

THE RESPONDENT

A New Direction In Correspondent Banking

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

Client bank profile

Reading Co-Operative Bank

"We depend on Bankers' Bank Northeast"

Reading Co-Operative is on the move. Like so many other community banks, Reading Coop (Reading, MA) has spread its wings over the last few years, opening two branches in Wilmington and one in North Reading, both adjacent communities.



Anthony J. Patti
Senior Vice
President
and CFO

The expansion continues with a full-service branch in Woburn's Cummings Park and student-operated branch at Reading High School.

Tony Patti, the bank's Senior Vice President and Chief Financial Officer is upbeat about the future of community banking and he knows the industry very well.

His banking career started at Revere Federal Savings Bank where he spent 10 years. Then it was Medford Co-Operative Bank where he was before coming to Reading Coop in January 2006.

Just speaking with Tony tells a lot about the role of the community bank. He's upbeat and enthusiastic. For example, he reports that the home mortgage business is very good. "People are turning to us because of sub-prime concerns," he says. "It's brought in new customers. They don't want anything to do with sub-prime and no-interest loans. They seem to feel they can trust us. That's a good sign."

On top of that, Reading Coop's mortgage delinquencies are "practically nil," says Tony Patti. "We know our communities and that's a big help in adhering to good underwriting standards."

He is also quick to let it be known that he is an unabashed advocate of Bankers' Bank Northeast. "They are simply a great partner for our bank," he says. He also points out that Reading Coop was an "early adopter," having established its relationship with BBN in February 2001.

Continued on page 2

Coming to New England and New York banks in near future The BITS value proposition: significant cost savings for community banks

It's now easier than ever for a community bank to converge voice and data circuits while at the same time reducing monthly costs associated with telecommunications. BITS – Banking Infrastructure and Technology Services – brings together with one vendor the latest industry standard (VoIP and MPLS technology) converging telephone connectivity, branch-to-branch data circuits, internet connectivity, core processors and ATM providers, co-location services and managed security.

On the surface, this may seem to be a challenging objective. It would be if it were not for a partner whose business model is based on community banking. Atlantic Central Bankers' Bank established the BITS platform to provide such services to community banks.

The key is replacing a number of vendors with a single partner that offers

all of these services. This is what BITS managed technology is all about. For one flat monthly fee, the BITS solution results in significant cost savings while freeing up internal IT resources to focus on new products and services that help increase the bank's top line revenue.

Check 21 is a good example. The digital imaging of checks has been known to place a bandwidth burden on a bank's network, potentially slowing down business operations. This managed technology dynamically adjusts bandwidth between voice and data according to real time traffic requirements.

It's been pointed out that community banks were small and nimble enough to implement Check 21, only to discover that their network infrastructures couldn't support it.

Continued on page 2

President's Message

Now is the time...



Peter J. Sposito
President & CEO

If there's one thing that's clear about community banks across the Northeast over the past couple of years, it's that they've gained recognition as prudent business managers. They have once again retained the faith of the banking public against the flagrant background of greed and malfeasance of their competitors.

Some have extended their traditional footprints by opening offices and ATMs in other communities, while others have reached out with remote deposit capture. Many have aggressively broadened their menu of services, particularly in finding ways to serve small and mid-size business. The number of *de novo* banks attests the solid perception of new opportunities for community banks that will work a variety of niche markets. Without question, there's a powerful entrepreneurial thread running through all this vigorous activity.

Then, most recently, the sub-prime mortgage crisis that left many big banks and other giant financial institutions painfully scarred served to attract consumers to community banks. Even before the smoke had blown away, it was clear that community banks had stayed true to their mission and didn't permit themselves to be drawn into a disastrous greed trap.

This is a great story of sound business practices and commitment to the community. As Tony Patti of Reading Co-Operative Bank notes in a recent interview (see article on page 1), customers are coming through the door, wanting what the bank offers. Lobby activity these days includes questions about FDIC coverage, a sure sign that consumers are fleeing to safety. It's interesting to note that the general banking public is returning to community banks for home mortgages. What a refreshing turn of events.

