BBW News

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A MESSAGE FROM THE PRESIDENT

Reflections on 2009 and a preview of the coming year

Bill Mitchell
BBW President & CEO

Years from now, business historians will describe 2009 as a challenging time for our industry. Today most of us would consider that an understatement, proving that perspective is what shapes perception.

A prime objective this year for Bankers' Bank of the West has been ensuring robust capital ratios. We did in fact increase total risk-based capital, tier one risk-based capital, and tier one leverage ratios from 13.41%, 12.15%, and 8.99%, respectively, as of June 30, to 14.14%, 12.97%, and 9.89, respectively, at the end of the third quarter.

While remaining north of 12% for the total risk-based ratio, BBW continued to address problem asset issues. Despite improvement in capital ratios, the bank reported return on average assets of (.48%), a slight drop in the second quarter that was largely attributable to losses on bank stock loans to failed institutions. Excluding bank stock loan losses, earnings would be approximately 75 basis points.

Commercial real estate and escalating FDIC premium assessments aggravated the situation to a lesser degree, but BBW—with strong core earnings capacity and non-loan losses that are well under control—is able to absorb those costs.

Maintaining a proactive course, we are aggressively building the loan loss reserve: At quarter-end, the reserve was at 2.98%, a 71 basis point increase from June 30. We will continue addressing the loan loss reserve, particularly for bank stock loans—a strategy that will almost certainly result in the bank's reporting a negative ROAA at year-end. Yet our capital will continue to be strong.

While I expect the first quarter or two in 2010 to be affected by our firm stance on rectifying loan problems, I believe earnings will pick up appreciably later in the year.

With the aim of sustaining healthy ratios, the holding company decided to forgo paying a second dividend in 2009, a departure from the practice in recent years. The board understandably considers capital preservation paramount at this time. We anticipate also that discussion of the next dividend will most likely be postponed until later in 2010. The board believes this steady, conservative approach will best further the long-term interests of our shareholders, who have been remarkably supportive and understanding in stressful times.

That brings me back to perspective—as in the importance of putting events in their proper perspective. Given the choice, bankers would have opted out of the crush of collective and individual issues we've faced this year. But many of those hurdles are now behind us, and as a result we are better prepared to meet the challenges yet to come.

With sincere appreciation for the opportunity to earn and keep your business, I wish you a happy, relaxing holiday season and a much less eventful year ahead. ◢

Inside

Notes and news

Safekeeping on pace to set record

This has been one of the busiest years for the BBW Safekeeping Department. More than 3,000 trades were processed by the end of September, and we will likely set a record of number of trades processed by year-end. BBW serves 115 safekeeping client banks with total par value held topping $3 billion.

Please continue sending in trade tickets/confirmations as soon as you receive them from your dealer. Usually the dealer sends an ID confirm electronically also; this is matched up at BBW to make certain no discrepancies occur. The procedure helps ensure a smooth settlement for the security purchased or sold.

Month-end reports are out on the BIDS system usually by 2 p.m. on the last day of the month. You can pull your holdings and pledge reports after that time. Trades and interest payments show up on the real-time feature on the settlement or payment date. We expect the principal and interest payment detail will also be available on BIDS next year, replacing the fax notice system now in place.

Please relate any suggestions for our Safekeeping Department to Sandy Gerk, **303-313-8102**.

A virtual voice for everyday citizens

The Independent Community Bankers of America has created an advocacy website—"My Community, My Bank"—to inform both decision makers and the public of the weaknesses of too-big-to-fail policies and give citizens a potent tool for sending their own feedback on the subject to elected officials. The site is just one element of a larger public education campaign.

A feature of special interest to community banks is a mechanism for quickly sending a message to Congress or recommending the site to friends. The rationale is that ordinary people can use the website to not only express their own views but also stimulate grassroots support for thoughtful policy making. To tour the site, visit **www.mycommunitybank.org**.

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Chief financial officer has been on both sides of the desk

With the appointment of **Alice Voss** as chief financial officer in September, Bankers' Bank of the West added 35 years of financial experience to its executive team.

