



January 2005
Volume 17, Issue 4

TMAC NEWS

Treasury Management Association of Chicago
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TENTATIVE MEETING SCHEDULE

January 20, 2005
Petterino's
Chicago

February 17, 2005
Suburbs

March 17, 2005
Chicago

April 21, 2005
Suburbs

May 25-27, 2005
Windy City Summit
Chicago Hilton &
Towers

June 9, 2005
Chicago

JANUARY 20 PROGRAMS

Unclaimed Property

This session will introduce organizations to unclaimed property compliance. Many organizations are concerned with establishing proper accounting procedures in light of the Sarbanes-Oxley Act and unclaimed property can be a common oversight. The speaker will point out specific Illinois legislative requirements and provide educational resources. She will discuss how an organization can prepare for an audit and provide insight to how the process can be streamlined from a technological perspective.

*presented by
Heather Steffans, Business Development Executive
Fiserv*

Distributed Capture

Distributed Capture enhances the processing of checks for electronic deposit utilizing a bank-approved, remote capture system. The system consists of image scanning devices installed at the company's location integrated with a suite of check imaging software applications and is scalable based on the company's check volume.

Linda will provide background on what this service is and why companies would benefit by implementing Distributed Capture. Additionally, security features and concerns about adopting electronic capture and deposit will be discussed.

*presented by
Linda B. Farkas, Senior Vice President Treasury Management
M&I Bank*

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TMAC and WTMA Joint Meeting

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On November 18, 2004, the Treasury Management Association of Chicago (TMAC) had a joint monthly meeting with the Wisconsin Treasury Management Association (WTMA) in Milwaukee, WI. There were approximately 40 attendees from TMAC and 70 attendees from WTMA. The meeting consisted of a tour of the Harley-Davidson Motor Company (HDMC) powertrain (engine & transmission) factory in Wauwatosa, WI, and a presentation by Harley-Davidson Financial Services (HDFS). To accommodate our considerable attendance, half of the meeting attendees went on the tour while the other half attended the HDFS presentation. Then, the groups switched tour and presentation. After the meeting, all attended a cocktail reception and dinner.

The joint meeting was planned and coordinated collaboratively by TMAC and WTMA with the tremendous support and cooperation of our outstanding hosts, HDMC and HDFS. Special thanks go out to Tom Kopp, Treasurer of HDMC, Perry Glassgow, Vice President & Treasurer of HDFS, and Andrea Golvach, Manager-Treasury Operations of HDFS.

The 45-minute tour covered the entire process of manufacturing the engines and transmissions of many Harley-Davidson models. It was an extremely interesting and efficient process. Approximately 300 powertrains are produced each day. The HDFS presentation began with a video history of Harley-Davidson and then continued with an overview of the company's Wholesale Financing program, highlighting its benefits and efficiencies. One important aspect of this program is EPAY, (which won the AFP Pinnacle Award in 2003). The objectives and capabilities of EPAY are focused on allowing online invoice and statement review, and electronic payments (effectively EBPP). Additionally, HDFS explained how it is applying the EPAY concepts to a similar payment option for its Retail Financing. Doing so will enable HDFS to grow sales through excellent customer service by extending customers multiple financing and payment options. HDFS has done a fantastic job, and the results have exceeded expectations.

After our meeting, almost all attendees met at a nearby restaurant for cocktails and dinner. The fellowship and networking opportunities were outstanding. We had a very good meal and made many new friends and contacts. Just before dinner we thanked our (HDMC and HDFS) hosts and our TMAC and WTMA meeting planners for an outstanding event.

Our joint meeting was an extremely successful event. Feedback was overwhelmingly positive. We have discussed the idea of organizing a similar joint meeting on an annual basis.

One week after our joint meeting, TMAC had our annual Winter Outing, which was a Chicago Wolves vs. Milwaukee Admirals hockey game in Rosemont, IL. TMAC extended an invitation to the WTMA to join us, since we recently had our joint meeting, and considering the teams competing. Everyone had a great time. The additional networking and relationship building was well received. We may also continue with a joint Winter Outing concept in the future.

Jim McHale, TMAC President

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SCHOLARSHIP COMMITTEE

TMAC Internship Scholarships directly tie into the mission and purpose of TMAC. They promote careers in Treasury Management while providing financial support to students and participating universities. Participating universities include DePaul University, Dominican University, Loyola University, Northern Illinois University, Northwestern University and North Park University.

TMAC Internships are open to full-time junior and senior undergraduates majoring in Business, Finance, or Accounting with a grade point average of "B" or better.

