Summer 2013 Newsletter (summing up the 1st half)

www.RMANewEngland.org

The banking environment does not cease to amaze us. Now that we appear to be on track to recover from the recession, with loan portfolios cleaner, liquidity and equity improved, it seems as if it is time to rejoice and breathe a bit better. But, not so fast...

The regulatory environment reminds us of a cabbage, with all its many layers. In an effort to improve regulations, after many of the ones that were written previously failed to work to prevent the latest recession, regulators layer the cabbage with even more regulations without cleaning up the old ones that failed to produce results. What you get is a monster size vegetable with fresh green leaves on the outside, but, as you dig deeper, it has dried and rotted layers at its core. Will the new regulations prevent another downturn? Time will only show. If past performance is any predictor of the future, there is probably a good chance that the predicament of 2007-2009 is not the first and the last one we see.

As a generous side effect of new regulations, we spend more time and money on regulatory compliance that helps ensure tighter and tighter grip on margins. These regulations are likely to put some smaller banks out of business because they do not have the economies of scale and the necessary profitability to ensure compliance with all the regulations banks have to comply with. And these are the institutions that are the backbone of the American Main Streets, the banks that never stopped lending to and supporting their clients in the worst of the recession.

Another side of the coin is our own zeal that's bringing us back to the pre-recession levels of competition. With bankable C&I and CRE deals hard to come by and the urge to deploy the cash we have been so patiently guarding and sitting on, we rush to clear everything and anything that stands in our way to win deals - our competitors, pricing, covenants, and any value for relationship banking and premium pricing that comes with it. The industry reminds us of Nordstrom with Wal-mart prices. Covenant light deals should be re-qualified into covenant-free, organic and free-range deals. We know quite well that we will pay for these decisions later but now is the time to book assets because we do not know whether the economy takes a downturn after a stalled recovery or continues its sluggish recovery trend. Either way, we believe that banks with greater market share will fair better than others. As for the rest, we will deal with it later. The customers are happy - they are getting a huge bargain, even if they pay for it in a few years through no patience workouts or lost of credit because the lowest pricing banks run into problems.

So, what's in store for us for the remainder of 2013? Uncertainty will likely prevail; with one day bringing the news of improved consumer sentiment and seeming recovery of residential real estate markets and another bringing the news of slow manufacturing data and unemployment rate still being stubbornly higher than desired. We will continue to face the results of the sequester cuts, elimination of the economic easing, challenges in the EU zone, and all the challenges of the banking industry from compressed margins and high competition to challenges of the generational turnover we will face in the next 10 to 20 years.

While the challenges abound, they also bring opportunities. There are opportunities to develop more effective and efficient credit groups (see our next newsletter). You can elevate your ERM processes and procedures. You can learn the best practices from your peers (pages 2-6). Your staff can get training in the matters of credit analysis, relationship management, portfolio management, and specialty lending lines (pages 2, 7).

All this can be achieved with the help your RMA New England Chapter. Please reach out to one of our board members (page 8) if you are interested in an existing event or if there is an event you and other member banks may be interested in. We are always looking for those interested in getting involved in the RMA New England, from junior to tenured bankers who want to add value to others in our industry. You can reach us through contact information listed in this newsletter as well as by visiting www.RMANewEngland.org. We have two LinkedIn groups: one is RMA New England and the other specifically for our Young Professionals group. Finally, we would love to hear from you, post your updates and note-worthy news, and what your training needs are!

Reminder: **CCL** or **Commercial Credit for Lenders** is **SOLD OUT** and is just a few weeks away!