Now is the time for the community bank industry to differentiate itself from the large megabank syndrome. We are different and we should fight to make that point to the legislators. Attracting new deposits remains the significant issue that community banks encounter. I encourage each of our shareholder and client banks to join Bankers' Bank Northeast in its drive to make sure that legislators become aware of the fact that traditional local banking practices provide an answer to the overriding penchant for greed among the other financial institutions.

It's time to go back to the basic values of **local deposits for local capital** infusion. I suggest that we seek legislation that enables community banks to offer deposit products that will be tax advantaged so that we can begin to get this great country focused on building capital locally where it will be safely employed. Such a program would begin to rebuild the propensity to save while directing the capital to community re-investment. Let me know your thoughts.

Peter J. Sposito

President & CEO

Continued from page 1, Reading Co-Operative Bank

Reading Coop currently uses eight services, including Cash Letter, Coin & Currency, Fed Funds as Agent, Fed Funds Liquidity Line, International, Safekeeping, Credit Cards and Merchant Processing.

Tony Patti points out that the bank is interested in Lockbox, a service that can be a benefit in attracting business customers. It's the same story with BBN's OnWe® Network, that delivers low-cost, same-day electronic clearing and settlement service.

"This will be particularly helpful as neighboring community banks become involved," he notes. He also finds BBN's Loan Participation Program, an innovative solution. "Knowing that it's there can make a difference when we're looking at projects," he says. "What's so good about BBN is that that they offer products that benefit us. They know what we need."

Needless to say, Tony Patti is a fan of BBN's **STARS™**. "I love **STARS**, the bank-to-bank communication platform," he says. "It's easy and it saves us money."

If Tony Patti exudes enthusiasm for Bankers' Bank Northeast growing menu of services, it's BBN's service that completes the partnership. "There's nothing like it," he says. "The people there care; it's personal with them." He tells of a time when he had an issue about a check. "The staff there did all the work for us and literally saved us thousands of dollars," Patti reports. "The way they respond to us is unheard of today."

If that isn't enough, he adds, "There's nothing better than working with competent people who know you and view themselves as a member of your team."

And then Tony Patti sums it all up when he says, "As you can see, we depend on Bankers' Bank Northeast."



Continued from page 1, The BITS value proposition

Many community banks have also found they are paying much more for their network connections and are dealing with multiple providers for their voice and data services, not to mention the need for expanding their in-house IT resources. Yet, the 49 community banks in seven states using BITS report saving 15% to 30% on IT services, their second largest non-interest expense after salaries and benefits. The savings often translate into six-figures for each branch over the contract term.

In designing a network exclusively for community banks, BITS engineers chose CISCO to provide virtually all the networking elements of its network, including infrastructure equipment, telephony platform, phones and important security measures. In addition, they selected other reliable partners including AT&T and VeriSign®.

To prove its value and reliability, BITS is SAS70 certified and was approved by the Federal Reserve Bank in Philadelphia in 2005 to provide services exclusively to

community banks.

Finally, BITS also ensures continuous operation at all times with redundant data center sites. Switchovers have been timed at 15 seconds or less.

Bankers' Bank Northeast has successfully implemented the BITS technology for its own operations and will begin marketing it to community banks in the near future.

For more information, contact your Client Relationship Manager or Richard B. Lockwood, III, Executive Vice President.

BITS benefits

- **Reduced IT costs**
- **Managed security solution**
- **Customized to meet bank's needs**
- **Single-source provider for ATM, data circuits, core processing and phone services**
- **Turn-Key implementation**

The Compliance Journey of Community Banks



August A. Oliveira
Retired Vice
President / Senior
Relationship
Manager

Dealing with difficult issues is never easy and coming up with solutions is an even more demanding task. While this is true in every aspect of life and business, it is particularly so for the nation's 7,200 community banks when it comes to compliance issues.