Each university is responsible for managing the search process and selecting one intern. The TMAC Intern works in the business offices of the University or in partnership with a selected Non-Profit organization. The TMAC Intern performs Treasury related functions – including Cash Management, Finance, Benefits, Payroll, etc. Each University determines the exact responsibilities of the internship.

TMAC Internships consists of at least 190 hours, but not more than 200 hours, begin in September or October (Fall Semester) or January or February (Spring Semester) and continue for a period of 12 to 16 weeks. Each University decides, independently, as to the amount of class credit for participating in the program.

TMAC prepays each University up to \$12 per hour plus matching FICA and Medicare, if required, for the proposed internship. The maximum annual contribution to each University participating in the TMAC Internship Program is \$2,500 per intern. The University pays the TMAC intern \$12 per hour and is responsible for all withholdings and tax submissions.

TMAC interns are invited to attend regular monthly TMAC meetings during their internship. During the internship year, each TMAC intern is assigned a TMAC member as mentor and optional field trips are available to participating students. In addition, interns participate in the Windy City Summit and are also recognized at a special Scholarship luncheon during the conference.

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SCHOLARSHIP COMMITTEE

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Current members of the 2004/2005 Scholarship Committee are:

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Meeting Site Committee

We hope to continue into 2005 with the exciting meeting site year planned. As you know, we traveled to Wauwatosa, WI for our November meeting with the Wisconsin TMA. Our March meeting will be hosted by LaSalle Bank/ABN AMRO who have invited us to dinner at their new downtown operations plaza.

We try to find unique locations and quality meals for our monthly meetings while trying to adhere to our budget. We are always looking for new places to try. If there is a place that you would like to suggest, please let us know.

Your Meeting Site Co-Chairs

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Speaker Bios - continued from Page 1 -

Heather Steffans is a Business Development Executive at Fiserv. Her responsibilities include educating organizations on unclaimed property and Patriot Act compliance while developing new accounts. Ms. Steffans has spoken at Lorman Seminars, National Business Institute, National Association of Financial Professionals, Institute of Management and Administration, National Restaurant Tax Executives, Advanced Accounts Payable Institute, Regional Treasury Management Conferences, and Users Conferences. She is the current Chairperson of Communications for the Unclaimed Property Holders Liaison Council.

Linda Farkas is responsible for marketing Treasury Management Services to M&I bank's commercial banking clients and prospects. Linda is also responsible for managing the Treasury Management Sales team for M&I Bank. Linda has over fifteen years of banking experience in the field of treasury management services. She has her CCM certification, and she applies a consultative approach to the sale of banking services. Her strengths are to identify customer needs, to form cohesive teams consisting of customers and M&I Bank staff, to brainstorm solutions, and to "think outside the box."



Newsletter Submissions

If you have an item of interest for the newsletter, please contact Leslie Stermetz at 630.530.6846 or by email at lsternetz@duch.com

Deadlines for article submissions

February – 2/1/05
March – 3/1/05
April – 4/4/05
May – 5/2/05
June – 5/23/05

Current Issues in Washington

by June Johnson, Hartmarx Corporation
Member, AFP Government Relations Committee

Congress is currently on winter break and not scheduled to meet until later this month. Watch for next month's newsletter for current issues in Washington.

For more information regarding these issues including comment letters and AFP positions, please visit the AFP website and read "*Legislative and Regulatory Status Update*". Feel free to contact me at jjohnson@hartmarx.com or any other member of the AFP Government Relations Committee (GRC) if you have any questions.

How to Survive a Heart Attack "when alone"

Since many people are alone when they suffer a heart attack, without help, the person whose heart is beating improperly and who begins to feel faint, has only about 10 seconds left before losing consciousness. However, these victims can help themselves by coughing repeatedly and very vigorously. A deep breath should be taken before each long cough, and the cough must be deep and prolonged. A breath and cough must be repeated every two minutes without let up until help arrives, or until the heart is felt to be beating normally again.

Deep breaths get oxygen into the lungs and coughing movements squeeze the heart and keep the blood circulating. The squeezing pressure on the heart also helps it regain normal rhythm. In this way, heart attack victims can get to a hospital.

Help keep other informed by passing this along. It could save their lives.

Remember, you don't have to be "old" to have a heart attack!



