

# A Cash Management Primer



# Cash Management Toolkit



## **BACKGROUNDER**

### **Cash Management—Round Two**

Cash Management. The term sounds simple—but until now, delivering the products was not. Round one—financial institutions were understandably reluctant to enter the profitable electronic world dominated by mega-banks. Deploying systems was expensive and required a skilled technical staff to achieve any measure of success. Round two—the Internet is the great equalizer.

Cash Management products and services are now available to all financial institutions, regardless of size. Internet delivery and access have driven down the cost of doing business over an invisible electronic highway. The smallest institutions are now offering robust, but complex systems, such as real-time Remote Deposit Capture and Positive Pay. Institutions have learned that if they adapt a "Rent it—not build it" mentality they can provide high-tech products through powerful outsourcing partners.

Commercial customers do not really care about the glitzy labels we put on products—they want accurate, fast, inexpensive information to manage their companies. They want to get through with the paperwork and go home. Family time is important to most business owners and they look for ways to decrease their workload, but not lose control over the balance sheet.

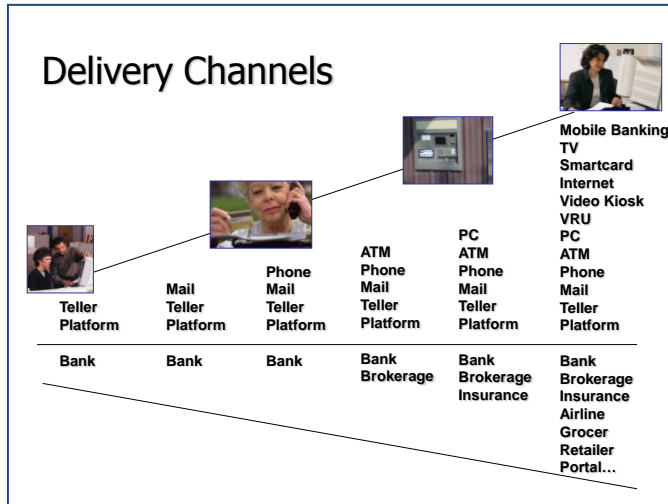
We all know how important managing cash is to a company. For a CEO, few things are allowed to come before managing the company's cash flow. Projecting and managing cash positions are a CEO's commitment to survival and expansion. Equally important, excess cash represents a wasted opportunity to increase earnings. Cash Management products provide the tools to reduce the time it takes to manage the endless stream of paperwork.

Several products contribute to labor savings and tighter fiscal controls: remote deposit capture, ACH debit and credit, positive pay, online transfers, sweeps, bill payment, downloading transactions into reconciling systems and Internet statement delivery. These are products that have proven Internet Cash Management delivered on its promise of providing new services that strengthen customer retention and lower operating costs—a difficult scenario for any technology to deliver.

Tom Houston, Author

## Foundation of Cash Management

The ultimate goal of the Cash Management movement is not in offering simple ACH Payroll services, but in the total transformation of banking as we know it; change that is strong and irreversible.



In the financial industry, new channels are continually added and most have a positive impact on customer service and expense control. With Online Banking, we get these benefits—plus a half-dozen new Cash Management products and services.

While some nay-sayers still focus on the dot-com bust of the '90s, most bankers look optimistically at the Internet as a powerful delivery channel that can be as secure as an ATM network—but less inexpensive to operate. The key to harnessing the power of the Internet is to replace outdated technology with advanced systems that were specifically

designed to communicate quickly and securely through cyber space—and it is being done every day.

### eMail Marketing – Commercial and Non-Commercial

#### Out with Old Technology.

There are still hundreds of banks trudging along with first generation Online Banking systems. Considered modern in the late '90s and early '2000, these systems are expensive to operate and do not



provide adequate interfaces, such as advanced check image research or the ability to memo-post transactions, send email alerts and notifications or update General Ledger with appropriate entries.