Meet our Board Member – Carol Brennan, Membership Chair (2012-2013)

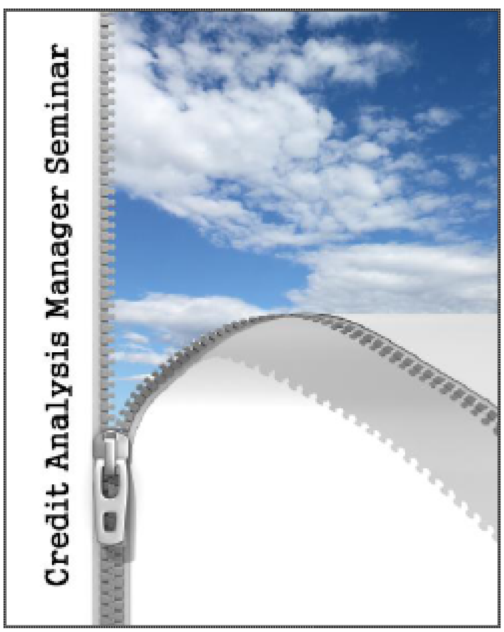
For the past 15 years, Carol Cedrone Brennan has worked at BDC Capital / CDC New England based in Wakefield, MA to provide innovative financing solutions for New England businesses in conjunction with banks. She currently serves as the Director of Business Development providing SBA 504 loans, ABL working capital lines of credit, term loans, and mezzanine investments. Prior to that, Ms. Brennan held positions with a finance and marketing consulting firm, an injection molding company, and a computer manufacturer.

Ms. Brennan has served as a Board Member of the New England Chapter of RMA since 2001 and of Westmass Area Development Corporation for 8 years since 2005. In addition to being the RMA Membership Chair, Ms. Brennan organizes RMA Roundtables and Women in Banking events in Connecticut.

Ms. Brennan earned a B.B.A. in finance from the University of Massachusetts at Amherst and a master's degree (M.Sc.) in management from the MIT Sloan School of Management.

In her spare time, Ms. Brennan spends time enjoying various outdoor activities with her husband and two adult children and resides in West Hatfield, MA.

Coming January 2014 – Credit Analysis Manager Seminar



RMA New England presents its newest program - **Credit Analysis Manager Seminar**.

This is a seminar for new as well as experienced commercial credit managers who would like to take their teams to the next level. Whether you seek incremental improvements, complete turnaround, building a brand new team, or learning new tips and best practices, this seminar is a wealth of knowledge.

One Boston-based lending executive noted: “if you want to be successful in this (commercial banking) business you need to get three things right - 1) competitive pricing, 2) knowledgeable commercial bankers, and 3) effective and efficient underwriting groups and throughput”.

While your credit team’s resources and budgets are commonly stretched and limited, you are at the center of it all. Your team is what can make your bank successful or set it below your competition. Yet, figuring out a good strategy and direction for building a high performing team is not easy.

This is how the idea for the Credit Analysis Manager Seminar was born. It is a one-day seminar that combines the knowledge of operations, general management, and competitive intelligence. You will look at real life problems faced by credit teams, practice to deal with these challenges in new ways, assess your underwriting capacity versus the real needs of your organization, understand how to be more effective as a credit manager in working with other bank’s executives, learn to motivate your teams to increase production and quality of work, develop a quality platform for attracting and hiring talent, uncover tips for managing Millennials and other younger generations, and much more.

The Seminar will be offered in January / February 2014 with more details available soon. If you are interested in learning more and potentially attending this seminar, please email the RMA New England board member Dima Berdiev. He can also be reached at 617-233-1405.

Local events organized by RMA New England

Commercial Credit for Lenders / Analysts -- CCL

SOLD OUT!

Commercial Credit for Lenders / Analysts (CCL) is a four-class program spread over an 8-week period, which provides a solid foundation in the basics of commercial lending and credit. The program focuses on the lender with little or no experience, loan trainee, credit analyst, or branch manager. A basic understanding of financial accounting is the only course prerequisite and the program is an ideal precursor for the popular Loan Officer Resident Seminar (LORS) held in the spring.

Session dates:
October 15, 2013
October 29, 2013
November 12, 2013
November 26, 2013

Presentation in 4 comprehensive, instructor-led, all day sessions.

