020	9,697	10,884	8,112	-306
Waived Tiered Service	7,240	7,968	7,551	6,921	6,547	9,224	-1,984
Waived Marketing Club	-	-	-	-	6	6	*
Average Waived #	2,600	2,871	2,860	2,859	2,565	2,544	

Data - Fee Opportunities

Average Amounts per Month (Any Opportunity)

OPPORTUNITIES (\$)	2020	2019	2018	2017	2016	2015	'15 - '20 Swing
Account Service Charges	\$4,026	\$4,065	\$3,917	\$3,782	\$3,476	\$3,247	\$779
Cashed Check Fees	\$56	\$64	\$67	\$73	\$86	\$91	-\$35
Dormancy Fees	\$1,566	\$1,727	\$1,439	\$1,369	\$1,163	\$925	\$642
Overdraft Transfer Fees	\$23,413	\$25,099	\$24,207	\$22,920	\$21,566	\$20,105	\$3,308
Printed Check Fees	\$3,022	\$3,261	\$3,288	\$2,315	\$2,260	\$2,285	\$737
Phone Transfer Fees	\$18	\$18	\$18	\$18	\$32	\$68	-\$50
Draft Non-Return Fees	\$64,504	\$98,435	\$99,503	\$95,655	\$67,492	\$14,924	\$49,580
Stop Payment Fees	\$280	\$453	\$509	\$396	\$506	\$409	-\$129
Transaction History Print	\$440	\$510	\$561	\$489	\$520	\$497	-\$57
Wire Transfer Fee	\$983	\$962	\$749	\$734	\$620	\$558	\$424
Average Opportunities (\$)	\$9,831	\$13,459	\$13,426	\$12,775	\$9,772	\$4,311	

Average Count per Month (Any Opportunity)

OPPORTUNITIES (#)	2020	2019	2018	2017	2016	2015	'15 - '20 Swing
Account Service Charges	561	569	562	547	511	481	79
Cashed Check Fees	5,591	6,401	6,726	7,306	8,644	9,121	-3,530
Dormancy Fees	522	576	480	456	388	308	214
Overdraft Transfer Fees	7,804	8,366	8,069	7,640	7,189	6,702	1,103
Printed Check Fees	1,007	1,087	1,126	1,157	1,130	1,143	-135
Phone Transfer Fees	1,824	1,824	1,802	1,849	1,722	1,968	-143
Draft Non-Return Fees	2,150	3,105	3,110	3,176	2,276	533	1,617
Stop Payment Fees	14	23	26	26	34	27	-13
Transaction History Print	220	255	280	244	260	248	-28
Wire Transfer Fee	49	48	39	47	39	35	15
Average Opportunities (#)	19,743	22,252	22,220	22,449	22,192	20,565	

Fee Refunds Data (Aug 2018 – Jul 2020)

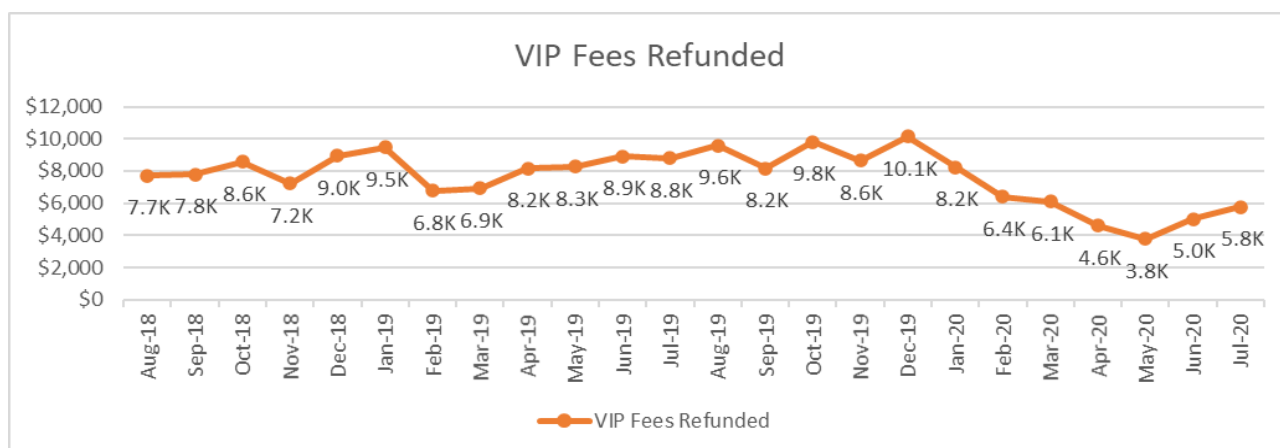
Data – Fee Refunds

Fee refunds hit several record highs in the end of 2019. More importantly there is a consistent pattern month-by-month where VIP fee refunds averaged \$1,200 higher compared to the same month in prior year.

