DEPOSIT CHARGE OFF AUTOMATION

Capstone Strategic Project
Class of 2017
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EXECUTIVE SUMMARY

Bank of New Hampshire has seen steady growth in the past eight years. The bank has added seven new banking offices while growing assets from $966 million to $1.4 billion. The low interest rate environment since the Great Recession has put pressure on net interest margin and highlighted the need to continue to identify ways to operate the bank as efficiently as possible. One step the bank can take to support this goal is to improve how the operations area handles the processing of overdrawn deposit accounts.

Automation of deposit charge offs will transform the bank’s current time consuming process. Bank of New Hampshire already owns the software tools needed to implement the automation. In addition, the bank has collection software that can be leveraged to move the post charge off collections in–house from a third party vendor which will reduce expenses, give the bank greater control over the collection process and provide the opportunity for increased recoveries.

Currently, the deposit operations staff manually closes the overdrawn accounts and has to clear them from the system to a general ledger account. Following the closure, there is no record on the core system of the charge off or any subsequent recoveries. This information is all recorded in the general ledger and tracked via a number of reports off-line.

The first phase of this proposed project is to configure the Fiserv core system functionality to handle the account closures automatically based on number of days overdrawn. The closing
entries will flow to the general ledger through system entries and the closed account will remain on the system permitting enhanced information for customer contact and operations personnel.

The second stage of the project is configuration of the bank’s collection software to handle the collection letters for the closed accounts. Completion of this phase will allow the bank to handle the collection process in-house and eliminate a costly and inefficient third party arrangement while affording the operations team better control over the recovery process.

Start-up expense for the project is very low at $6,500 and the five year positive financial impact is estimated at $110,504. Adoption and full deployment will assist the bank in controlling its operating expenses contributing to improved profitability while establishing a better foundation for handling this process as the bank continues to grow.

Deposit charge off automation is forecasted to require four to six months for full implementation. The bank’s formal project management structure will be utilized to ensure successful execution of all deliverables. The detailed document which follows provides additional background and supporting rationale for this undertaking including an analysis of the positive financial impact and the non-financial considerations as well. It is recommended that management approve this project and add it to the bank’s implementation schedule.
I: INTRODUCTION AND BACKGROUND

Bank History

Bank of New Hampshire is a mutual savings bank headquartered in Laconia, NH. It was originally chartered in 1831 as Meredith Bridge Savings Bank. Assets as of June 30, 2016 were $1.4 billion. (Bank of New Hampshire, 2016) All of the bank’s locations were in the region until 1999 when nine offices were acquired from Fleet Bank. This expanded the bank’s physical footprint into the northern region of the state and set off a period of steady growth and expansion.

Bank of New Hampshire's market area now covers most of the major regions in the state. Growth has been a mixture of new offices built in identified communities and strategic acquisition of locations from other banks along with mergers with other institutions.

There are now twenty-four office locations throughout New Hampshire (see Exhibit 1). Since the state’s population is concentrated south and east of the Lakes Region, the bank has focused most of its growth in that area over the past several years, adding offices in Portsmouth and Manchester. The bank prides itself on its focus on the communities it serves and uses the marketing tagline: “New Hampshire’s Local Bank.” Since the state is comprised of mostly small communities, Bank of New Hampshire focuses on supporting organizations and causes in those communities that improve the quality of life for the residents. This provides an opportunity for the bank to
support the markets it operates in while raising positive visibility for its efforts. Over the past year, the bank’s employees volunteered thousands of hours to organizations around the state and the bank supported over 350 organizations with more than one million dollars in donations. (Bank of New Hampshire, 2016)

Retail and commercial lending are both significant focus areas and each represent 53% and 47% of the loan portfolio respectively. (Bank of New Hampshire, 2016). Bank of New Hampshire also has a very active wealth management division. The bank offers a full menu of electronic banking services including online banking, bill pay, mobile banking and prides itself on being able to compete with all of the major banks for products and services.

