

BBW News

a publication of Bankers' Bank of the West ■ www.bbwest.com ■ March 2010

A MESSAGE FROM THE PRESIDENT

Strategy and staying power from the ice to the banking field



Bill Mitchell
BBW President & CEO

On the last day of the 2010 Winter Olympics, I watched the United States versus Canada gold medal hockey game. The game didn't turn out the way I had hoped, but it was a tremendous contest nevertheless. I was very proud of the way the U.S. team

fought back to tie the game with less than 30 seconds to go in regulation time. Although Canada won the game in overtime, the American players were extraordinary. They earned respect worldwide, having been considered significant underdogs.

Watching that game, I couldn't help reflecting back to the 1980 at the Olympic games held in Lake Placid. There, to the amazement of viewers across the globe, a group of American college hockey players beat the Soviet national team—arguably the greatest team of all time. A student at a university in Texas back then, I happened to watch the game with some students who didn't know a hockey puck from a soccer ball. My companions looked to me for commentary, as I was (and still am) an avid fan of the sport. All of us, even the hockey greenhorns, were mesmerized by the contest from face-off to finish. That U.S. win against the Soviet team—which the Americans followed with a victory against Finland to win the gold—became known as the “Miracle on Ice,” an astonishing victory for the ages.

Sports history isn't the only reason 1980 holds a special place in the hearts of the Bankers' Bank of the West team: 1980 was also the year our company was founded, making BBW the second bankers' bank established in the country. It happened to be the start of a tough decade for this bank. But BBW weathered the two recessions of its initial ten years and then flourished steadily in the subsequent two decades.

It is in part because BBW showed resilience through several stormy cycles that our confidence remains strong despite the setbacks and uncertainties confronting bankers today. No doubt the Great Recession and the legislative and regulatory climate will continue pressuring our industry for some time, but then those pressures will let up, and the post-recession landscape will likely look quite different from what we saw before. The needs of community banks will be different as well in a post-recovery world.

I'm convinced that when the banking environment calms down, community banking will remain as essential as it has always been to this country—and that community banks will still need advocates to help them compete with behemoth institutions. That's where BBW comes in. With the future in mind, I've challenged my team to make sure BBW is at the forefront of meeting customer needs going forward. As your correspondent partner and advocate, we're alert for opportunities that create competitive advantages, economies of scale, and more choices for you.

We take pride in BBW's 30-year history. At the same time, we're focused on the future and well-equipped with the strategy, fitness and resolve of a long-term industry leader. So I invite you to share your ideas on the needs of community bank of tomorrow with me (bmittchell@bbwest.com), and assure you the continued support of our entire staff. ▲

Inside

May conference: It's all about bank cards	2
BBW's newest calling officer takes challenge in stride...	3
Why contemplate SBA 7a lending?.....	3
Comparison shopping fundamentals for bankers	4
Banks seeking to help older customers hard-hit by downturn have capable partner, good option.....	4
Common rules indispensable in today's evolving payments environment.....	5

Taking note

■ Card programs in the bank product mix

The **Bankers' Bank of the West Bank Card Conference** to be held **May 12 through 14, 2010**, at the Ameristar Resort in Black Hawk, Colo., will examine business development strategies, regulatory compliance, technology developments, risk management, records management, and other facets of this core area of the financial services industry.

The purpose of the event is to keep community bankers current with rapidly changing developments in the world of bank card services—a front on which small banks can compete profitably against large regional institutions.

In addition to presentations on pertinent topics by industry experts, the conference will offer optional training sessions, facilitate interaction with knowledgeable vendors, and encourage professional networking.

BBW has provided bank card services since 1998. Today, working with technology-driven partners, BBW ensures community banks access to advanced bank card programs, favorable pricing, and superior back-office service and customer care. In 2009 alone, the BBW Bank Cards Division established 44 new relationships with community bank customers.

More conference information and registration materials are posted on the **Events** section at www.bbwest.com, or call **1-800-318-8393**.

