

THE RESPONDENT

BANKERS' BANK
N O R T H E A S T

A New Direction In Correspondent Banking.

“Overdelivering”

for Weymouth Co-operative Bank

How the Bankers' Bank Northeast helped one community bank

When Bob Terravecchia of Weymouth Co-operative Bank was approached by the Bankers' Bank Northeast last fall, he had a vague notion of a Bankers' Bank. “I thought of it as a wholesale bank for banks,” he recalls.

After meeting with Richard B. Lockwood III, the Bank's Vice President/Director of Sales and Marketing, Bob fully understood the Bank's mission. Two weeks later, Weymouth Co-operative Bank became a client, taking advantage of the Bankers' Bank Northeast's safekeeping and Fed Funds services.

Today, Bob, the president and treasurer of Weymouth Co-operative Bank, is a firm believer in the Bankers' Bank Northeast. “Top to bottom, it's been a great relationship,” he says.

“Bankers' Bank has underpromised and overdelivered,” says Bob, a CPA. “That happens very rarely nowadays. They really service us.”

What attracted Bob and the Weymouth Co-operative Bank to the Bankers' Bank Northeast? Bob says it was the Bank's promise of savings and its commitment to community banking.

“We had been looking at getting out of our safekeeping arrangement,” says Bob. “We were paying too much for what we were getting.” By switching to the Bankers' Bank Northeast, Bob estimates that they save \$6,000 annually in safekeeping fees. “It was a total no-brainer.”

Bob also likes the fact that the

Bankers' Bank's safekeeping service is run from Boston, while Weymouth Co-operative's former safekeeping service had moved its operations to Kansas City. “We missed the local contact,” he says.

The Bankers' Bank's rates on Fed Funds have also proved to be attractive for banks like Weymouth Co-operative. “They're very competitive with the Home Loan Bank and on some days they actually beat the Home Loan Bank.”

Bob calls the link between the Bankers' Bank's Fed Funds and safekeeping services “seamless” because the two are integrated. Weymouth Co-operative requires fewer correspondent relationships because the Bankers' Bank

works with a qualified list of 47 banks to invest Fed Funds. “It's convenience,” Bob says. “They're able to diversify my Fed Funds investments and fully comply with Regulation F.” The Bankers' Bank also assists client banks with its quarterly due diligence by providing the necessary financial information for Bob to review.

Bob says the relationship between Weymouth Co-operative Bank and the Bankers' Bank will continue to grow. The bank is currently looking at several other Bankers' Bank services that will save them money.

The Bankers' Bank Northeast operates like community banks. They care about their customers and want them to succeed. “They do business the way we do business,” says Bob.



Robert W. Terravecchia, Jr.
President & Treasurer

WCB Weymouth
Co-operative Bank

President's Message

Banks Carry the Cost of the Nation's Currency



The Federal Reserve System supplies the banking industry with the Nation's currency and it does not charge for the vault services provided. The Fed does this to comply with its mandate from the

Treasury to provide the banking public with the basic “commodity” required to transact business. Banks, in turn, have traditionally not charged its customers for cashing checks and taking cash deposits.

One would assume, therefore, that the cost of handling incoming and outgoing cash is simply an incidental cost of providing banking services. Such an assumption is grossly erroneous. I have not yet gathered empirical data, however, I know that handling cash is extremely expensive. Tellers, ATMs, armored courier services, vault capital and maintenance expenses, security systems, insurance, audit and accounting services, supervisory and management salaries, and write-offs of lost currency all add up to a significant expenditure. Historically, we have built branch networks to primarily meet the need to distribute and collect cash. Although most agree that branches are becoming sales and marketing driven, the traditional cash handling costs remain.

Our non-bank competition does not offer cash deposit and withdrawal services. They have made a financially sound decision. Merrill Lynch, Fidelity, Travelers, American Express and other financial service giants leave such servicing to the nation's depository institutions. (The key word here is ‘depository.’) I wonder if bank customers properly value the cash services offered by banks as they wait at a teller's counter reading a rate board that most likely lists rates that are not competitive with the brokers' money market accounts.

Our studies indicate that vault cash at most banks now exceeds required reserves. Accordingly, banks carry a real cost of funds for every dollar in excess of required reserves. (Reserves are also an expense load not shared

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by our competition.)

To impose customer charges for cash handling would be suicidal for an industry that is considered by the public to be a "utility." However, maybe now is the time to suggest that the high costs of cash handling should be shared by all financial institutions, including the Treasury and non-depository financial institutions.

Pending legislation would enable banks to pay interest on business checking accounts. The same bill [Senate Bill 229] would enable the Federal Reserve to pay interest on reserves, though our interpretation is that interest would be paid only on the electronic account held at the Fed. Maybe our industry should lobby to enable payment of interest on the vault cash portion of reserves as well. If banks have been designated as the distribution channel for the nation's currency, the government should provide the inventory with no carrying costs.

I have written this "Message" now because the Bankers' Bank Northeast has had to increase its pricing for Coin and Currency services due to a significant increase in the cost of holding related inventory. Although our pricing remains competitive with both the Federal Reserve and other large correspondents, the absolute aggregate costs of cash handling are substantial and are likely to increase. Alternative payment devices, such as debit/credit cards, direct deposits, smart cards, and others will not likely supplant cash for a variety of reasons. The new electronic options are more efficient than cash, however, the public continues to prefer to hold hard currency.

We, as an industry, need to become aware of the burden of cash costs and to find a way to share the load. We have some ideas in that regard. Please contact me with yours.



Peter J. Sposito
President & CEO

Product Spotlight: Investment Advisory Service

Economic events, capital markets and strategic planning are all critical elements that impact the yield, liquidity and safety of a community bank's securities portfolio. To help your bank manage its investment strategy and increase its portfolio profitability, Bankers' Bank Northeast is pleased to announce our *Investment Advisory Service*. Offered through our business alliance partners, the *Investment Advisory Service* is designed to complement our growing securities safekeeping service. Our alliance partners, based in New England, are independent, SEC-registered investment advisors who have worked with community banks with assets from \$100 million to more than \$2 billion.

The *Investment Advisory Service* provides the following:

- An investment strategy based on your balance sheet.
- A specific measurable plan to execute your strategy.
- Coordination of securities settlement with your safekeeping provider.
- Full regulatory and audit support.
- Examination of your tax position and implementation of identified programs.
- Mark-to-market reporting.
- Specialized reporting: maturity, duration, cash flows, etc.
- Monthly and/or quarterly presentations to ALCO.

Because we are able to aggregate volumes, our clients are eligible to receive discounted pricing. Our business alliance partners do not have any long-term contractual requirements. In addition, this service can be used with your existing safekeeping provider or with our safekeeping service offered through Investors Bank and Trust Company.

For more information or to arrange a meeting, please contact Richard B. Lockwood III, Vice President / Director of Sales & Marketing at (508) 272-9901.

To Contact Us:

Bankers' Bank Northeast
CT Main Office: 1-800-449-9121
Boston Direct Dial: (508) 272-9901

Officers:

Peter J. Sposito, *President & CEO*
Allen L. Nielsen, *CFO*
Richard B. Lockwood III,
Vice President
Director of Sales & Marketing
Foster S. White, *Vice President/Sales*
Susan W. Salecky,
Assistant Vice President
Director of Client Services

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655 Winding Brook Drive
Glastonbury, CT 06033-4337

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