In addition to asset growth, the past several years have seen a focus on succession planning and leadership development. Many employees have reached or are near retirement age and the board and management have spent considerable time and resources identifying and developing the next generation of leadership. There have been numerous changes at the senior management level with new leaders in Retail Banking, Commercial Lending, Risk Management, Retail Lending, Human Resources, and Wealth Management. Two senior members of the bank’s internal audit department also retired recently and the bank adopted an outsourced audit approach with a single internal audit manager. The Chief Accounting Officer is also expected to retire in the next eighteen to twenty-four months. The bank’s CEO retired in January after almost ten years of service and a new CEO is on board as of February 1st.
The same dynamic exists within most of the departments of the bank with many experiencing a wave of retirements or expecting them in the near future. The loan operations department has turned over all but two team members in the past several years and the deposit operations and collections areas expect the same in the next two to three years.

This level of employee change presents challenges to bank management as it strives to maintain the high level of service the bank prides itself on providing its customers. However, there are opportunities for the bank to re-think internal structure and processes as it navigates through this transition. One such area is the manner in which the bank handles the processing and recovery of overdrawn deposit accounts. Currently, this process is very manual and can be re-structured to make better use of existing software systems and licenses while positioning the operations area to become more efficient and reduce staff as retirements occur.

II. STRATEGY AND IMPLEMENTATION

Overview of Opportunity

Bank of New Hampshire offers courtesy overdraft on checking accounts. The total available courtesy overdraft as of June 30, 2016 was $20,501,237. (Preston, 2016) The majority of customers adhere to the program terms, however, there are accounts that must be monitored and charged off if the overdrawn amount is not repaid. The bank charged off $97,477.27 in deposit losses in fiscal year 2016 along with $149,309.11 in service charges. (Price, 2016) This figure is expected to grow in sync with the overall bank growth in the coming years. Bank of New Hampshire has an opportunity to automate the processing of charge offs on negative
balance deposit accounts to better position itself for growth while maximizing recovery on these losses.

**Project Objectives**

There are several objectives in this initiative:

1) **Optimize the use of existing systems:** Bank of New Hampshire uses the Fiserv Premier core banking software. Release 8.4 contained functionality that would allow a bank to automate this previously manual task. The bank also licenses a collection software from Intelligent Banking Solutions (IBS) that can be leveraged to handle generation of the notices that are currently handled by a third party. That software will also automatically generate a journal entry documenting the date various notices or letters are sent. Bank of New Hampshire also uses the Bankers Toolbox BAM software for a variety of purposes including loss prevention. Improved data in our core system will permit the BSA Compliance Officer and her team to import the deposit loss information into BAM for more robust data analysis.

2) **Reduce or re-deploy employees:** Automation of deposit charge offs will free up time spent handling these accounts manually. This will allow management to either re-deploy staff to other tasks or reduce staffing as attrition occurs. Based on usual retirement ages, the bank expects half of the existing Deposit Operations staff to retire in the next several years. By automating processes such as this, management can position the operations area for realizing personnel expense savings as these retirements occur.
3) **Improve reporting:** The current process involves clearing the negative balance account from the system. This results in no record tied to the bank’s core system reflecting the amount that customer owes on the account. Bank personnel must maintain spreadsheet lists and rely on the reporting data submitted to eFunds – a specialty consumer reporting agency for deposit account experience. This is inefficient and unreliable. Having the records on the system will permit use of the Business Analytics reporting tool to generate necessary management reporting. Reliable data on the core will also be available to staff in the bank’s offices and call center to more readily and accurately answer questions on amounts owed etc. while greatly reducing research time to answer such inquiries.

4) **Reduce Expenses:** Bank of utilizes the services of Trans World Systems to generate a series of notices to customers. To utilize this notice service, the bank pre-purchases blocks of accounts for nine dollars per account. Moving this in-house will permit the bank to generate these notices automatically through the collection system for the cost of a sheet of letterhead, an envelope and postage.

The low interest rate environment over the past several years has caused downward pressure on net interest margin forcing the bank to remain focused on efficient operations. The June 30, 2016 Uniform Bank Performance Report (UBPR) reflects that Bank of had an 87.19 percent efficiency ratio. While this number was impacted in the past year by acquisition related expenses, it is still well above the 68.48 percent peer result and up from the 80.26 percent figure the bank reported at
December 31, 2013. (FFIEC, 2016) This project is envisioned to reduce expenses and to provide some increase to recoveries on these losses.

**Current Charge-off Process Detail**

It is important to document the current process in order to identify where improvements can be made. The charge off process can be initiated at any point by a banking office manager, but closing of overdrawn accounts is ultimately the responsibility of Deposit Operations. The accounts are monitored by assigned staff using a Business Analytics report beginning at 29 days overdrawn.