■ Manage risk while cutting expenses

You can now lower both your risk of return delays and your costs by receiving your Fed return item cash letter (chargebacks) electronically through BBW's Bankers Internet Data System. Going electronic can reduce your risk exposure and make your operations more nimble, efficient and cost-effective.

FRB receipt return image files are available through BIDS in x9.37 image file and PDF formats. To learn more, or sign up to receive either file type electronically, call **1-800-873-4722** and ask to speak with a cash management officer.

BBW News is published by Bankers' Bank of the West as a service to respondent banks. Archives issues at www.bbwest.com. To receive newsletters electronically, email info@bbwest.com.

Send correspondence to:



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

© Bankers' Bank of the West 2010

A milestone, and some memories

The concept of a bankers' bank—an institution owned entirely by community banks for the purpose of serving community banks exclusively—was a recent innovation in 1980. Until the new bankers' bank model was created, the only sources of correspondent products and services available to community banks were large competitor banks. Thus independent banks often found themselves in competition with their big-bank service providers for their own customers' deposits and loans.

In that business climate, the founding of Bankers' Bank of the West in 1980 opened up more choices for independent banks—and gave community banks an advocate and partner in the bargain.

During our 30th year of service to community banks, we'll include in our newsletters some glimpses back at 1980, starting with these:

- American speed skater Eric Heiden brought home five individual Olympic gold medals.
- 3M began selling a revolutionary new product in the United States: Post-It Notes®.
- With its "Who Shot J.R.?" episode, *Dallas* became the most-viewed television show at the time; an estimated 83 million people tuned in for the conclusion of the cliffhanger.
- A first-class postage stamp cost \$0.15.
- Louisville took the NCAA Basketball championship, defeating UCLA 59-54.

STAFF PROFILE:

Nebraska-born banker taps work ethic, education and team strengths to support clients

Tara Rosenbaum, the most recent addition to Bankers' Bank of the West's calling officer team, was hired at the bank's headquarters in Denver as a credit analyst in August 2007. Joining BBW at that time opened the door to a westward relocation as well as a career direction for Tara, who spent her formative years in Sidney, Neb., and earned her bachelor's degree in finance from the University of Nebraska.

"As an analyst, I worked with all the Denver-based lenders," Tara said. "Being surrounded by all that coaching and banking experience has been a definite benefit."

But Tara's first exposure to banking occurred years earlier when she worked as a relief teller for a community bank while attending high school and

Tara Rosenbaum represents Bankers' Bank of the West as a calling officer for banks in northeast Colorado. She plans on joining her Lincoln-based BBW colleagues in Omaha for the Nebraska Bankers Association Convention in May.



college. Next she broadened her financial background by working in collections. Once on board at BBW, she completed courses in foundational lending principles and practices, commercial financial analysis, commercial real estate lending, and small-business financial management skills.

Last summer, when offered the opportunity to take on calling officer responsibilities for a cluster of banks in eastern Colorado, Tara accepted enthusiastically.

"I want to build trusting relationships with my banks," she said, adding that she has made introductory visits to a number of her clients already. "Being their main point of contact, I hope to maintain a high level of service for my client banks and expand on those relationships over time."

Although current economic conditions are stressful for most bankers, Tara said she sees some advantage in overcoming challenges.

"I've never experienced the 'good economy,'" she explained. "When you step into lending in bad times, you have to stay on top of your projects. I've seen more, at an earlier stage in my career, than I would have during good times."

Tara can be reached at **1-800-873-4722** or at trosenbaum@bbwest.com. ▲

Five good reasons to consider an SBA lending strategy

*Joanne Thompson, Managing Partner
SBA OneSource*

For banks brave enough to venture into the SBA's 7a guaranteed loan program, the rewards are many.

But let's tell the truth here: The program has its challenges. There are policies and procedures that aren't typical in conventional lending, and they take some getting used to. There are, however, many good reasons to overcome those challenges to reap the rewards of SBA 7a loan guarantees include:

① **A guaranteed safety net.** The 7a program's guarantees range from 75% to 85%, depending on the size of the loan. If Recovery Act funds are reallocated to the program, the guarantee is 90%.

Portfolio credit risk on small business loans is reduced from 100% to 10% to 25%.