- Each session is preceded by 2 weeks of self-study.
- Instructor is available throughout the entire 8 weeks to assist participants.
- Self-assessment questionnaires enable each participant to measure their progress.
- RMA education materials serve as an excellent reference source for years to come.
- The class size is limited to 30 participants. Participants work closely together in a collegial, interactive, face to face instructor-led workshop environment. This collaborative approach ensures that all participants maximize the course value while learning from each other, and the instructor.
- The price is right.

RMA Connecticut / Western MA
Annual Senior Executive Community Bank Roundtable

Note that this event is open **only** to Senior Executives of member banks.

Wednesday, September 25, 2013
12:00 – 2:00 p.m.
Carbone’s Ristorante
588 Franklin Avenue, Hartford, CT
www.carbonesct.com

Join us for a frank, interactive discussion of issues facing area community banks. We are pleased to announce that our featured speaker will be Audra Cast, FDIC Supervisory Examiner.

The event fee remains $35 and lunch will be served.
Carbone’s was rated the #1 Italian restaurant in all of Connecticut by Connecticut Magazine.

Please reserve your spot by September 20 by registering below.
Cost: $35 for RMA members
Lunch will be served

Visit RMA New England website for more information (click Events - Local):
www.RMANewEngland.org

A brief recap of a couple of events from earlier this year

Recap of the "Apartments 2013 and Beyond Sustainable Growth or a New Bubble?" event

Presenter / Moderator:
Tim O'Donnell, Principal and Founding Partner, Fantini and Gorga
Panelists:
- Barry Bluestone, Stearns Professor of Political Economy, Northeastern University and Director, Kitty and Michael Dukakis Center for Urban and Regional Policy
- Steven Kaye, Senior Vice President and Partner, CBRE/New England
- Damian A. Szary, Founding Member and Principal, Gate Residential, LLC
- Mike Lee, Executive Vice President, Santander Real Estate Capital
- Marlene Hoyt, Senior Vice President, Head of Construction Lending, Enterprise Bank

Special thanks to Paula Zaiken of the RMA New England Board for her help with organizing this event.

This was a successful, sold out event. The moderator and the panelists have extensive experiences in their respective fields and offered diverse perspectives on the condition and outlook of the residential real estate market in the greater Boston area. Below is a brief summary of lessons learned, recommendations and conclusions.

- Boston skyline is represented by a wide range of rents starting from $4 PSF and up. As a result of the recovery post the Great Recession, rents shot up, cap rates are down, and values are increasing.
- The market is changing daily. The event was initially postponed due to weather from February 8 to April 4 and even in that relatively short period of time our presenters had to revise their data and slides to reflect changed market dynamics.
- Residential market took ~8 years to recover after the market crash in the late 1980s. This recovery will likely be much slower.
- Buyers are still postponing purchases and are anxious to make buying decisions. One of the phenomena is that younger professionals do not see housing as a worthwhile investments right now.
- Grad students' population explosion and living off campus have helped the greater Boston market in the last 10+ years.
- The so-called Millennials are poor (or at least poorer than prior generations)! Their income in real terms is falling, housing costs are up (whether renting or buying), and debt levels are up (mainly due college loans).
- Young professionals do not like to commute. Their parents' commuting reality of life is not appealing any more.
- Cap rates: 4.6% Class A – 5.7% for B&C (averages).
- 6MM units are estimated to be added for the next several years with an additional 2MM potential.
- Current development yield is the focus of developers. NOI is preferred over project cost. 2.0x equity return is the goal over the term of the project (build, stabilize, sell after a hold period); 20% IRR for institutional investors.
- What good developers are doing: one project better than the one before.
- Amenities are essential. High end fitness centers are in demand. Renters are looking for properties that have vibrant communities in the surrounding areas, so projects have to be woven into local communities.
- Public transportation is key. Shared transportation is definitely a trend (formal – ZipCar as an example and informal care sharing).
- How do you make sure that the project is relevant? This is on the minds of successful developers and something bankers must understand and get comfortable with.
- The NAHB data – historical lumber and other commodity prices are up.
- Demand is there but will supply or demand drive the market?
- Bankers should be looking to have yield maintenance provisions on their CRE loans.
- Do not run with the herd – strive to balance decrease in pricing (key pressure point) with tightening in structure or vice versa.
- Did your prospective developer survive the history test and live through prior recessions?
- 1.2X DSC and 75% LTV are essential. Stress test for: market rates, cap rate, NOI, DS (interest rate), leverage.
- Best mitigant – cash equity (10%-15%)!
- Lending with recourse should still be strongly considered.
- Proposition 2 ½ - from R/E tax cap to permitting fees.