If closing occurs in a banking office, the retail employee generates a letter to the customer and the process workflow generates an e-mail to Deposit Operations so the staff can begin the account closing process. The general task flow is as follows:

- Remove courtesy overdraft
- Enter loss amount into Trans World Systems website for collection action.
- Manually calculate the fees that are part of the negative balance so they can be split out to the correct general ledger when closing the account.
- Close the account that day or as soon as there are no items in presentments that have not been posted to the account.
- If the account has an ATM or debit card, an automated e-mail is sent to the electronic banking team so they can remove card access.
- Send e-mail to designated data processing staff so the account will be excluded from closed account surveys.
• Generate the account charge off form. Management signature must be obtained for amounts over $1,000.

• Make entries to the transaction management system (TMS) to close the account and offset balances to appropriate general ledgers for deposit losses.

• Verify that the account successfully closed. This is done on the next business day.

• Report the loss amount to eFunds – the specialty consumer reporting agency for deposit account experience. E-mail the designated group of bank managers for all losses of $1,000 or more.

• Access the Sales Force system and enter the account and reason for account closure.

**Current Restitution Process Detail**

When a customer comes into an office to pay all or part of the amount owed on a charged off deposit account, the employee accepts the deposit and credits it to a general ledger. Deposit operations staff monitors the general ledger for the recovery payments and then updates eFunds and Trans World systems to reflect the payment.

**Implementation**

This project will be implemented using the bank’s adopted project management approach which includes formation of a project team. The team will consist of representation from key stakeholders in the appropriate business units. Critical early steps in the process will be to communicate the project objectives to team members and identification of specific tasks and responsibilities. An initial draft project plan is attached as Exhibit 2.
Early meetings of the team should focus on reviewing the current process and definition of required system and process changes. It will be important for the team to understand the enhanced program capabilities we can achieve through the Premier 8.4 Automated Charge Off functionality and the opportunities we have to leverage the Intelligent Banking Solutions CARM Pro software to manage customer communications in-house.

There will be many business units involved in the project and each will be asked to send representation for the project kick off and to attend all subsequent team meetings. Areas involved in this initiative include: Retail Administration, Deposit Operations, Training, Compliance, Marketing, Retail Collections, Finance, Information Technology, Customer Solution Center, Commercial Banking and the Project Management Office. Project sponsorship will reside with Executive Management, namely with , Chief Bank Operations Officer. In addition to providing senior level sponsorship to ensure that everyone realizes the importance of the automation, he will also work to resolve any resource allocation challenges or disagreements that arise. The project will be guided by , Deposit Operations Manager. ’s role will be to keep everyone on task to ensure timely and successful completion of all project deliverables. will run the regular team meetings.

**Project Phases**

The broad stages of the project are outlined below:

- **Formation of Project Team:** This will entail identification of project team members from the departments identified above and scheduling a kickoff meeting to review project goals and objectives as well as to identify any possible early challenges or
obstacles the team envisions. The team will agree upon a meeting schedule. Frequency of meetings will likely be higher in the early stages and may peak again as the project reaches the implementation or “go live” point.

- **Functionality and Configuration**: The team will review Fiserv system functionality and configuration of necessary settings in the test environment. This stage will require 4-6 weeks to review the options and select the best design to optimize the result. The systems application analyst will be critical at this point as she has the authority to set up or change Fiserv specifications. The Finance team will need to review how the new settings will integrate to the general ledger and set up any needed general ledger accounts and tie the accounts to the new functionality through integration tables.

- **Testing and Acceptance**: The project will follow the bank’s customary process of robust testing by processing actual deposit charge offs in the test system to ensure all system settings and processes work as intended. The test results will be reviewed and approved by all necessary team members before moving to the next phase.

- **Training**: The new process will require training in a number of different areas. The primary points for training will be the retail office staff and the Deposit Operations team. , Bank Trainer, will be responsible for ensuring that all front line personnel are familiar with the new process for handling account closures and recovery payments. in Deposit Operations will be tasked with training the operations team on the new process. and will also document the new workflow with updated operating procedures.
• **Live Implementation-Automation Phase:** Once the above milestones are successfully achieved, the team will select a date for live implementation of the new Automated Charge Off functionality. Karen Malloy will copy all system settings into the live system, to be effective for the “go live” date.