② **Reduce commercial real estate exposure.** It's no secret that many experts are predicting a coming crisis in commercial real estate. Banks needing to reduce their exposure in commercial real estate would do well to consider SBA 7a lending to smooth the transition.

③ **Immediate income.** For those banks that sell the guaranteed portion of their SBA loans on the secondary market, 7a lending provides an immediate source of liquidity and profits. For example, a 90% guaranteed seven-year loan priced at Prime

Continued on p. 5

How your correspondent's pricing rationale affects your bottom line

Just as your bank's fee structure differs from your competitors', so do the fees set by correspondent banks. If you are responsible for cash management functions, a good grasp of the underlying fee structure will help you compare service partners and improve your ability to predict and control operations expenses.

An apples-to-apples comparison is hard to come by, though. Following are some questions to help you demystify some key criteria next time you evaluate the services you currently use or compare proposals from service providers.

Which capabilities are built into the web-based system to be used? Consider whether the standard package can perform adequately for you today. What about a year from now?

Do you require additional functions beyond those included in the basic fee? If so, divide the periodic fee by the average times used during a billing cycle to assess whether the cost is reasonable.

Is the system able to conduct OFAC checks? A system with embedded OFAC check and reporting functions can help you efficiently meet both your transactional compliance obligations and the requests of regulators.

Does the system work compatibly with the cash management services your bank makes available to its commercial customers? The ease with which your bank's technology works with your business customers' technology will

Continued on p. 6

Reverse mortgage solution may help older customers hit hard by downturn

*Tim Harder, VP of Business Development
1st Reverse Mortgage USA*

Current economic conditions have put new financial strains on many older homeowners, leaving them to worry about the future. *What if I can no longer make my mortgage payment? What if my health takes a turn for the worse? What if I incur unexpected expenses?* For many, the answer to "what if" scenarios is an FHA reverse mortgage—a safe and secure financial tool.

What is a reverse mortgage? A reverse mortgage enables older homeowners to access a portion of their home's equity without making a monthly payment. With the FHA reverse mortgage, the homeowner does not forfeit title to the home or lose any other homeowner rights. It is a non-recourse loan. All remaining equity in the home belongs to the homeowner or to his or her heirs.

Who qualifies? Qualifying for a reverse mortgage requires that the applicant be at least 62 years old and the owner of the property, which must be the applicant's primary residence.

Is it safe? In 1988, the Department of Housing and Urban Development adopted the reverse mortgage program and pressed Congress to enact laws establishing 12 safeguards to guarantee that older homeowners will not give up title to their

home or put themselves, their home or their families at financial risk.

How much of my equity may I use? HUD provides authorized lenders with a reverse mortgage calculator that determines the amount of equity available to a homeowner. The determining factors are the borrower's age, home value, and current interest rate.

How can I use my funds? Funds can be used as a safety net, or for things like home repairs, property taxes and unexpected expenses. Funds can also become additional tax-free income that makes the difference between just getting by and living comfortably and financially independently.

How do I select a lender? Surveys have shown that 8 out of 10 elders first contact their local bank when looking to secure a reverse mortgage. If the homeowner's bank does not offer reverse mortgages, large national banks—many of which offer the product—may become the next option.

Today banks originate more than 50% of the reverse mortgages closed. For information on becoming a member of the 1st Reverse Mortgage USA Lender Network, contact **Tim Harder** at **303-854-3030** or tharder@1strmusa.com.▲

Changing payments environment demands flexible rules

*Ellen Heffner, Director, Product Management
Electronic Check Clearing House Organization*

The ongoing evolution in check payments and rapid movement to image exchange require that supporting rules and agreements evolve quickly as well. The Electronic Check Clearing House Organization, which offers a comprehensive and flexible set of image exchange rules specifically designed to cover the exchange of electronic check images between members, has recently added two new rules to keep pace with this ever-changing industry.