Having been on both sides of the compliance desk, first on the staff of the Office of the Comptroller of the Currency including a number of years supervising New England's community banks and more recently working with many of these same banks as Vice President/Senior Relationship Manager for Bankers' Bank Northeast, I am

well aware of both the need for compliance, as well as its impact on smaller financial institutions.

From what some might consider a somewhat unusual perspective for a former regulator, it is certainly possible to view compliance from community banks' side of the desk, particularly those in New England.

From a community banker's perspective, the most onerous regulations and compliance requirements are those contained in the Bank Secrecy Act and Suspicious Activity Reports, the Patriot Act, the Community Reinvestment Act, the Privacy Act and Flood Insurance Legislation.

There are many other regulations that burden community banks, but these are at the heart of the compliance burden. At the same time, it should be pointed out that Safety & Soundness Regulations are not the problem and are simply viewed as necessary adherence for financial institutions.

It is worthwhile indicating that Regulators don't create legislation; Congress does. Yet, the regulators are charged with interpreting, monitoring and enforcing legislation. In this regard, the interpretation of regulations is an issue.

It is my contention that the various regulatory agencies take differing

approaches to interpreting and enforcing compliance, but the problem is exacerbated in that at times individual bank examiners from these same agencies take differing approaches when it comes to interpretation and enforcement. Some examiners are more balanced in their approach and others are much less so. Quite honestly, some act like policemen and take a rigid posture with respect to interpreting and enforcing regulations, while others take a broader and more inclusive view.

Each of the regulatory agencies is different. We often hear that the Office of Thrift Supervision tends to be kinder and gentler and that the OCC is reasonable to work with. Many bankers are of the opinion that the FDIC tends to take a tougher stance, while the Federal Reserve Board is viewed as being balanced and helpful in its approach. What can be said of all the regulators is that they all communicate with their banks ahead of time regarding what they will be looking for. This is helpful.

Large banks, for the most part, have been the major culprits with respect to non-compliance with consumer compliance regulations. Washington, DC-based Riggs National Bank was an example. Having said that, we all know that compliance requirements apply equally to all banks, regardless of their size. They have no choice but to comply with the regulations. It is also true that cost of compliance may be equally as onerous as the regulations themselves. The Bank Secrecy Act, for example, is extremely cumbersome and difficult to monitor as everyone knows, but if we are able to stop the dollar flow, this will hurt the efforts of terrorists.

If we limit the application of this act to just the large banks, terrorists will quickly move their money laundering activities to the smaller banks. One thought would be to reduce the number of Currency Transaction Reports and Suspicious Activity Reports that financial institutions must file. If we approach this in a careful and thoughtful manner, we might be

able to stop the dollar flow for terrorists and also lighten the compliance load for financial institutions.

The Privacy Act, Regulation P, is extremely time consuming for all financial institutions, including community banks. There are a daunting number of verification tools and hoops to jump through. While it's critical to protect customer information, this particular Act is extremely burdensome.

So, compliance is expensive, burdensome and yet necessary. In the final analysis much of this comes down to human judgment. The better—or perhaps it would be more accurate to say the most effective—examiners are those who are not afraid to take some risk and use judgment when interpreting and enforcing regulations. Unfortunately, these examiners are often in the minority.

Having said all this, it is nevertheless true that compliance related issues are not only very cumbersome and onerous, but banks of all sizes spend tens of millions of dollars each year dealing with them.

In the past, smaller banks could better control their compliance costs by outsourcing the services to a third party, but because of the nature and complexity of the compliance requirements, even small banks must have staff members who are responsible for overseeing compliance. Due to the demands, these individuals tend to only wear a compliance hat in many cases.