• **Review Options for In-house Customer Collections:** As noted earlier, the bank currently utilizes Trans World Systems to handle customer communications once an account is charged off. Trans World sends a series of five automated notices to the customer in what they refer to as Phase 1 collections. The cost for this service was originally nine dollars per account and the bank was recently notified that the unit cost would be increasing to $11.25 upon renewal in fall 2016. This cost increased further to $12.25 per account since management elected to pre-purchase fewer accounts this fall in anticipation of this project being approved and moving the process in-house within the next year. Bank of pre-pays for a block of accounts under this service based on expected volumes and renews as needed at the current pricing. The service also includes a Phase 2 where larger dollar accounts can be referred to an attorney for more vigorous collection action. The charge for this phase is fifty percent of all amounts collected including any monies paid directly to the bank. The bank cannot take any collection action itself on Phase 2 accounts without incurring the fifty percent charge and thus, management elected to cease using the Phase 2 service several years ago.
The bank can leverage existing functionality in the collection software it licenses from Intelligent Banking Solutions to generate a series of automated letters and can utilize the retail collection team to handle customer phone calls and communications. Since some of these customers may have other past due accounts with the bank, one call from a collector can handle follow-up on multiple accounts while avoiding the additional costs for Trans World recovery.

The collection system will automatically generate the standard notices and create a journal entry to record the date and time it was sent. Any customer communications or additional bank actions can be documented here as well which will allow bank personnel to have direct access to any actions taken on a particular account. The uniform and centralized nature of this information will benefit future actions and provide ready access should a customer contact us for assistance or should any sort of complaint arise.

- **Configure In-house Collection System:** If the team decides to move the collections component in-house, the software will need to be configured to generate the series of letters and to have a work queue where all of these charged off deposit accounts reside for a collector to work them. Collections Officer will be involved in this process. The automated letters process could continue to reside in the Deposit Operations area with creation of a user account and work queue in the collection software. When the account is ready for more direct collection action, the accounts
could be assigned to a secondary queue which would be handled by the Retail Collections team.

- **Testing and Acceptance of Collection System:** The team will follow a similar testing and acceptance phase to the automation portion of the project with one notable exception. There is no test system for the collection software, so the changes will be made in the live environment. However, no letters would be sent or calls made from work queues until validation and approval has occurred.

- **Training-Collection System:** Deposit operations personnel will require training to ensure they understand how to access and use the collection software. The system is fairly easy to use with a low learning curve, however, it will require instruction in how to release letters from the print queue daily and how to access customer records and make journal entries for activities or events on accounts.

- **Live Implementation-Collection System:** The live implementation can occur once all testing and training is complete. Since the accounts already reside in the software, the process of going live will simply entail sending the generated letters to the customers and having assigned personnel begin using the software and the work queues to manage the process in-house. The accounts which are already placed with Trans World for the letter series would be left there to run through that cycle. As new accounts are charged off, they would follow the new in-house process.

- **Project Wrap-up and Debrief:** As part of the bank’s project management methodology, a post project survey of all team members will be sent. The survey will measure areas such as effectiveness of team meetings, communications, project objectives, timeliness
of meetings and achievement of milestones, quality of training etc. The results are shared with the team in a final debrief meeting with discussion and the outcomes of both are documented and utilized to improve project management going forward.

III. FINANCIAL IMPACT

Implementation of automated deposit charge off processing on the Fiserv core does not involve significant costs to the bank as the functionality was included in the Release 8.4 update. However, moving the post charge off collection process in-house will have some costs involved along with a number of projected cost savings.

The standard segments of the Bank of New Hampshire Project Pro Forma include: 1) Start-Up and Implementation Costs; 2) Annual Operating Costs; and 3) Benefits and Cost Savings. These three areas are rolled up into a total net profit and loss impact and then projected over a five year period (Exhibit 3). Each segment is further analyzed in the commentary below with explanation of line items relevant to this project.