ECCHO members, sponsors, and other industry representatives participated in an in-person meeting to discuss industry-wide issues related to returns and adjustments. The group's consensus was that ECCHO should develop image adjustment rules for the ECCHO rules set. An overview of this new rule will be covered in the next issue of BBW News. In addition, the ECCHO Operations Committee, a group composed of ECCHO members and sponsors who meet three times a year to discuss new rules and rules updates, recently recommended a provision pertaining to

the electronic exchange of "imperfect images." This new rule will be discussed in a subsequent newsletter, too.

If the recent past is a predictor of what's to come, it is not difficult to imagine additional changes to check payments, and specifically to image exchange processing, will occur over the next few years. It will be critical for industry leaders such as ECCHO and their partner institutions, including Bankers' Bank of the West, to continue working together to positively influence this evolution.

For a general overview of the entire ECCHO rule set, please refer to the Rules Summary document available publicly at www.eccho.org. Additionally,



any BBW cash management officer (1-800-873-4722) will be happy to explain in detail how the Rules and ECCHO membership may benefit your institution. ▲

Ellen Heffner is based in Dallas, Texas.

Five good reasons to consider an SBA lending strategy

Continued from p. 3

+ 2.75%, sold at a 10% premium, generates a very impressive 105% return on invested funds in the first year.

④ **Improved capital ratios.** Many banks are struggling with capital adequacy right now. SBA 7a loans provide an immediate improvement in capital ratios because capital is not required to be allocated to the guaranteed portion of an SBA loan. **Some banks have improved their Tier 1 Capital Ratios more than 3 points by using an SBA rather than a conventional loan.**

⑤ **Refinance your internal debt.** SBA allows banks to refinance their own debt under certain circumstances. This can benefit both bank and borrower. For example, by terming out a conventional line of credit for an SBA-guaranteed permanent working capital loan, the bank reduces its credit exposure from 100% and improves its capital ratios, while the business gets cash flow relief. It's a win-win.

So what's the downside? SBA expects lenders to follow prudent lending practices when making government-guaranteed loans, which include assessing the borrower's ability to repay the debt, lending to borrowers of good character, and appropriately securing the loan. Of course these are all things lenders do for conventional loans, but the SBA requires some specific forms, procedures and documentation.

If you take the time to learn the SBA's 7a policies and requirements—and give them what they want in the way they want it—you have an excellent opportunity to create a lucrative and successful small business loan strategy. ▲

SBA OneSource is a Denver-based consulting firm with deep expertise in the guaranteed loan programs of the U.S. Small Business Administration. Find loan program information, white papers and other resources at www.sbaonesource.com.

How your correspondent's pricing rationale affects your bottom line

Continued from p. 4

affect customer satisfaction: The more seamless the interface between your bank and your commercial customer, the better the outcome for both.

Does the system effectively meet the records retention and historical research needs of your bank? Ask whether your bank will be sent CDs containing the activity you submitted for the period. Access to information archived on CD can sharply reduce the need to retain paper activity records and enable you to efficiently respond to regulators' and auditors' requests.

Will your bank be required to purchase new or additional equipment when the system is first installed or subsequently upgraded? Typically, it is impossible to resell or trade in such equipment once it has become obsolete. Before committing to a service partner, be sure you fully understand the expenditures you would likely incur under each proposal—not only at setup but also with each system upgrade over the course of the relationship.

Who bears the burden of initial and ongoing security administration for the system? If your bank is responsible for time-consuming security

maintenance, carefully consider the implications for your staffing levels.

In addition to periodic charges, will you also pay per-user fees for access to your web-based system? Some providers allow access to an unlimited number of users at no additional cost while others assess additional charges when the user volume exceeds defined thresholds. Don't forget to factor the extra expenses into your evaluations and comparisons.

By whom will your questions and issues most likely be addressed? The responsiveness and competence of the people at the other end of the phone will influence your performance, so find out as much as you can about those channels of service. Ideally, you and your service providers will have a good working relationship.

Ensuring that you receive the best value for your dollar has never been more important than it is today. Answers to questions like the ones above—along with your own—will help you make well-informed decisions on the partners best suited to support your bank. ▲

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



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

BANKERS' BANK OF THE WEST
Bank Card Conference

May 12-14, 2010

(Inside on page 2)