

BBW News

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A MESSAGE FROM THE PRESIDENT

The long and winding road that is ours to travel



Bill Mitchell
BBW President & CEO

The bumpy, uneven path of the proposed financial reform bill seems to mirror the regulatory environment in which community banks do business today. The final content and outcome of the bill are unknown as I write this. Whatever happens, it's clear that

"Too Big to Fail" institutions have become skilled at circumventing (and in some cases actually thumbing their noses at) regulation.

To the benefit of community banks, it appears deposits will continue to be insured up to \$250,000—permanently, we hope—and the Temporary Account Guarantee (TAG) will be extended through 2012. Both measures have helped increase liquidity for community banks.

Just as the burden of interpreting and adapting to new regulations falls on community banks, so does the ever-flowing list of interagency guidelines from bank regulatory officials. In 2010 alone, bankers have been issued interagency guidelines on "Interest Rate Risk Management," "Funding and Liquidity Management," and "Correspondent Credit Risks." Obviously, the changes to current policy or practice needed to conform to new guidelines will vary widely from bank to bank.

The "Correspondent Credit Risks" guidelines, for example, pinpoint two primary issues: (1) credit risk, or limiting a bank's potential loss exposure from any one institution; and (2) funding concentration, or limiting a bank's funding exposure from one institution.

A guideline aimed at credit exposure "recommends" that direct or indirect obligations of no more than 25% of total risk-based capital be at risk. For funding exposure, the regulatory agencies set no specific guideline but made note of "instances where funding exposures of 5% of an institution's total liabilities have posed an elevated risk to the recipient."

I encourage each bank to thoroughly review these guidelines. Briefly, I'll describe how Bankers' Bank of the West is monitoring the two thresholds.

The regulatory agencies began work on the "Correspondent Credit Risk" guidelines in the fall of 2009. TAG was extended to December 2010 since that time, and may yet be extended through 2012. For as long as it lasts, TAG alleviates the interagency concerns considerably, fully protecting banks' noninterest-bearing deposits by the FDIC. Another application of risk mitigation strategy is the spreading of the BBW-managed federal funds pool among many upstream banks. All in all, the combination of diversification and TAG has, for the time being, muted the concerns regulators were noting last fall.

Yet on the belief that timely, relevant information will help banks acclimate to the evolving regulatory landscape, BBW recently created a customized worksheet for educational purposes. The daily worksheet, which we provide to banks that sell into our agent pool or maintain demand deposits with BBW, shows the customer bank's exposure as a percent of its most recent quarter-end total risk-based capital level without consideration of TAG.

As to funding risk, BBW internally tracks whether we have sources that provide more than 5% of our liquidity.

I hope you find this information useful and wish you a wonderful summer on behalf of everyone at BBW. ▲

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Taking note

■ Many happy returns

The number of BBW customer banks receiving Fed return item cash letter (chargebacks) through BIDS jumped to 42 by the end of the second quarter, and six more have signed on to switch to image formats this month.

What's made this service so popular? Receiving FRB receipt return images electronically can reduce both your costs and risk exposure while increasing the efficiency of your operations. You can choose from two file formats—PDF or x9.37. Your cash management officer will be happy to furnish complete details and help you sign up for the service if you wish.

■ A bid for efficiency and reliability

BBW safekeeping clients without access to the Bankers' Internet Data System (BIDS) are encouraged to enroll in BIDS to reap the advantages of receiving reports of safekeeping through BIDS instead of faxes. These are just three of the benefits of accessing your detailed reports through BIDS:

- ❶ **Efficiency and convenience.** Reference your safekeeping payment records any time you like simply by signing on to the system.
- ❷ **Record retention** with no effort on your part. Your safekeeping history will be archived for you each quarter on CD, together with all of the other activity your bank submitted through BIDS.
- ❸ **Dependability.** You'll enjoy secure access to safekeeping reports even if your fax machine is out of order—and save paper, too.

Contact **Sandy Gerik (303-313-8102)**, head of our Safekeeping Department, with questions about the reports. To arrange a BIDS demonstration, call **Debra Wendt** at **1-800-873-4722**.

■ Less than six months to go

Reminder: At the start of 2011, financial institutions will no longer be able to accept TT&L coupons. Urge your customers to enroll soon in the Treasury's free Electronic Federal Tax Payment System, www.eftps.gov/eftps.

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Tips for making your debit program more profitable

Lori Koscki, STAR Network
First Data Corporation

Throughout the economic downturn, one type of payment has remained strong: debit. According to First Data's SpendTrend™ data, which tracks same-store spending year over year, debit usage continued to grow at a steady double-digit rate over the past 15 months—even while credit transaction volume was declining in double digits during early 2009.

Why? Debit features distinct advantages that appeal to many consumers, including:

- Convenience
- Budgeting and control
- Security

Knowing consumers' preference for debit, you could apply the following three strategies to make your bank's debit program more profitable.

1. Review your EFT program trends and statistics for opportunities. By analyzing your customer base and understanding their behaviors, you can find ways to not only increase transactions and maximize revenue but also reduce your expenses.

