
Principal Distribution Certificates

INTRODUCTION

Principal distribution certificates offer credit unions a new way to market savings products to members with higher balances. With principal distributions, members receive periodic income in the form of checks or transfers during the term of the certificate. Members looking for a way to incrementally receive funds from their accounts will appreciate this service.

Credit unions offer this option by configuring Certificate Types that are designed to offer the principal distribution feature. (You can select to require or make it optional in the configuration.) Then when a certificate of this Type is opened, the MSR simply enters the principal distribution amount and whether the member wants to receive funds in the form of a check or as a transfer to a different sub account. Principal distribution funds are disbursed separately from dividend payments so members even have the option of disbursing the funds using different methods. For example, the member could transfer their dividend payments to another (checking) account and send the principal distribution disbursement in the form of a check to their broker.

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For an updated copy of this booklet, check out the Reference Materials page of our website:
http://www.cuanswers.com/client_reference.php
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CERTIFICATE PROCESSING

Principal distribution processing occurs during dividend processing, with the posting of principal distributions (Tran Code 43, Tran Type 38) directly following the payment of dividends (Tran Code 43, Tran Type 39).

When a certificate is opened, its default “Principal distribution method” will default to the “default renewal code” of the Certificate Type. Only disbursement methods of “Check” or “Transfer to” are allowed as disbursement methods for principal distributions – this indicates how the funds will be disbursed to the member. If the “Principal distribution method” of “Transfer to” is selected, a transfer account must be entered. (This account is indicated by the Trnsr/rdmpt/prin dist acct field in the Account Update screen.)

- Dividend disbursements on the other hand are processed according to a separate dividend disbursement code and are transferred to a separate dividend transfer account.

If dividends and principal distributions are both disbursed by check, they are mailed as separate checks. Both checks are mailed to the default address of the membership, the primary owner’s address. The Pay To: address can be changed when opening the Certificate or in the Member Account Update; however, both dividend and principal distribution checks are sent to the same address. (If a dividend check is set to be mailed to an alternate address, a principal distribution check will automatically also be sent there as well.) When Member Communication menu (MNPRTC) #21-Print Auto/Mail Check Audit List is used to select the checks to be printed, the “Certificate dividend check” checkbox also controls the selection of the principal distribution checks. Once this option is selected, Member Communication menu (MNPRTC) #22-Print Auto/Mail Checks then prints both types of checks.

Upon maturity, any funds remaining in a principal distribution certificate that have not been disbursed will be paid in a final lump sum disbursement, via check or transfer (according to the default renewal code of the certificate). This check is also sent to the primary address on the membership (or other Pay To: address if indicated by the certificate).

There are some instances where principal distributions will not be disbursed. If at any time there is not enough money in the certificate to make the principal distribution disbursement, the funds will remain in the certificate and an exception will be printed to the Exception report. Additionally, if the certificate’s funds are frozen for withdrawals (freeze codes 1 and 3), principal distributions will not be posted, but will also appear on the Exception report. Refer to page 14 for an example of the Exception report.

It is not recommended that a certificate with a principal distribution also be used to secured loan or any other account. Principal distributions will continue as usual, however, as long as the distribution is over and above the secured amount. In rare cases where dispersing the principal distribution would take the secured funds negative, the principal distribution will not be dispensed and will appear in the exception report mentioned in the previous paragraph.

NOTE ON ONLINE BANKING

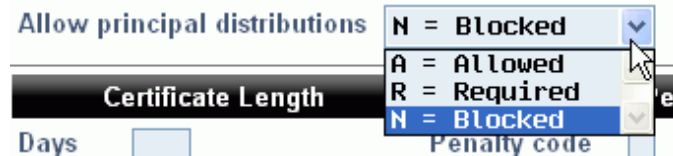
Certificate products with principal distributions are not supported at this time via **It's Me 247**. There is no way to disclose special details pertinent to this sort of account online, and there is no place for the member to indicate a principal disbursement amount. It is not recommended that credits union offers these products on online rate boards, or that they allow members to open this type of certificate online.