Having held the positions of community bank president, cashier and CFO in the past, Alice understands the industry from the client bank's perspective. She recalled that as an executive of a growing community bank for ten years, she and her staff relied heavily on BBW as a resource.


Alice M. Voss

"Help from Bankers' Bank of the West was just a phone call away," Alice said. "When we reached that person on the other end of the phone, they were immediately familiar with our bank. Their personalized service was huge."

In fact, it was BBW's reputation and performance as a partner to community banks that prompted Alice to consider moving to the correspondent side. Two months into her new role, she said she feels well-prepared and solidly supported, adding that certain principles are timeless and basic to the business of banking.

"Technology, processes and products change quickly, but our end goals are fairly fixed in banking," she said. "A lot of operations work we did manually in 1970s is now done electronically. But the overall focus—delivering services efficiently, consistently and accurately—hasn't changed at all. The satisfaction of the end customer is everything."

Alice, a graduate of the University of Colorado Graduate School of Banking, credited the first bank president who hired her with encouraging her to learn and advance on the job.

"Where I grew up, there was only one bank. In a way, community banking chose me back then," she said. "By the time other career choices became available, I'd seen the positive impact of local decision-making on the community. That cemented my decision to stay in the community banking arena versus somewhere else."

As to the marked differences between a bankers' bank and the institutions it serves, Alice noted one of the most appealing aspects of her position has been the opportunity to learn a different side of the business.

"A big plus was being able to continue working in banking—but from a different vantage point," she said.

Pride in your work and good customer service: the perfect fit

Ken Renker, Director of Sales, Optimum System Products

For most of us, taking pride in what we do is an important part of our personal makeup. Doing a good job isn't just something we're supposed to do; it's what we **want** to do. Ideally, it's encouraged and rewarded where we work. I'm convinced pride in your work and good customer service are "joined at the hip," and you can't have one without the other. Unless those qualities are a part of your company's (and your personal) DNA, it's difficult to deliver world-class customer service.

Remember the last time you called a vendor and, rather than connecting with a person, you got stuck in voice-mail limbo where you were unable to navigate through the maze? At the opposite end of the spectrum is the company with excellent customer service. A live person on the other end listens and responds to your situation. I shop at a major retailer, and the reason I remain a "customer for life" is their customer service policy. They know how to make it right. They are a perfect fit.

The people at Optimum strive to provide that level of service. Our goal is to deliver the best customer service in our industry—a quality that differentiates us. When you call us, a person answers and listens to you. We handle all your requests, large and small, with the ease and expertise developed over many years serving the banking industry.

To our current clients, thanks for your business. To everyone else: Please call us at **800-869-0632**. We will work hard to be your "perfect fit."

Historical statistics, interpretation, and market forecast

John P. Kerschner, Director, BBW Capital Advisors LLC

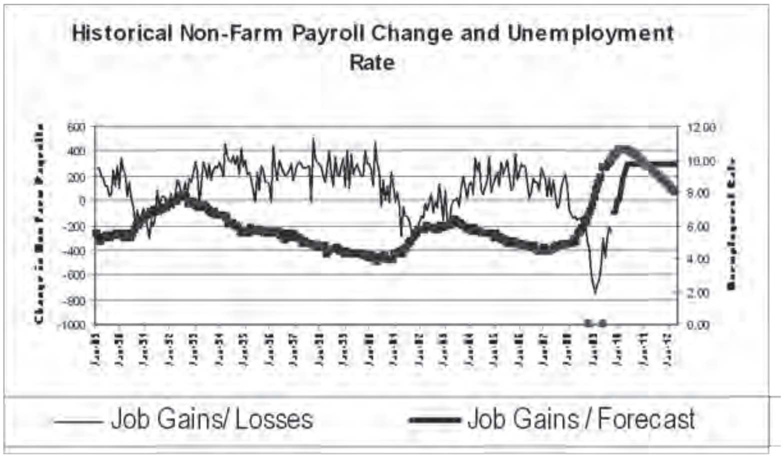
When should the Federal Reserve begin to raise rates? With the exception of the cover story from the October 19 issue of Barron's, no one seems to have a precise answer to that question. If you observe market forecasts, rates will begin to rise in 1Q 2010, hit 1% by October 2010 and reach 1.5% by February 2011. BBW Capital believes it will likely be appreciably longer before we see the first significant increase.

