Spring 2012 Newsletter

www.RMANewEngland.org

The state of today's world of banking can be closely linked to two questions. The first is a variant on the "how are you seeing things out there" or "do you think we're coming out of this recession". The second question is "what makes your bank different".

There are as many answers to these questions as are banks and bankers. To state the obvious, banking today is a highly commoditized industry. What separates the bankers in any given room isn't their salesmanship in answering any of the above questions, but rather their credibility. It's getting the job done and doing it in such a way that your customers know it. It's a cliché but actions speak louder than words and in Massachusetts where the reality is that economic growth is tracking faster than the national average, bank customers demand action, not salesmanship. Gone are the days of smoke and mirrors.

In this issue you will discover that the economic engine of Massachusetts remains strong & intact, but that there remains the need for cautious optimism. By the way, have you ever heard the term "cautious optimism"? It's a low interest rate environment and this is an election year. Unfortunately, the banking industry remains very tarnished after the last downturn (although there are plenty of institutions that did the right thing and likely had little to do with the downturn). However, this is the golden opportunity for every banker to pull ahead and not only make banks more profitable, efficient, and well-liked, but it's also the opportune time to position the industry for the future. And the way to do that isn't salesmanship, but rather it's credit and credibility. As noted by a Boston-based lending executive, a recipe for creating a successful bank is based on:

1) competitive pricing;
2) expert lenders grounded in credit; and
3) highly effective underwriting function.

Another success recipe is efficiencies, keeping your employees as productive as possible (without running them into the ground), and truly understanding which areas and employees contribute to your bottom line and which do not. This is not achieved by the traditional focus on revenue centers and cost centers and the historic divide between the front line (business development) and back office employees. It is achieved by looking at each department and line of business through the profit center lenses. This is not easy to achieve, as it will require a 180 degree change from how you did business in the past. And we all know change is not something individuals and organizations embrace. If you are reading between the lines - this is your opportunity to become more profitable than your competition because you know that your competitors will only talk about this idea but will likely do nothing about it. What you need to decide is whether you want to be the leader or get lost in the midst of the herd.

RMA is a credit and risk centric organization, and this approach has served our members well over many decades. On behalf of RMA we hope that you will find this spring newsletter as a call to action for all the bankers to reevaluate current practices rather than just creatively craft a different answer to the same question.

Here is a brief summary of what you will see in this issue:

- A summary of the MA economic conditions;
- An article titled Gain Competitive Advantage with a Strong Support Infrastructure;
- Bio of the RMA New England upcoming Chapter President Mike Gallagher; and
- List of the upcoming RMA events in New England.

Please join us for our Annual Round Table Event titled

Making Loans in a Highly Regulated Environment

The event will be held on Thursday, June 14, 2012, 12:00am - 1:30pm
The Conference Center at Bentley University, Waltham, MA

See the back of this newsletter for more details

IN THIS ISSUE:

A message from our Outgoing President, Don Bedard

The Risk Management Association (RMA) is an organization that provides much needed industry resources to all size Banks on every aspect of risk management. During my tenure, the focus has continued to be on Credit Risk, and I am proud of the continued success in our "Credit for Commercial Lenders" (CCL) training, and the ever popular "Loan Officer Residence Seminar" (LORS) program.

With the transfer in leadership to Michael Gallagher of Enterprise Bank and Trust Company, we can look forward to expanding the Chapter's role in providing resources and training in the areas of enterprise risk management in addition to our well-established credit risk efforts. I look forward to working with Mike and the other Directors and Officers to make the Chapter a leader in the RMA National efforts. This is also my chance to thank each and every member of the Board of Directors, as well as the many volunteers and support staff for all the wonderful work and efforts afforded me during my tenure as President of the RMA New England Chapter. Without their input and support, the Chapter could not hope to provide the services and resources that continue to make the Chapter one of the most successful in the country. A special thanks to Julie Conroy, the chapter's Administrator, without whose help and assistance the office of President of the chapter could not be handled.

Thank you for the opportunity to serve in this capacity.

Donald A. Bedard.

Summary of RMA Women in Banking Event

On Tuesday, April 24, the RMA New England Chapter sponsored another successful Connecticut / Western Mass. Women in Banking Event at Carbone’s Restaurant in Hartford. Kate Lepak, SVP Sales / Marketing Director for People’s United Business Capital, shared her “Secrets of the Rainmaker – How to Source and Seal the Deal” with the 35 luncheon attendees.

