

THE RESPONDENT

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

A New Direction In Correspondent Banking.

Service

Florence Savings Bank

Service that Continues to Impress

The Florence Savings Bank has reduced its reserve requirements at the Fed by \$4 million. "That \$4 million we are now able to invest," says Ed Putnam, Senior Vice President & Treasurer of the bank.

Ed took advantage of the Reserve Reduction program offered through the Bankers' Bank Northeast that allows community banks to reclassify a portion of their transaction accounts, thus permitting substantial reductions in reserve requirements.

It was Richard B. Lockwood III, the Bankers' Bank Northeast's Senior Vice President/Director of Sales & Marketing, who brought the Bank's Reserve Reduction Program to Ed's attention.

A cost savings without risk

Richard explained how the program works and the benefits to Florence Savings Bank: an increase in earning assets and no risk to customer accounts. In essence, Florence Savings Bank would reduce its non-earning assets and increase its income potential.

"Richard made the connection for us, submitted our FR 2900 Reports for an analysis, and we followed through," Ed says. The result has been a substantial

reduction in the Florence Savings Bank's reserve requirements. "Our reserves have been reduced from \$4.6 million to \$600,000," he says.

This reduction in reserves is one of the ways that the Bankers' Bank Northeast has helped the Florence Savings Bank succeed. Like other community banks, it was their dissatisfaction with its large, commercial correspondent that first piqued the bank's interest in the Bankers' Bank.

An attractive correspondent alternative

"Our president was looking for an alternative to our existing commercial bank provider and this seemed to be an attractive option," Ed says. "The Board supported our recommendation to establish a relationship with the Bankers' Bank Northeast," he says of the decision to work with the Bank.

The bank originally utilized the Bankers' Bank's coin and currency program, later signing on to its Fed Funds program, both as agent and as principal. The savings and level of service they get from the Bankers' Bank Northeast continues to impress Ed and his staff.



G. Edwin Putnam
Senior Vice President &
Treasurer



President's Message

Our Meeting with the ICBA of Maine



At the invitation of the Independent Community Bankers Association of Maine, Senior Vice President Richard B. Lockwood III and I attended the association's annual meeting on September 28th.

The invitation reflects the Bankers' Bank Northeast's growing role among community bankers throughout New England. Our reputation as an advocate for community banks is spreading among bankers, who find that we are an attractive alternative to other correspondents.

Although the Bankers' Bank Northeast has been in business since September 1998, there are community bankers who are still learning about the bankers' bank concept. For those bankers who have become resigned to working with the mega-regional correspondents, discovering the bankers' bank concept is refreshing.

During a PowerPoint presentation to 20 bank CEOs and CFOs, Richard and I were able to answer questions about the role that the Bankers' Bank Northeast plays with community banks. We explained that our only business is helping community banks succeed. The fact that we are not a competitor to community banks made sense to our audience. They prefer to work with an organization that is looking out for their interests.

We were also able to address the specific range of products and services that we offer. Richard explained that there are opportunities for the Bank to assist community banks in Maine to reduce servicing costs and increase their profitability.

Afterward, a number of executives told us that they view the bankers' bank concept as a unique opportunity for community banks. At least two participating banks have already asked for proposals for various services, and follow-up meetings are planned with other banks that attended.

We welcome the opportunity to spread the word about the Bankers' Bank Northeast. We believe strongly in our mission because we are committed to community banks. In this issue of *The Respondent*, you'll see how seriously we take this responsibility. Our recent focus group has provided us with valuable feedback about what we offer and how we can improve. We are expanding our popular Cash Letter service and offering Letter of Credit services.

You'll also gain some insight into our Board of Directors. Our board, comprised of Investor Bank Presidents and CFOs, actively contributes to our mission of serving community banks. Bankers' Bank Northeast's officers all have extensive community banking backgrounds and provide unique insights that result in solutions to make community banks profitable.

Peter J. Sposito
President & CEO

Our Board of Directors

The Bankers' Bank Northeast has a very strong, knowledgeable and active board. Comprised of CEO's and CFO's from our Investor Banks, they fully understand the financial environment and the needs of community banks. Our Investor Banks are a group of 34 institutions from Connecticut and Massachusetts who made an initial investment in the Bank so that we could meet the necessary capital requirements to obtain our charter in

September of 1998. The Bank currently has a total of nine directors, including the Chairman and the President & CEO of the Bankers' Bank Northeast.

A director serves a three-year term and can be renominated by the nominating committee at the Bank's annual meeting in April. The nominating committee is comprised of two outside directors and the Chairman. There are no term limits.