This prediction is based on the two economic variables that historically have been most closely tied to interest rate increases post-recession: unemployment and capacity utilization. We believe the Fed will not significantly increase rates until unemployment is on a sustainable downtrend and capacity utilization is on a sustainable uptrend; we believe such an environment may take approximately 18 months to occur.

Unemployment. Few market participants realize the devastation this recession has inflicted on employment markets. More than 7.2 million jobs have been lost, many from industries like finance, construction and autos, which are unlikely to rebound quickly. This recession has brought the greatest absolute change in the unemployment rate (+5.1%) since the Great Depression. Further, the 30% decline in housing prices has severely restricted labor mobility in the U.S., as job seekers cannot sell their underwater homes to seek work elsewhere.

We interpret this to mean it will take a long time for the unemploy-ment rate to stabilize and eventually decline. More importantly, historically the Fed has taken anywhere from 5 to 12 months from the time of maximum unemployment to start increasing rates. Since most economists do not believe the unemployment rate will max out until 1Q 2010, it is unlikely, in our opinion, that the Fed will start raising rates in April 2010, as the market is currently predicting.

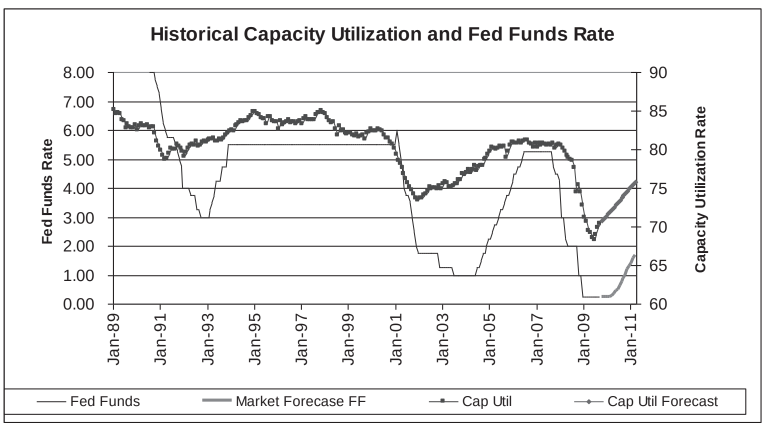
CHART 1



The normal rate of monthly job creation in past post-recession recoveries is around 250,000 in the best-case scenario. BBW Capital is forecasting a gradual increase in monthly job gains from the current level of -263,000 to +300,000 over the next six months, and then staying at +300,000 per month after that. We consider this quite conservative given the high probability of a sluggish recovery. Additionally, the total labor force is down almost 850,000 people over the last six months due to people dropping out—most likely after a discouraging job search.

Thus we also assume the labor force expands by 100,000 people per month over the next year in addition to the 1% normal annual growth rate in the labor force. Keep in mind our economy must create 125,000 jobs a month just to keep the unemployment rate even.

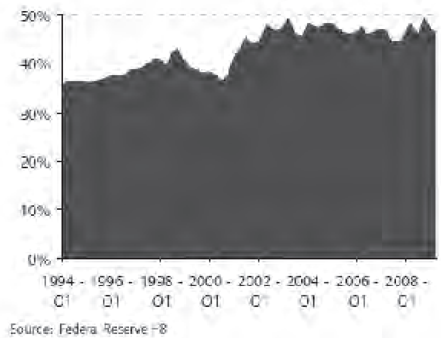
CHART 2



Using these assumptions, we predict the unemployment rate will likely top out at 10.6% in February 2010. After that, in keeping with historical trends, we believe it will be another 13 months before the Fed increases, at which time the unemployment will likely be at 9.5%. Given that President Obama predicted an 8% "worst case" unemployment rate when discussing his proposal, we believe this forecast may be conservative. Politicians up for re-election in 2012 will likely oppose raising rates with a 9.5% unemployment rate. Looking forward, we do not believe unemployment will be below 8% before 1Q 2012, and it won't be below 6% until 2014 or 2015, if not longer.