CONFIGURATION CONSIDERATIONS

Whether a certificate allows for the principal distribution feature is dependent on its Certificate Type configuration.

The “Allow principal distribution” selection at the top of the Certificate Type configuration screen determines whether principal distributions are required, allowed, or blocked.

There are three options:



- A=Allowed – When the certificate is opened, the MSR has the option of setting up a principal distribution or not. The feature is allowed but is not required. This might be used if the credit union wants to use an existing Certificate Type for its members wanting this service. (In this case, it is recommended that the default renewal code for the Type be “Transfer to” or “Check” for this Type to function correctly when opening a certificate with a principal distribution.)
- R=Required – All certificates created with this Type will require the entry of a principal distribution amount. Credit unions may choose to create specific Certificate Types configured in this manner for use only with their principal distribution offering.
- N=Blocked – This is the default for all Certificate Types. Principal distributions are not allowed for certificates created with this Type.

CERTIFICATE TYPE DEFAULT RENEWAL CODE

At certificate open, the default renewal code of the Certificate Type is used as the default for the principal distribution disbursement method. The default renewal code of the Type is also used to determine how to handle the payment of funds remaining in the account at the end of its term. Therefore, Types designed for use with principal distributions should have a renewal code of either “Transfer to” or “Check.” Additionally, always be sure to uncheck the box in the Certificate Type configuration that allows members to change the renewal code online.

Certificate Type Configuration

This selection determines if principal distributions are allowed, required, or not allowed. Here Required is selected.

Certificate Types for principal distributions should have a Default renewal code of either "Transfer to" or "Check" to function correctly at certificate open.

Members must not be allowed to change the Renewal Code online. This box must be unchecked for Types allowing or requiring distributions

Session 0 CU*BASE GOLD - Certificate of Deposit Maintenance

Certificate of Deposit Maintenance

Certificate type 13 Application CD
 Corp ID 01 CREDIT UNION Description 40 MONTH CERTIFICATE
 Allow principal distributions R = Required

Certificate Length		Certificate Penalty		General Ledger	
Days		Penalty code		Certificate	908.02
- Or -		Days		Accrued dividend	830.20
Months	40	Penalty grace	10	Premium penalty	131.00
Options		Renewal		General Ledger	
<input type="checkbox"/> IRA CD flag <input checked="" type="checkbox"/> Add funds to CDs <input checked="" type="checkbox"/> Report dividends to IRS Laser certificate form CD02		Default renewal code 2 = Transfer to Default renewal CD type (blank = same CD type) <input type="checkbox"/> Allow member to change renewal code on existing account via online banking <input type="checkbox"/> Allow member to bump the current rate 00 times during the CD term		Certificate Accrued dividend Premium penalty Dividend expense	
Dividend Rate(s)					
Minimum	500.00	Maximum	99,999.99	Rate	3.930
Minimum	100,000.00	Maximum	999,999.99	Rate	4.180
Minimum	1,000,000.00	Maximum	9,999,999.99	Rate	5.370
Minimum	0.00	Maximum	0.00	Rate	0.000
Minimum	0.00	Maximum	0.00	Rate	0.000
Minimum	0.00	Maximum	0.00	Rate	0.000

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OPENING A CERTIFICATE

CERTIFICATE TYPES REQUIRING PRINCIPAL DISTRIBUTIONS

If the Certificate Type “Requires” principal distributions, the corresponding fields will appear automatically in the “Should the Member Receive a Principal Distribution” section. The Principal disbursement method is flooded with the default renewal code of the Certificate Type. In the example above, this was Transfer; however, “Check” could also be selected at this time. If the Transfer is selected, the Transfer account must be entered. In all cases, the principal distribution amount must be entered. This is not system generated; the credit union enters an amount based on its own policy.

Certificate Open – Principal Distributions Required

This Certificate Product was set as “Required” so this is checked by default and the principal distribution fields automatically appear visible on the screen.

