BBW News

a publication of Bankers' Bank of the West ▪ www.bbwest.com ▪ May 2009

A MESSAGE FROM THE PRESIDENT

Strategic partner reports progress in supporting bank leadership

Bill Mitchell
BBW President and CEO

With interest rates at historic lows and the financial markets yet to determine where our economy is headed, having a strategic partner to assist in formulating asset/liability and capital market strategies can be very helpful—if not indispensable—to any community bank. The formation of BBW Capital Advisors through the partnership of Bankers' Bank of the West and de Koning and Company late last year has provided community banks a real benefit in meeting those very needs.

In addition to deep experience and a robust selection of products and services, what sets BBW Capital Advisors apart is its approach to bankers as partners as opposed to transaction-driven customers. With offices in Lincoln and Denver, the firm is attentive to the special needs of western community banks.

Bankers' Bank of the West is pleased to announce that BBW Capital Advisors is now providing services to a growing number of banks in our market area, as 14 banks in the first quarter of 2009 alone began receiving the firm's guidance in these areas:

- Investment portfolio advisory
- Brokered certificates of deposit
- Bond portfolio accounting
- Asset/liability measurement and management
- Bank-owned life insurance (BOLI)
- Bond sales/trading
- Strategic advisory (M&A)
- Executive benefits consulting
- Rate hedging

We expect the number of banks utilizing BBW Capital Advisors will continue to climb as bank executive officers not only formulate game plans for navigating through the current economy but also determine their strategic direction.

You will be hearing more about BBW Capital Advisors over the coming months through their mailings, emails, and trade convention participation. If you are not already on the email distribution list for the firm's informative and complimentary *Market Monitor* publication, I encourage you to subscribe by emailing your request to *admin@bbwcapital.com*. In any event, let Kendrik de Koning and his team know how they can be of assistance.

Along the same lines, I urge you to call on us at Bankers' Bank of the West with any banking needs or questions. We welcome every opportunity to support the long-term success of your bank and thank you for your business.

Inside

Notes and news

Groundwork for better-informed dialogue

Massive confusion over the causes of the current economic predicament has stirred up an undeserved wave of mistrust and ill will toward the banking industry as a whole. An assortment of analysts, journalists, academics, and finance experts are trying to bridge the disconnect between reality and perception by sharing facts and perspective through traditional media. Many organizations representing the banking industry have initiated outreach efforts as well.

A public education campaign launched by the Colorado Bankers Association (CBA) in February makes available reference materials for bankers in any corner of an organization to use in various settings—from casual chats with customers at a branch to speaking engagements at local chambers of commerce or service organizations. Additionally, CBA can furnish opinion/editorial material to Colorado bankers wanting to communicate with public officials or submit commentary to local media.

The goal of the multifaceted public education campaign is to restore public trust and confidence in the banking industry. As an industry advocate, CBA welcomes inquiries about the campaign from bankers both in and outside Colorado, or from associations seeking to learn more. Contact Tim Powers, CBA Director of Communications, at 303-825-1575.

Industry events ahead

Arizona Bankers Association Convention
June 14-16 ▪ Royal Palms Resort
Phoenix, Arizona
azbankers.org ▪ 602-258-1200

Five-state Bankers Convention
June 28-30 ▪ Grand Hyatt Hotel
Denver, Colorado
montanabankers.com ▪ 406-443-4121

Utah Bankers Association Convention
June 29-30 ▪ Grand America Hotel
Salt Lake City, Utah
uba.org ▪ 801-364-4303

BBW News is published by Bankers' Bank of the West as a service to respondent banks. Online versions are available at **bbwest.com**. Related correspondence should be directed to:

Bankers' Bank of the West
Attention Jackie Tall
1099 Eighteenth Street, Ste. 2700
Denver, Colorado 80202
303-291-3700
Or email ***jtall@bbwest.com***

Keep growing deposits in tough economic times

Ivan Gomez, Client Development Associate
LendingTools.com

Community banking has long been a cornerstone of the financial services industry. Through conservative practice, smart business decisions and a dedication to personal relationships, community banks are positioning themselves to have a very strong 2009 by staying the course that has allowed independent institutions to flourish despite the recent economic downturn.