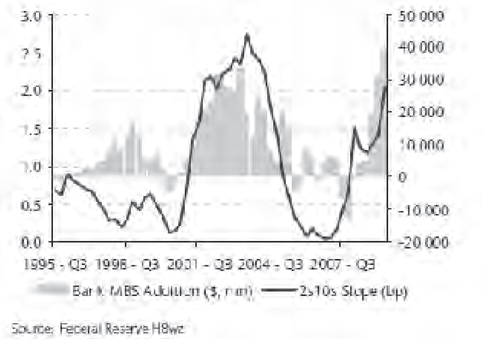
Capacity utilization. Unlike unemployment, capacity utilization has already bottomed and begun to turn. However, capacity utilization dipped lower in this recession than in any since the Great Depression, bottoming at 68.3%. Thus, again we have a sizable hole from which to dig. Historically, cap utilization has increased about 0.1% per month post-recession, and it has taken anywhere from 5 to 30 months from the bottom to the first Fed increase. We forecast cap utilization to increase 0.3% monthly going forward, bringing it to 75.9%, at which point we forecast the first Fed increase. This may be conservative: In the past the Fed has waited until cap utilization reached the upper 70s to start raising rates.

FIG. 1: % bank securities in agency MBS



Source: Federal Reserve H8

FIG. 2: Bank MBS holdings vs. yield curve



Source: Federal Reserve H8wz

What this means for banks is that the yield curve will likely remain near historically steep levels for at least another 12 to 18 months. Thus, it will continue to pay for banks to move out to the 3-4 year part of the yield curve to pick up additional yield. We also recommend banks review their percentage of MBS securities, which should continue to perform well given the Fed purchase program and the likely decrease in volatility as the uncertainty of the first Fed increase diminishes. Traditionally, with the yield curve this steep, banks have added MBS in large size (Fig. 1) which should help to keep spreads on MBS tight as the Fed purchase program winds up in 1Q of 2010.

TABLE 1

UNEMPLOYMENT STATS FROM PAST RECESSIONS

Recession Start	Recession Finish	Duration (months)	First Fed Increase	Unemp Start	Unemp Max	Change	Time from Recession Beg to Max Unemp	Time from Max Unemp to Fed Increase	Unemp Rate at 1st Rate Increase
Dec-07	Present	?	*Mar-11 proj*	4.7	*10.5 - proj*	*5.8 - proj*	*28 - proj*	*13 - proj*	*9.5 - proj*
Mar-01	Nov-01	9	Jun-04	4.2	6.3	2.1	28	12	5.6
Jul-90	Mar-91	9	Feb-93	5.2	7.8	2.6	24	8	7.1
Jul-81	Nov-82	17		7.5	10.8	3.3	18	5	10.1
Jan-80	Jul-80	7		6.0	7.8	1.8	7		
Nov-73	Mar-75	17		4.6	9.0	4.4	19		

JOB GAINS / LOSSES STATS FROM PAST RECESSIONS

Recession Start	Recession Finish	Total Jobs Lost	Avg Monthly Jobs Lost	Avg Jobs 1yr Post-Recession	Avg Jobs 3yr Post-Recession
Dec-07	Present	(7,085)	(322)	*158 - proj*	*253 - proj*
Mar-01	Nov-01	(1,629)	(181)	(47)	36
Jul-90	Mar-91	(1,282)	(142)	(20)	128
Jul-81	Nov-82	(2,712)	(160)	257	268
Jan-80	Jul-80	(837)	(120)	150	
Nov-73	Mar-75	(956)	(56)	200	245

CAPACITY UTILIZATION STATS FROM PAST RECESSIONS

Recession Start	Recession Finish	Cap Util Start	Cap Util Min	Change	Time from Recession Beg to Min Cap Util	Time from Min Cap Util to Fed Increase	Cap Util at 1st Rate Increase
Dec-07	Present	80.5	68.3	(12.2)	19	*21 - proj*	*75.9 - proj*
Mar-01	Nov-01	78.6	73.5	(5.1)	10	30	77.2
Jul-90	Mar-91	83.1	78.7	(4.4)	9	23	81.4
Jul-81	Nov-82	80.2	70.9	(9.3)	18	5	73.7
Jan-80	Jul-80	84.0	77.8	(6.2)	7		
Nov-73	Mar-75	88.6	74.1	(14.5)	19		