This Certificate Product’s default renewal code is Transfer. A MSR could change this to Check, the only other available option. Since Transfer is selected, the MSR must enter the transfer account.

NOTE ON CHANGING THE PAY TO: ADDRESS FOR CHECK DISBURSEMENT

If “Check” is selected as the disbursement method, the check will be sent to the address of the Primary member on the membership – unless the Pay To: address has already been changed, for example, to send a dividend check to an alternate address. (Both dividend and principal distribution checks are mailed to the same address.) To change the Pay To: address use F22-Pay To from the screen shown above and change the address to the desired address. This address change can also be made on the Account Update screen.

- By changing this address, the member could select to send their principal distribution payments to a broker or other person.

CERTIFICATES NOT REQUIRING PRINCIPAL DISTRIBUTIONS

Certificate Open - Principal Distributions Allowed

Here, the Certificate Type is configured to "Allow" principal distributions. In this case, the MSR needs to check this box to reveal the principal distribution fields.

Session 0 CU*BASE GOLD - Create/Open New Certificate

Create/Open New Certificate

Account # [REDACTED] - 300

CD type 13 40 MONTH CERTIFICATE

CD amount 95,923.02

Issue date Jan 06, 2011

Maturity date May 06, 2014 [MMDDYY]

MARY Q MEMBER
123 MAIN STREET
ANNV CITY MI 49000

Joint owner/beneficiaries

How Should the Dividends be Paid?

Dividend disburse code 1 = Addback

Dividend payment/transaction frequency M = Monthly

Dividend rate 3.930 %

Dividend variable rate code

Should the Member Receive a Principal Distribution?

Yes, the member should receive a principal distribution

How Should the Certificate be Handled at Maturity?

Renewal code 3 = Check Check will be made payable to member.

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If the Certificate Type "allows" principal distributions, the MSR needs to check the box in front of "Yes the member should receive a principal distribution" in order to reveal the principal distribution fields. Then the certificate opening is handled in the same manner as mentioned earlier.

Certificate Open - Principal Distribution Checkbox Selected

Now that the box is checked, the principal distribution fields appear.

Session 0 CU*BASE GOLD - Create/Open New Certificate

Create/Open New Certificate

Account # [REDACTED] - 300

CD type 13 40 MONTH CERTIFICATE

CD amount 95,923.02

Issue date Jan 06, 2011

Maturity date May 06, 2014 [MMDDYY]

MARY Q MEMBER
123 MAIN STREET
ANNV CITY MI 49000

Joint owner/beneficiaries

How Should the Dividends be Paid?

Dividend disburse code 1 = Addback

Dividend payment/transaction frequency M = Monthly

Dividend rate 3.930 %

Dividend variable rate code

Should the Member Receive a Principal Distribution?

Yes, the member should receive a principal distribution

Principal amount to be distributed to the member each dividend payment period 0.00

Principal distribution method 3 = Check

How Should the Certificate be Handled at Maturity?

Upon maturity, certificate will make one final principal distribution as instructed above and close.

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Certificate Type Configuration Principal Distributions Not Allowed

Session 0 CU*BASE GOLD - Create/Open New Certificate

Create/Open New Certificate

Account # 1075 - 000 MARY Q MEMBER
CD type 07 24 MONTH CERTIFICATE 123 MAIN STREET
CD amount 500.00 ANVCITY MI 49000
Issue date Jan 06, 2011 Joint owner/beneficiaries
Maturity date Jan 06, 2013 [MMDDYY]

How Should the Dividends be Paid?

Dividend disburse code 1 = Addback
Dividend payment/transaction frequency M = Monthly
Dividend rate 0.300 %
Dividend variable rate code

How Should the Certificate be Handled at Maturity?

Renewal code 1 = Auto Renew
Renewal CD type 07
Renewal incentive 0.000 %
Renew only this amount 0.00 and put the rest in - 000

Post F5
Cancel F7
Bypass F8
Procedures F21
Pay To F22

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This Certificate Type configuration does not allow principal distributions so the text is absent from the screen.