In fact, according to a 2009 survey generated by the Independent Community Bankers of America and the advisory firm Aite Group, LLC, 55 percent of community banks surveyed saw an increase of deposits as a result of new customer acquisition. With this influx of additional customers, is your bank prepared to offer the type of business banking technology needed?

Community banks have recently turned to technology to establish nontraditional methods of solidifying current and potential business while continuing to search for ways to increase revenue in a highly competitive market. According to the research and advisory company Celent, analysts predict customers will soon expect from community banks the same technology offerings they can get from mobile banking through big banks—services like remote deposit capture and others.• Given this trend, services like ACH origination, wire transfer and remote deposit capture have become instrumental for retaining and increasing customer deposits—and more important than ever to solidifying a bank's business customer base.

So how does a financial institution implement these services with limited resources? Many are turning to outsourcing, increasingly favoring the software as a service (SaaS) model rather than software licensing, which requires capital expenditures, noted Aite Group analyst Gwenn Bezard. By utilizing the SaaS model, banks can stay competitive while keeping costs down.

Since 2003, Bankers' Bank of the West has utilized the LendingTools.com correspondent suite known as Bankers Internet Data System, or BIDS—a solution provided as a SaaS. LendingTools.com provides the same service to community banks through the Business Service Suite. Also delivered as a SaaS in the community bank's own brand, the Business Services Suite provides community banks the tools needed to compete with and stay ahead of the competition. Services including ACH origination, wire transactions, account balances, sweeps, and Remote Deposit Capture equip community banks with the technology to accommodate the most demanding business customers. Best of all, if you are a current BIDS customer, transactions created by your customers can be automatically routed into the BIDS console, providing a seamless transaction flow for the parties involved.

For more information on the Business Service Suite, call your Bankers' Bank of the West cash management officer or visit **lendingtools.com**.

LendingTools.com has been an endorsed alliance partner of Bankers' Bank of the West for five years.

•Bart Narter, senior vice president of Celent, "It Takes More Than a Village: The Decline of the Community Bank," 2009.

Centralized Compliance—Not Just for Large Institutions

Kris Welch, CRCM/CAMS
Ascella Compliance

A compliance program is only as strong as its weakest component. When determining whether centralized compliance is the right decision for your bank, consider the elements addressed in the Federal Reserve System Supervisory Letter SR 08-8; "Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles," issued October 16, 2008. The guidance states: "Organizations supervised by the Federal Reserve, regardless of size and complexity, should have effective compliance risk management programs that are appropriately tailored to the organizations' risk profiles."

Compliance risk is more complicated to assess than credit or market risk, so how do you determine the bank's compliance risk profile? Although the guidance is addressed to large financial institutions, banks of every size should consider the following in centralizing compliance oversight:

Enterprise-wide Compliance Risk Management Oversight

The guidance recommends institutions develop a compliance risk management program that establishes a framework for: 1) identifying, 2) assessing, 3) controlling, 4) measuring, 5) monitoring, and 6) reporting compliance risk as well as 7) providing training.

Even though the Fed guidance is not directed to small, less complex institutions, all banks regardless of size should recognize that a big-picture view is essential to understanding the overall risk posed to the institution. Your compliance program should be tailored to the identified scope, complexity and risk profile of your bank.

Independence of Compliance Staff

Banks can preserve the independence of the compliance function in a variety of ways; yet in practice, many programs fail to meet supervisory standards.

Achieving the appropriate level of independence for the compliance staff operating within or across business lines is always a challenge, especially for smaller banks. To avoid inherent conflicts of interest, stress accountability and maintain strong, consistent communication between the compliance function and the business line function.

Compliance Monitoring and Testing

According to the guidance, "Robust compliance monitoring and testing play a key role in identifying weaknesses in existing compliance risk management controls and are, therefore, critical components of an effective firmwide compliance risk management program."

How can an institution set the stage for a program that works? By conducting a compliance risk assessment, which is the basis of a sound compliance monitoring and testing program. The results of your risk assessment will determine the frequency and scope of subsequent compliance testing.

Responsibility of the Board of Directors and Senior Management

The responsibility for establishing and implementing a comprehensive, effective risk management rests with the board, senior management, and the corporate compliance function. This interconnected effort yields an oversight framework for preventing, detecting and mitigating compliance risks.