Start-Up and Implementation Costs

- **Programming Expense:** In order to leverage the Intelligent Banking Solutions CARM-Pro™ System, the bank will require some programming time from the IBS staff. This time will be required to adjust and add fields to the collection system screens as well as to develop a centralized work queue for negative balance deposit accounts. IBS staff will also assist with attaching the new customized letter series to the work queue. An allowance of $2,000 is projected for this task.
• **Employee Training Costs:** The primary responsibility for training banking office staff will rest with Jenn Schaffner in the Training Department while Deposit and Collection Department Staff will be trained by their respective managers. Since there will be a need to produce some training material, pay for some staff travel to the training room and provide lunches, an allowance of $1,500 is allocated to this line item.

• **Communication and Marketing:** The marketing department will review the notice drafts prepared by the operations team. It is likely that they will develop the final format in-house, but an allowance of $1,500 is assigned to this item in the event that this component of the project is outsourced.

• **Legal Review & Expenses:** The preliminary review of the new process including the language contained in the new notices will need to be reviewed and approved by the Bank of New Hampshire compliance department. This review should be handled through in-house compliance staff. If the staff finds it necessary to utilize outside counsel for any questions that come up during the review, an allowance of $1,500 is included in the Year 1 start-up costs for legal review.

Total start-up and implementation costs are projected at $6,500 for Year 1. These costs may be considerably lower depending on the need for outside resources to assist with the marketing and compliance elements of the project. There are no costs projected beyond year 1 in the start-up phase of the project.
**Annual Operating Costs**

- **Supplies and Postage:** The Deposit Operations team recently identified the bank’s cost to produce and mail a statement or notice through its third party mail vendor. The per item cost for paper, envelope and postage averaged sixty cents. (Christine Molhoff, 2016). This figure will be used here to estimate the costs of producing and mailing the notices to overdrawn accounts if they are moved in-house. The most recent twelve month figure for number of accounts closed was 588. Based on a Year 1 volume of 600 closed accounts and five notices per account which is the number currently sent by Trans World, the annual supplies and postage expense is projected at $1,800. For years 2-5, the account volume is increased 2% per year with a 3% increase for postage and supplies. This results in a five year cost of $9,557 for supplies and postage.

**Benefits and Cost Savings**

- **Personnel Reductions:** There are no immediate personnel savings associated with the change in this process. Certain elements of the account closing process will not change. Deposit Operations staff will still be required to verify the accuracy of amounts that the system will automatically pass to the general ledger for loss and for lost service charges. In addition, the input to eFunds for reporting the loss will still be a manual step in the process. The plan is to have current staff handle the letters which will be generated in-house and monitor any recoveries received on the accounts. The pro forma reflects personnel savings of $27,000 for years 3-5 based on salary and benefit expense for a half-time employee. This reduction assumes that management will be able to move the deposit charge off process to
the collection team in that timeframe to coincide with forecasted retirements in the Deposit Operations area. In order to make this shift, a part-time collection position would become full-time and several other duties in Deposit operations would need to be re-assigned or absorbed by others on the team. This assumption is based on account volumes and workloads as they stand now and could be accelerated or delayed depending on business priorities at that point in time. The five year personnel savings is projected at $81,000.

- **Reduced Operating Fees**: This line item relates to the elimination of the Trans World fee which the bank pre-buys in blocks based on projected volumes. The ongoing Trans World expense will be eliminated with full implementation of the proposed project. Existing accounts already placed in the service will be allowed to run their course, but no new charge off accounts will be reported once the collection system is fully configured to produce the letters in-house.

As mentioned earlier, the fee increased to $11.25 at the most recent renewal with a further premium of $1.00 due to the reduced volume the bank pre-paid. For purposes of the financial projections, the first year is based on 588 accounts at $11.25 for a first year savings of $6,615. Subsequent years reflect an assumed 2% increase in the Trans World fee and a 2% increase in number of placed accounts. The total projected five year savings is $35,860.

- **Increased Recoveries on Charge Offs**: Before estimating future increases in recoveries from this initiative, it is helpful to review some data to understand historical and current volumes. There are a number of reports generated in different areas of the bank. The operations department creates a detail account level charge off report on a monthly basis
with totals by office (Exhibit 4). Data from the monthly charge off activity is captured and reported monthly to the Board of Directors as a line item in the Operations Metrics Report. That data is monitored for trends over time as reflected in the graph below.

