

CHAPTER 3

MANAGING CASH INFLOWS

Objectives

After reading this chapter you will be able to:

- Understand the design of a collection system given the constraints of the banking system
- Appreciate the reasons for the dominance of paper transactions
- Review internal techniques and bank products used to manage collection float
- Learn about ancillary collection activities

Introduction

Bill Fold's cash manager, Ann I. Shade, is responsible for managing GETDOE's bank accounts, including the movement of funds between banks. Bill has been complaining that there are too many accounts, now numbering 65, with one or two at each office, factory, or distribution center. The accounts are used to deposit funds received from the invoicing-receivables cycle at each location. The administrative time and banking costs are significant, and it isn't certain if funds received are deposited in a timely manner.

Bill and Ann have attended meetings of the local cash management association to learn more about the lockboxing systems used by other companies. One treasurer explained that he was able to reduce his collection banks to two accounts: one lockbox DDA and one regular DDA. This change resulted in significant savings in time, banking costs, and administration. Bill and Ann are considering how GETDOE can also realize similar efficiencies.

The purpose of a collection system is to accelerate the receipt of cash inflows from customers, subsidiaries, and other parties that owe money to the corporation. The events that trigger cash inflows occur through the timeline of collection activities, beginning with the initial sale of product and continuing through invoicing, the receipt of funds, and the depositing of those funds in a commercial bank. This chapter reviews the traditional cash management concerns of mail, processing and availability float for payments made by paper check.

Inefficiencies in Collection Activities

A principal reason that inefficiencies occur in treasury management is *float*, which is often defined as funds in the process of collection, disbursement or

other movement. Float exists in the U.S. largely because of our legislative history -- the McFadden Act (1927) and the Glass-Steagall Act (1933) required the establishment of separate financial institutions in each state and each financial services industry. (See the discussion of the relevant laws in Chapter 8).

McFadden and Glass-Steagall were effectively repealed in the 1990s by the Interstate Banking and Branching Efficiency Act (1994) and the Gramm-Leach-Bliley Act (1999). However, the number of financial institutions is still greater than ten thousand. This requires the movement of physical checks between the payor and the payee, and the drawee and deposit banks, causing a delay in the receipt of "good" or collected funds by the depositor.

The Role of Paper

Despite efforts to convert remittances by check to electronic mechanisms, the U.S. is writing about 50 billion checks each year. Checks are the prevalent payment mechanism for several reasons:

- Payment convenience
- Evidence of the remittance and long-established in law
- Accepted by most businesses
- Float management for the remitter
- Low banking cost (although the all-in cost can be expensive)
- An established, efficient process

There are other forms of collection float that occur earlier in the timeline activities before the check enters the U.S. Postal System (USPS). These float components are often managed by business units, information technology or accounts receivable, and not by treasury. The focus of this chapter will be on the elements under the control of treasury -- mail, processing and availability float. Collections float may involve several days, and is comprised of several components:

1. *Mail float*: the time between the mailing of a check and the arrival at its destination
2. *Processing float*: the time between the receipt of the check and its deposit in a financial institution
3. *Availability float*: the time between the depositing of the check and the corporation's access to "good" funds.

See Exhibit 3.1 for a graphical presentation of these floats elements.

[Insert 3.1 here]

Mail Float

It may appear that there is little a recipient can do to reduce mail float because of the complete control of mail delivery by the USPS. However, the location of the sites to which the USPS delivers may significantly affect mail time.

Causes of Mail Float

Many businesses receive mail at one or more office locations, and a first step in evaluating improvement opportunities is to determine whether these sites are optimal. As a rule, city locations are faster than suburban or rural post offices, because most mail is sorted in main postal facilities and then delivered to secondary centers.

The fastest mail cities in the U.S. currently are Chicago and Atlanta, where mail is available at the main post offices as early as 5 a.m. Mail for the suburbs of Chicago or Atlanta and rural Illinois or Georgia (or for any non-city location) must then be transferred to those locations for delivery to postal customers. The difference between Chicago/Atlanta city mail times and the suburbs can be as much as 1/3rd business day (or about 2 1/2 hours), which can impact an entire day's cash processing activity.

To see how this can occur, assume that a company is located in a suburban office park where it receives its mail by USPS delivery at 11:00 a.m. The sorting and opening of the mail requires another hour, or until noon, the customary lunch hour. When the clerical staff returns at 1 p.m., it may spend another two hours to complete the accounting for the cash that has been received (the cash application process); prepare the deposit ticket, endorse the checks, and get a deposit ready for transmittal to the bank (the cashiering process).