If the Certificate Type does not allow for principal distributions, the principal distribution fields will not appear on the screen.

ROLLING FUNDS INTO A CERTIFICATE THAT ALLOWS DISTRIBUTIONS

When redeeming the original certificate, an MSR can roll over funds into a certificate with a Certificate Type that allows for (or requires) principal distributions. If the original certificate had a principal distribution, this information appears in the original certificate information section. On the Redemption Options section, a “Princ distrib amount” field allows for the entry of a principal distribution amount for the newly created certificate.

If the original certificate had a principal distribution amount, it would appear here.

This newly selected Certificate Type allows or requires principal distributions so this field is available to enter a distribution amount.

The screenshot shows a web application window titled "Session 0 CU*BASE GOLD - Certificate of Deposit Redemption". The main heading is "Certificate of Deposit Redemption".

Account Information:

- CD account #: -300
- CD account type: 05 12 MONTH CERTIFICATE
- IRA plan type: [blank]
- Member Name: JOHN O MEMBER
- Address: 123 EASY STREET, ANN ARBOR, MI 49000
- Current CD rate: 0.100
- Original CD amount: 10,000.00
- Total dividends: 0.00
- Dividend withdrawn: 0.00
- Date issued: Jan 06, 2011
- Maturity date: Jan 06, 2012
- Date opened: Jan 06, 2010

Balance Table:

Current balance	10,112.30
Accrued dividends +	0.00
Accrued benefit +	0.00
Dividend withholding -	0.00
Penalty amount -	0.00
Total CD payout =	10,112.30
CD redemption amount -	10,112.30
New CD balance	0.00

Redemption Options:

- Check amount: 0.00
- Transfer amount: 0.00
- IRA/HSA:
- New CD amount: 10,112.30
- Transaction amount: 10,112.30
- Pay benefits:
- New CD type: 13
- New CD rate: (Blank for default)
- Reason code:
- Princ distrib amount: 0.00
- IRA deposit code:

Navigation: Backup (F3), Post (F5), Penalty calculator (F11)

Footer: FR (1467) 1/06/11 13:47:42 | Learn About This Feature

TRANSACTION HISTORY, INQUIRY AND UPDATE SCREENS

The Transaction History screen lists the distributions as a separate line item, separate from the dividend amount. Both are posted at the same time.

Transaction History Screen

Transaction Inquiry CERTIFICATE

Account # CERTIFICATE Current balance **970.00**
 Name Available **.00**

Search by: Date [MMDDYY]

Date	Amount	IRA CD	Balance	Description	Transfer Acct	ID	Print Receipt
Jan 05, 2011	0.97		1,000.97	DIVIDEND EARNED		-7	
Jan 05, 2011	0.97		1,000.00	DIVIDEND TRANSFER	-000	-7	
Jan 05, 2011	10.00		990.00	PRINCIP DISTRI	-000	-7	

Both the Inquiry and Update views show the principal distribution information.

Inquiry

Member Account Inquiry

Account # Date opened **Jan 06, 2011**
 G/L account **908.02-08**

Account type **300 CD CERTIFICATE**
 CD type **13 40 MONTH CERTIFICATE**
 IRA plan type
 Principal Distributions are Required
 Rate bumped **0** of **0** times

Current balance **95,923.02**
 - Secured **0.00**
 - Penalty **0.00**
 + Accrual dividend **0.00**
 = Redemption **95,923.02**

Current rate **1.222**
 Daily accrual **3.21**
 Original purchase **95,923.02**
 Last rollover balance **0.00**
 Partial renewal amount **0.00**
 Principal distribution amount **222.75**
 Renewal code **2 Transfer**
 Tnsfr/redempt/princ distrib account **1075-000**
 Term dividend earned **0.00**
 Term dividend withdrawn **0.00**
 Available dividend **0.00**