Ms. Lepak began her talk with the following observation: the individuals who make the greatest impact on a company’s bottom line, will usually have the highest level of visibility in a company and, be the most highly compensated. In order to be a “Rainmaker”, Ms. Lepak stated that women need to be visible in the markets they serve, consciously develop their personal brand and always strive to differentiate themselves, and their companies, from the competition. Ms. Lepak encouraged attendees to know their target markets / customers, keep contacts up to date and tap into their referral sources. She suggested using LinkedIn, networking venues, speaking engagements and writing business articles as excellent ways of establishing a personal brand and differentiating a company. In today’s highly competitive banking environment, Ms. Lepak stressed the importance of delivering a unique customer service experience as a means of differentiation.

According to Ms. Lepak, the secret to closing the deal is usually as simple as *asking for the business*. If you earn a prospect’s trust and respect and then ask for the business with confidence, a positive attitude and a lot of energy, you can usually seal the deal. If you don’t seal the deal, Ms. Lepak encouraged attendees to ask prospects “why not?”, “what can we do better?” and “what will it take for you to say ‘yes’?”.

The secret of the “Rainmaker” is in the ability to step out of your comfort zone, outwardly express confidence, energy and a positive attitude to source the deal, and then listen, *and hear* the prospect’s needs so that you can ask how you (or your company) can meet those needs.

Members on the Move

Scott Thimann
EVP / Chief Retail Officer
Blue Hills Bank

Gain Competitive Advantage with a Strong Support Infrastructure

Commercial banking has always been a highly commoditized industry, and there is no reason to think that won't continue.

Typical of commoditization (defined as rendering a good or service widely available and interchangeable with one provided by another company) are customers whose decisions are driven by cost considerations, with little value placed on the quality of products and services. Interestingly, the same customers who look for low cost also seek and expect high quality. Another important component of our commoditized industry is that many commercial banks want new business at any cost and do not charge for higher-quality service.

Despite widespread commoditization, practically every business developer in commercial banking sells to prospects and clients the "excellence" of customer service at his or her bank. We hear the same conversations and marketing pitches when we meet our competitors at networking events and annual conferences.

When we drop our guard and are not surrounded by clients or competitors, however, we sometimes feel free to admit that the banking business is getting tougher every year and that we all sell the same "thing." There is just not enough difference among products and services from bank to bank. This includes small community banks, for which service is the main differentiator, and larger banks, which offer every product and service under the sun but not necessarily a customer focus.

Customer-service superiority that we boast about and defend either does not exist or is difficult to differentiate, defend, and price for. For deal after deal, we sprint to match or beat competitors' term sheets and so send a message to the marketplace: "No matter what we say about customer service excellence, we do not charge for service and want your business no matter the cost or profit margin. Come on in, and get the best the market has to offer for almost no cost."

But if price is the driver in developing new business, why do banks continue to allocate funds for business development? Why employ high-salaried business developers if you can practically automate sourcing of term sheets, price them lower than anybody else, and book new loans using staff costing much less? The answer lies in a lack of willingness to realize times have changed and in a mentality of "I have done it for years and it's always been fine" or "If it ain't broke, don't fix it."

If you look at a summary of key challenges facing the industry (see figure), banks find themselves in a back-office capacity crisis as customer loyalty declines and employee turnover rises. Every institution has been or will be dragged into this crisis. Institutions that can capitalize on the impending industry-wide crisis - and opportunity - will emerge as winners and make money in the process. This article will focus on one key opportunity.

Credit Departments Will Drive Successful Sales Efforts

The industry is on the verge of significant changes, including further consolidations, a continued decline in customer loyalty, and even more employee turnover. These trends are being driven by new technologies (mobile banking, new banking and nonbanking apps, remote deposit, online search engines for best pricing nationwide, automated risk management systems, etc.), generational changes, and rising competition, to name a few factors. It is a perfect storm of drastic changes converging in a single place and time. There is a silver lining, though. Turmoil presents opportunities for the most nimble, flexible, and adaptable.

Not every commercial bank can be the first to market with new technology or new products or services. Nonetheless, your organization can become more competitive without compromising service quality or pricing. The key is to outcompete on quality and efficiency in your support infrastructure. Don't worry about competitors reproducing your successes. Your competition can outbid you on pricing, lure away your employees, or steal some of your clients, but your infrastructure, underwriting turnaround, quality portfolio management, and other back-office advantages are not easily reproduced.