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- Around the country: price PSF – difference between Boston and Midwest / other parts is price of land.
- Credit – Project – Interest – External Risks approach.
- Some criterion of underwriting apartment construction: energy costs, pre-sell of 70% after Fannie debacle.
- Where are Baby Boomers moving and what drives them? Not enough data is available but how much can they get for their homes to how much are the new selling for are key to their decisions? Retirees tend to stay within their communities unless moving to warmer areas.

Recap of the "Careers in Commercial Banking in 2013 and Beyond" event

Presenter / Moderator:

Dima Berdiev, Vice President at Boston Private Bank & Joe Herzog, Assistant Vice President at BDC Capital

Panelists:

• Martha Higgins, Executive Vice president and Director of Human Resources at Boston Private Financial Holdings
• Bruce Lemieux, Senior Vice President and Chief Credit Officer of Business Banking at Sovereign Bank
• Mathew Osborne, Senior Vice President Head of Commercial Lending Group at Eastern Bank

Special thanks to the RMA New England Young Professionals Group for organizing this event.

This event was organized by the RMA New England Young Professionals Committee. The event drew bankers from over a dozen regional institutions. Below is a summary of several discussion points.

What are some of the career challenges you have struggled with and how have you overcome them?

- All panelists agreed that maintaining a balance between the family and career is a great challenge. The advice is that you cannot have it all. You have to let something go to achieve what you really want.

How is an MBA degree creating value and does it? Is this the next logical step for a young professional?

- The panelists concluded that although an MBA looks good on your resume, to stay competitive in the industry, managers do not place sufficient value on a graduate degree such as the MBA. Depending on the job that a candidate is applying for, experience, a book of business, or a CFA could differentiate one interviewee from other candidates.

We hear quite a bit about the generational gap in commercial banking, impending generational turnover, many tenured bankers retiring in the next 10-15 years, and not enough trained and experienced bankers to take their place. What do you see? Do you agree or disagree?

- There is a major training and experience gap between tenured bankers who received credit and other formal banking training and the younger generations who did not benefit from the same training opportunities. Under the pressure of the financial crisis of 2008 and 2009 many banks dissolved the remaining credit and non-credit training programs due to budget constraints. Banks have not yet reinstated these programs as the economy is slow to recover, which is creating a major learning gap for the current young professionals. Banks believe that it is too expensive to hire outside credit trainers, as they try to cut down on expenses. One option has been to train internal employees, so that they can train the rest of the company but even this has proven challenging as limited resources prevent banks from sparing employees to be trained and then train others. Return on training employees is hard to measure as the fruits of such training are not collected until years later. Employee turnover and mobility of the present day workforce is helping banks perpetuate the false conclusions about training budgets being less essential expenses.

How does the generational gap translate to career opportunities?

- Panelists concluded that the banking industry continues to consolidate and the number of banks will continue to decline. This creates opportunities for those with credit and other forms of banking training as well as extensive and diverse experience. In addition, as many Baby Boomers will be retiring in the next 10-15 years, there will be many jobs opening for young professionals with the right skill sets.

What do you see as the key challenges when hiring a new employee, especially junior to mid-career professionals?

- Panelists had different views of this topic. The answer depends on which areas candidates apply to. Overall, the work experience and the character of the new employee and how well he or she would fit with the rest of the team and the company was the main priority when interviewing a candidate. For example, for sales roles an existing book

A brief recap of a couple of events from earlier this year

of business with a possibility of bringing over clients was a key to the hiring process as well as networking skills and the ability to grow business.

What advice can you offer to those seeking to advance or to make a transition in their careers?