Now it's 3 p.m., and an employee (or private messenger) takes the deposit to the local bank branch, which closes at 4 p.m. However, the deposit will not receive credit at the bank until tomorrow, because the branch has a 2:00 p.m. deposit cut-off time. This is because the bank's courier -- who comes by once a day -- stops by at 2:30 p.m. on the way to the other branches and eventually to the main processing center, and the tellers need about 30 minutes to prepare the package of check deposits.

Solutions to Mail Float

The *1/3rd day* longer mail delivery time has an economic cost to a company of an *entire day* in starting the collection float process. In determining whether one day matters, assume that a company receives \$250 million a year in mailed payments, or \$1 million each business day. If the cost of funds (discussed in Chapter 9) is a conservative 10%, the delay of a day is worth an annual \$100,000! There are several actions to reduce this cost.

Mail can be directed to a post office box in the main processing facility servicing a metropolitan area. A courier service can be arranged to pick-up the mail beginning early in the morning, bring it to the company's offices, and have it sorted and ready for work when employees arrive at 8 a.m. If there is a sufficient quantity of mail, the courier can make a second run to the post office at about 8:30 a.m., when all incoming items should be available for distribution.

Alternatively, a post office box can be established at a nearby postal facility, but the mail will not likely be sorted and ready for distribution until about 10 a.m. The additional two hours may be critical to the completion of the cash deposit. Finally, the deposit can be taken directly to the bank's operations center, where the deposit time for credit today may be as late as 5 or 6 p.m. The manager's goal is to make the bank deposit in time to receive credit for today, not tomorrow.

Tips and Techniques

A simple way to determine if a company is receiving same-day credit for its deposits is to compare the dates on the bank statement to those on the daily deposit tickets. If the dates are consistently one business day off, deposits are arriving too late for that day's ledger credit.

Processing Float

The goal of managing processing float is to require zero days, that is, to deposit all items on the same day they are received. Unfortunately, many businesses hold on to checks received until the end of the processing cycle. Typically, the mailroom passes along envelopes with remittances to accounts receivable, where there may be two or three workstations with responsibility for recording payments against open invoices, noting any disputes, and following-up with customers. The payment then goes to Treasury, where the cashier creates the deposit ticket, endorses each check, and prepares a package for the trip to the bank.

Depending on the complexity of a company's receivables and cashing cycle, processing float may take as much as one week. In other situations, employees simply hold on to checks until they remember to take them to the cashier. If the employee usually works out of the office, checks may be turned in only once or twice a week, on the days when other matters require an office visit. The same calculation from our discussion of mail float applies here: if an item is held even one extra day, a \$250 million business loses \$100,000 a year.

Tips and Techniques

One possible solution to the processing float problem is to direct all envelopes likely to contain remittances to the cashing area. To expedite the separation of

general mail and envelopes containing remittances, a special internal mail code can be incorporated into the address, such as Department 321. The cashier can pull all checks, make copies, and send the material on to receivables for cash application. Meanwhile, the checks can be taken to the bank with the minimum of delay.

There are two “informal” ways to determine the extent of any processing float in a company:

1. After everyone has gone home at the end of the day, go through the desks of receivables staff and other relevant functions. Processing float is a problem if there is any significant volume of checks found sitting in piles with remittance documents, awaiting processing.
2. Going through employees' desks makes most managers understandably squeamish. An alternative approach is to instruct the mailroom to open all envelopes and keep a log of any with checks. Then compare the deposit date for each check against the date the mailroom received the item.

In the Real World

One large financial services company tried both approaches, and found to its dismay that processing float averaged 4 business days. The principal reason: the company had a 24-hour turnaround rule for file processing at each workstation, but there were an average of 5 separate operations before cash was ready to go to the bank.

Availability Float

The development of the U.S. banking system has been constrained by federal legislation limiting banks to doing business in the states in which they were initially chartered. We discuss this issue in Chapter 8. The result of this restriction was the requirement for depositories to physically present checks to the banks on which they were drawn.

For example, a company with offices in Arizona most likely uses a local bank for its deposits. However, the checks it receives may be drawn on banks in New England or states in the Southeast, some 3,500 miles distant. The depositor must await the transportation of the checks back to the East Coast to receive credit for the deposit.