Conclusion

A fractured approach to compliance often results in inefficiencies, conflicting priorities and duplication of efforts. In contrast, a strong "tone from the top" compliance culture fosters a strong compliance program. A fundamental commitment to compliance establishes a firm basis for improving overall compliance by the staff. In addition, a centralized compliance program demonstrates to regulators that the bank takes its compliance responsibilities seriously.

Kris Welch, a principal with Ascella Compliance, has worked over 25 years in the financial industry with emphasis in compliance and regulatory risk assessment. Email her at kris.welch@ascellacompliance.com.

Sweep product delivers substantial advantages at an economical fee

With the help a powerful tool, Bankers' Bank of the West customers can make automatic sweeps to and from BBW's fed funds pool.

Available through the Bankers Internet Data System (BIDS), the sweep product allows you to automate several tedious and time-consuming functions that required staff oversight up to this point. Among other things, the service:

- Makes the need to monitor balances throughout the day obsolete.
- Enables you to **set and modify your bank's own target balance**.
- Allows you to **eliminate overdrafts** entirely.
- Simplifies **end-of-day settlement**.

The sweep product was developed in response to requests from numerous community banks with the aim of helping your bank achieve greater efficiencies and results—and the monthly fee is very competitive. For details, call **800-873-4722** and speak with any cash management officer.

Sandwich, please, with a side of reverse mortgage

Tim Harder, Vice President
1st Reverse Mortgage USA

Remember the last time you ordered carry-out from a deli? You had so many options: turkey, ham, roast beef, or a club sandwich. You had bread choices, too—whole wheat, rye, Italian. Finally, you needed to pick the final touches from a long list of toppings and condiments.

A more overwhelming list of decisions faces the Sandwich generation—adults still raising children and shouldering at least some responsibility for their parents. Wikipedia defines the Sandwich generation as "a generation of people who care for their aging parents while supporting their own children."

These middle-aged individuals struggle to answer serious questions. Should I save money for my retirement? Contribute to a college fund? Give mom and dad money to live on?

It is estimated that two-thirds of the Baby Boomer generation will become part of the Sandwich generation. It is also estimated by the U.S. Census Bureau that the number of people 65 and older will double by 2030, growing to more than 70 million.

To what extent does this trend affect your clients?

How many of your customers are looking for options to help their parents financially in these tough economic times? Although reverse mortgages are available only to people age 62 and older, it is often an adult child who inquires and researches reverse mortgages for his or her parents. The dollar amount being transferred to older adults from their middle-aged offspring is staggering, and it continues to grow. Some estimates put that number as high as $26 billion per month.

As banks search for new services to maintain existing customers and attract new customers, a reverse mortgage program fits that bill because it addresses the needs of both your senior customers and their children.

For more information on the BBW-endorsed turnkey reverse mortgage program available through 1st Reverse Mortgage USA®, call your Bankers' Bank of the West correspondent officer, or e-mail info@bbwest.com.

Merriam-Webster officially added "Sandwich Generation" to its dictionary in July 2006.

July is Sandwich Generation Month™.

In 1990, Newsweek Magazine estimated that the average woman spends 17 years raising children and 18 years caring for aging parents.

Program helps commercial bankers become small-business savvy

Highly developed relationship-building skills are indispensable to bankers who serve small businesses. A highly rated seminar, **Loan Officer Financial Management Training**, focuses on building those skills in lenders seeking to better understand, coach, assist, and work effectively with small-business customers.

Bankers' Bank of the West will bring the course to Denver **September 29 and 30** to extend this career-building learning opportunity to bankers in our region.

Kyle Enger

"In these chaotic times, it's more important than ever to take a holistic approach to your business clients," said **Kyle Enger**, program creator and instructor. "This course provides practical tools that enable the banker to become a true financial quarterback in client relationships."

Mr. Enger's engaging, interactive teaching style has made him one of the most often-requested instructors at the nation's top banking schools. A downloadable course outline and registration information will be available soon at **bbwest.com**.

Tending to customer care and soft costs

Pamela Grammer, Sales Account Executive
Optimum System Products

Key priorities for any business include acquiring and retaining customers, reducing operational costs, and making a respectable profit.

It is very difficult to grow new accounts and defend an existing customer base in this challenging economy. Unfortunately, a number of businesses are trying to achieve success and prosperity by reducing cost and services in the wrong areas.