Ralph M. Shulansky, Esq., Chairman
*Former Bank Commissioner, State of Connecticut
 Former Senior Vice President & CFO Ames
 Former Senior Vice President, Connecticut Bank and Trust Company
 Former State Representative, State Senator*



Michael J. Brennan,
Senior Vice President & CFO
 PeoplesBank
 Holyoke, MA



Thomas R. Burton,
President & CEO
 Hampden Savings Bank
 Springfield, MA



Barry R. Loucks,
President & CEO
 The Simsbury Bank
 & Trust Company
 Simsbury, CT



John S. Manning,
President & CEO
 FirstCity Bank
 New Britain, CT



Thomas J. Pastorello,
Executive Vice President,
Treasurer & CFO
 Liberty Bank
 Middletown, CT



Christopher H. Pitt,
President & CEO
 Northwest Community Bank
 Winsted, CT



Peter J. Sposito,
President & CEO
 Bankers' Bank Northeast
 Glastonbury, CT



Donald A. Williams,
President & CEO
 Westfield Savings Bank
 Westfield, MA



Peter J. Sposito meets with members of the Client Advisory Board at its September meeting.

FALL CLIENT ADVISORY BOARD MEETING

Focus Group Provides Critical Feedback

In its ongoing effort to assess the products and services it offers to clients, the Bankers' Bank Northeast conducted a focus group session at the September meeting of the Client Advisory Board.

of New England Bank, Windsor, CT. To encourage honest and open feedback among the participants, the Bankers' Bank staff was not present during this session.

The group reviewed cash letter, check printing, coin and currency, courier service, Fed funds "as agent", international services, leasing, loan services, official checks, and safekeeping. Lentini directed and encouraged an open discussion about the pros and cons of each service. He also discussed which product areas the Bankers' Bank should enhance and/or be concentrating on in the future.

After the session, Lentini briefed the Bankers' Bank senior staff on the responses from the participants, made observations and recommendations. Overall, the Advisory Board fully supported the Bankers' Bank and was very pleased with its products and client support. The various comments and suggestions were extremely helpful. Lockwood said that the Bank is taking action on several of the suggestions raised by the focus group. "Based on the comments of the Client Advisory Board, the senior staff is taking the necessary actions to make it easier for our clients to do business with the Bankers' Bank Northeast."

This semi-annual meeting was held at Old Sturbridge Village in Sturbridge, MA, a central location that was convenient for Advisory Board members in both Connecticut and Massachusetts.

Because the Client Advisory Board members represent a cross-section of our client banks throughout New England, their input was especially valuable for the focus group. "Our goal," says Richard B. Lockwood III, the Bank's Senior Vice President/Director of Sales & Marketing, "is to identify servicing concerns, client needs and opportunities to better determine how we can focus our products and services to better meet the needs of the client banks."

The focus group, comprised of senior officers from 10 banks, was facilitated by David Lentini, former President & CEO



Myths and Facts of the Check Truncation Act

By Foster S. White
Vice President, Sales

The current system of check truncation has remained effectively unchanged since the 1950s.

Most would agree that check truncation as it exists today is an inefficient and costly process that can be delayed due to everything from human error to disruptions in the nation's transportation systems. A major storm in Des Moines may mean an extra day of getting your check from the East Coast to the West Coast.

The Federal Reserve is attempting to bring the nation's banks into the 21st Century with the Check Truncation Act, which is designed to encourage banks to convert to an electronic collection and return system of checks by reducing the current legal impediments to check truncation.

While the Check Truncation Act, or the CTA, has received a lot of attention on Capitol Hill, it will probably not be passed by Congress this year. Congressional inaction, however, does not signal the end of the CTA or the movement to electronic truncation. Banking lobbyists say the CTA will become law, perhaps as soon as next year. For community bankers, the clock is ticking. They must prepare for the time in the very near future when the transportation of paper is replaced by electronic transmission.

There has been wide support for the CTA's passage. Diverse groups – from industry regulators to the American Bankers Association – have gotten behind the CTA as a “carrot” approach to bringing community banks to electronic check truncation. They view the CTA as bringing about significant economic and operational advantages. Yet myths still surround this legislation. Here are some myths, and the facts that should put bankers and consumers at ease.

Myth: Customers will not get their checks back as proof of payment.

Fact: The imaged check has been established in major court jurisdictions as proof of payment. Imaged copies of paid items (front and back) can be accessed via the Internet at no cost and image pages are more convenient to store than boxes of “paid checks”.

Myth: There can be unauthorized access to information on checks once the check has been converted into an image.

Fact: Existing privacy legislation and individual banks' privacy policies continue to mandate that transaction data remain confidential.

Myth: The act speeds up check clearing without shortening the amount of time a bank can hold customer funds.

Fact: In many instances banks are currently granting availability to comply with Regulation CC prior to the time they have received actual use of the funds. Truncation will speed up the collection process, reducing loss exposure. If the CTA continues this trend toward improved availability times, Regulation CC could be amended to reflect this change.

Myth: The CTA will make forgery more difficult to detect.