Please call BBW Capital Advisors at **800-997-0718** if you have questions. We will be happy to discuss this analysis as well as the most proficient methods for you to optimize your investment portfolio.◢

Advanced imaging and loan portfolio management: a value proposition that makes sense

Jim Williams, Vice President
Accusystems LLC

The approach to determine an acceptable return on investment needs to address what issues the bank is attempting to resolve in comparing a paper loan management system to an advanced imaging system. Accusystems categorizes long-term cost savings as **tangible costs and potential savings** and **intangible costs and potential savings**.

The first factor to consider under the tangible category is **physical space cost**. Space savings depend largely on the physical location of the files. Some files are kept in vaults that would be challenging to convert into usable office space. But if all or some portion of the files are housed in cabinets within the workspace and the bank is able to convert that storage area into productive space, the cost benefit is easy to calculate.

Accessibility of documents must be taken into account as well. The cost to transport paper loan files between the main office and branches can be significant when you take into account couriers and the resources consumed on following up with users who have not returned files, locating misplaced files, and copying files for internal users. At some banks files are scanned and then emailed —hopefully encrypted—to the branch. If each branch houses its own loan files, auditors and examiners must travel to various locations to perform loan reviews, or files must be shipped to the main office.

Perhaps the most obvious cost, other than employees, is that of **file cabinets and supplies**. File cabinet costs are directly related to loan portfolio growth and branch openings. New file folders, on the other hand, are used for every new loan booked. A typical consumer loan and credit file uses one inch of cabinet space, and each commercial loan and credit file uses about three inches. A four-drawer, fire-resistant loan cabinet retails for about $3,000 and has 88 linear inches of filing room. Thus, the cost to store a commercial loan file is $102; a consumer loan file costs $34.

Intangible costs are real costs that are not easily calculated but still have an important impact on any ROI analysis. Some of the risk management concerns with paper loan files are set out below.

The risk associated with using **manual ticklers** to follow up on document exceptions, perfection documents or expired insurance policies can be staggering especially in the event of a claim. Unacceptable variations in **non-standard loan document file structures** often occur if the file is set up by lenders or branches. Such variations can cause embarrassment with customers, auditors or examiners because the requested document may actually be in the file but at a different tab than expected. Perhaps the biggest risk and intangible cost category is **disaster prevention or recovery.** Should a fire, flood or tornado destroy entire paper loan portfolios, it is nearly impossible to completely recreate them. ◢

*For information on how to get a free, no-obligation demonstration and a needs and cost analysis to determine the potential savings your bank could achieve with the advanced AccuLoan document imaging and loan portfolio management system, contact **Chris Gredig** or **Alan Wooldridge** at **1-719-583-8004**.*

What am I thankful for? Relationships that benefit senior citizens

Tim Harder, Vice President
1st Reverse Mortgage USA

Like many Americans, I've always considered the holiday season a time to look back, count my blessings, and reflect on everything I'm thankful for.

Looking back on 2009 from a business perspective, I'm very thankful for our continued relationship with Bankers Bank of the West. As the endorsed reverse mortgage vendor for BBW, we're in a position to present our turnkey platform to community banks and help them support their mature customers with excellent products and services.

In this world of negative press and misleading spin, I'm thankful that our relationship with BBW allows us to properly educate those looking to further the well-being of seniors. Today's tough

Continued on the next page

Start with these basics when monitoring your network

Joseph Hornsey, Vice President, Network & Internet Services, Dominion Technology Group, Inc.

One of the first things an examiner is going to ask about how you manage your network is: Who's looking at the logs? This can be a management task that's often misunderstood or under-prioritized. In this article, I'll outline the basics of network monitoring, identifying the systems you need to pay attention to and the best way to get meaningful information out of your logs.