While the Community Reinvestment Act may cost a community bank hundreds of thousands of dollars every year, the credit union across the street is not held to the same standard—and escapes the costs the CRA imposes on a bank's budget. My understanding is that both Massachusetts and Connecticut have closed this particular compliance "loophole," and hold credit unions to the same CRA standards that apply to banks. The remaining 48 states should follow the lead of these two states.

One might think the burdensome nature of compliance could be rather easily and quickly mitigated by consolidating the various regulatory agencies. Well, when I joined the OCC in the 1960s, there were Congressional proposals at that time to do exactly this. Over the ensuing 30 years of my time with OCC, numerous consolidation proposals were made to bring about efficiencies and, therefore, cost savings. I can report with some certainty that nothing ever happened and, at times, additional agencies were actually created. As a case in point, in the 1970s the Federal Financial Institution Examination Council was created to help streamline regulations. That agency still exists to this day.

Yet, it is also true that our current bank regulatory system has served us well over many years; nevertheless, it seems clear that regulatory effectiveness is hampered by

unnecessary overlap, unnecessary duplication of effort and costly inefficiency.

For example, the OCC is responsible for supervising nationally chartered financial institutions. Years ago, when the OCC conducted on-site examinations of the region's largest banks, they would take several months and involve numerous examiners. Often the exams would start with fifty plus examiners. We would conduct in-depth examinations and subsequently, the Federal Reserve Bank of Boston would conduct an examination of the holding companies, which were, of course, nothing more than the bank itself! This is just one example of unnecessary duplication and even unjustifiable inefficiency. There are other "overlaps" and examples of duplication, redundancy and inefficiency, but that is a discussion for another time.

Although our existing regulatory system has served us well, one would not design such a system if starting from scratch. Our regulatory framework evolved over the years when financial institutions were very different and served specific segments of our communities. What we had was a regulator for each type of financial institution.

Today, commercial banks, savings and loans, mutual savings banks and even credit unions provide similar services. Yet, we still have a number of regulatory agencies overseeing a homogenized industry differently. Let's see. We have the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration and we must not forget the regulatory agencies in each of our fifty states.

It seems that each of these regulatory bodies approach compliance somewhat differently. With the onslaught of regulations that have inundated the industry, the cost of compliance has become extreme. One way to reduce the burden would be to consolidate the agencies and approach compliance in a unified, logical manner.

The cost to banks for compliance is not only very high, but it may be impossible to come up with anything even remotely near an accurate figure. There is general compliance, which costs hundreds of thousands of dollars. Then there are examination fees, information technology costs and much more.

Today, even the smallest of banks must have a BSA Officer and a CRA Officer. Most also have a Compliance Officer, even if they are outsourcing some of the functions, and that adds even more to the expense.

When considering compliance in the context of the current economic environment and the squeeze that is taking place with net interest margins, the costs for compliance stands out even more. Today, community banks must have streams of non-interest

New Business Profile

Between January and May 2008, Bankers' Bank Northeast added 11 new client banks, cross-sold a total of 65 services and approved nine new loan participations.

New Client Banks

Connecticut	3
Maine	1
Massachusetts	1
New Hampshire	2
New York	4

Services Sold

Cash Letter-BBN Settlement	1
Cash Letter-OnWe® Image	5
Cash Letter-Fiserv Clearing Network	7
Coin & Currency	2
Courier (Non-Armored)	1
Credit Card Program	3
Deposit Reclassification	1
Fed Funds as Agent	8
Fed Funds Liquidity Line	11
International	5
Letters of Credit	1
Loan Participations	9
Lockbox	2
Risk Management Consulting	2
Safekeeping	1
Shredding	2
STARS™ Comprehensive	9
Student Loan Program	4

OnWe® Network Client Banks

Bankers' Bank Northeast announces the first group of client banks to join the OnWe® Network:

- Bank of Cape Cod, MA
- CheckSpring Bank, NY
- Chelsea Groton Savings Bank, CT
- Fieldpoint Private Bank and Trust, CT
- National Bank of Middlebury, VT
- Stafford Savings Bank, CT
- The First National Bank of Ipswich, MA
- The First National Bank of Orwell, VT

income to survive.