Let's focus on credit and underwriting. Every bank is different in its setup, culture, and employee experience and quality, so this is an area where your bank can compete and succeed. Human infrastructure cannot be quantified or replicated. Sam Walton enjoyed this advantage when he was growing Walmart. Competitors knew what his company's operational competitive advantages were, but they could not replicate them because they could not change themselves. Focusing on your credit underwriting and risk management teams, rather than on revenue-generating business development teams, can give you a competitive edge.

Missed Opportunities

How many times have you heard the following?

• Our bank is losing deals because they take too long to underwrite and get approved.
• Lenders are overextended and have to underwrite their own deals.
• Existing customers are not happy because renewals or requests for new money take forever to underwrite and get approved.

The root of these complaints is not that commercial lenders are lacking, but rather in other shortcomings:

• A lack of quality credit underwriters and support staff to manage accounts.

Gain Competitive Advantage with a Strong Support Infrastructure

• A lack of collaboration between lending and credit groups and inefficient processes on both sides.
• A lack of staff motivation to meet business development demands with necessary levels of credit quality.
• Ultimately, a lack of management understanding of what needs to be done or even the strategy and courage to initiate an overhaul.

A common double-edged sword for management is whether to generate more business first in order to have money for support functions such as underwriting, or to invest in support staff first in order to increase sales. Typical solutions range from doing nothing, in hopes that things will take care of themselves, to throwing more money into sales efforts. The latter will lead to more bottlenecks because of insufficient underwriting support, yet it is much easier culturally and psychologically to justify direct sales expenditures.

Unfortunately, this strategy is a common cause of burned-out employees, not only in sales but elsewhere. The most common outcomes of "sales pushes" are loss of morale in lending and credit, a decline in customer satisfaction, loss of deals or defection of existing customers, loss of key employees, and, ultimately, developing a reputation that your institution is in turmoil or can't get deals done. Reputation damage will cost you new business and new employees and will take a long time to correct.

In discussing the "where to invest money first" challenge, many bankers say getting money and resources to support their credit / underwriting groups is like going through a concrete wall. The sales-force-as-driver theory is still prevalent among bank executives, they report. One person noted that the last resort is to use an outside consultant to persuade management to invest where funding is most urgently needed. Why? Because management does not listen to its own staff!

While this is one of several solutions (and not the best one by any means), the winners will be those few banks that realize where hidden competitive advantages lie and that can capitalize on opportunities not available to most competitors because they are either too slow or incapable of change. It is easier for smaller institutions to take advantage of this opportunity because they have less red tape and fewer people to convert to a new model.

In summary, if you want to get deals - get them done, get them done fastest, and get them done with high credit quality - this is the way to put your competition behind and out of business in the highly commoditized world of banking. Below are several further points you can use in designing your strategy.

First-to-Market Benefit

Think of all the small and large banks (plus all nonbank providers of financing) competing in your marketplace. How many deals do you write term sheets for and how many deals do you actually get? By the time all banks are done bidding, it's the same as peeling a cabbage - the structure and pricing leaves are gone and you are stuck with a stem that is unappealing and not worth much.

If you are able to offer the fastest turnaround with quality underwriting, you will get fast-moving deals that have to be funded as soon as possible. Another benefit is the ability to land among the top contenders because of responsiveness. Not every bank gets a chance to come back with an "improved" offer. This could be your one and only chance. You'll impress your prospect with a fast turnaround.

The "Hairy Deal" Opportunity

For the few remaining strong credits, banks are willing to put up a fight to win and keep them at any cost. If you go for that deal, you'll probably have to price it at an unprofitable level. You can use this strategy to drive down pricing and reduce your competitors' profits on their best deals, but this is hardly a strategy for long-term, sustainable growth.

For subpar-quality credits nobody wants, you cannot charge enough to assume risk similar to that of equity investors. That leaves a large gray area of fairly risky - or "hairy" - loans that could be profitable if underwritten, structured, managed, and priced correctly. For these loans, you need a strong credit group with business developers who can balance credit and sales needs. There is more business in this category, in part because many banks do not want it. Either they do not have the resources to underwrite these loans properly, or they simply do not want to look at them.