This chart shows the gross monthly volume of deposit charge offs due to overdrawn accounts, fraud and service charge losses. While recovery of fraud losses are generally handled internally through either the BSA Officer or Bank Security, the actual losses due to overdrawn accounts and the service charges are currently referred to Trans World systems via the process outlined on pages 8-9. The monthly average number of closed accounts in 2016 is forty-nine through October 2016 resulting in a projection of five hundred eight-eight closed accounts for the year.

(Bank of New Hampshire, 2016)
The following table shows a summary of the losses and recoveries by year as tracked by the bank’s finance department. Currently, the preparation of this report involves approximately three hours of work per month by the finance staff. Detail must be manually extracted and tabulated from the general ledger because the accounts are closed out in the Fiserv system and do not reflect any balances that could be used in reporting.

<table>
<thead>
<tr>
<th>Year</th>
<th>Charge Off</th>
<th>Recoveries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>178,671.99</td>
<td>48,084.38</td>
</tr>
<tr>
<td>Annual Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Avg Loss</td>
<td>14,899.33</td>
<td>4,007.03</td>
</tr>
<tr>
<td>2013</td>
<td>231,358.35</td>
<td>99,332.31</td>
</tr>
<tr>
<td>Annual Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Avg Loss</td>
<td>19,279.86</td>
<td>8,277.69</td>
</tr>
<tr>
<td>2014</td>
<td>142,894.71</td>
<td>49,730.03</td>
</tr>
<tr>
<td>Annual Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Avg Loss</td>
<td>11,907.89</td>
<td>4,144.17</td>
</tr>
<tr>
<td>2015</td>
<td>105,351.23</td>
<td>34,395.42</td>
</tr>
<tr>
<td>Annual Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Avg Loss</td>
<td>8,779.27</td>
<td>2,866.29</td>
</tr>
<tr>
<td>2016 (thru 8/16)</td>
<td>65,336.24</td>
<td>19,527.83</td>
</tr>
<tr>
<td>Annual Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Avg Loss</td>
<td>8,167.03</td>
<td>2,440.98</td>
</tr>
<tr>
<td>2012-2016 Total</td>
<td>$723,612.52</td>
<td>$251,069.97</td>
</tr>
<tr>
<td>2012-2016 Average</td>
<td>$12,921.65</td>
<td>$4,483.39</td>
</tr>
</tbody>
</table>

(Doug Benton, 2016)
It is difficult to project a solid number for this area due to the untested results of moving the process in-house. Internal conversations with the Deposit Operations Manager, the Collections Officer and others indicate that there is an expectation the bank will realize an increase in recoveries once the process is moved in house. Management feels that the Bank of collection team will produce stronger results for a number of reasons: 1) The collection staff has access to the full history and information on the customer’s past and present relationships with the bank including additional contact information providing more options for making contact with the customer; 2) While the bank will generally use a standard series of automated letters, the collection software can generate an unlimited number of letters based on specific account level circumstances. For example, a follow-up confirmation letter can be produced when a customer makes partial restitution on the amount due; 3) Branch personnel can be contacted for their knowledge of a customer, information that would not be available to a third party agency; 4) Many times, the customer comes into a retail office to make the restitution payment. Collection staff can be contacted while the customer is at the office through the use of teller alerts allowing the ability to relay information or confirm additional plans for repayment. This dynamic does not exist when using a third party whose staff has no direct customer knowledge and cannot leverage the office network. 5) Internal reports can be generated for management of the accounts reflecting those accounts with activity, those due for follow-up etc.

The factors above were used to arrive at assumptions for increases to the annual recoveries. Year 1 is considered a start-up or transition year, so the projection is for no
increase to recoveries. For years 2-5, the increases are forecast at 2%, 3%, 5% and 7% respectively. Management feels these forecasted increases are conservative and expects to outperform them. The projections yield a five year increase in recoveries of $9,701.

Impact on Allowance for Loan and Lease Losses

The Bank of Credit Support area is responsible for the ongoing quarterly review of the bank’s Allowance for Loan and Lease Losses (ALLL). This effort is spearheaded by who prepares a number of comprehensive reports which analyze the various broad groups of loans. The Courtesy Overdraft balances are classified as loans for ALLL purposes and the losses flow through the allowance.