As noted at the start, dealing with difficult and complex issues is never easy. It seems clear that compliance for community banks is certainly one of them. If we want community banks to survive and prosper, the compliance burden, which is like a snowball that just keeps rolling and growing, deserves serious discussion and attention.

We all recognize the need for effective and affordable compliance. Perhaps the place to start is with the regulators. We all know that regulatory overhaul will take years. Nevertheless, a unified, balanced, fair and reasonable approach with regards to interpreting and enforcing compliance wouldn't take years. Such an approach would go a long way towards lessening the burden that is crippling the financial services industry and particularly community banks.

Board announces promotions

The Board of Directors promoted four officers at its June meeting. In making the nominations, President and CEO Peter J. Sposito said, "These promotions represent what everyone associated with our Bank knows so clearly: these four officers are the



Richard B. Lockwood, III promoted to Executive Vice President. Richard has served as Senior Vice President and Director of Business Development and Marketing. He joined the Bank in 2000.



Elissa G. Reynolds promoted to Senior Vice President. Lisa has served the bank as Vice President, managing the operations area since joining the bank in 2003.

team that has moved Bankers' Bank Northeast forward from the day we opened our doors. It has been their diligence and determination and their dedication to quality service that have made it possible for us to come so far in our first decade."



Susan W. Salecky promoted to Senior Vice President from Vice President and Director of Client Services. She has been with the bank since 1998.



Carol P. Paré was elected Corporate Secretary. She continues as the Bank's Office Manager, a position she has held since 2001, a year after coming to the Bank.

Professional recognition



Susan W. Salecky, Senior Vice President and Director of Client Services, is a 2008 graduate of the ABA Stonier Graduate School of Banking. Her thesis, "Strategic Benefits of a Well-Executed Training Program," was based on her work at Bankers' Bank Northeast.



Judith A. Clayton recently graduated from Connecticut School of Finance and Management. She began her banking career at the Bank in 2002 as an Operations Specialist and is currently a Finance Specialist.

New to the BBN team



Megan L. Desso

Megan Desso has been named Assistant Vice President, Internal Auditor and Products Manager, a new position at the Bank. She has five years of experience as a staff auditor at a \$2.6 billion community bank. As the Internal Auditor, she reports directly to the Bank's

Audit Committee.

Megan is a University of Connecticut graduate with a Bachelor of Science in Actuarial Science and Mathematics, and is a resident of Marlborough, CT.



Joanne M. McDaid

Joanne M. McDaid has been hired as an Operations Specialist and is responsible for foreign exchange transactions and Fed Advantage activities. A Baltimore International College graduate, she resides with her husband and family in Tolland, CT.

CORPORATE OFFICES

Glastonbury, CT

1-800-449-9121

www.bankersbanknortheast.com

REGIONAL OFFICES

Serving New England
and New York

Officers

Peter J. Sposito

President & CEO

Allen L. Nielsen

Executive Vice President & CFO

Richard B. Lockwood III

Executive Vice President

Elissa G. Reynolds

Sr. Vice President/Operations Manager

Susan W. Salecky

Sr. Vice President/Director of Client Services

Richard J. Nurge

Vice President/Relationship Manager

Peter T. Garland

Chief Credit Officer

Megan L. Desso

Asst. VP/Internal Auditor & Products Manager

Carol P. Paré

Corporate Secretary

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

300 Winding Brook Drive
Glastonbury, CT 06033-4335

PRSR FIRST CLASS
US POSTAGE
PAID
HARTFORD CT
PERMIT NO 2386

Annual Charitable Golf Tournament

Sponsored by Bankers' Bank Northeast

Monday, August 11th

Longmeadow Country Club

Longmeadow, MA

Call 800-449-9121 for information

