

THE RESPONDENT

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

A New Direction In Correspondent Banking.
Service

Smooth transition to the Bankers' Bank Northeast

Border Trust

Earle F. Harvey of Border Trust in South China, Maine, knew that the Bankers' Bank Northeast was a correspondent bank that could better serve the needs of community banks like his. But like so many other busy executives, this bank president was faced with dealing with seemingly more pressing issues.

"Our Fed Funds program with a major regional correspondent bank was working, but I wasn't really satisfied doing business with them," Harvey says. Poor

customer service, low average rates of return, and a feeling that his bank didn't matter contributed to his dissatisfaction.

When a recent merger took place with another mega-national bank, however, Harvey knew it was time to make a move. "We made the switch at our busiest time of year, but we didn't want to hang on through the merger process," he comments.

That's when Border Trust turned to the Bankers' Bank Northeast and Harvey reports the transition could not have been easier. "It's gone incredibly smooth in all aspects of the relationship, including the account opening process," Harvey says of the Fed Funds as Agent program. "Calling the

Bankers' Bank Northeast is easy, and they know who you are. It's just great."

Border Trust is a family-owned bank with four branches in central Maine. Harvey indicates that his bank competes with savings banks and credit unions. Having the Bankers' Bank Northeast as an ally will give them an edge in the years ahead.

The Bankers' Bank Northeast first came to Harvey's attention through a former Border Trust executive who attended a BBN presentation at a meeting of the Independent Community Bankers Association of Maine.

But it wasn't until Harvey met August "Gus" A. Oliveira, BBN's Vice President and Relationship Manager for northern New England that the pieces started coming together.

"I give the credit to Gus," Harvey says. "He came in and showed me the numbers. The rates just beat our large bank correspondent to death. He was upfront and easygoing and being a former bank regulator gave him credibility. He wasn't coming in as a salesman."

Best of all, the Bank's relationship managers don't disappear once a sale is made. Because they are based in the local markets, they're accessible. "Gus will



Earle F. Harvey
President & CEO

Border Trust
"where banking and service meet"

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President's Message

More relevant than ever



The Bank's board and senior management met late in the fall to conduct our first strategic planning retreat. We came away from the session knowing Bankers' Bank Northeast is even more relevant to the vitality of community banking than we were six years ago when we first opened our doors.

The financial services landscape has changed dramatically during our formative years. Yet, it is clear to our directors and senior management that the Bank still brings significant value to community banks and that it has the ability to deliver additional value as it helps its client institutions meet the new challenges of serving their customers. Our **STARS** settlement services technology is an excellent example. This new Internet based system delivers simplicity, efficiency and cost savings for the community bank.

Several impressions stood out as we concluded our meeting:

- It's clear that the board and senior management are on the same page. We're in sync when it comes to direction, operation and opportunities.
- Our commitment to community banking speaks for itself. We have a "non-compete" agreement with our client banks. No one ever needs to worry about Bankers' Bank being anything other than a reliable, supportive partner.
- There's strength in numbers. This is a theme you will hear more about during the year because it accurately portrays what we're all about. Bankers' Bank's growth isn't only self-serving; the benefits of our growth also accrue to our client banks in terms of additional services and cost savings. There's no need for a community bank to be limited simply because of size.
- Most importantly, we do banking *your way*. Community banks attract and hold customers because of personalized service. And that's the way we work with our client banks. Our staff of bankers responds to the individual needs of each of our banks.

We now serve 135 banks throughout New England and the number grows each month, so we've added staff to maintain the highest level of service delivery. We now offer 22 stand alone services. Through it all we have had a steady increase in earnings. In fact, we've had a net income compound growth rate of 29% over the last four years.

Our vision statement includes the following:

- Operate a profitable and safe institution
- Provide a correspondent banking choice for community banks
- Become the bank of choice in bank-to-bank relationships
- Provide competitively priced services
- Achieve sufficient volume to provide economies of scale
- Become a prominent portfolio lender

Our mission statement remains unchanged from 6 years ago. I came away from the strategic planning session confident that we continue to move in the right direction—the one we established at the start. While we have more staff and an expanded line of products and services, our direction is the same. That is why you can count on The Bankers' Bank Northeast to remain relevant in helping you fulfill your mission as a community bank.

