

# THE RESPONDENT

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

*A New Direction In Correspondent Banking.*

## Service

### Centrix Bank becomes an investor

Centrix Bank's decision this past April to become a shareholder in the Bankers' Bank Northeast came down to two factors – service and competition.



Joe Reilly, President, CEO and co-founder of Centrix Bank

"We'd used a variety of services from the Bank since we opened in 1999 and we'd always found them to be accommodating and flexible," says Joe Reilly, President, CEO and co-founder of

Centrix Bank. "Our partnership places a high value on service and, even more important, it allows us to compete with the big banks out there."

That had been the case from the very first service Centrix Bank obtained from the Bank – using them for their daily Fed Funds investments. Centrix Bank soon expanded the relationship to include International Services and a Liquidity Line of Credit. Reilly says he is now talking with the Bank about further expanding the relationship to include using the Bank's Loan Participation program.

Reilly says the relationship has put the \$310 million, Bedford, NH-based bank on an equal footing with the "big banks" as it competes for commercial and personal depository accounts.

"Because the Bankers' Bank does its due diligence before it offers products, we can place a high level of confidence in bringing on these services in the early stages," says Reilly. "In the current environment of depository challenge, we are now able to offer the Bank's sophisticated Lockbox service which means we can compete with the larger banks.

We've been able to attract more business because of the services we can now offer. The Lockbox service even allows us to cater to the municipal and government banking market."

Reilly is quick to point out, though, that the products alone are only half of the story.

"We have the greatest respect for everyone there, from the management team down," says Reilly. "We've been extremely pleased with how they have done all they can to accommodate us when we've needed to invest or



call back money outside of normal times. The Bank has always been able to help."

All of this added up to a very easy decision when Centrix Bank was approached about becoming an investor.

"When we were approached about raising capital, we were immediately willing to help," says Reilly. "It was a show of support and satisfaction in the overall services the Bank offers. It was also a chance to support the effort to centralize services and drive down costs, which is what makes community banks competitive."

And the partnership between Centrix Bank and the Bankers' Bank Northeast will continue to expand, not just in terms of the products used. Already a five-branch operation in New Hampshire, Centrix Bank will expand the Bank's products to its newest branch in Concord, NH, which is scheduled to open in early 2007.

### President's Message

#### Preserving the unique bankers' bank charter



Peter J. Sposito  
President & CEO

The Board of Governors of the Federal Reserve System recently issued a request for comment entitled "Regulation D-Reserve Requirements of Depository Institutions [R-1262]." The Board was seeking comment on a proposal to expand the capabilities of bankers' banks. We responded and asked the Fed to make no changes to the definition of a bankers' bank that would enable bankers' banks to compete with its shareholders and/or its clients. We feel strongly that bankers' banks are unique vis-à-vis "traditional correspondent banks" because we, by charter, cannot compete with community banks.

The bankers' bank charter has served us and our clients well since our inception in 1998. The fact that we do business with over 160 banks and that we have over 40 shareholder banks indicates that community banks throughout the Northeast believe in our concept. We are adding client banks at a rate of two per month and have done so since we began operations. We expect that we will hear the results of the Fed's deliberations soon. And, we trust that the concept of the bankers' bank will remain intact. Here's my response to the comment letter request that was sent to the Board of Governors last month:

In founding Bankers' Bank Northeast, our intention was to provide bank-to-bank services with the stipulation that we 1) be owned by banks, 2) provide services only to banks and/or to bank employees, officers and/or directors, and 3) not do business with the general banking public.

Our state charter provides authority and imposes restrictions similar to the precepts of existing bankers' banks at the time the statute was enacted. Accordingly, our state statute is very similar in its language to section 19(b) of the Federal Reserve Act. The "bankers' bank concept" was embraced because it provides an effective and efficient means for community banks to receive services that enable them to compete with large depository and other financial institutions.

It was widely agreed that community banks are beneficial to the well-being of the general banking public and, accordingly, an entity designed to assist smaller banks to compete more effectively was deemed beneficial.

With more than 3,700 shareholder banks, the existing bankers' banks provide services to more than 7,700 banks nationwide. These figures indicate that the very banks we serve support our business plans and our

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*President's Message*

unique structure. It is also true that our client and shareholder bank ranks continue to expand, especially in an area such as the Northeast, a relatively newly serviced territory.

Bankers' banks are a small subset of the total banking industry; however, we see ourselves as significant players in terms of the number of community banks we serve.

While the Bankers' Bank Northeast concurs with proposals that would enhance our ability to serve community banks by operating accounts for non-bank entities that in turn would facilitate service to our client banks, *we oppose any change that would weaken the basic concept of a bankers' bank.*

Enabling a bankers' bank to compete with its shareholders and/or client banks would weaken the bankers' bank concept. Bankers' banks would lose a unique and significant tenet of our business strategy. As a former correspondent banker at a large bank, I saw firsthand the absolute refusal of community bankers to seek services from large bank competitors.