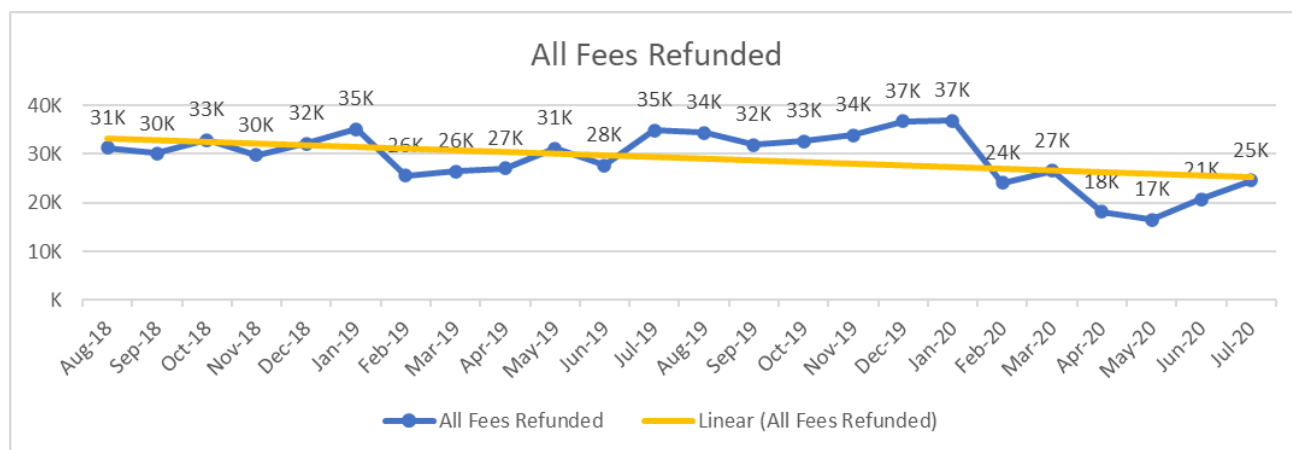
Totaled over the entire year, Refunds in 2019 account could be estimated to account for \$10,000 - \$13,000 of expected fee income that was unrealized.

Monthly Fee Refunds – Total per Month

	2018	2019	Increase
August	\$7,715	\$9,590	\$1,875
September	\$7,794	\$8,161	\$367
October	\$8,562	\$9,819	\$1,257
November	\$7,213	\$8,637	\$1,424
December	\$8,960	\$10,131	\$1,172
		\$1,219	average increase



However, even as refunds do seem to be increasing, the trend of total manual refunds is declining so there is not a general issue of expected income being over-generously refunded at a higher rate than in the past:



Tiered Scoring Annual Comparison (2014 – 2019)

Data – Tiered Scoring Membership Distribution

System waivers are most often prompted by two things – Marketing Clubs and Tiered Service Rewards. Data shows that Marketing Clubs are mostly not set up to support fee waivers so these codes were not studied. However, the Tiered Scoring program does support automatic fee waivers for the **Gold** and **Platinum** tiers.











A comparison of membership distribution across tiers was made and identified the year 2015 as one in which there was either significant organic membership changes, or configurations on tier qualification requirements were adjusted.

In the table below, we can see that at the start of 2015 nearly half of the entire membership is at the lowest level (Bronze -no fees are waived), and by the time we measure at the beginning of 2016 distribution has drastically shifted so that the lowest level holds only a little more than a third of the membership and the **Gold** and **Platinum** levels (fee waivers are in effect) claims an additional 7.1% of the membership!

Membership Distribution (%) per Tier Level – Beginning of Year Measurements

Tier Level	January 2015		January 2016		January 2019		January 2020		Change
	Members	% of All	Members	% of All	Members	% of All	Members	% of All	
BRONZE	9,341	49.4	7,346	37.8	7,625	36.9	7,596	35.9	-13.5
SILVER	5,306	28.1	6,306	32.5	6,941	33.6	6,614	31.2	3.1
GOLD	2,829	15	3,903	20.1	4,007	19.4	4,396	20.8	5.8
PLATINUM	1,419	7.5	1,855	9.6	2,075	10	2,574	12.2	4.7
Total Mbrs	18,895		19,410		20,648		21,180		

Tool 856 – Tiered Scoring Monthly Comparison (CU*BASE Dashboard)