Fact: The reduction of time to clear a check and swift access to the image of a paid item allows consumers to determine its validity much faster. Consumers typically wait until the item is returned with the monthly statement to review cancelled checks. The determination of a forgery is best detected by the maker rather than by using professional handwriting analysis and pen pressure techniques.



Growth

New Business at the Bank

Our strength comes from our community bank clients. Strength in numbers reflects our philosophy that community banks grow stronger as we work together. We are proud to welcome the following banks as new clients of the Bankers' Bank Northeast.

Bank Name	State	Assets (in millions)	Service
• Beverly Co-operative Bank	MA	\$135.4	Fed Funds as Agent
• Hyde Park Co-operative Bank	MA	\$107.0	Fed Funds as Agent
• Marlborough Co-operative Bank	MA	\$73.4	Fed Funds as Agent

Our customers understand that the Bankers' Bank Northeast helps them build their bottom line. These existing clients have recently added the following correspondent services with the Bankers' Bank Northeast.

Bank Name	State	Assets (in millions)	Service
• Eastern Federal Bank	CT	\$142.5	Merchant Processing
• Putnam Savings Bank	CT	\$223.8	Investment Advisory
• Rockville Bank	CT	\$685.7	Reserve Reduction
• Bank of Fall River	MA	\$130.4	Official Check Program
• Easthampton Savings Bank	MA	\$502.7	Fed Funds as Principal
• Foxborough Savings Bank	MA	\$130.4	International
• Granite Savings Bank	MA	\$52.7	Safekeeping
• Mechanics' Co-operative Bank	MA	\$101.3	Fed Funds as Principal
• Reading Co-operative Bank	MA	\$167.1	Fed Funds as Principal
• Southbridge Savings Bank	MA	\$312.1	Official Check Program
• Weymouth Co-operative Bank	MA	\$130.4	International



New Alliance Offers Letter of Credit Services

The Bankers' Bank Northeast has formed an alliance with National Penn Bank, a \$2.9 billion commercial bank headquartered in southeastern Pennsylvania, to offer Letters of Credit and Documentary Collections. Through this partnership, community banks will have

the assurance that they are working with an organization that is highly experienced in international banking. Client banks will have the opportunity to expand their services to commercial customers and increase profitability, while effectively managing risk. National Penn has approximately 100 overseas correspondent banks they work with directly via SWIFT, a secure global communications network. National Penn is unique in that it works closely with a community bank and keeps all parties in the transaction loop from start to finish.

Client banks have discovered that offering International Payment Services through the Bankers' Bank Northeast gives them an opportunity to compete effectively against the larger mega-regional banks. Offering Letters of Credit and Documentary Collections (an alternative means of controlling the passage of title against payment where there is a high level of trust between buyer and seller) expands the international transactions you can offer to include those that directly cover the movement of goods. It can further enhance your bank's commercial business activity and help you avoid sending a valued customer to a competitor bank.

Working with National Penn Bank, the Bankers' Bank will provide the necessary training, agreements and forms required to establish a Letter of Credit/Documentary Collection program. A team of international professionals will work individually with clients of the Bankers' Bank Northeast to fully meet your bank's specific needs. Services provided include: Import, Export, Domestic and Standby Letters of Credit, and Documentary Collections.

For more information about this service, please call Richard B. Lockwood III, Senior Vice President/Director of Sales & Marketing, at (508) 272-9901.

Cash Letter Servicing Expands Throughout Massachusetts

For over three years the Bankers' Bank Northeast has been providing community banks in Connecticut and Western Massachusetts with a cost-effective cash letter processing service. The Bank has been able to achieve significant economies of scale by aggregating the check volumes of its user client banks. This has resulted in a clearing cost reduction from an average of \$.028 per item to \$.019 per item.

Based on this success, we are pleased to announce an expansion of our cash letter service to all banks throughout Massachusetts. We now have multiple vendor alliance partnerships that offer our clients alternative locations that best meet Fed deadlines and/or courier runs.

Because of our unique sort pattern, our work with direct presentments (e.g. Fleet Bank), and settlement service, we are able to pass along some significant savings to our client banks. The Bankers' Bank also handles the majority of "out of balance" issues, creating additional cost-saving opportunities by reducing management and operational time associated with processing these daily adjustments.

For more information about cash letter servicing, please call Richard B. Lockwood III, Senior 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
www.bankersbanknortheast.com

Officers:

Peter J. Sposito	<i>President & CEO</i>
Allen L. Nielsen	<i>Executive Vice President & CFO</i>
Richard B. Lockwood III	<i>Senior Vice President/Director of Sales & Marketing</i>
Foster S. White	<i>Vice President/Sales</i>
Susan W. Salecky	<i>Asst. Vice President/Director of Client Services</i>

*Member FDIC
Member Federal Reserve System*



655 Winding Brook Drive
Glastonbury, CT 06033-4337

FIRST-CLASS MAIL
US POSTAGE PAID
HARTFORD CT
PERMIT NO 945