General features

For all monitoring, make sure your systems have the following capabilities:

✓ **Receive automated, regular reports.** Reports should be automatically generated and sent by email to the appropriate employee within the bank.

✓ **Configure escalated notifications.** If a critical event occurs, IT staff should be automatically notified by email, SMS, pager, or text message.

Firewall

The firewall is top on the priority list for managing your network. How you manage this is the first thing an examiner is likely to check when looking at your IT infrastructure. When monitoring your firewall, make sure your system can:

✓ **Monitor attacks and reconnaissance.** All port scans and attempted attacks should be logged and included in the regular reports.

✓ **Perform automatic blacklisting.** When the firewall is scanned or attacked, it should automatically blacklist the offending source address so future attacks or reconnaissance will fail.

Servers

The next priority is the servers. When monitoring your servers, make sure your system will:

✓ **Automatically collect event logs.** The idea that you can assign someone the task of manually reviewing logs is optimistic at best. If log collection isn't automated, it won't happen.

✓ **Filter out noise.** Servers generate a **lot** of information in their logs. Most occurs during the course of normal operations. Make sure your system can filter out normal or unimportant events.

Anti-virus/anti-spyware

The last big category for monitoring is anti-virus/anti-spyware. The software you use should be able to provide reporting and notification for outbreaks as well as malicious software found during normal scans. There needs to be a record of when scans occur and what, if anything, they've found.

If you configure network monitoring on the systems outlined above, examiners tend to be satisfied with the way you're managing your network. Other capabilities, such as content filtering, may be nice, but these are the basics to start with.

As always, if you have any questions or comments, contact me at *joseph@dtginc.net.* ◢

*Dominion Technology Group (**719-338-5406**) has been an endorsed alliance partner of Bankers' Bank of the West since 2007. Visit www.dtginc.net.*

Thankful for relationships

Continued from previous page

economy makes this education, which is the foundation of our program, more critical than ever.

I deeply appreciate the opportunity to offer community banks a valuable financial tool their older customers might otherwise need to seek elsewhere. Becoming a member of the 1st Reverse Mortgage USA Lender Network enables your bank to provide a value-added service to your senior customers—while also earning the loyalty of the adult children who commonly help their parents through the loan process.

Finally, I offer thanks to you, the community banker, for serving your neighbors with professionalism and integrity. On behalf of myself and the staff at 1st Reverse Mortgage USA, we wish you a happy and safe holiday season. ◢

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

Genesis of the new certificate of deposit —and what makes it attractive now

On Oct. 22, Bankers' Bank of the West introduced a certificate of deposit for community financial institutions. The product, first suggested by several community bank clients, took root as the advantages to both the purchaser and issuer became obvious.

Besides FDIC insurance coverage, the CD provides the purchasing bank a favorable rate of return in relation to federal funds earnings. As the issuer, Bankers' Bank of the West benefits from the ability to exert greater control over liquidity and asset liability management.

Just as importantly, every investment in this CD supports community banking across our region. Partnership—among Main Street banks as well as within the communities they serve—is not an abstraction. It's the backbone of everything we do.

Four maturity options and a modest minimum deposit threshold will make this CD a flexible component of any community bank portfolio.

It is the sustained loyalty of community banks that enables Bankers' Bank of the West to support you in return. Thank you for the opportunity.

Fixed-rate Certificate of Deposit
Rates are current as of November 2, 2009

	Interest Rate	Annual Percentage Yield
6 months	0.75%	0.75%
9 months	0.85%	0.85%
12 months	0.95%	0.95%
18 months	1.20%	1.20%

Member FDIC

Certificate of deposit parameters:

- Interest paid quarterly via ACH to any account designated by the customer institution
- Minimum to open: $50,000
- Withdrawal prior to maturity not permitted
- Available to U.S. domestic community financial institutions only
- BBW can arrange for safekeeping of the instrument upon customer's request

To discuss or open a Certificate of Deposit, call 1-800-873-4722.

Please route to: __ Pres/CEO __ Head of Operations __ Loan Officers __ Cashier __ Inv. Officer

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