Yet many community banks are achieving or exceeding their business objectives by implementing some or all of these proactive tactics:

- Exercise better control over consumables purchasing practices.
- Review and reduce hidden soft costs, which can cost some banks $50,000 or more a year.
- Develop an on-demand inventory program that takes advantage of bulk discounts through bulk purchases and stipulates that vendors store those products.
- Reduce the cost per square foot of floor space required for inventory.
- Implement an aggregate purchasing power system that reduces soft costs as much as 75 percent and improves work flow as well.
- Capitalize on economies through a proactive on-time factual management cost accounting system that allocates costs back to appropriate cost centers.
- Work with a partner familiar with the banking industry, cognizant of the total process, able to convey the proper professional image on paper, and attentive to the bottom line.

Today many community banks like yours are asking why they have not yet implemented a system like this. The more important question may be, *When are we going to become proactive by identifying ways to reduce soft costs and to grow and protect our customer base?*

Optimum System Products has devoted 24 years to helping community banks achieve numerous operational objectives. Impressed by Optimum's expertise in the industry, more than 1,200 banking institutions have already become banking procurement partners with the company.

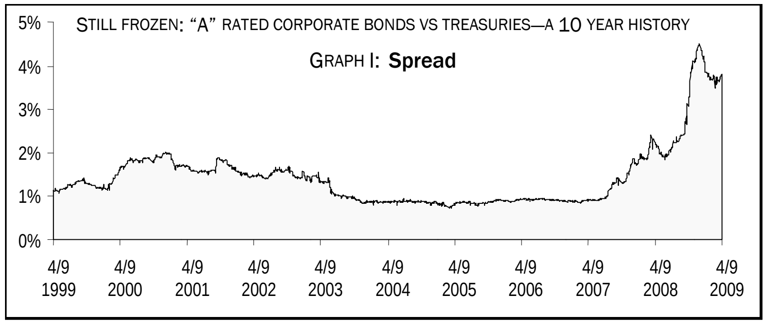
Visit **optimumcompanies.com** to learn more about Optimum and discover why the company's excellent service and cost-effective banking procurement systems have earned the endorsement of many banking consultants and industry leaders including Bankers' Bank of the West. Optimum has been recognized by The Printing Industries Association of Northern Kentucky and Ohio with more than 90 print excellence awards for quality and initiative in craftsmanship for graphics and printed products.

To find out how you can reap the benefits described above, call ***Pamela Grammer*** *at* ***303-514-9396*** *(toll-free at 800-869-0632).*

Identifying potential for community banks in today's credit markets

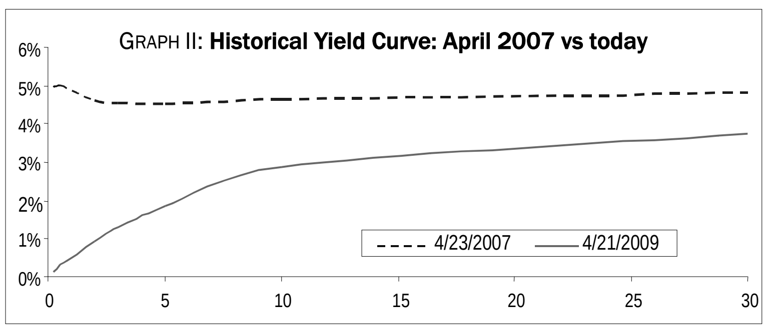
Kendrik de Koning, Managing Director
BBW Capital Advisors

The credit markets, at least as reflected by the wide spreads on 'A' rated corporate bonds in Graph I at right, remain frozen. As long as this remains the case, we expect the Fed to keep short-term rates low. Directly related to the economic situation that has led to such low rates is a "flight to quality." This has resulted in many community banks receiving a deluge of deposits as customers seek the safety that those institutions can provide.