Peter J. Sposito
President & CEO

Planning for your bank examination

Eight tips to make it run smoothly

By August A. Oliveira

Vice President / Relationship Manager, Northern New England



A bank examination can set community bank executives on edge as its policies and past activities are scrutinized. Even those bankers who have established and implemented a clear set of policies and who follow strict

banking and accounting practices are wary when the examiners begin their work.

While all bankers will feel some stress before and during an examination, it is even more pronounced for those who see it as something to “get past.” On the other hand, for banks that use the examination report as a guidepost that is part of an ongoing self-improvement process, the examination becomes an opportunity to measure progress.

There are steps that every bank can take before, during, and after its examination that will help it to work cooperatively with the examiners. Here are some key points to assist a bank in achieving that goal:

1. Establish a relationship. When bank management and the examination team have an established relationship, it can only help the entire process. The bank’s senior management team should establish a rapport with the examiners, reaching out to them and discussing any potential issues with them. Open lines of communications should be ongoing, courteous, professional and candid. A key goal is to establish credibility and eliminate the unexpected. This is especially worthwhile when the bank discovers a problem. Rather than waiting for the examiners to come on site and discover an issue, a member of senior management should call an examiner in advance, explain the situation, and how it was or is being resolved. Not only does this prevent a surprise at the examination, but the examiner will appreciate the advanced notification.

For example, a bank finds out that it has made an excessive loan because the source of payment for several notes is essentially from the same business. Upon discovery of such a violation, a banker should call the examiner and make him aware of the situation. The banker should provide an explanation and the steps that have been taken to correct the error. Such a proactive conversation may lessen the chance of being cited for a violation because examiners, in certain circumstances and situations, may exercise a degree of discretion.

2. Be thorough in responding to pre-exam requests. Here is an opportunity to make a good first impression on the examination team. Respond to such requests quickly, but be certain that responses are

comprehensive and accurate. It is recommended that the response material be organized in a binder that is indexed to each request letter item. This will greatly facilitate the examiners’ review and subsequent examination. Keep in mind that the request letter provides an indication of areas that the examiners will be reviewing. Don’t send last year’s report with updated figures. Examiners want to see that your bank is taking the examination seriously. *Remember, the more that examiners can do off-site, the less time they need to spend at the bank.*

3. Assign a coordinator. This task should be done in conjunction with the pre-examination request. A coordinator should be responsible for making sure there is a smooth flow of data to the examiners and that all of their administrative needs are met when they are on-site. The coordinator should develop a contact list so that examiners talk to the right people. The contact list should include names, titles, phone numbers, and locations.

All bank personnel who will be impacted by the examination should be contacted and notified about the upcoming examination. It is very important to ensure the availability of management and other personnel for meetings/examiner discussions, particularly for the areas being reviewed. If a targeted area manager/supervisor will be out of the bank, make plans for a backup to meet/work with the examiners.

4. Review the previous examination report. The examiners’ first order of business will be to look at last year’s report. It should be every bank’s first priority as well. Did your bank follow through on areas of concern that the examiners identified? The examination team will go through the report and expect to see how cited issues were resolved. This includes the items that required board attention as well as those items within individual departments. Examiners don’t write up issues casually. They have identified and documented issues, all of which require attention.

5. Establish a tracking system. Ideally, such a system should be put into place as soon as the examination team issues its report. All items, from those that require board attention on down, should be centralized into a tracking system. Hold individuals responsible for taking corrective action and establish a timetable as to when they will be fixed. Matters requiring board attention must be presented to the board and recorded in the board minutes. As corrective action is taken, these must also be noted in the minutes.

6. Address concerns of auditors, loan reviews and consultants. The examination is not the only forum for noting issues within the bank. Consultants and external/internal auditors who work with the bank may identify red flags. Such red flags will be noted by the examination team. They will examine the bank’s procedures for bringing concerns of auditors and consultants to the board and look to see if these issues have been corrected. Specifically, they will want to make sure that any concerns have been brought before the board and recorded in the minutes. Follow-up actions should also be recorded in the minutes.

For banks that use the examination report as a guidepost, the examination becomes an opportunity to measure progress.

7. Be aware of new regulatory concerns and hot issues. Community banks are more adept than ever at following established loan review processes. With such processes firmly in place, examiners are turning their attention to regulatory compliance, focusing on anti-money laundering provisions within the Bank Secrecy Act, OFAC and the U.S. Patriot Act. As part of this effort, new FFIEC BSA exam procedures are being developed for examination use in the second half of 2005. Banks that suspect illegal activity among accounts are required to file a Suspicious Activity Report with the federal government. Make certain that your bank’s policies are updated to meet the rules within these guidelines. Examiners will continue to focus on corporate governance, accounting and internal controls for the foreseeable future.