- Monitor your debit card declines to identify areas where consumer outreach could increase transactions and associated revenue. For example, if you see high declines for invalid PIN, reaching out to those customers can help increase your number of completed transactions.
- Monitor your ACH reports and check usage to identify areas you could convert to card payments.
- Analyze your customer base to identify cost-effective marketing opportunities to increase card penetration, activation, usage, and portfolio profitability.

2. Revise your program with new procedures or innovative products. You can use industry best practices to increase card transactions and encourage revenue-generating behaviors among your customers.

- Provide easy, fast activation of debit cards.
- Teach new account holders about how and where they can use their debit cards when they open their accounts. Encourage cash back at the point of sale, and promote the security of debit cards over checks and cash.
- Target your marketing campaigns based on your analysis of customer payment behaviors.
- Take advantage of products and technology available from your vendors to capitalize on the opportunities you've found. For example, if most of your ACH expense is from big billers, consider complementing online bill payment with the use of debit cards at biller-direct sites.
- Implement industry best practices around security and fraud mitigation, collections, and new account screening.
- Use the ATM to increase automated transactions and attract other customer segments with services such as envelope-free deposits, surcharge-free programs, new targeted marketing technologies that help cross-sell products, and ATM personalization that enhances the client relationship.

3. Reward your customers with service, support, and superior selection of redemption items.

- Consider rewarding customers for all of their debit card activities, not just signature. Confusion resulting from inconsistency with PIN and signature rewards may reduce overall revenue-generating transactions
- Enhance your loyalty program with merchant-funded rewards to cost-effectively add value for your cardholders.

Savvy management and smart application of the latest debit products and services can help you boost customer satisfaction, encourage more card transactions, and convert costly transactions to ones that bring you revenue.▲

Expediting SBA 7(a) loan approval for community banks

Joanne Thompson, Managing Partner
SBA OneSource

Underwriting SBA 7(a) loans is significantly different from working with conventional loans. Most community banks recognize this, and since it doesn't make economic sense to have an in-house SBA expert, they wisely choose to work with an outsourced SBA loan packager.

Even so, the bank itself can do a number of things to facilitate the packager's role in expediting a rapid and seamless SBA loan approval.

Here's how to help your SBA 7(a) loan packager do the best job possible for the bank and its small business customers:

1. Conduct an early eligibility screen to identify and resolve gray areas or issues. Address eligibility questions early to save everyone time and effort. Of course the packager will do his or her own eligibility screen before submission to the SBA, but if you have any questions about whether the loan or borrower is eligible, contact your packager early in the process.

2. Complete a Statement of Personal History (Form 912) and deal with any character issues at the beginning of the process. If there's a criminal record (felony or misdemeanor) or if the applicant is not a U.S. citizen, address this with the borrower and the packager. It's a mistake to start the loan process without clearing these issues first.

3. Write a comprehensive credit memo. This is where most problems arise, and where underwriting an SBA business loan differs significantly from underwriting a conventional real estate loan. Most banks don't go into nearly enough detail, which prompts the packager or the SBA to come back with questions. This results in needless delays. It's the lender's responsibility to submit a well-written credit memo that adheres to SBA requirements. The packager's role is to review the memo for completeness. Many packagers can provide an underwriting checklist itemizing all the information required. Incomplete or unclear information—or failure to provide detailed explanations about anything out of the ordinary—will slow down the approval process more than anything else.

4. Submit all necessary financial information upfront. Your packager can't start working on the loan package until the lender has provided all the required information including, but not limited to:

- Three years of business tax returns and financial statements;
- An interim financial statement 90 days current; and
- Three years of personal tax returns.

5. Allow your SBA 7(a) loan packager to speak directly with your borrower. Reluctance to do so often gets in the way of a smooth process. Some lenders fear that permitting direct contact means losing control, but a good packager keeps the bank in the loop at every step. Prohibiting direct contact just slows the process down. Your packager should frequently check on the status of the application after it's submitted and report regularly to all parties. This assures everyone that the loan is being closely tracked while also keeping them apprised of where it is in the approval process.

6. Maintain a team attitude and open communication. Remember that the questions, clarifications and requests for additional information aren't designed to frustrate you or your borrower. Your packager is simply trying to expedite the approval process once the package gets to the SBA. You're all on the same team. ▲

SBA OneSource is a consulting firm with substantial expertise in the guaranteed loan programs of the U.S. Small Business Administration. For more information, call Joanne Thompson at call 303-820-0838 or visit www.SBAOneSource.com.

Back in the day

Bankers' Bank of the West was founded in 1980 to serve community banks. That same year:

- A 5.1 magnitude earthquake struck Mount St. Helens in Washington State, setting off a nine-hour volcanic eruption that killed 57 people, blocked shipping channels in the Columbia River, and polluted many lakes.
- Billy Joel's "52nd Street" was awarded the Grammy for Album of the Year.

Seminar to equip lenders with immediately usable tools and techniques

Loan officers who have persevered through the trickle-down consequences of the declining economy have an ally and supporter in **Kyle Enger** of BBI Financial, LLC.