Interfaces are the most understated component in electronic banking and are, in many cases, the difference between a profitable or unprofitable system. When you have to factor in a half-time employee to overcome the lack of an automated interface, the cost and opportunities for error is terribly expensive.

#### Getting Started

Although there are dozens of reasons to deliver documents over the Internet, the most compelling may be postage and labor savings using E-Mail. The Houston Chronicle reported on October 20, 2010 that it cost about \$2.69 versus 10¢ for an Internet delivered statement and unlike postage increases common with paper statements — Internet costs tend to remain flat. Another key benefit of Internet statements is that it

gives the customers another reason to visit the bank’s website and every trip to the site is an opportunity for marketing. Many financial institutions have converted a small number of customers for electronic delivery and are now ready to accelerate their conversion of paper documents for statements, notices and other types of required mailings. Generally, if it is generated during the nightly update – it can be electronically delivered.

<p><b>Electronic Delivery eDocuments</b></p> <ul style="list-style-type: none"><li>Statements</li><li>Annual Privacy Notice</li><li>Annual ATM Safety Notice</li><li>Annual Reg E notice</li><li>Notice of Security Breach</li><li>Any other required notice that could include: ODP, Fee Changes to Agreements, etc.</li><li>Changes in Terms &amp; Conditions</li><li>Reg DD , Truth-in-Savings</li><li>Account Brochures</li><li>New Product Announcement</li><li>Board Packages</li><li>Stockholder communications</li></ul> <p><small>Note: All Documents are Vendor Dependent</small></p>
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A decade ago, the American Bankers Association’s 2000 postal study reported that banks’ first class postage for statements represents 69% of all bank postage. Unfortunately, 74% of bank customers do not use their checking account statements, according to a Maritz Marketing Research report. This creates millions of dollars in wasted labor, supplies and postage.

The naysayers sometimes point out that some customers do not have Internet access, but most

likely many of those same people do have cell phones and cable televisions, which is another set of devices being used or studied for delivering financial information.

### **Competitors are Driving Online Banking**

Although there are numerous reasons to implement Cash Management, the real driver is pressure from competitors. With geographic boundaries virtually eliminated, mega-banks can afford to focus on smaller, less profitable prospects—mainly community bank customers. Economies of scale favor large banks and the cost of product delivery decreases with each new channel. For example, when Wells Fargo Bank reached ten thousand customers with their Online Banking product, it probably meant ten teller positions were eliminated. Multiply that efficiency by five hundred thousand customers and the economies of scale become significant. The message is clear—provide electronic products and services or lose valuable, hard-won customers.

### **New Technology is Expected**

Business owners and managers in their mid 30s to 50s, commonly referred to as “Generation X,” expect banks to offer online products and services. They have grown up in an electronic world and most take technology for granted. One needs only to look at the success of such behemoth Internet service providers as Google and YouTube to understand the impact of Internet technology.

The Internet has transformed customer service into a multi-media, email, interactive emergency room. “User Friendly” is no longer a cliché, but a requirement for survival. When a savvy business owner has a problem with their workstation, they can log on to the Internet, email the problem to Repair Central, and within a few minutes receive a bulletin that graphically shows them how to fix the problem. It is a sure bet that once someone is successful in fixing one problem from Internet-provided assistance, this will be his or her first approach for all future problem solving. Community banks will someday adopt the practices of Internet Customer Service, providing interactive assistance and “Chat Room” environments.

Huge investments have been made in other industries that cross over into banking in the form of electronic acceptance. Most schools have augmented traditional classes with Internet-based learning. On-demand mathematics or French is a simple mouse click away. Colleges use Internet video technology for remote campuses, which allows access to central campus classrooms and professors. It is not uncommon for colleges and universities to offer Internet-only classes. Although the main purpose is education, this method also conditions graduates to believe that electronic products are the norm.

Public schools and colleges have kept records on digital media for years. Most colleges and universities offer free or limited-cost access to the Internet for students and faculty. The world of academics encourages the use of experimental technology that can aid students and faculty in the pursuit of higher quality research and collaborative efforts.