The best example is the fear of community banks of engaging in commercial loan participations with large banks. This fear was well founded in the sense that if they turned to a traditional correspondent for an over-line [participation], they were likely to lose the complete commercial relationship because large banks could "do the whole credit." These large banks also could offer cash management services that the community

bank could not offer competitively. The advent of bankers' banks has provided a solution to just such a dilemma.

Timely notice is especially important since the Federal Reserve does not intend to publish standards by which it would determine compliance on a case-by-case basis.

We trust that there will be no change to the Federal Reserve's stance which does not require banks that comply with the definition of a bankers' bank to maintain reserves. Bankers' Bank Northeast has opted to take advantage of the Federal Reserve's program to choose not to pay reserves. Although we do not enjoy the benefit of access to the Discount Window, we are able to pass on the savings to our client banks by not requiring that they pay reserves on the collected dollars on deposit with their bankers' bank.

We have been able to find other liquidity resources to meet our short-term borrowing needs. We are pleased to pass on the benefit to our client banks that have already paid reserves on their deposits. The fact that we do not reduce the client banks' collected balances for reserve assessments reduces their required balances by approximately 10 percent. This feature of our service is particularly beneficial to our client banks since they are currently struggling with a reduced interest margin during a period of relatively high interest rates on deposits. We applaud the Federal Reserve for recognizing that bank-to-bank balances should not be burdened with reserves.

Of significant concern to us is learning of banks that describe themselves as a bankers' bank in their marketing and business

development efforts, yet refuse to comply with the mandates of a true bankers' bank. We suggest that such banks be required to comply with not only the letter of the regulations but with the spirit of the rules which are designed to enable a specialized charter to assist community banks to grow and prosper without the threat of competition from their correspondent banks.

We ask that all banking industry regulators take action in such situations to demand that the use of the designation "bankers' bank" be restricted to banks that meet the statutory and/or regulatory definition of a bankers' bank.

Use of the term "bankers' bank" should be restricted to banks that have chosen to be owned by banks, that offer services only to other banks and that embrace the concept of serving only community banks so that they in turn can compete effectively with the largest financial institutions.

We believe that bankers' banks are fulfilling a role that enhances the banking public's ability to enjoy a wide range of banking experiences. It is no accident that our client banks offer more services, receive competitive pricing made possible by bankers' banks' economies of scale, and place their trust in our commitment not to compete with them.

Peter J. Sposito



President & CEO

## New product profile

### Fiserv clearing network now available

Under a unique strategic alliance partnership agreement, the Bankers' Bank Northeast has been selected by Fiserv, Inc. to serve as its exclusive settlement partner. This agreement provides client banks with more efficient item processing and makes Bankers' Bank the Fiserv Clearing Network (FCN) Settlement Bank for item processing centers located throughout New England and New York.

It should be noted the Bankers' Bank Northeast will continue to provide settlement services for all the major check processors in the Northeast in addition to Fiserv.

Fiserv is North America's largest third-party check-processing provider, annually handling more than 4 billion checks for more than 1,600 clients worldwide. The company's Information Technology, Inc. (ITI) and Fiserv Imagesoft units provide image-based check processing software used by more than 1,000 additional financial institutions to process checks in-house. Fiserv



### Item Processing Services

operates more than 50 check-processing centers across the U.S., another six in Australia and a U.S. image archive that adds more than seven million check images each day.

"The new capabilities build on an eight-year relationship between Bankers' Bank Northeast and Fiserv and enables us to serve our client banks more efficiently," says Peter Sposito, president and CEO of Bankers' Bank Northeast. "Fiserv's multiple locations throughout New England, its ability to capture check images and transmit them both in-region and to national locations helps us meet the check and image clearing needs of client banks throughout the northeast."

Sposito notes that Fiserv already provides Bankers' Bank with a wide range of technology solutions. He says, however, that the addition of FCN will bring a number of additional benefits to client banks, including:

1. **The establishment of "On We" networks** – Client banks will have the ability to exchange items with each other without having to send physical items to a clearinghouse or other exchange point. This capability puts client banks on the same

## New product profile

# Customized leasing program

**B**ankers' Bank Northeast has entered into a strategic alliance partnership with DDI Leasing of New England, LLC that gives client banks autonomy over their own leasing programs. The move is just one more way the Bank is helping client banks become more competitive in meeting the challenge for commercial business.

"In the past, when a customer came to a community bank and wanted a lease, the bank would call in a leasing company that would handle the entire process – from paperwork to collection," explains Richard Lockwood, Senior Vice President of the Bankers' Bank. "This meant the customer did not deal with the bank, but with an outside company. Furthermore, the client bank did not derive any fee income from the transaction."

Under the alliance agreement with DDI Leasing, client banks will literally be able to call the leasing programs their own – right up to and including putting their name and bank logo on the applications and any associated marketing materials. DDI will then provide support directly to the bank, running in the background of the operation out of sight of the leasing customer, and administer the fee stream for the bank.

"The product is seamless to product users," says Lockwood. "The bank keeps the lease and manages payments like it would a loan."