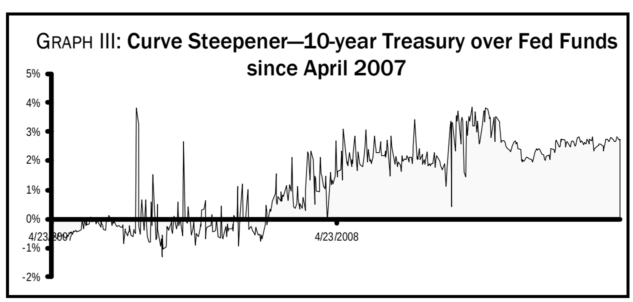


When confronting today's low nominal rates, those with excess liquidity may bemoan the options available in the investment market. This is particularly true for those who believe that the abundance of newly minted money necessary to pay for the ever-growing and morphing bailout plans will eventually lead to inflation—a view we do not disagree with.

There may, however, be a trove of opportunity in front of most banks. Community banks are, and should be, spread-driven. This is what keeps most of them insulated from the fates of many of the larger interstate and international competition. In many cases, however, we believe that bankers can get too focused on the spreads between a particular asset and its "matched" funding. Often, when considering the actual price sensitivity of core deposits, we discern untapped opportunity to take more advantage of the slope of the yield curve—considerably steeper than two years ago (Graph II)—as these "short-term" deposits are in reality long-term. This means we can add longer term fixed-rate assets **and** reduce risk, when viewing the interest rate profile of the **entire institution**.



The Fed is trying to get us to start lending (or investing) by keeping short-term rates at such low levels—and we should take advantage. The "frozen" credit markets are offering some attractive risk-adjusted returns, even in the more conventional and traditional bank investment sectors. Although the benchmark Treasury curve may be unappealing to many, the **shape** of the curve (Graph III), when combined with the option-adjusted spreads over that curve, may offer the chance to generate significant earnings while actually reducing overall interest rate risk exposure.



To discuss opportunities specifically identified for your bank, contact **BBW Capital Advisors** at **800-997-0718** or *admin@bbwcapital.com.*

Source of data illustrated in the three graphs on this page: Bloomberg.

Creating an effective disaster recovery plan through information technology

Joseph Hornsey, Vice President, Network & Internet Services
Dominion Technology Group, a BBW-endorsed alliance partner

One of the issues we see regulators focusing on during IT exams is the bank's disaster recovery plan. This article will outline some guidelines for creating an effective disaster recovery plan, at least from an IT perspective.

Building a plan from scratch can seem overwhelming. It's no wonder many banks end up with a plan that's unusable or disorganized. Unfortunately, if you suspect your current plan is lacking, you can bet an examiner will feel the same way. So what are the keys to creating a solid plan?

① **Know what needs to be backed up.**
One of the most common errors made in planning for a disaster is backing up the wrong data. Understand which data is critical and what can be recreated. Source files, user profiles and Windows directories don't need to be backed up. Of course this assumes users are not storing critical information in their profiles (which they're not doing … right?).

② **Plan for an emergency location.**
We all love questions like this from the examiner: "What if **all** your locations are somehow destroyed by a hurricane?" I've actually been asked this question—at a Colorado bank. Rather than explain the unlikelihood of a hurricane forming in Chatfield Reservoir, I pointed to the plan in which we identified an emergency location where we could have an entire network set up, functioning, and servicing customers within 24 hours of a natural disaster.

③ **Dump your tapes.**
I don't understand some people's fascination with tape backups. This is 40-year-old technology that's slow, expensive, subject to deterioration over time, and often unreliable and difficult to store. Get rid of tapes and look for an alternative that's network-based or uses hard drives. This can give you far more flexibility in creating an effective solution.

④ **Test it!**
How do you know you have an effective disaster recovery strategy? You test it. Create a schedule to test each area of your plan. Some of the more simple tests (e.g. deleting and restoring a test file from backup media) can be performed monthly while other more intrusive tests—e.g., what really happens if my Internet connection goes down?—should be done quarterly. At least once a year, stage a full-blown "disaster" that puts at least one location suddenly offline.

⑤ **Make sure policies match procedures.**
In most banks, a committee comes up with a policy that includes disaster recovery. While this approach is fine for creating general guidelines, it can fall short of producing a practical, testable strategy. Once the guidelines are in place, create that practical, testable strategy. Then go back and revise the policy to match the procedures.

These are a few ways in which you can make your disaster recovery plan more effective. Please send any questions or comments about this topic to *joseph@dtginc.net.* ◢

Bankers' Bank of the West
1099 Eighteenth St. ▪ Ste. 2700
Denver, CO 80202