Causes of Availability Float

Banks assign availability based on how quickly they can get credit from the drawee bank for deposited checks. The bank assigns 0, 1 or 2 business days to U.S. commercial bank items deposited by their corporate customers. They will

assign as much as 3 business days to checks drawn on other financial institutions, such as savings and loans, savings banks, and credit unions. Foreign checks are usually sent out for collection, and can require 1 to 2 weeks (or longer) before being credited.

Internal Bank Deadlines

In order to assess when balances become available, several critical times during the banking day must be considered.

- The *deposit deadline*, which specifies the time in the bank's day by which a company must make a deposit for it to be included in that day's work. Deadlines vary within each bank; for example, a deposit made at a branch must be made significantly earlier than a deposit taken to the bank's processing center.
- The *ledger cut-off time* at which time the bank stops processing work for that business day and begins its next working day. For example, a ledger cut-off of 2 p.m. means that at 2.01p.m. the bank begins the following business workday. Depositing an item on Tuesday at 3 p.m. means that it will be considered a deposit on "Wednesday". If the deposit deadline is 2.30 p.m., the deposit will need to be made before 2.30 pm on Monday in order to be part of the bank's work for "Tuesday" (i.e. between 2.01pm Monday and 2.00pm on Tuesday).
- The *availability schedule* specifies the number of days or fractions of a day the depositor will have to wait before the bank will grant availability, or the funds are considered as collected. In the U.S., availability float is usually between 0 and 2 business days. The different availability assignments are based on how the check moves through the clearing system. On-us checks -- those deposited in the bank on which they were drawn -- and U.S. Treasury checks receive 0 or same-day credit, as do Fedwire transfers. Checks drawn on local and regional banks and on banks in major cities receive one or next-day credit, as do ACH transfers. Distant points require 2 business days. (Clearing alternatives are discussed in Chapter 2.)

Bank Processing

The bank reads the information from the bottom of the check -- the MICR (or Magnetic Ink Character Recognition) line -- to know how to route the check back to the drawee bank. Exhibit 3.2 provides a schematic view of a check, with particular emphasis on the MICR line.

[Insert Exhibit 3.2 here]

The significant MICR fields include:

- The Transit Routing Number (or TRN), sometimes called the ABA number. This nine digit address contains 4 sub-fields:
 - The first 2 digits indicate the Federal Reserve District of the drawee bank.
 - The second 2 digits indicate whether the bank is in a city location, regional check processing center (RCPC) or country (rural) bank.
 - The next 4 digits comprise the bank specific number, usually assigned in the sequence that the bank was federally chartered.
 - The last digit is a check verification digit, used in determining the integrity of the TRN.

For example, a check written on Citibank in New York City has a TRN of 0210 0008 9. "02" is the 2nd Federal Reserve District; "10" is a city designation; "0008" is the number assigned to the bank; and "09" is the check digit.

- The account number assigned by the bank to its customer.
- The check number assigned when the check is printed. We will see in Chapter 4 that checks can be entirely created on a single print run, eliminating the requirement for pre-printed check stock.
- The dollar amount of the check. The encoding of this amount can occur in 3 ways:
 - The company can encode the dollar amount of the check when the deposit is being prepared. Check encoders are commercially available for a few hundred dollars.
 - The bank where the check is deposited can encode the check. Although this is the easiest approach, the bank will charge about 2 cents per check if an item is "unencoded" and will require the deposit at the bank 2 hours before the announced close of "ledger" credit.
 - The dollar amount can be encoded when the issuing company prints the face of the check.

Solutions for Availability Float

While a manager could attempt to compare bank availabilities, there is usually very little difference due to bank competition in the assignment process. The availability received can be improved by locating the deposit account near or at the bank on which the largest dollar amount of checks received are drawn. In order to do the analysis, remittances for the past month (or other representative

period) are reviewed to determine the drawee banks used by major customers. There are 2 problems with this strategy:

1. Numerous accounts may be required to deposit these various checks, which may not be cost-effective.
2. Some of these banks may be hundreds or thousands of miles from the company's offices, making it impracticable to travel to these locations every time the company receives a large check.

Tips and Techniques

The active conversion of customer payments from paper check to electronic funds transfers (wires or ACH) is one way to reduce mail, processing and availability float. (Electronic payment mechanisms were discussed in Chapter 2). Experience varies by industry in promoting the use of EFT, and often requires some inducement. Examples include lower mortgage rates for customers agreeing to pay by ACH, or requiring monthly insurance payments by ACH debit.

