Bank Strategy Briefing

Ideas and analysis for community bank executives

Core processing contract tips

Peter Wilder
414.287.9609
pwilder@gklaw.com
LinkedIn

Over the last several years we have observed a number of community banks that elect to sign core processing contracts with little or no attempt to negotiate terms with the vendor (usually FIS, Fiserv, Jack Henry, etc.). Many banks assume that the terms are non-negotiable or that hiring legal counsel or a consultant will be too expensive. Often, if banks do negotiate, they focus only on the fee schedule.

Why should you take special care to negotiate these contracts? For starters, they *are* negotiable, and your bank can get meaningful concessions if you know what to ask for. Moreover, this is typically your bank's largest and most critical contract. Without adequate protections, your bank, and ultimately your shareholders' investment, can suffer. While there is a cost to negotiate these contracts, advisors who are familiar with them should be relatively efficient in doing so.

So what kind of meaningful concessions can you ask for? Here are just a few examples:

1. **Conversion & Deconversion Fees**. Banks are typically obligated to pay conversion and deconversion fees at the vendor's "then current rates." However, the bank cannot know what those rates might be when conversion or deconversion services are needed, so ask for clarification.

2. **Early Termination Fees**. If a bank terminates the contract prior to maturity, it typically owes the vendor a percentage of the remaining fees under the contract. Early termination fee provisions in core processing contracts can kill what otherwise would be good M&A transactions, which could frustrate a great opportunity for your shareholders. Consider asking for alternative methods for calculating the termination fee and for a more accommodative termination fee if your bank merges with another bank on the same system.

3. **Annual Fee Increases**. Are your fees fixed for the entire initial term of the contract, or can they increase periodically? Annual fee increases are fairly standard but the caps and floors on the increases can often be negotiated.

4. **Liability Caps**. All vendors attempt to significantly limit their liability in their standard contracts. There is ample room for negotiation, and this is one of the most critical provisions to focus on in negotiations.

5. **Term**. It might be worth paying a little more for a shorter term contract. Or, it might make more sense for your bank to lock in a longer term to save on fees. A shorter term is always preferable from a legal perspective - especially given the size of early termination fees - but your bank needs to conduct a cost/benefit analysis to determine what is right for you.

For most community banks, the review of a core processing contract should begin at least one year prior to renewal. Many factors can influence a vendor's willingness to negotiate specific terms, including your size, the profitability of your relationship, whether you have legal counsel or a consultant with expertise in core processing contracts and whether you are considering an alternative vendor. Regardless, there are almost always meaningful changes available, some of which may prove to be valuable for your bank.

Banking & Financial Institutions Practice Group Members

PRINCIPAL CONTACT

Thomas R. Homberg
thomberg@gklaw.com

MILWAUKEE OFFICE

Kathryn R. Allen
kallen@gklaw.com

Benjamin J. Clarke
bclarke@gklaw.com

Jason E. Kuwayama
jkuwayama@gklaw.com

Richard S. Marcus
rmarcus@gklaw.com

Patrick S. Murphy
pmurphy@gklaw.com

Joshuah Torres
jtorres@gklaw.com

Peter Wilder
pwilder@gklaw.com

Shirley J. Huntemann
shuntemann@gklaw.com