Keep Your Existing Clients from "Soul Searching"

Every commercial banker knows it takes more effort to bring in a new client than to service an existing one, at least in most cases. Knowing how much effort it takes to switch, a

Gain Competitive Advantage with a Strong Support Infrastructure

client must really be fed up to look at other banks. What we often forget is that, even if a client decides not to leave the bank, at some time during the search he or she reaches a point of no return; loyalty evaporates and the realization dawns that other good banks are out there. It is a turning point in the relationship when a client realizes it may not be "Till death do us part." When a client reaches that point, you probably have lost the account for the long term.

Cost Approach Benefits

Have you ever tried to cost your underwriting staff or underwriting process? At one particular bank, the cost came to between $2,000 and $2,800 per deal, depending on complexity, for the particular underwriting setup and workflow. More importantly, if the underwriting staff were more efficient, a 10% improvement in turnaround would have resulted in a cost saving per deal underwritten of 6% to 7%. Don't forget that this 6% or 7% cost saving translates into the same savings per employee per year; the savings across a team of several analysts can grow exponentially.

Let's say that one year of savings per employee due to modestly improved efficiency would be enough to cover two years of good raises or generous bonuses for that same person. Those who have worked in credit know that decent raises or bonuses go a long way in promoting retention for a function that historically has a shortage of experienced employees, many of whom are not compensated in line with their skills sets.

Make a similar 10% improvement across four or five underwriters with junior- to medium-level experience, and you have enough cost savings to hire a new underwriter. Even if you do not hire a new underwriter, the same team with the same improvement can underwrite close to three dozen more deals. Convert those deals into dollars of fee income and yields, plus other banking services' revenue streams. With the right touch and strategy, any team can achieve this kind of improvement without breaking a sweat.

Now a word of caution: Cost saving is not the key benefit you should focus on. If you do, the hunger for savings will turn into a never-ending increase in production goals that decimates good teams. Don't let these small improvements steer you toward a "penny wise and dollar foolish" strategy. Think bigger. Think of the opportunity cost of losing deal after deal if your underwriting areas do not turn deals around in a timely manner.

What's worse, think of the longer-term reputation risk that will begin to spread in the marketplace. Your competitors will be happy to spread the word and paint your challenges with brighter colors. Lastly, think of the costs in the portfolio management area: higher risks if your institution fails to keep up with volumes of existing deals - and lacks the quality of underwriting to catch deals that are beginning to deteriorate or no longer belong in your portfolio.

How Do You Get There?

You can use many strategies to improve resources on the support side, but here are some key factors to consider when attempting to overhaul an underwriting area successfully:

• Know that it will be a painful process that will take time and lots of patience.
• It will need a driver who can see the change through and not run out of steam in the face of time and adversity. (I call such a person a CCO, for "chief cheerleading officer.")
• This will be a culture-change process. One of the changes will be realizing that analysts or underwriters are a scarce resource. They are among an organization's most valuable assets and should be used as effectively as possible, just as highly valued business developers are.
• Cutting costs for the sake of cutting is a myopic and short term strategy that will cost you dearly down the road.
• You get the quality of staff commensurate with your investment in that staff.
• Reinvesting your savings in your staff is the best thing you can do to provide highest return on investment for your stakeholder.
• Better-quality staff that's not stretched and overworked can develop improved specialties and quality of underwriting, a competitive edge, and potentially the advantage you are looking for.
• Day-to-day operational demands and resource constraints will always be a drag on your strategy, but you must persist in seeing it through. Staying the course is the hardest thing to do, but you have to think long term or your efforts will be derailed.

To wrap up, I hope this article inspires you to change direction from investing solely in sales to developing a well-balanced focus on throughput. Think about the possibilities for taking your support functions to the next level and what that can mean for your business developers. The changes are within your control, even though the execution will be incredibly hard and you will run into lots of resistance.

The hardest challenge to overcome is in changing mentalities and attitudes. Do not forget a simple but often forgotten wisdom: Reinvest, reinvest, and reinvest in your employees.

Summary of Massachusetts Economic Report from Mass-Benchmarks

Prepared by David Semenza of Boston Private Bank; March 2012

Following a year when the state's rate of economic growth first exceeded and then fell short of national growth, the Massachusetts economy is expected to track national growth in the coming months. For both the nation and the state, there is cause for cautious optimism, arising from a number of recent positive indicators. For the state, the unemployment rate is down, and well below the national rate. Gross state product has grown at above or near the national rate for many quarters. Initial claims for unemployment compensation are falling. Nationally, most indicators of the labor market — employment growth, the unemployment rate, initial claims for unemployment compensation — are headed in the right direction. Retail sales are strong. Housing is showing some tentative signs of improvement. All these factors suggest modest but improving economic growth during 2012.