Since 1981, when PCs first became widely available to the public, consumer acceptance has risen at an incredible rate. Younger customers see Internet Banking as a natural extension of high school and college electronic learning experiences. The “boomer” generation, now on their fourth or fifth PC, has found extra leisure time by banking at work. Senior citizens are not to be left out, either. Senior citizens are finding that Internet Banking allows them the freedom to travel and still maintain tight control over their finances—which may be important for a good night's sleep.

## **Electronic Security**

Security is discussed in detail later in the “Security Chapter.” In this section, we want to cover several key issues, as opposed to overall practices.

Numerous studies have shown that there are three key issues preventing larger adoption of Online Banking. Each of these should be addressed during the Cash Management launch to ensure commercial customers understand that the bank is proactive about security.

1. Procedures used by the institution are adequate to protect commercial and consumer information:
  - Gramm Leach Bliley Act
  - Information Technology Audits
  - Penetration Testing
  - Security Operating Policies and Procedures
  - Firewall and Unauthorized Access Monitoring
  - Strict Policies Regarding Security Maintenance of Systems and Equipment
  - Multi-Factor Security
  - Special Training for All Employees
2. Identity Theft Prevention:
  - Statement Stuffers describing methods used for preventing Identity Theft
  - Website Information
  - Red Flag procedures and audits
  - Tips for preventing Identification Theft
3. Indemnification Policy of Bank for customer protection:
  - Regulation E
  - “Zero Liability” from VISA and MasterCard debit and credit cards
  - FDIC Insurance
  - Uniform Commercial Code (UCC)

Several viable approaches are available to convey a strong and clear message to commercial customers that the security issues are actively addressed by several ongoing programs. The marketing media should include website infomercials, lobby posters, statement stuffers and direct mail. Commercial customers and prospects have to feel that online transactions with the financial institution are as safe as coming to the main office.

## **New Epoch in Item Processing**

Around 1995, check volumes in the United States peaked and started to decline. According to the Federal Reserve Bank<sup>1</sup>, the exact year is not known. What is known is that the Federal Reserve Bank is quickly adjusting to the electronic era.

*“Minneapolis, Minn., November 6, 2008--The Federal Reserve Banks today announced that the Federal Reserve Bank of Cleveland will serve as the single paper check processing and adjustments site and that the Federal Reserve Bank of Atlanta will serve as the single electronic check processing site for the Federal Reserve System. The Reserve Banks also announced they will utilize a flexible restructuring schedule that scales back or shifts operations at their other sites when paper check volumes no longer justify the existing operation.”<sup>2</sup>*

In support of financial institutions, the Fed is focusing on new marketing initiatives that are aggressively pushing Check 21 image processing. The Fed was slow to bring their full resources to bear with Check 21 because they were reengineering the agency. Around mid-2007 they started getting traction on becoming a player in the new game of image management. However, they found themselves competing with advanced technology companies such as Fidelity, Fiserv, Jack Henry and CSI. Companies with decades of item processing experience and very large and loyal customer bases. Additionally, mega-banks had created clearing agents including Viewpointe and SVPCO. All of these companies had a clear vision of where item processing was headed.

## **Check 21—a Wakeup Call**

“Foster Innovation” was the statement that helped create a new era in Item Processing. For 2 ½ days following 9/11, checks waited to be delivered on airplanes across the country. While the planes were idle, the U.S. economy ground to a halt and many businesses were unable to meet payroll deadlines and invoices were unpaid because the funds, in the form of checks to be deposited, could not be flown to the paying banks for deposit.

When congress directed the creation of an image exchange system—their focus was on financial institutions—not Merchant Check Capture. They wanted to ensure that the consequences of stalling out the flow of checks from the Bank of First Deposit (BOFD) to the Paying Bank (PB) never happened again.

For the banks that have waited to implement Check 21, now is the time to move forward or face the real probability of losing customers that prefer to capture their own items rather than drive to the bank. In the Remote Deposit Capture Chapter we will discuss this product in detail.