Peter Garland, Chief Credit Officer for the Bankers' Bank, says the benefits to client banks are threefold.



"First, this is a source of fee income for client banks," says Garland. "Also, offering leasing allows banks to keep current customers rather than have them turn to bigger banks for leases and perhaps lose them all together. Furthermore, by offering leasing, it gives client banks a way to attract additional business."

Garland says that of all the possible leasing-support partners it could have chosen, DDI made the most sense for the Bank.

"DDI has a very hands-on approach," says Garland. "They're located right here in New England and are willing to physically go out to the client banks. Since community banks are all about relationships, this willingness to work directly with the client banks supports the very nature of community banking."

Garland says that because this is a very different way of handling leases, there may be a period of education necessary. "We'll need to help banks understand that this will allow them to develop their own leasing capital without the headache of administering the lease," says Garland. "This evens the playing field for banks offering leases and we're willing to support them at any level they need."

Garland says client banks interested in offering their own autonomous leasing program through the Bank's relationship with DDI should contact their Bankers' Bank Northeast Relationship Manager.

playing field as the country's largest banks that have exchanged items for decades. These types of exchanges dramatically reduce clearing costs and collection time.

- 2. Elimination of certification process** – Because Bankers' Bank and Fiserv both are certified to present items to the Central Bank, as well as other endpoints, directing check images or paper checks to Bankers' Bank spares client banks from having to work through the image certification process.
- 3. Electronic transactions** – The platform for the network is easily interfaced with remote capture systems using either Fiserv's program or that of another processor. Accordingly, client banks can reach out to commercial clients to facilitate remote deposits and to send images directly from their branches without having to transport the physical items. Furthermore, as the technology gains popularity, FCN paves the way for the day when widespread image exchange is a reality.

"The Bankers' Bank has become a trusted correspondent bank because we do not compete for business with the clients we serve," says Sposito. "By expanding our relationship with Fiserv to include FCN, we can offer yet another best-of-breed solution designed to help keep client banks ahead of their competition."

For more information about FCN or any of the Fiserv technology solutions available through Bankers' Bank, please contact your Bankers' Bank Relationship Manager.

## New Business Profile

Between June and September 2006, The Bankers' Bank Northeast added 10 new client banks and cross-sold a total of 51 services.

### New Client Banks

Connecticut	2
Massachusetts	7
New Hampshire	1

### Services Sold

Biometric Security	2
Cash Letter	4
Coin & Currency	1
Deposit Reclassification	2
Fed Funds as Agent	11
Fed Funds Liquidity Line	6
International	8
Letters of Credit	3
<b>STARS™</b> Comprehensive	13

# \$10,000 for charity Annual Charitable Golf Tournament

The Bankers' Bank Northeast held its Annual CEO & Senior Officers Charitable Golf Tournament on August 14 at the Longmeadow Country Club, Longmeadow, MA. In addition to the officers from the Bankers' Bank Northeast, over 70 client and prospect banks along with 22 third-party strategic alliance partners attended the event.



From left to right, Debbie McLaughlin, Chief Operating Officer & CFO – Slade's Ferry Bank, MA, John McGeorge, President, Needham Co-Operative Bank, MA, Sue Muse, Chairman, Reading Co-Operative Bank, MA, Pete Sposito, President & CEO, Bankers' Bank Northeast



From left to right, Richard Lockwood, Senior Vice President, Bankers' Bank Northeast, Mark Macomber, President & CEO, Litchfield Bancorp, CT



From left to right, Mark Macomber, President & CEO, Litchfield Bancorp, CT, Rho Brouillard, President & CEO, Savings Institute & Trust, CT, Charles Petersen, President & CEO, First Community Bank, VT, Bob Dowd, Senior Vice President, Travelex Global Payments, MD



From left to right, Keith Philbrick, Vice President, Community Guaranty Savings Bank, NH, Richard Lockwood, Senior Vice President, Bankers' Bank Northeast

Thanks to the support of our alliance partners and the bank attendees, Bankers' Bank Northeast made contributions totaling \$10,000 to the following organizations:

- Massachusetts Bankers Association Charitable Foundation - \$5,000
- Litchfield Bancorp (Litchfield, CT)- \$1,250, divided equally between the Watertown Emergency Food Bank and the Community Kitchen of Torrington, Inc.
- Border Trust Company (South China, ME) - \$1,250 for the United Way of Mid-Coast Maine
- Community Guaranty Savings Bank (Plymouth, NH) - \$1,250 for the Grafton County Senior Citizens Council Inc.
- First Community Bank (Rutland, VT) - \$1,250, split between Vermont Adaptive Ski & Sports (\$250), Spectrum Teen Center (\$500) and the Boys & Girls Club of Rutland County (\$500).



From left to right, Roland Desrochers, President & CEO, Monson Savings Bank, MA and Director Massachusetts Bankers Association, Richard Lockwood, Senior Vice President, Bankers' Bank Northeast

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## REGIONAL OFFICES

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## Officers

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*Vice President/Operations Manager*  
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