- Work experience in various business lines was one way to make yourself more marketable. Building the necessary skills that are required for the next career step and leveraging the opportunities in your current company before you make the move is another way to be strategic with your advancement.

What do you see happening in the coming years in your organizations? What about the industry in general?

- The panelists expressed optimism for their own companies despite the numerous challenges that they face today. The banking industry also promises a choice of many potential jobs in the years ahead as the Baby Boomers will look to retire.

About Us: The Risk Management Association's Young Professionals Committee is an affinity group of the RMA New England Chapter. We are local financial services professionals who strive to provide junior to mid-level bankers (and other financial services professionals) with training opportunities, networking venues and exposure to senior level individuals. We welcome new members who may be interested in getting involved in creating valuable events and learning unique skills to enhance their professional experiences. If you are interested, please contact the group's Chair, Joe Herzog, for additional information (jherzog@bdcnewengland.com).

RMA Credit Risk Certification

For more information, visit www.RMAHQ.org

In today's rapidly changing financial services industry, you need practical, day-to-day knowledge that will help you excel in your profession. You need the latest skills - skills that are current and complete. And you need the demonstrated ability to serve a diverse base of clients. Plus, you need all of your knowledge, skills, and abilities to be validated by a respected organization like RMA.

There are seven skill sets you need to build on when preparing for the RMA-CRC examination. This is in addition to the knowledge acquired through the application of concepts as a hands-on lender, analyst, credit officer, or loan services officer.

1. Evaluate the client's industry, markets, and competitors.
2. Assess management's ability to formulate business and financial strategies and to execute them.
3. Complete accurate, ongoing, and timely financial assessments of the client and its other credit sponsors.
4. Assess strengths and quality of client / sponsor cash flow.
5. Evaluate collateral values and conduct periodic inspections of collateral.
6. Identify repayment sources and appropriately structure and document credit exposures for the intended purpose.
7. Learn to recognize problem loans and the actions needed.

For listing of national events, training seminars, conferences and a lot more, please visit www.rmahq.org.

RMA National training courses held in Boston

The RMA New England Chapter is cosponsoring the following open enrollment seminars:

Construction Loan Management: Administering the Construction Loan Process
September 26, 2013
Boston, MA

Global Cash Flow
September 30, 2013
Boston, MA

Problem Real Estate Loans
October 2, 2013
Boston, MA

Advanced Real Estate Cash Flow and Valuation
October 11, 2013
Holyoke, MA

Global Cash Flow
October 11, 2013
Portland, ME

Lending to Municipalities
October 16, 2013
Boston, MA

Financial Statement Analysis
October 29-30, 2013
White River Junction, VT

You can register on www.RMANewEngland.org

RMA National events

For listing of national events, training seminars, conferences and a lot more, please visit www.rmahq.org.

RMA was founded in 1914 to help commercial bankers make better lending decisions through the exchange of credit information. Today, RMA is the only association that specializes in promoting effective and prudent risk management practices for institutions of all sizes, across the entire financial services industry. Headquartered in Philadelphia, Pennsylvania, RMA has approximately 2,500 institutional members that include banks of all sizes as well as nonbank financial institutions. They are represented in the association by 16,000 risk management professionals who are chapter members in financial centers throughout North America, Europe, and Asia/Pacific.
Note: As a not-for-profit, professional association, RMA does not lobby on behalf of the industry.

Meet the RMA New England Chapter Board

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Enterprise Bank

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Dennis Stratton (2009-10), Long Range Planning, LORS
Bruce Lemieux (2008-09), LORS
Andrew Mahoney, Strategic Planning Committee, Audit, Bylaws

Paul Butler (2002-03)
Robert Skurka (2000-2001) Strategic Planning Committee
Richard L. Archambault

Interested in getting involved in the RMA New England?

We want to hear from you!

We are a group of high energy banking professionals who put together educational, networking, panels and various other events and products. We work within our business community to bring value to our peers through a wide range of services.

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Julie Conroy, Administrator
Contact Us