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<sup>1</sup> 2003 Federal Reserve Bank Report to Congress

<sup>2</sup> <http://www.federalreserve.gov/newsevents/press/other/20081106a.htm> (accessed April 2, 2010)

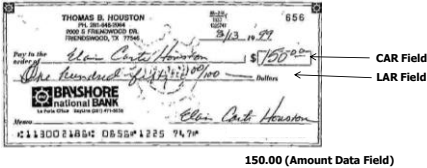
## Courtesy Amount Recognition/Legal Amount Recognition

The amount of a check has to be read and recorded in such a way that the computers that handle the check know the location of the paying bank of the customer that wrote it. For decades, banks have relied on Proof Operators (people who read the checks and type in the amount of the check either physically on the check or electronically). This process creates an electronic attachment that stays with the check throughout the item process and is stored with it in the electronic archive.

Courtesy Amount Recognition (CAR), and Legal Amount Recognition (LAR), have made significant strides in improving their ability to read handwriting and pre-printed check amounts. This reduces the checks that must be manually proofed to less than 20% of the total checks processed by a financial institution that has CAR/LAR implemented. The 80%+ of checks that can be electronically proofed means a significant savings in labor costs to the institution.

### Courtesy Amount Recognition (CAR) Legal Amount Recognition (LAR)

1. The program reads the LAR and CAR Fields in their designated location.
2. The program ensure that the reading parameters are within specified tolerances for errors.
3. If the parameters are within tolerance – the amount read is stored as part of the check image.
4. If the parameters are not within tolerance – the amount field is rejected and must be corrected by a Proof Operator.



150.00 (Amount Data Field)

CAR is a program that reads the amount written in the courtesy amount box, while LAR reads the legal line and electronically encodes the item, thereby eliminating the need for a proof operator to type the amount on the item.

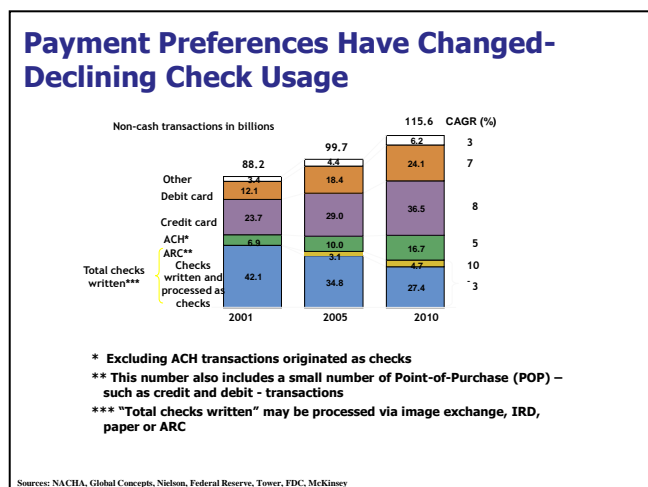
Swapping high labor costs for a low cost advanced computer system really makes a lot of sense and when the customer performs the work normally done by Item Processing personnel—it really makes a positive jump in the ROI.

CAR/LAR is now being deployed daily with Remote Deposit Capture systems across the U.S.

CAR/LAR may seem like an over-kill of technology for small businesses that may only have twenty checks, but it gives the user the feeling of having advanced technology, which earns merits for the vendor. Widespread deployment of CAR-LAR is prevalent because the cost for deploying this advanced software has plummeted during the past five years. A very large pool of business prospects means vendors can sell the program for much less and still reap large profits.

## Business and Consumer Preferences

The chart below graphically demonstrates the measurable preferences of businesses and consumers. Electronic transactions clearly rule the day.



“Other” transactions is the top transaction type and represents Gift Cards. Although growth is relatively small, it stills shows year-over-year increase.

“Debit Card” needs no explanation, as they are the most explosive product used in Banking for two decades.