Lockboxing

After the Second World War, banks realized that there might be a business opportunity in helping companies to manage their collection float. The concept of "lockboxing" was developed to reduce corporate client involvement in the handling of incoming checks. Lockbox services comprise several interrelated services:

- Receive mail in a bank controlled post office box in the city/cities of their major processing centers
- Pick-up mail numerous times each day beginning at about 5 a.m.
- Bring mail back to the bank processing site
- Open mail
- Determine if any checks received should not be deposited based on instructions from the company (such as the wrong payee or a post-dated payment)
- Take a copy or image of checks approved for deposit
- Deposit acceptable checks that have been received
- Assign availability and clear deposited checks
- Send electronic information about the remittances to the company (followed by physical copies of the checks, undeposited checks and the remittance documents)

The lockbox product quickly became successful because, for a relatively nominal cost, companies were relieved of the burden and delay of handling mail and check deposits. The popularity of this service led to its being offered by the largest 100 or so banks throughout the U.S. Until about 1985, each bank limited its lockbox services to the state in which it was domiciled, largely because of

restrictions on out-of-state banking. This forced companies to open several lockboxes to provide geographic coverage for their customer remittances. The resulting system was expensive, somewhat difficult to manage, and required the subsequent concentration of funds to a central bank account so that funds could be invested, disbursed for expenses, or used to pay down loans. (See Chapter 4 on concentration banking).

To assist with the determination of lockbox cities and banks, a collection model was developed by Phoenix-Hecht, a financial marketing research firm located in Research Triangle Park NC. Banks subscribe to the model and the accompanying databases of mail and availability times, and they offer to perform float studies for their corporate clients for a small fee. The model determines the optimal locations based on a representative sample of checks received and the senders' envelopes, using such data as the TRN, the postmark date, and the sending zip code.

Lockbox Networks

By the late 1980s, several of the largest financial institutions organized lockbox networks to provide a nationwide service to their clients. See Exhibit 3.3 for a list of wholesale lockbox networks.

EXHIBIT 3.3

Wholesale Lockbox Networks	
Bank of America Bank One J.P. Morgan Chase Mellon	PNC Regulus Bank Wachovia Wells Fargo
Source: Phoenix-Hecht Web site (www.phoenixhecht.com)	

A single bank can now offer lockbox services in each region of the country; for example, Mellon Bank offers sites in Pittsburgh, its home city, and in Atlanta, Boston, Chicago, Dallas, Los Angeles, and Philadelphia. The corporate customer can use any or all of these sites, managed by one bank through one bank account, while achieving national coverage in the major business cities. The banks were able to circumvent interstate banking restrictions by establishing processing sites outside of their state of domicile, using a local bank for the actual check deposit and clearing process.

As the number of lockbox banks required began to decline due to the networks, companies saw no reason to continue with multi-bank cash management systems. It became easier to use one bank for all collection/concentration activity, and to use that same bank for any disbursement services required (see Chapter 4). This trend toward the consolidation of company collection sites has been precipitated by lockbox profitability problems and the required investment in

new technologies, primarily imaging. These developments are reviewed in later sections of this chapter.

Tips and Techniques

Banks offering lockbox networks will often conduct complimentary float studies to determine the best configuration for prospective clients. However, they typically confine potential solutions to their sites, excluding cities not served by their network. It is important to implement a lockbox only at those sites recommended in the analysis, because each site added to the solution can incur an additional monthly fixed charge of \$100-\$150.

Wholesale Lockbox

The original form of lockbox services -- now commonly known as "wholesale lockbox" -- was established to handle low volume, high dollar checks. Critical data fields are manually key-entered from the remittance document, such as the customer and/or invoice number, while check MICR data is captured in an automated flow as the documents pass through the bank's reader-sorters. This process works effectively when there are a limited number of standard remittance documents and when an invoice copy is returned with the check. The bank can review its operating instructions and templates for the account, determine which data to key, and complete the transaction.

Customers that do not return remittance documents, or situations when banks receive multiple types of invoices, are a chronic problem for lockbox clerks and the company. Most companies instruct their banks to deposit all checks received including those lacking adequate support detail. The company is then forced to work from the check copy and any other evidence, including the customer's envelope and accompanying correspondence, to apply cash, move the cash item from suspense, and close the receivable.

