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An Exploration of the Strategic Importance of Fees

Nobody “likes” fees. As consumers, we are inherently off put by the suggestion of a fee. Bundle that fee into the price of the item, charge an annual membership or in some other way “hide” that fee and we are less likely to complain. But why are we so opposed to paying a fair fee for a valuable service rendered?

I believe that banking is very much like ... the dry cleaners. Think about it, you go to the cleaners and you give them your suit. You go back 3 days later and you get ... your suit back. And we are happy to pay them; you don’t see people at the cleaners fussing about the cost of cleaning. That’s because we understand that there is a cost to the service that the cleaners provides. It’s our suit and we just paid to get it back, but the added value is that it is now clean and pressed.

Contrast that with banking. People give us their money and bankers provide valuable services (such as a secure way to store your money instead of a coffee can buried in the backyard ...). Say a customer wants to get money at an ATM at the main gate of Walt Disney World. It’s a simple process, with the results being a receipt that indicates a fee associated with that “foreign” transaction. It actually sounds pretty good. I was able to access my money at a time and place of my choosing, at any time of the day or night. But often, a customer in that situation is not as happy with their bank as that same individual would be with their cleaners. Why not? Because as bankers, we have failed to drive home to our customers the “value” that we provide. The delivery of cash “at our convenience” should be an obvious benefit. After all, they could have withdrawn money from their bank’s ATM before they left for Orlando without any charge. Every time we use the dry cleaners, we appreciate the service and gladly pay the fees. But banks charging fair fees for the valuable services they provide, is somehow egregious behavior. You get the idea. Customers believe that their bank should provide the maximum level of services and charge us the minimum possible fee. Or charge nothing. This is largely a problem of our own making, overuse of the 4-Letter “F” word ... *Free*. Since we have liberally used free associated with banking services for many years, customers have come to expect that banking should be free. Think about it, stuff you get for free is generally not associated with anything valuable. And if Banking = Free that translates to Banking = Not Valued. And that is a problem.

How does this concept apply to FNBB? As a correspondent, each member FI is our customer. And just like your customers attitude towards fees, a similar scenario may play out between FNBB and its customers. It’s natural to think that the lowest fee for a service is always the best option. And yet, we are all familiar with the saying, “you get what you pay for”. That is not to suggest that we shouldn’t be managing our expenses wisely. But the bigger picture is that the lowest cost for a particular service is not always the best overall strategy. This is because a) there may be other fees that are not being accounted for that is understating the actual cost and b) there may be a bigger picture of fees that is more strategic than the pricing of an individual service. Let’s examine these issues more closely.

An Examination of Total Cost – Let’s examine the cost to send a wire transfer. At first glance, it appears that the cost of a wire from FNBB may be more than other providers of wire services. But look more closely at the fees that are associated with sending and receiving wires. Does the other vendor have a monthly fee associated with wire processing? Are there separate and additional charges for their electronic portal that would give you access to initiate those wires? Suppose the combined fees of those two items added up to \$500 / month. And let’s further suppose that your institution does 200

wires per month. That represents an additional \$2.50 per wire, a cost that is unlikely to be factored in if you are only looking at the actual wire fee and not the total cost of processing.

The Strategic Nature of Fees - FNBB has built its long-standing partnership with its customer institutions built around deeply held core values. While FNBB works to be competitive in its fee structure for each of the services offered, it is not a core value to be the lowest priced option. Rather, it is FNBB's goal to represent the best overall value of the services we deliver. Due to FNBB's collective bargaining power, we are able to provide services that would be more expensive for our customers to obtain on their own. We also believe it is important to build relationships. This includes having an understanding of our customers' back-office operations, analyzing their costs and helping their operations run more efficiently.

So what are examples of how FNBB provides service that is a strategic benefit? Here are few examples:

- Daylight Overdrafts - How much value is there in not having to be in and out of a correspondent account at the Fed to manage intraday customer wire activity versus just settling up with FNBB at the end of the day? The resources to manage daylight overdrafts have a definitive and measurable cost.
- Customer Service – It may be hard to put a number on it but the service that FNBB provides can be described as “concierge-level”. Internally we call it “Service Beyond Comparison”. Just ask your operations folks that interface regularly with FNBB and they will gladly share with you what the difference this level of service makes.
- Research & Development – We are always looking to the future and engaging in innovation of technology to help community banks stay relevant in the changing banking landscape. Currently, nothing is more important to the future of community bankers than how they will address faster payments for their customers. While each FI can make its own strategic decisions, the operations team at FNBB is busy working on developing options for how every FNBB customer institution, regardless of size, will have a faster payments option for their customers.

Finally, when there is downward pressure on operational fees, the resulting decrease in overall gross margin negatively affects FNBB's ability to produce higher dividends. Most of our customer institutions are shareholders and when FNBB reduces fees to remain competitive on individual services like wires, it decreases overall revenue. And while it would be nice to have the lowest pricing and the highest possible dividend, those elements are mutually exclusive. By focusing on a strong partnership, FNBB and our customer FIs can craft a long-term and mutually beneficially relationship that is both strategic and profitable. And that is a partnership that will stand the test of time.