Item Control Processing Software (ICPS)

Executive Overview

The face of banking is rapidly changing as technological advancements address the manner in which financial institutions settle transactions and payments. The Check Truncation Act (CTA), also known as Check21, has been approved and will take full effect October 28, 2004. CTA will allow financial institutions to accept some form of electronic presentment, either ACH, image or printed image. Those financial institutions that are preparing to implement compatible systems will be the first to reap the rewards of the CTA mandates.

DFG has developed solutions that are compliant with Electronic Check Presentment (ECP) and Check21 directives. In the development of ICPS, we have taken into consideration current bank processes in order to provide a solution that is easily installed and that produces immediate operational and cost benefits.

ICPS Benefits

- Improved bottom line through faster clearing and settlement of checks
- Enhanced customer service through extended "same day" deposit windows
- Reduced fraud through quicker identification of fraudulent items
- Cost effective image solution for statement production and research
- New and enhanced product offerings for business clients
- Free software upgrades to address changes in laws and electronic processing
- Ability to customize software for specialized applications
- Modular design for easy upgrade and scalability
- Internal software security to restrict access and functions to designated users

Bottom Line

Check Collection – Banks and check processors are gearing up to settle checks through electronic presentment. This significant change in the way checks are presented and cleared is authorized under the provisions of the Check Truncation Act, currently working its way through Congress. Checks that previously took three to four days to clear, will settle overnight, in an electronic exchange between the paying and receiving banks. The impact of "float" and "availability" both for the bank and the bank's customer will improve significantly.

It is estimated that the average return time for an unpaid check is 5.5 days following the day of deposit. Check fraud and related losses will be reduced as items are identified and returned within a significantly shorter timeframe.

With ICPS, items can be converted to ACH format, image printed with high quality MICR encoding, or transmitted electronically for settlement. Where necessary to pull items for forward collection purposes (Treasury Checks), user-defined criteria alerts the operator to the "flagged" item. With the

robust features of this system, it is fully compliant for today's environment and positions your financial institution to take advantage of tomorrow's electronic presentment opportunities.

Check Returns and Back End Processing – In today's environment, checks returned for non-sufficient funds and similar adjustments, require the manipulation of the entire inclearings base to affect the return. In an image environment, the individual item is located and returned in one pass resulting in considerable cost and process improvements.

Imaged Statements - Imaged statements have already proven to positively impact the bottom line with reductions in postage and handling costs. OnUs checks paid at the branch and imaged onsite will eliminate today's redundant handling and associated costs of manually incorporating those items into customers' statements. Images of OnUs checks will be transmitted to your statement preparer, where they will be married with inclearings images to produce consolidated statements for delivery to your customers.

Research and Archive – Imaged items (checks and supporting documents) are available for immediate retrieval, significantly improving research efforts for the branch and back office, and assisting customer service efforts. Images are available on your LAN network and may be exported to other image archives. When necessary, high-quality paper images can be printed directly from the ICPS program.

You will never again worry about a "lost" deposit! In the event that paper items need to be recreated, high quality front and back check images can be produced as a "substitute" check.

Images can be exported to an internal or external Image Archive program where you can enable merchants to retrieve images of deposited items and supporting deposit slips through secure Internet access.

Enhanced Product Offerings – Installation of ICPS and companion programs Item Conversion Plus (ICP) and Item Conversion Standard (ICS) can bring a variety of business opportunities to your financial institution and help retain existing relationships. Here are a few ways these tools can be deployed:

1. Lockbox Services – using the ICR capabilities built into the ICPS solution, checks and remittance stubs/coupons are captured. Auditing tools within the system balance items received to their corresponding stubs/coupons. Information captured is then exported to produce a report of transactions for your business client. The check information can then be used to convert the paper payment to an electronic payment such as ACH, or the information can be routed as an electronic check presentment.

2. Merchant Capture – your business clients can use the ICR capabilities at their site to convert paper payments (checks) to electronic payments that can be cleared through the electronic funds transfer systems such as the ACH networks. At the point of sale, the paper check is returned to the merchant's client. Alternately, the merchant can pass the electronic check file to your bank together with a cash letter, for credit to his account and transmission through the electronic check presentment system.

3. High Volume Check Businesses – ICPS can bring considerable collection improvement to Check Cashing businesses. Either at the client's site or the bank's processing site, checks are imaged for electronic presentment, significantly improving the handling of check items.