Tips and Techniques

One way to minimize wholesale lockbox problems is to review all remittance documents used for customer billing. A standard, understandable invoice should be used, with the only printed address being that of the lockbox. A company telephone number and Internet address should be provided for questions and customer service, but no company address should be indicated. Include a return envelope for customer convenience, and make certain that the size of the remittance document and envelope match so that paper folds won't occur over scan lines or barcodes.

Too many companies clutter their invoice packages, making them nearly indecipherable. The problem is compounded by the issuance of monthly statements, dunning letters requesting payment, and other correspondence.

Make it as easy as possible for customers to pay; a commercial graphic designer can help.

Ancillary Collection Services

Various other collection services supplement wholesale lockbox, and must be considered by any company reviewing its cash management system.

Retail Lockbox

Some banks offer a totally electronic data capture environment, usually referred to as "retail lockbox". Processing equipment scans the MICR line on checks and the OCR-line on remittance documents, automatically providing lockbox detail. Because there is minimal operator intervention, the workflow is efficient and inexpensive. (*OCR* is optical character recognition, an alternative technology for automated character scanning that is often used on retail invoices.)

Banks have found it difficult to make their target profitability returns on retail lockbox, due to the extensive investment in equipment and the low price that it typically charges for the service. As a result, many banks no longer offer retail lockbox. Companies have the option of using the services of specialized retail processing vendors such as EDS, GTE Processing and NPC. Although the vendor deposits processed checks at a local bank, there is some exposure to the company during the intraday period before the bank receives the deposit.

Imaging

Imaging is a technology that permits the digitized scanning, sorting, cataloging and retrieval of paper documents, including checks, remittances, envelopes and correspondence. Several banks acquired imaging equipment for a few selected uses, including various disbursement services (see Chapter 4), and have extended the technology to such other applications as lockbox. Images can replace the labor-intensive process of handling wholesale lockbox items, while increasing the flexibility of the data captured and the scope and speed of receivables information transmitted to the company.

The process requires the company to establish a template of standard invoices used in billing customers. The typical imaging workflow scans incoming items, searches for relevant data fields in specific areas of the invoice and check, captures those data, and creates a file for transmission to the company. Same-day information is sent by various transmittal methods, including T-1 (dedicated) telecommunications lines or through the bank's Web site. Companies that can await more infrequent transmittals may choose to receive images on weekly or biweekly CD-ROMs.

Integrated Receivables

Some banks offer a single entry point for all incoming receipts in payment of open receivables. Various known as comprehensive receivables, or electronic lockbox, integrated receivables accommodates any type of electronic or paper transaction. The lockbox merges receipt data into a single file transmission to the company, eliminating the need to manage multiple cash and data flows.

Other Services

All collection items must be deposited in a checking or demand deposit account (DDA), for which banks charge a maintenance fee and per item charges such as deposit tickets processed and checks deposited. Other required services may include the processing and vaulting of incoming coin and currency, the replenishment of coin and currency at cashiering locations, and armored car cash pickup or drop-off. Companies accepting credit or debit cards typically pay financial institutions a fee of 1.5 to 2.5% for processing these transactions.

Pricing

Except for imaging, all of the collection products discussed in this chapter are very mature with competitive pricing by financial institutions. For comparative prices of these and other cash management services, see the Executive Summary of the *Blue Book of Bank Prices* in the Phoenix-Hecht Web site, www.phoenixhecht.com.

In evaluating listed prices, it is important to note that prices are unbundled, that is, each component of a service is separately itemized on the bank's invoice or account analysis. For example, the *Blue Book* separately prices the wholesale lockbox processing charge (currently averaging 43 cents) and the check copy charge (currently 11 cents). Each service can have as many as six to eight separate components, including fixed charges not based on the number of items processed. The current *Blue Book* monthly wholesale lockbox fixed charge is \$110, to which would normally be added various other unit charges based on activity volume.

Typical pricing is provided in Exhibit 3.4.

EXHIBIT 3.4
Typical Pricing of Collection Services

Service	Aggregated Price Per Item*
Internal processing of cash receipts	varies: typically \$1-\$3
Wholesale Lockbox	60 cents
Retail Lockbox	25 cents
Depository Services	25 cents (including deposit ticket)
Coin and Currency	coin: 12 cents; currency: 60 cents

*Excluding fixed charges such as account maintenance

The charges listed are aggregated, and include the components typically used by most corporations; see Exhibit 3.5.