Drawing on his background as an entrepreneur, business consultant and longtime presenter for the country's top banking schools, Kyle has helped hundreds of lenders master skills essential to the small business marketplace. Graduates of his two-day "Loan Officer Financial Management Training" seminar report they are able to apply Kyle's tools quickly and effectively for the benefit of their banks and clients.

Kyle recently augmented his seminar outline to include perspectives on topics of particular importance to the industry today. Now, in addition to covering all of the material in his original curriculum, he also incorporates discussion of the current economic climate, corporate



Kyle Enger

deleveraging, cutting costs while sustaining morale, the "5 P's of profitability," financial tools for saving the business, the growth of business transitions, and other themes of acute interest to community bankers.

Already a three-time sponsor of the program, Bankers' Bank of the West will again bring the information-packed seminar to Denver Oct. 12 and 13 for the benefit of community banks in our service area. The course has been enthusiastically recommended by and for lenders of all experience levels as well as executives and business development officers.

To download the seminar outline, logistical details and registration information, visit the "Announcements and Events" section at www.bbwest.com or email info@bbwest.com. Early registration is recommended, as the session will be limited to 40 participants to allow for individual attention.▲

Focusing on core competencies: a must for community banks

*Michelle McCorkle, Intern
Optimum System Products*

As financial regulations have mounted, smaller banks are having a hard time keeping up. Precious time formerly spent on tending to customer needs has been diverted to deciphering new financial regulations and complying with all their requirements. Consequently, banks can easily become focused on internal affairs at the expense of overlooking customers' needs and business growth.

In fact, it is not always smart or cost-effective for a community bank to try to do as much as possible in-house. A sensible alternative to asking employees to accomplish tasks that fall outside their specialties is to outsource select functions like printing and office supply purchases. Judicious outsourcing can often save both money and time, allowing your bank to focus on core competencies.

Optimum System Products has established itself as a reliable, cost-effective partner for your bank's printing and office supply needs. Our average community bank customer saves 20% to 30% annually by switching to Optimum.

Additionally, through Optimum's new printing partnership with Mimeo, print-on-demand is now available to your bank, making Optimum your one-stop shop. This revolutionary technology allows you to submit your documents online by 10 p.m. Eastern Standard Time and receive them by 8 a.m. the next business day—a giant step forward in terms of quick turnaround.

What does this mean for your bank? Adam Slutsky, CEO of Mimeo.com, put it this way: "With the Mimeo Open Platform, Optimum will be able to offer community banks the same services that are now utilized by Mimeo's Fortune 100 banking customers without incurring the capital expense and risk associated with building a homegrown digital print solution."▲

Optimum System Products, Inc., is an award-winning national provider of bank supplies. We work with more than 1,500 financial institutions and provide virtually every product your bank needs to operate.

*For a **free consultation** on how your bank can save money on printing costs, call Optimum today at **800-869-0632**. Visit www.optimumsystem.com.*

Bank Card Department recounts advances in regulatory compliance, technology, and product development on behalf of community bank clients

Jack Hitt, Vice President
Bankers' Bank of the West

This has been a busy and dynamic year for the BBW Bank Card Department. With the help of our respondent bank clients and cooperation from your merchant customers, we've come a long way toward meeting new regulatory and card association requirements. Additionally, we've introduced a promising and innovative electronic banking option for community banks.

Following is a summary of progress to date and actions yet to be completed in the coming months:

CREDIT CARD ACCOUNTABILITY, RESPONSIBILITY AND DISCLOSURE (CARD) ACT OF 2009. Having created a new statement design to meet regulatory requirements that went into effect in February of this year, we are currently focused on fulfilling the Act's final requirements, slated to take effect next month.

COMPLIANCE WITH REGULATION GG as of June 2010. In keeping with the regulation's stipulations, we have implemented safeguards for BBW's credit card and merchant programs to thwart illegal Internet gaming activity.

COLLABORATION ON COMPLIANCE WITH THE PAYMENT CARD INDUSTRIES (PCI) DATA SECURITY STANDARDS (DSS). BBW has been

working with Security Metrics Inc. for a full year—with the valued assistance of our bank clients—to ensure all the merchants under our programs will become fully compliant with the PCI DSS. We hope to complete this project soon.

DEPLOYMENT OF TRIPLE DATA ENCRYPTION STANDARD (DES) KEYS. BBW's partner First Data completed new encryption keys for all PCI compliant PIN pads. As of July 1, 2010, BBW is deploying or setting up only PIN pads that are PCI compliant with Triple DES keys, which offer a much higher degree of security than old encryption technology when used properly.

MOBILE PAYMENTS. This spring, BBW partnered with Bling Nation, a provider of mobile payment services, to extend electronic banking options to your banks. Using Bling's mobile payments solution, community banks can offer an exciting new product to their retail customers and create ideal conditions for "shop local" programs that benefit their business customers and communities.

The Bank Card Department is extremely grateful for your willingness to work with us in this time of change, and for the opportunity to furnish you with new tools and strategies to help your bank thrive and support the communities you cherish.▲

Call our Bank Card specialists at 800-601-8630 for a free analysis or consultation

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



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