MSR ;Y
 Frozen **0 NO**
 AFT **N** IRA **N** Payroll **N**

Variable rate code
 Original purchase **Jan 06, 2011**
 Last renew/roll **Jan 06, 2011**
 Present term **01**
 Current maturity **May 06, 2014**
 Renewal incentive **0.000** Type **13**
 Dividend disburse code **1 ADD DIV. TO CURRENT**
 Dividend transfer account **000000000-000**
 Dividend frequency **MONTHLY**
 Calc method **DIVIDEND COMPUTED ON BALANCE**
 Penalty code **Days 0**
 Current YTD dividend **0.00**
 Accrued club benefit **0.00**
 YTD club benefits **0.00**

Transaction inquiry date [MMDDYY]

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Update

The certificate distribution amount or distribution account is updated here.

Changes to the principal distribution fields in Update require Tier 2 Security (as shown above).

As mentioned earlier, principal distribution checks are mailed to the same address as dividend checks. This Pay To: address is by default to the primary address on the account. By clicking the Set Div Checks Pay To/Address button, a credit union employee can change the Pay To: address for checks that are distributed by principal distribution

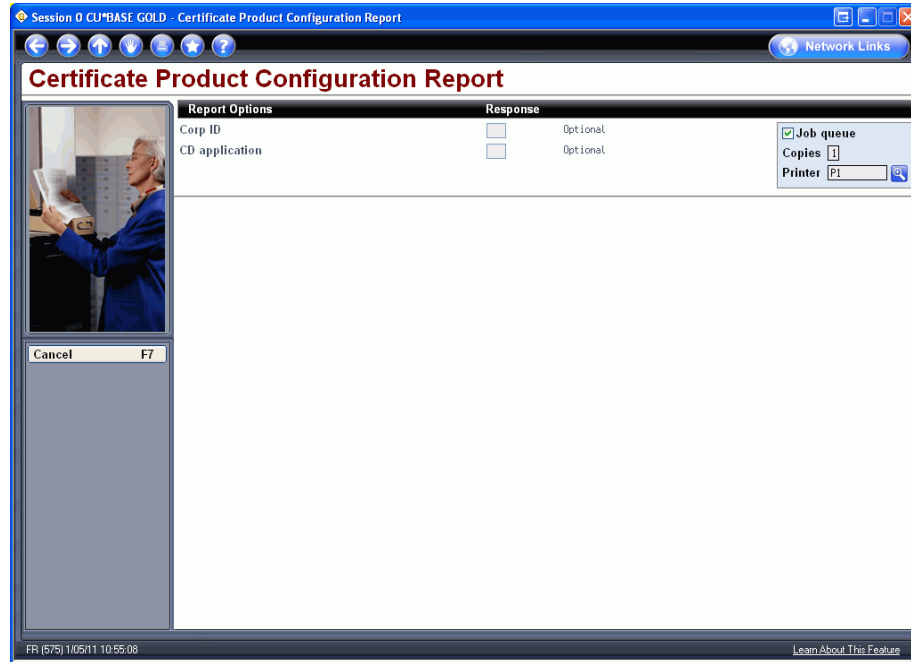
- NOTE: This address is also used for the distribution of dividend payment checks.

REPORTS

Certificate Product Configuration Report

A CU*BASE Report, the Certificate Product Configuration Report, lists whether a Certificate Type allows principal distributions.

MNCNFA #20 - Print CD Configuration Report



Whether the CD allows principal distributions is listed here.