Description	01/2015		01/2016		01/2019		01/2020		Tier Points <= 0		Tier Points > 0	
	Members	%	Members	%	Members	%	Members	%	Members	%	Members	%
 BRONZE	9,341	49.4	7,346	37.8	7,596	35.9	7,257	33.7				
Avg Prod Per Mbr	1.407		1.241		1.231		1.220					
Avg SVCS Per Mbr	2.007		1.551		1.793		1.863					
Household Adj 	6921	38.0	5293	28.3	5570	27.4	5269	25.6				
 SILVER	5,306	28.1	6,306	32.5	6,614	31.2	6,990	32.5				
Avg Prod Per Mbr	2.482		2.293		2.285		2.275					
Avg SVCS Per Mbr	5.489		4.540		4.685		4.713					
Household Adj 	5169	28.4	5693	30.5	5749	28.3	6046	29.3				
 GOLD	2,829	15.0	3,903	20.1	4,396	20.8	4,536	21.1				
Avg Prod Per Mbr	3.712		3.364		3.251		3.247					
Avg SVCS Per Mbr	7.495		7.426		7.461		7.478					
Household Adj 	3796	20.8	4700	25.1	4991	24.6	5069	24.6				
 PLATINUM	1,419	7.5	1,855	9.6	2,574	12.2	2,747	12.8				
Avg Prod Per Mbr	5.579		5.326		5.261		5.330					
Avg SVCS Per Mbr	9.102		9.373		9.641		9.649					
Household Adj 	2343	12.9	3004	16.1	3992	19.7	4230	20.5				
 Total	18,895		19,410		21,180		21,530					
Avg Prod Per Mbr	2.367		2.400		2.469		2.514					
Avg SVCS Per Mbr	4.339		4.451		4.826		4.965					
Household Adj 	18229		18690		20302		20614					

Appendix A – Fee Waiver Reasons

Waivers come in three forms. The **first** is an internal configuration waiver that is activated or reviewed as part of the fee transaction itself. An example would be an age exception to the check cashing fee based on the fact that younger members may need to cash a check that was given to them as a gift. The **second** is an external waiver where some relationship outside of the actual fee transaction causes an exception to the fee. These come in two types: Tiered Service Relationship Fee Waivers and Marketing Club Fee Waivers. The **third** is a staff-initiated waiver processed operationally as certain functions are performed by that staff member. An example is the Phone Transfer Fee which includes a checkbox staff can select to manually waive the fee prior to posting the phone transfer.

Reason	Description
Not Waived	Fee was not waived. Fee was charged in full.
Waived Non-Return	Member qualifies for waiver of non-return fee when transaction attempts to post with insufficient funds for clearing.
Waived Partially	Member qualifies for fee, and <u>is charged a partial fee amount</u> , but the remaining fee amount is waived. This is typically the case when a member qualifies for a fee but does not have funds to pay for the full fee. In those cases, the fee is charged for the full remaining available balance, and the remainder is recorded as waived.
Waived Manually	The entire amount of the fee was manually waived by a credit union employee, if supported by fee configurations
Waived Minimum Age	Member qualifies for fee waiver because their age is below the configured minimum age required to charge the fee
Waived Free Transaction	Member qualifies for waiver because they have not yet reached the maximum number of free transactions. Maximums are configured by the credit union to offer a number of free items in certain services, such as a number of checks cashed for free.
Waived Tiered Service	Member qualifies for fee waiver because of their current Tiered Service level. Minimum Tiered Service levels are configured by the credit union, generally to offer fee waivers to members as rewards for their accomplishment of qualifying for the higher tiers
Waived Marketing Clubs	Member qualifies for waiver due to configurations of an assigned a marketing club.

Appendix B – Dashboard Tools and Data

Tool 369 – Fee Income/Waivers Analysis Dashboard

The Fee Income/Waivers dashboard draws upon summarized data that is compiled monthly by the system based on the prior month's member transactions. Fee events (opportunity/qualification for fee) and fee outcomes (charged or waived the fee) are both evaluated and collected each month.

Monthly history can be found back to **May 2004** or the start-date of a fee configuration, whichever is first.

What does the total “Opportunities” mean? Why don’t the Charged + Waived Fees add up to total Opportunities?

		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	650	649	1	1.0	651	650	1	1.0

An “Opportunity” is a single unique fee event. Some fees are only partially waived. In those situations the fee event is validly counted in *both* the Charged and Waived equations. This is why adding Charged and Waived does not equal Opportunities.

Drill down on a month to review the details of each individual fee event.

Tool 370 – Fee Refunds by Employee

The Fee Refunds dashboard draws upon member transaction history that is held live on the system in detail for member or internal review. Fee refunds are identified from the transaction posting by pulling any transaction which had a negative effect on an income G/L account *and* were posted under Origin Code 08 (error correction processing). This includes account adjustments and transaction reversals. *Since this could potentially include other types of reversals, the tool provides the user-entered transaction description and has filtering options to narrow down results.*

Fee Refunds by Employee				Fee Refunds Summary Totals	
Date range from Jul 01, 2020 to Jul 31, 2020 [MMDDYYYY]					
Containing VIP					
Teller branch	Select	Member branch	Select		
Employee ID	Select	G/L account	Select		
Transaction Description	Amount				
*RETURN FEE VIP	30.00				
*VIP RETURN FEE	5,621.00				
*VIP RETURN 2 FEES	60.00				
*VIP TWO RETURN FEE	60.00				

History is available for **24 prior months**.

Use the ‘Containing’ box (highlighted) to search for a specific type of fee based on key words in the refund’s description