EXHIBIT 3.5

Components of Paper-Based Collection Services	
Credit posting Lockbox maintenance* Lockbox item processing Lockbox photocopy Lockbox data capture: OCR/MICR Lockbox data capture: Alphanumeric Lockbox exceptions	Branch deposits Branch furnished coin and currency Unencoded checks (pricing varies by drawee location) Return item processing Deposit reconciliation maintenance* Deposit reconciliation processing
*Fixed charges not based on item volume	

Banks discount pricing based almost entirely on volume, with 20,000 or more items a month usually required for a reduction of their charges. However, it is generally inadvisable to focus entirely on the cost of a service. Any service or quality problems will cost far more to resolve than the few cents of savings that may be attained through hard negotiation. Furthermore, the trend toward the consolidation of bank relationships (discussed in Chapter 9) will force companies to award their cash management business to one or a few banks, reducing the possibility of extensive price comparisons.

Other Considerations

Lockbox is a long-established product with proven success in managing several concerns faced by business:

- Reducing internal costs and collection float
- Avoiding the risk of fraud by having a bank handle incoming checks
- Simplifying the collection workflow with minimum cost and effort
- Speeding access to current payment information for customers on a “credit watch”

However, there are issues to consider in evaluating any such change to a collection system.

Operational Control of Collections

A number of large organizations allow operational areas rather than treasury to manage their collection activities. Evidence of this situation would be if treasury staff is uncertain as to the purpose of a particular lockbox (or bank account), or if it is not known who selected current banks or city sites, or if payment technology

(i.e., credit/debit cards) is being considered but no one has informed treasury. In these cases, the likelihood is that business units (and not treasury) made the decision, and financial management has been excluded from all consideration but the compensation to the bank.

Tips and Techniques

The developments in remittance processing reviewed in this chapter should be explored with appropriate operations managers, particularly if they are the real "owners" of the cash flow. The "device" of education can begin discussions of alternative collection procedures that could provide significant savings. The current economic environment provides an opportunity to open up a mutually beneficial dialogue.

Lockbox Holdover

Bankers assure their customers that incoming lockbox mail is processed in the early morning hours to make important availability times (*i.e.*, at 5 a.m.). However, quite often a portion of remittances at some lockbox banks is received in the late morning and early afternoon. This results in deposits after the cut-off time for ledger credit, and the loss of a day's availability.

In the Real World

For example, a sample of items received in three average weeks at a major bank lockbox showed that about one-quarter of all items were received between noon and 4:00 p.m. and another quarter between 4:00 p.m. and 12:00 midnight. This schedule causes these items to be held over for deposit until next day, while affecting the timeliness of the information from the bank to its clients. Complain to the bank manager, work with their service representative, and threaten to move the business. It probably won't get to that point, but the "loss of business" is useful leverage.

Remitter Cooperation

Any lockbox application requires the cooperation of remitting organizations; that is, they must mail their payment to the special bank address (usually a post office box) specified on the invoice. The change to a lockbox address is obvious to any business manager, and attempts to extend float may be made by their insistence on mailing to the corporate address. This refusal may also result from their failure to change the file address. In any event, pursuit and constant written reminders may be necessary to have mail properly directed to the bank's facility.

Summary

The preeminent role of paper in the U.S. business system has led to the development of various internal and banking procedures to manage collections. Float cannot be eliminated so long as consumers and businesses pay by check. It is important therefore to implement techniques to minimize the time to “good” funds, including lockboxing and efficient post office and cashiering procedures.

Bill and Ann reviewed their current collection system, and decided that the \$120 million in annual check receipts (representing about 6,000 items) could be managed more efficiently by a bank lockbox network. With assistance from their bankers, they calculated that about 3 days of total float would be saved, worth \$100,000 ($\$120 \text{ million} / 360 \text{ calendar days} \times 3 \text{ days} \times 10\% \text{ cost of funds}$).

In addition, they would be able to close many of their bank accounts, greatly reduce administrative time, and avoid moving funds between accounts or leave idle balances in their banks. The cost of the lockbox arrangement would be about \$6,000 ($6,000 \text{ items} \times 60 \text{ cents} + \$200/\text{month}$ in account maintenance and other fixed charges). With the closing of the bank accounts and the elimination of balances and funds movement, the total savings developed were well in excess of \$100,000 a year.