This project is envisioned to increase recoveries on deposit losses and will therefore have an impact on the ALLL analysis. I contacted Mr. for his feedback on how the initiative will impact his work and he offered the following: “In regards to the potential efforts to bring the recovery piece for courtesy overdrafts back in house, and potentially increase recoveries on the courtesy overdraft losses over time, I would say that would likely have a positive impact on ALLL reserve levels. It would not impact the calculated reserve needs as gross charge-off figures are used for those loan loss calculations. But increased recoveries would enhance loan loss reserves and assist the bank in achieving its needed reserve levels as determined by the quarterly computations.” (, VP-Credit Support, 2016)
Summary of Financial Impact

As outlined above in the preceding pages, the Deposit Charge off Automation Initiative is forecast to have minimal start-up costs of $6,500. The annual operating costs are projected at $9,557 over five years while the benefits and cost savings over that period are $126,651 yielding a positive cash flow impact of $110,504 for the project.

IV. NON-FINANCIAL IMPACT

Overview of Hurdles

There are several hurdles to be considered in the Deposit Charge off project. One of the primary obstacles which arises in virtually all projects involving a change is resistance from some of the employees impacted by the change. This can occur for a variety of reasons including a comfort level with doing things the way they always have been, an unwillingness to learning something new or a real or perceived threat to their current duties or to the job position itself. In order to address these concerns, it is critical to project success that Executive Management sponsor and support the project. This is essential for employees to understand that this is a corporate initiative.

The project kick off meeting is another important opportunity to ensure the project purpose is thoroughly communicated to all key stakeholders allowing time for discussion and questions. This initial gathering can also generate excitement and positive energy around the project and its benefits. The team will consist primarily of mid-level managers from around the organization and their attitude toward the initiative will inevitably be passed on to others in
their area. In order to ensure that the team members view the project positively, it is essential for the project manager to communicate regularly with individual members both at the meetings and outside them as necessary to identify any concerns or obstacles that could negatively impact the intended outcome.

The majority of the project impact will be in the operational areas of the bank including Deposit Operations, Collections, and Finance. The process changes will also touch the Customer Solution Center and the retail office staff. Early communication of the project purpose, scope and intended results and benefits to these areas will help facilitate a successful outcome. Some of the initial groundwork has already begun through a variety of conversations that have occurred while preparing this analysis.

The Deposit Operations team will be impacted in a number of ways. In addition to taking on the task of configuring the system for the new environment and testing, the staff will also need to document new standard operating procedures for their area and work closely with the bank trainer to develop the new process and procedures that will be used by frontline staff. These tasks will all involve significant time and commitment beyond the daily routines which must be carried out while this project is implemented. It will be incumbent upon the Deposit Operations Manager, who is also the project leader, to be aware of any pressure points or backlogs in daily department tasks and manage or re-assign work as necessary to balance routine operations work with project tasks and resources.
The Collection Officer will need to be closely involved in the project as she will be tasked with configuration of the collection software to handle the account work queue and generation of the letter series. In the past, setup of this software has proven challenging to complete internally as the program structure is a bit more complex than the staff is equipped to handle. The allowance for programming expense in the project pro forma is in consideration of the likely need for programming assistance from the vendor. Previous experience has demonstrated that once the work queue parameters are defined and the letter templates have been built, the system works quite reliably.

An additional element to the collection software is that it will be made available to the Deposit Operations staff to be able to access the accounts, manage the work queue and document activities. Since this system is totally foreign to that team at this point, there will be a learning curve to master it. The Collection Officer will be the primary trainer on this aspect of the project.

Depending on staffing levels and workloads two to three years out from project implementation, the vision is to transition the responsibility for collection administration from Deposit Operations to Collections. This will also pose a number of challenges. The most obvious is a potential resistance by both departments to the transition of duty. In order to ensure success, both teams will need to be involved in the planning for the transition and the goal is to time it to coincide with expected retirements in each department so that the
individuals most directly impacted in both areas will be moving on, allowing an opportunity for a fresh approach.

There is also a reporting challenge accompanying the project. As mentioned earlier, a number of departments maintain data related to deposit charge offs for a variety of reasons. When the new process is introduced, it will greatly improve the ability to utilize the bank’s Business Analytics reporting tool to extract data for all charge offs and recoveries from that date forward. Transactions will remain on the core accounting system and each loss or recovery will be processed using an established transaction code permitting reports to pull based on date range, type of deposit account, office location, etc. While this change is a great improvement, it poses a challenge in that all charge offs prior to implementation will not be in the core system and therefore cannot be imported into the various reports. In effect, the bank will manage dual sets of data sources for a number of years. Most relevant data used in reports is current and prior year, so those will become fully automated in the new environment within twenty-four months. Any data needed for earlier periods will need to be retrieved from existing reports which are mostly in an Excel™ format.