CHECKING INTO CHECK 21

by Kaushik Patel

September 11, 2001 magnified many weaknesses in this nation's functionality, from homeland security to its economic structure. Congress took immediate action to remedy the gapping holes in the most urgent concern, national security. As a result of the halt in transportation, mainly airlines, the current check clearing process was brought into question. After two years of deliberating, Congress unanimously passed Check Clearing for the Twenty First Century, or Check 21, and President Bush signed it into law on October 28, 2003 to take effect twelve months from that date. The act called for voluntary truncation—changing a paper check into an electronic item for presentation or return—so to implement a back up system in case there was not an option to transport paper checks. However, the act requires banks to accept substitute checks, a properly printed image of the front and back of the original check. The immediate effect would be faster processing, hence reduced clearing float and quicker availability. The far-reaching effects of Check 21 would not be certain until the process was underway. Yet most agree that this is the proper step in utilizing technology to make check processing more efficient, more cost effective, and become less reliant on physical transportation.

THE CATALYST

One immediate effect of the September 11 attacks was a reminder of the weakness in the clearing process, which requires checks to be physically transported to paying banks. “For four days after 9/11, all flights nationwide were grounded, which means that million of checks sat in airplanes parked at runways across the nation” (Kelly). The Federal Reserve provided credit for these checks based on their availability schedule even though they had not entered the clearing system. On Wednesday, September 12, the Fed provided \$23 billion of credit to the banking system. The float equaled thirty times the average float for the previous ten Wednesdays (Kelly).

The enormous float led the nation's leaders to question the processes' dependence on physical transportation. The most logical step seemed to be to transport checks electronically. Electronic payment systems were becoming more popular with consumers and especially businesses with the onslaught of Internet banking and options to pay bills via the Internet. The efficiency and ease of use of these payment methods made electronic transfers most attractive. Thus, this method became the basis, which inspired the ideas for Check 21.

BASICS OF CHECK 21

Check 21 allows a bank to create an electronic image of the front and back of a check to transport to the drawee bank as long as the two parties have a prior agreement in place to send and receive check images between one another. “The legislation does not require a bank to create or accept an electronic check image, nor does it give an electronic image the legal equivalence of an original check” (Abagnale). However, the act recognizes an Image Replacement Document (IRD), also known as a substitute check, as the legal equivalence of the original check. In order for this substitute check to be valid it must: Contain an image of the front and back of the original check, contain a MIRC line with all the information of the original check, conform to industry standard on substitute checks; and must be reprinted as a paper item before being presented for payment. In the court of law a properly prepared substitute check would hold up as a valid legal document whereas an image of the check which does not meet the requirements of an IRD whether on a computer screen or printed on plain paper would not.

Check 21 also passes much of the liability to the converting party. When a bank creates an electronic image and a substitute check for the original check, it warrants that the substitute check is properly prepared and a bank will not be asked to make payment on a check already paid or if the original check was fraudulently presented. The imbedded indemnity passes the liability to the converting party. It states that a bank “that transfers, presents, or returns a substitute check is liable for any losses that occurred due to the substitute check instead of the original check, to any party involved in the handling of the substitute check after its conversion. It will not, however, cover losses that would have occurred had the original check been presented.” This very powerful tool may deter some banks from converting, although they would need to take into account the lost benefits of Check 21 before making such a decision.

FORESEEABLE BENEFITS

The most evident benefit of check truncation will be a more efficient process and less reliance on the physical transportation of original checks. There are many more benefits to Check 21 that we can only speculate on, but not know the affects of, until a few years after using the system. “The biggest benefit of Check 21 is that it is voluntary”, says Sheila Patel, a Banking Supervision and Regulation Commission Examiner with the Federal Reserve in San Francisco. “It allows smaller banks the option to participate in electronic transportation dependent on a cost benefit analysis, the complexity of banking operations, the capital levels and asset size and the demand of



Check 21 in a particular market. The act does not mandate a bind if the assessment indicates a nominal benefit for a particular institution.” She also adds, “Small to middle sized banks will wait until the technology is perfected before getting involved; however, implementation of the latest and most sophisticated systems are advantages for an institution that is located in a highly competitive market.”

Robert Eifel, of National Bank and Trust of Sycamore, Illinois, believes that the biggest benefit will come from the reduction in cost and the move towards a less paper intensive process. “The lower costs are going to come because technology will automate current processes and help reduce float in the system.”

“The biggest beneficiary will be the economy in general, meaning everyone will benefit”, says Norman Appelman, a Charter Member, Past Chairman and Member of the Board of the Association for Financial Professionals. He believes faster clearing will allow for faster availability and hopefully lead to more efficient cash management by corporations. If corporations are more efficient, especially with money, they tend to grow and employ more people hence the economy grows and everyone benefits.