1/05/11 10:56:40		TEST CREDIT UNION				LCDCFG		Page												
RUN ON 1/05/11		CERTIFICATE PRODUCT CONFIGURATION REPORT						1												
		AS OF 1/05/11						User												
Corporate ID - ALL CORPORATIONS																				
CD APPLICATIONS																				
APPL				DIV PMT	DIV CALC	FIRST DIV	ACCOUNT	TYPE												
TYP	DESCRIPTION			FREQ	TYPE	PMT	LOW	HIGH												
CD	CERTIFICATE			M	C	I	300	350												
CQ	CERTIFICATES - TC			Q	C	F	300	325												
CR	IRA MARKET INDEX CERTIFICATE			R	C	I	400	450												
IR	IRA CERTIFICATE			M	C	I	400	450												
SS	2009 SAVE TO WIN			Q	C	I	45	45												
ST	2010 SAVE TO WIN			Q	C	I	46	46												
CD TYPES																				
CD	CD	ALLOW		BUMP	-LENGTH-	----PENALTY----	----GENERAL LEDGER----		ADD LAST											
TY	CO	APL	IRA	PR	DIST	DESCRIPTION	TIMES	DAYS	MON	CODE	DAYS	GRACE		CERT	PNLTY	ACCR	EXP	IRS	\$	FORM
01	01	CD	N		7	MONTH CERTIFICATE	03	7			10			90802	13100	83020	34050	Y	Y	CD07
02	01	CD	N		3	MONTH CERTIFICATE	01	3			10			90802	13100	83020	34050	Y	N	CD02
03	01	CD	A		6	MONTH CERTIFICATE	02	6			10			90802	13100	83020	34050	Y	N	CD02
04	01	CD	N		9	MONTH CERTIFICATE	00	9			10			90802	13100	83020	34050	Y	N	CD02
05	01	CD	N		12	MONTH CERTIFICATE	00	12			10			90802	13100	83020	34050	Y	N	CD02
06	01	CD	N		18	MONTH CERTIFICATE	00	18			10			90802	13100	83020	34050	Y	N	CD02
1/05/11 10:56:40																				
RUN ON 1/05/11																				
				TEST CREDIT UNION				LCDCFG		Page										
				CERTIFICATE PRODUCT CONFIGURATION REPORT						4										
				AS OF 1/05/11						User ALYCIAM										
Corporate ID - ALL CORPORATIONS																				
CD TYPE	DESCRIPTION	RATE	MINIMUM	MAXIMUM																
71	3 MONTH IRA CERT	.050	500.00	99999.99																
72	6 MONTH IRA CERT	.050	500.00	99999.99																
73	9 MONTH IRA CERT	.100	500.00	99999.99																

Two CUSPY Daily Reports assist credit unions who have certificates allowing principal distributions. These reports are generated with the dividend posting reports at Beginning of Day.

Certificate Principal Distribution Report

1/06/11 10:00.53		TEST CREDIT UNION				TBCDTB6	PAGE	1
RUN ON 1/06/11		CERTIFICATE PRINCIPAL DISTRIBUTION REPORT					USER	
							** PRIN DIST	*
ACCOUNT	CD TYPE	CD BALANCE	PRIN DIST AMT	RESULTING BALANCE	CERTIFICATE PROCESS	PRIN DIST METH	TRANSFER ACCT NO	
45001-300	25	980.00	10.00	970.00	PRIN DIST TRANSFERRED	2	45001-000	
TOTAL PRIN TRANSFERRED			10.00 /	1 ACCOUNTS				
TOTAL PRIN PD BY CHECK			.00 /	0 ACCOUNTS				
GRAND TOTAL			10.00 /	1 ACCOUNTS				
END OF REPORT								

The Certificate Principal Distribution Report (TBCDTB6) lists the principal distribution information.

Certificate Processing Exceptions

The Certificate Processing Exceptions Report (TBDTB3) lists, among other exceptions, instances when there were not enough available funds to process the principal distribution payment. This may occur due to insufficient funds, funds being frozen, or because funds are being used as secured funds. Refer to page 3.

1/05/11 15:06.35		TEST CREDIT UNION				TBCDTB3	PAGE	1	
RUN ON 1/05/11		CERTIFICATE PROCESSING EXCEPTIONS					USER		
ACCOUNT NO.	TRANS ID	TR DATE	C/D AMOUNT	TRAN TYPE	DEPOSIT	WITHDRAW	PREVIOUS BALANCE	CURRENT BALANCE DESCRIPTION	TRACER
45001-300	SH-00034	1/05/11	980.00		** FUNDS NOT AVAILABLE FOR DISTRIB **			980.00 PRINCIPAL DISTRIB	45001-0
END OF REPORT									