**Evaluation Measures for Non-Financial Impact**

The majority of the non-financial impact in this project relates to managing the change aspects which include people, process and technology. There are a number of ways to measure or evaluate this impact which are outlined below.
• **Time Study**

One of the biggest impacts in this area will be on people. The bank will be changing the process significantly from the manner that it is currently handled. This means that employees will be impacted by learning a new process and by some re-assignment of duties down the road if the process is eventually shifted to the collections area. In the short term, the deposit operations team can document the time savings by automation of this process. A simple tracking sheet can be used to capture daily time spent on the process for a month or two prior to implementation and for the same period after implementation. This will permit management to quantify the approximate amount of time saved with the new process.

• **Error Tracking**

Staff will also monitor for any process errors (human or system related) so that adjustments can be made to mitigate or reduce them going forward as the new process matures. The technology components of the project already exist at the bank, but have not been utilized or tested yet for this functionality. Therefore, it will be very important to monitor both the core system and the collection system for accuracy and integrity during the project implementation and periodically going forward. During the testing phase of implementation, the project manager can work closely with staff handling the process to identify types of errors that occur. This information will be used to determine whether changes are needed in the software or if additional training is required for any personnel involved in the process.
• **Project Survey**

The other measure which is used for every Bank of New Hampshire project is a post project implementation survey of all team members. This survey is quite comprehensive and measures project team members on subjects such as implementation successes and failures, key learning areas or takeaways for future projects and effectiveness of the project manager and project communication. A final post implementation meeting is scheduled to discuss survey findings and document them for future project management use.

**Description of Non-Financial Impacts**

Bank of New Hampshire has a centralized training function for retail employees within the human resources department. The bank trainer will be tasked with training front-line employees on the new process. The primary impacts to the front line staff will be understanding that the account closure process will be streamlined and learning how to access and read customer account balances on charged off accounts as they will be visible in the system once the process is in place. Since these changes are fairly straightforward, the training department will issue updated operating procedures accompanied by screen shots to familiarize the staff with the new process and how to access the information they will need. This same information will also be communicated to the call center personnel and to the Retail Office Managers during their monthly meeting.

Reporting will be impacted as noted earlier in this document. Currently, several different areas compile various versions of deposit charge off and recovery information. Once account
information is kept on the system rather than cleared at the time of charge off, managers will be able to utilize the bank’s reporting software to pull reports on current charge offs and recoveries. Since the system will only house information for the accounts charged off from the implementation date forward, older information will still need to be maintained in current formats or Excel reports. Therefore, this project has both a positive and negative impact in the area of reporting. The positive impact will become greater with each passing month of data housed in the core system for analysis and reporting.

Customer Service will be positively impacted by the charge off automation project. Currently, the balance information on charged off accounts is not readily available to the front line staff including the call center. This requires taking time to communicate with operations staff to verify balances or to perform an inquiry into eFunds. Once the new process is in place, staff will simply be able to inquire on the account in question and view the charge off amount, the amount recovered or paid to date and the balance still due. This will permit much quicker customer service whether in the offices or over the phone. The same benefit will carry over to the operations area as staff will also be able to view balances on the core rather than performing the extra research steps now involved.

The other positive impact to this change is in the BSA/AML/Fraud Department. In conversations with BSA Officer, she indicated that retention of the information on the system will greatly enhance her area’s ability to perform research and follow accounts
for any suspicious activity. This will improve access to information and will help the BSA area with preventing further losses.

**Conclusion**

In summary, the deposit charge off automation project will require minimal investment to implement. The initiative takes advantage of features and functionality in existing software owned by Bank of New Hampshire. When fully implemented as envisioned, the project will maximize potential recoveries to the bank over the long term and provide better information to minimize additional losses to the bank. It also strategically positions the bank to utilize operations personnel in the most effective manner in the years ahead. This project supports the bank’s strategy of ensuring that our operations area is functioning with the highest level of efficiency and automation. It is recommended that bank management give a high priority to the effort and proceed with this project as soon as all necessary resources are available.
Bibliography