Faster clearing will allow corporations to collect receivables faster and give them the opportunity to invest a few days more and earn extra income. Since check images will be in greater use banks can return images to customers electronically and allow the customers to store checks on CD-ROMs rather than use paper filing systems. This would allow for less use of space for storing and more for business operations. This would be especially advantageous to companies with offices where the rental cost of space is high.

Banks will benefit in two ways: They will see a reduction in cost as volume increases and also see their fee income rise since Check 21 based products will allow them to add more products and services, reasons Mr. Appelman. The trend towards higher percentage of banks’ earnings coming from non-interest revenues should continue.

Many believe Check 21 to be the first step in making the process electronic from beginning to end. Some speculate this will “lead to one-by-one check presentment and clearing (directly from bank of first deposit to paying bank); immediate verification of available account balances when a check is presented for payment; full positive payee and amount verification; and imaging of the check at the merchant point of acceptance for electronic presentment” (Tinucci). The direction and development of further technology on the foundation that is Check 21 will not be recognized until the process becomes fully implemented.

Faster processing should also lead to deterrence in fraud since fraudulent activities can be detected faster.

If nothing else Check 21 will provide a backup system in case other means of transportation are suspended and will help develop a more efficient check clearing process.

DRAWBACKS/OBSTACLES

With any investment comes cost. Although the cost of Check 21 is largely unknown and may vary greatly from institution to institution, it will at least encompass educating customers and employees, equipment costs and potential loss of dollars invested in existing systems and equipment.

“Equipment costs will be mostly software-related”, says Ms. Patel, “however, if programs are developed to be compatible with current systems already in place, there would be a substantial reduction in initial investment costs. Smaller banks will be at an advantage since they are usually better at adjusting simply because they are smaller and need for change can be recognized and implemented faster.”

Mr. Eifel sees a big challenge for banks to help their customers adjust to the oncoming changes. “The people who use checks everyday will oppose change because they will not see any benefits for themselves. Banks may need to work on a case-by-case basis in order to solve some issues but in the long run everything should be a lot smoother.” Mr. Appelman agrees, “The customer will question the value of Check 21 as float will be reduced, but they will recognize the benefits of the act, as time goes on, and be able to adapt.”

The imbedded indemnity that passes the liability to the converting bank is a major drawback to any bank wishing to use the electronic solution. Banks will incur extra precaution to verify proper preparation of substitute checks and may have increased legal costs because of the indemnity.

The creation of substitute checks will render useless some security features on the original check. The indemnity once again would come into play here. “To combat fraud you will see wider use of positive pay by corporations and banks will be taking extra precautions to avoid any legal issues,” says Mr. Appelman.

Another major concern is the uncertainty that comes with any new endeavor. “Today there are unknown costs for the post-Check 21 world, including the cost and volume of IRDs, setup costs, per-item fees, transportation arrangements for IRD print alternatives, telecommunication expenses for transferring image items- not to mention the costs of creating the agreements required to present images” (Williams). The added complexity that Check 21 brings to the process will hinder the transition process.



According to the 90th annual report to Congress by the Fed, check processing was down 4.7% from 2002 to 15.8 billion checks. If this process continues it should lengthen the payback period of banks' investment in Check 21. Since fees will be charged based on volume, when volume declines it increases the payback period unless adjustments are made to pricing that would offset loss in revenue. At the same time, the bank must consider customer relations when they increase prices. In this regard, the act is in fact self-defeating.

KEY ISSUES

Every product needs to be widely accepted before its full affects are realized. Estimates of reaching critical mass range between 2 and 3 years or longer before the act's full advantages are realized, speculates Mr. Appelman. "While Check 21 will no doubt lead to pure electronic image exchange for many items, wide spread industry cooperation and collaboration will be required before that becomes a reality" (Williams).

Banks have the option of outsourcing Check 21 services or performing the services in-house. Bigger banks will probably do it in-house while smaller banks will outsource until the process and technology are perfected and more cost effective.

Some banks have set-up websites to help build customer awareness on the effects of Check 21. "NB&T plans on sending out information with statements to inform our customers" says Mr. Eifel. In a survey conducted by *Treasury and Risk Management* and Wells Fargo between June 21 and July 9 of this year, 52% of the 376 CFOs, treasurers, and cash managers responded that they had medium knowledge about Check 21 and 33% had low knowledge. In any case customer knowledge will be critical in long-term consumer acceptance to the new processes.

Check 21 will bring a much-needed fix to the dependency of the check clearing process on physical transportation of paper checks. The initial investment costs, liability concerns, and uncertainties should be more than offset by the benefits of faster clearing and a more reliable system that leaves future developments to the imagination. Check 21 is the most practical step in leading to a system that will be electronic from start to finish.

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