8. Begin preparation for the next exam immediately. As the examination wraps up, make sure senior management meets with the examination team and discusses their timetable. In some cases, the team has a sense of when the next examination will be and which type it will be. Knowing this well in advance can help your bank begin its preparation. It also sends a positive signal to the examination team that you want to be proactive and work with them.

While these eight points address different aspects of the examination process, there are some common themes, namely, cooperation and communication. When the relationship between examiner and banker extends beyond the examination itself, there are greater opportunities for a positive working relationship. After all, both sides are working towards the best interest of the bank.

Responding to Fed changes

Bankers' Bank Northeast now offers transaction and settlement solutions for community banks

Bankers' Bank Northeast now provides advantageous settlement and transaction services for community banks throughout the region.

Bankers' Bank's move into settlement services comes at the time when banks must deal with critical issues regarding their ongoing relationship with the Federal Reserve Bank.

Specifically, with FedLine DOS & FedWeb platforms being phased out, current users are faced with converting to the new and more costly FedLine Advantage System.

The implementation process for converting to the FedLine Advantage System is complex and time-consuming, involving a seven-step process that takes 18 weeks or longer to complete.

The Fed's system requires that each of its seven steps be accomplished sequentially and on a specific time schedule. If a deadline is missed at any point, a bank must go back to step one.

There are also significant upfront and ongoing fees.

Alternatively, Bankers' Bank **STARS** bank-to-bank communications system for settlement and transaction services is the state-of-the-art platform for meeting a community bank's needs for correspondent services.

In addition to settlement and other account management information, **STARS** is also the gateway to other payment services such as ACH transaction

origination, domestic and international wire activity and fed funds access, as well as other services.

Most importantly, the BBN **STARS** system makes implementation seamless, taking literally only minutes, rather than weeks. On top of that, the pricing is highly favorable. "We can simplify your daily settlement operations," notes Richard B. Lockwood III, senior vice president.

The BBN STARS system makes implementation seamless, taking literally only minutes, rather than weeks. On top of that, the pricing is highly favorable.

"Bankers' Bank is in business solely for the purpose of providing correspondent services to community banks. With this change by the Fed and the introduction of this new settlement service, Bankers' Bank is positioned to partner with community banks so the banks can benefit significantly," says Peter J. Sposito, president. "This is an excellent opportunity for community banks to enjoy substantial cost benefits."

For more information on the new settlement service or other applications supported by the **STARS** system, contact Richard Lockwood or Sue Salecky at 800-449-9121.

The prudent choice

BBN's settlement services key advantages

- **STARS** is priced below FedLine Advantage.
- Interest paid on all balances on deposit. Fed balances only earn up to the contractual clearing balance band.
- No charge for additional access points.
- Significantly lower cost for electronic connections than with the Fed.
- Sweep option automatically moves excess funds above target into a Fed Funds investment.
- Multiple foreign transactions including SWIFT.
- Target balance can be changed at any time.
- No separate contingency plan required. Contingency procedures established for all activity via **STARS** connection.
- ACH origination allows your bank to originate transactions easier than the Fed.

Bankers' Bank Calendar

Opportunities to participate

Annual Spring Seminars

Bankers' Bank will hold its annual spring seminars on the following dates:

- ✓ Tuesday, March 29th
Rocky Hill, Connecticut
- ✓ Wednesday, March 30th
Natick, Massachusetts
- ✓ Thursday, March 31st
Bedford, New Hampshire



Please select the date and location that's best for you. More information follows shortly.

Annual Golf Outing

The BBN third annual Golf Outing takes place in early August. This all-day event includes BBN directors, staff and strategic alliance partners. The day's activities conclude with a cocktail reception and dinner.

Details regarding the exact date and location will be sent well in advance so that you may plan to attend.

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come by and talk to us about any banking issue," according to Harvey. "He tells us that if we have any questions to call and he'll help us out. And he does."

While it was the Fed Funds as Agent program that drew Harvey to the Bankers' Bank, its host of other correspondent products is very attractive. "There are a lot of services that we can really use," he says. He cites Bankers' Bank Northeast's loan participation program as a good fit for them.

"We're going to get a lot more done with this relationship than we ever could have with our other correspondent," he adds. "I can only see our relationship getting stronger."