Caution must be exercised, however, due to threats beyond the state's borders. The impact of events in Europe could affect the state both through a decline in exports and through financial contagion. Forty percent of international exports from the Commonwealth have a European destination. A slowdown in Europe or a recession there will negatively impact these export flows. A full-blown financial crisis originating in Europe, as recent history shows us, can rapidly spread throughout the global economy. The recent creep in oil prices and the possibility of supply disruptions also remain a concern. For example, if Iranian oil supplies needed to be replaced, there would be little buffer production capacity left to moderate further price increases. Other risks include further fiscal tightening from the federal government, further household deleveraging, and continuing high levels of uncertainty among households and businesses.
Massachusetts faces a future that is hopeful, cautionary, and painful. The state has many sources of strength, but pockets of weakness and severe hardship remain in many of our older cities, in segments of our labor market, and in sectors such as housing.

The growth in Massachusetts real gross state product growth slowed to a 2.3 percent annualized rate of growth in the fourth quarter of 2011 according to estimates by Mass-Benchmarks, the journal of the Massachusetts economy published by the UMass Donahue Institute in collaboration with the Federal Reserve Bank of Boston. In contrast, U.S. real gross domestic product grew at a 2.8 percent annualized rate during the same period according to estimates released earlier today by the US Bureau of Economic Analysis.

Two factors account for the slowdown in growth in Massachusetts relative to the nation. The first is the peaking of worldwide demand for information technology products in early 2011 and their subsequent decline during the rest of the year.

The second factor is the ongoing European debt crises, which may have already begun to negatively affect the state's export activity. Massachusetts merchandise exports in the first 11 months of 2011 were 5.7 percent higher than during the same period in 2010 as compared to the 11.5 percent state export growth experienced between 2009 and 2010.

A recession in Europe, which appears to be occurring now, could reduce Massachusetts growth through a reduction in exports. A reduction in export demand from Europe of 20 percent — which seems plausible — would reduce state economic growth by one-half to three-quarters of a percentage point.

Notwithstanding these risk factors, there is reason to believe that this slowdown may be short-lived. The Mass-Benchmarks Leading Index is signaling a quick return to stronger growth in the state's economy, of 3.5 percent in the first quarter and 4.0 percent in the second quarter of 2012. "The rise in the stock prices of leading Massachusetts firms, improved consumer confidence, and sharp increases in discretionary consumer spending in recent months are all encouraging signs that the recovery underway can maintain its momentum," said Dr. Martin Romitti, Mass-Benchmarks Managing Editor and Director of Economic and Public Policy Research at the UMass Donahue Institute.

New England area events by the New England Chapter

Making Loans in a Highly Regulated Environment

The RMA is very much aware of the issues confronting the Banking Industry today – none of which is more time consuming and confusing as compliance regulations as they pertain to Commercial Lending. Join us for our Annual Meeting as experts from RMA National and the FDIC lead a panel of local and regional Senior Credit and Loan Officers to discuss this emerging issue. Lunch will be served. Registration will begin at 11:30, followed by a brief Annual Meeting and the program.

Date: Thursday, June 14, 2012
Time: 12:00am - 1:30pm (Registration opens at 11:30)
Place: The Conference Center at Bentley University
175 Forest Street, LaCava Campus Center #300
Waltham, MA 02452
LAC 395 EDR Conference Room

Cost: $35 for RMA members Ð$40 for non-Members Ðincludes lunch
Registration: 11:30 to 12:00
Lunch and Presentation: 12:00 to 1:30

For more information contact:
Julie Conroy at 978-263-9003
Julie@rmanewengland.org

RMA National training courses offered in New England

June 14, 2012
Lending to Wealthy Individuals - Rockland, MA
Build profitable relationships with your wealthy customers -- and their referrals Financial institutions that identify and meet the needs of wealthy individuals, and that can analyze the risks involved, have the opportunity to build profitable long-term relationships with these clients and their referrals.

Visit www.rmanewengland.org
For more details and to register

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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.
For more information, check out our website: **www.rmahq.org**

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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.

RMA New England Chapter
10 Back River Rd.
Amesbury, MA 01913
Julie Conroy, Administrator
Tel.: 978-263-9003
Julie@RMANewEngland.org