“Credit Card” continues to grow even in a down economy and there is no reason to think the popularity of credit cards will ever subside.

The only transaction set noticeably declining is checks. These transactions will continue to decline by an estimated 6% - 8% per year, according to the Federal Reserve Bank. The decline in check volumes is no surprise to financial managers—it is directly attributable to the success of electronic transactions such as ACH and Debit Cards. At the teller window, check volumes will be further reduced by Remote Deposit Capture, which will cause over-the-counter checks to drop another 20% - 25% per year for the foreseeable future. As the Remote Deposit Capture technology gains full acceptance nation-wide, check processing slowly moves from an internal function to “self service” by customers.

### **Is the Timing Right for Cash Management?**

The short answer to this question has to be yes—based on business and consumer acceptance. From the banker’s perspective—it is past due. Cash Management is a win-win suite of products services that only advanced technology could deliver.

## **Cash Management Basics**

### **Typical Approach**

Although Cash Management has a solid background for generating revenue and customer retention, many financial institutions have been slow to embrace the electronic suite of products and services. Many managers are leery about making the investment in Cash Management and others are concerned about the unknown risks. Consequently, the approach for many of these institutions is to limit implementation to ACH Payroll for local schools, utilities or large medical facilities.

### **To Charge or Not to Charge?**

There are few questions that are as difficult to answer as how to charge a business customer that does not want ACH or Wire Transfer, but only the most basic feature of Cash Management—Balance Reporting. The fact is—most bankers would rather give away Online Banking than push for a Cash Management charge. It is only wishful thinking that financial institutions can charge for Online Banking and Bill Pay. But the mega-banks lowered the bar more than a decade ago when they first felt push-back from customers over price. Instead of addressing the objections with better explanations of the many benefits that were part of Online Banking and Bill Pay—they quickly caved and started giving them away. Once a product or service is free from any mega-bank, every other institution will fall in line and give it away.

### Consumer Online Banking Module

Most systems come with two versions of Online Banking: Consumer Module and Business Module. The Consumer Module is usually packed with features and benefits, which ensures success with the bank’s consumer customers. Balance Reporting is the most popular feature and allows users to better manage their cash flow and answer the most frequently asked question, “What is my balance?” Typically, the products that separate the consumer module from the business module are ACH and Wire Transfer. Although this limited menu may be seen as a drawback—it gives the institution a golden opportunity to up-sell additional products and services. In sales, there is nothing easier to sell than an existing customer.

## Fear of Pricing

Unfortunately, too many sharp managers get the jitters when it comes to pricing. They are afraid they might look “too high” and they might lose a prospect. Before, and every year after you launch Cash Management—you and your sales representatives should participate in an in-house Cash Management Sales Workshop. In the Workshop encourage everyone to think big, successful—Rah-Rah. A sales culture is different from an auditing department and needs to be developed by a team that really understands customer relationships.

According to Zig Ziglar, National Sales Trainer, “Timid salesmen raise skinny kids.” Most successful sale representative love big ticket items. Bigger the better and they are not the least bit afraid of demonstrating why the benefits of a Cash Management System are worth the price. If they are afraid—something is wrong with your product line or the sales representative. These problems should be worked out before you launch your program or it will be a disaster.

## **Downloading and Uploading**

Many banks mistakenly think that their customers frequently use “Downloads” for Personal Finance Managers (PFM): Intuit’s Quicken™ and Microsoft’s Money™. Actually, relatively few customers use either system. The more desirable download is Quickbooks™, which is the #1 accounting system in the U.S. However, unlike PFMs, Quickbooks interfaces are a lucrative line of business for Intuit.