4. Other Financial Institutions – you can leverage your investment by providing Correspondent services to other financial institutions in your area. Smaller or de novo institutions with low

volumes can route their deposit items through your bank, in the same manner as any business client.

Customer Service

In today's check settlement environment, checks must be bundled and transported to the bank's proof-of-deposit processor, or correspondent bank, by established deadlines in order to receive the best "availability" on those items. For banks with remote locations, this means that "same day" deposit cut-offs generally occur at 3 p.m. or earlier, in order to meet those deadlines.

With electronic presentment and settlement, items received for deposit are imaged via a high-speed scanner. The images and MICR information are transmitted electronically to the bank's proof-of-deposit processor or correspondent bank. With a high-speed desktop scanner, the capture process is a simple procedure that can be done at end of day, with the check detail transmitted electronically, well before the established deadline.

In the event research of a customer deposit is required, the scanned images are immediately retrievable.

As an added customer benefit, scanned images may be exported to an internal or external Image Archive and made available to customers through secure Internet access.

Real Time Systems

For financial institutions that operate on Real Time systems, the benefits of electronic presentment are even greater!

Generally a real-time bank will place a "clearing" hold on deposited funds, and not assign "float" to the deposit. On interest bearing accounts, interest accruals usually begin immediately from the date of the deposit, well before the financial institution receives payment (settlement) for the deposit item.

With electronic presentment and settlement, deposit items settle up to two days faster than with traditional paper presentment. The effect on the bank's bottom line in a real time environment is significant, particularly for those financial institutions accruing interest from date of deposit.

POD Systems

In a POD (Proof of Deposit) System, daily work cutoffs are required in order to prepare, bundle and transmit work to a Proof Department (or processor) who balances the deposit and credits the customer's account. Some systems provide for a memo transaction at the point of deposit and other systems do not.

Cutoff timeframes are critical in this type of environment to provide for the preparation and transportation of checks and supporting documents to the processor within a specified window (timeframe).

In the Proof process, checks are separated and routed to designated settlement clearing points. Items may be presented and settled directly with some of the larger banks, and routed to designated clearinghouses for settlement with other financial institutions.

Many financial institutions establish a daily cutoff of 3 p.m. (earlier in remote areas) in order to meet the processing windows. Deposits received after the daily deadlines established at those institutions, are dated and processed for the next day.

Most financial institution executives would agree that the clearing provisions outlined in Regulation CC, providing for limited "clearing holds" depending on a check's routing information, fall short of actual collectibility timeframes. It is estimated that the average timeframe for return of a check that will not be honored is 5.5 days. In many cases, fraudulent items take weeks to return to the bank of first deposit, particularly when an erroneous routing number has been encoded on the deposit item.

With electronic presentment and settlement, the bank's "same day" hours can be extended since the preparation and transportation of deposit items is no longer an issue. Using scanners, customer deposits and accompanying deposit slips, cash IN/OUT tickets, and general ledger tickets are imaged. The file is electronically transmitted to the processor who uses the information for proof, account credit, and settlement purposes.

The imaged items are immediately available for research and may be made available to the bank's client base through internal or external secure Image Archives.

More Benefits

- Lower costs (reduced transportation costs, less fraud)
- Ability to produce a copy of an imaged item (substitute check)
- Broader branch and ATM network configurations – no need to tie branches and networks geographically to a processing center
- Selective use of electronic check processing – option to implement only remote locations
- Extended customer service hours and broader deposit options

Installation

ICPS drives scanners made by several manufacturers, with speeds up to 250 dpm (documents per minute). We can help you select the appropriate make and model to best fit your needs.

Our program is easy to install and use. The average installation is approximately two hours for one workstation, and four hours for a networked environment. DFG will take care of the entire installation and training of your staff. Help is available both on-line and by telephone.

Hardware Requirements:

85 MB hard drive space (for system files)
Windows 2000 Server (SQL LAN environment)
17 kb per 2-sided check image (disk file storage space)
128 MB RAM
CD Rom Drive
Modem
Digital Check SCSI adapter kit
Check Scanner

Software Requirements:

Windows 98, 2000, XP

Technical Components:

Visual Basic 6.0 (Microsoft programming language)
My SQL 4.0 (Relational database system)
My OBDC 2.50 (Relational database system)
Tiff DLL50 (Image viewer)
BTS Sort (Multi-column sort utility)
ParaScript Check Plus 3.0 (supports ICR technology)
ParaScript Field Script 4.0 (supports typed/handwritten alphanumeric)
ASPI (SCSI-2 driver for Digital Check SCSI card – free download)