All major Cash Management systems have a direct interface from their ACH module to accept transactions in ACH format. However, for a financial institution to interface into Quickbooks, the institution must pay an annual fee to Intuit. The fee for Quickbooks is typically negotiated by the institution’s Cash Management vendor, who represent hundreds of institutions, and therefore, can get a more favorable fee to use the Quickbooks interface. If the institution pays the annual fee, their customers can upload ACH files into Quickbooks and download transactions electronically. Many financial institutions choose not to pay the Quickbooks interface fee because they do not believe they can sell enough Cash Management customers to warrant it. In fact, the interface for Quickbooks is essential to building a strong foundation for Cash Management, but it creates the traditional “chicken or egg” situation.

## **Power on the Front Page**

For financial institutions that want to use their Consumer Online Banking module to let their business customers get started with electronic Balance Reporting, there is a tremendous amount of sales pzazz embedded throughout the system. Look at the features, products and services and you will see dozens of great features and benefits to advertise. In addition, when you think about the typically low number of business customers, versus consumers, it usually makes advertising inexpensive.

In his powerful advertising book, “Selling the Invisible,” Harry Beckwith has a brilliant section titled, “Once Engaged—Stay Engaged.” Each year, you should lay out a plan to use E-Mail, direct mail, website, posters and relationship calls to engage all of your business customers. As a percentage of your operating budget—the cost is insignificant, but the revenue opportunity is huge. Also, be sure to read the section that addresses keeping “Top of Mind” awareness with customers.

Like so many financial executives, business owners work long and hectic schedules. Getting a note from you each quarter that suggests they read a small explanation about a feature in Online Banking may be just what they need to understand how a feature works and how it can help them. “Controls” are a great example of standard Online Banking and Cash Management, which lets business owners and managers better manage their cash flow. It can help them understand the security your financial institution has built into the system. However, unless the relationship “coach” points it out—they may never know it is there or what it does. Face it—some of the available features are not intuitive and they need to be pointed out to business managers.

Take 5 minutes and look carefully at the front page of your Online Banking system and count the number of times you say “That’s great.” Here are just a few of the nuggets:

Login Counter	Keeps track of the number of times you log in. If the count does not correspond with what it should be—an unauthorized person may be logging in to your accounts.
Alerts	These are powerful “Electronic Monitors” that let you know when an account is low on funds, is overdrawn or has balance that is too high and some of the funds should be moved to an investment account.
Float Management	Different vendors use different names, but it is a display that shows you when uncollected funds will become available. This helps forecast cash flow.
Internet Statement	Delivering a paper statement is expensive and Internet Statement delivers the statement 2-3 days sooner, which is a big deal for many companies. It is not uncommon for a business to send an employee to the institution to pick up the statement as soon as it is ready. Internet Statements solve the delivery-lag problem and are greatly appreciated.

There are dozens of features that deliver powerful and understandable benefits in Online Banking. The key is to communicate them clearly and frequently to all of your business customers.

### **Who Is Going to Sell Cash Management?**

Using loan officers to sell Cash Management has a spotty history of success. Ask a loan officer how he or she feels about selling and most would rather set their hair on fire. The usual response is “loan officers don’t sell—they make loans.” However, a huge number of financial institutions that enter the Cash Management market will assign loan officers as sale representatives. The loan officers never argue with the decision because it is made by the CEO or president and backed by the board, but they know it will never get traction and usually go dormant.

Managers that really understand the loan officer/customer relationship know that a loan officer can pick up the phone and schedule an appointment with a customer within minutes. There is a special bond between loan officers that is different from any other in the institution. That bond is obvious when a loan officer leaves an institution and 30 businesses soon follow him or her to the new institution.

By using loan officers to open doors for professional Cash Management sales representatives—it creates an instant win-win-win situation. The loan officer does what they do best—handle customer relations, the

sales rep gets a “warm call” from a trusted referral source and the customer is relaxed during the initial meeting because they trust loan officers.

### **Salespeople are Different**

Having the right sales force is as critical as having the right products. Most banks err when they assign their most knowledgeable bankers to the sales slots. Extensive years of banking experience does not automatically qualify a person as a successful sales candidate. Selling requires very different training and skills than other areas of the financial institution.

Cash Management salespeople do not have to be experts in banking, but they need a thorough understanding of Cash Management features and benefits.

Salespeople get excited and know how to excite the customer about the products. They make the products personal to the customer; how they can use it, how it relates to the day-to-day running of their business and why it is worth the price they charge.

For years bankers have tried to sell customers the features of a product versus the benefits the customer will receive from the product. You have heard this old saying “you can’t teach an old dog new tricks,” but today's banker must learn new tricks to survive against highly trained sales pros from the mega-banks.

### **Sales Manager is the Key to Success**

Sales people have strong emotional highs and lows and need a sales manager to keep them motivated. This job is not for anyone with less patience than Mother Teresa and less tenacity than Henry Kissinger. Good sales managers are rare—and also very expensive. You can expect to pay a sales manager at least twenty-five percent more than the top salesperson, plus two to five percent commission override on all sales.

The position is responsible for the day-to-day sales activities of the sales team. Although there are several variations of their compensation programs—the main focus has to be developing sales from the team—not himself. Consequently, if your direct sales commissions are too high for the manager, the tendency will be to sell and not to manage and generate sales through other people.

Banks that try the less expensive route by assigning the sales management to a loan officer, or someone who wants to “try it,” usually end up with a frustrated employee who eventually quits—or a mediocre sales team—or both. Sales management is uncharted waters for many banks and hiring a seasoned manager will repay the expense many times over.

Basic or advanced—now is the time to develop a Cash Management program. Businesses will eventually need the products and services of Cash Management and you should make sure they get it from your institution.

## Cash Management Agreement, Schedules and Addendums

The first document in this section is the Master Cash Management Agreement and Schedules. This Master Agreement approach is different from previous Agreements that duplicated many of the legal components and made Agreements voluminous and raised concerns by the customers that equated a large number of Agreement pages to significant legal expense. Most customers simply wanted financial products and services, but not the ominous stack of paper required each time a new product or service was introduced.

It is assumed that most users of this Cash Management Toolkit will sell multiple products and services to a customer. And by consolidating common definitions, articles and elements normally found in individual Agreements into a Master Agreement and referencing them in individual product and service Addendums—it reduces the size of each additional product or service added and may allow easier review of the Addendum. It also makes the administration of Agreements easier.

Although some products and services, such as Account Analysis, do not require an Agreement, we include them because they are an important part of Cash Management. In all products & services—we include a narrative to explain the features and benefits and provide sample marketing materials.

For each of the following products or services, we provide the following:

Narrative, Risk Assessment, Policy, Agreement (where applicable), Forms (where applicable), Training, Legal References, Marketing.



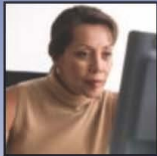















Products and services included:

- Introduction
- Pricing
- Master Agreement
- Account Analysis
- Account Reconciliation
- ACH Origination
- Bill Payment
- Bill Presentment
- Business Debit Cards
- Cash Concentration
- CD-DVD Archive
- Controls and Alerts
- Courier
- E-Document Delivery
- Fraud Detection

- Investment Sweep
- Loan Sweep
- Lockbox Processing
- Online Banking
- Remote Deposit Capture
- Wire Transfer
- Zero Balance Accounting

# CASH MANAGEMENT

*Narratives, Presentations, Marketing Materials, Contracts, & Risk Assessment*

 Merchant Check Capture	 ACH Debits and Credits	 Account Analysis	 Balance Reporting	 Controls and Alerts	 Cash Management Basics
 Positive Pay	 Wire Transfers & Stop Payment	 eStatements	 Bill Presentments	 Mutual Funds Sweeps	 Repurchase Agreements
 Bill Payment	 Lockbox Processing	 Financial Literacy	 Health Savings Accounts	 Zero Balance Accounting	 Credit Repair

*T. Houston Technology Group can provide everything your company needs to be successful with Cash Management. From Marketing Materials to Risk Assessment, we do it all! Call Tom Houston at (281) 756-0409 for more information.*