

# THE RESPONDENT

*A New Direction In Correspondent Banking.*

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

## Client bank profile

### Bankers' Bank Northeast makes it happen for Stafford Savings Bank



Jay Constantino  
Vice President of  
IT and Operations

It all started with a telephone call. In 2003, Jay Constantino was the new Vice President of IT and Operations at the Stafford Savings Bank in Stafford Springs, CT. As an IT professional, he had been Director of Computer Operations for the Ames Department Stores and had served as the Disaster Recovery Manager for the Casual Corner Group stores before that. When he arrived at Stafford Savings, he set up the bank's network and continues to maintain it.

"Even though we were one of Bankers' Bank Northeast's (BBN) original investor banks," notes Jay, "we weren't using many of its services at the time." That was about to change.

Jay along with his operations team was looking for a more streamlined way of handling the receipt of multiple ACH files from the Federal Reserve. After calling Bankers' Bank Northeast, Lisa G. Reynolds, Vice President of Operations, the Bank learned that BBN could help. Jay made

it clear what he needed. While the Fed delivers files four times a day, BBN is able to take these four individual files and consolidate them into a single posting file and deliver it to Stafford Savings Bank by 7:30 a.m. Using BBN's **StarS**<sup>™</sup> platform, Jay and Lisa working together made it happen. She even rearranged a BBN staff member's schedule to accommodate the 7:30 a.m. deadline.

**StarS** is a major benefit as far as Jay is concerned, starting with the fact that there is only one sign-on. Besides that, "everything is in one place," he says. "It is a major asset in simplifying operations." Stafford Savings now uses it for International Wires, Savings Bonds, Fed Funds account management and check adjustments. "The **StarS** platform

*Continued on page 3*



*The Stafford Savings Bank*

### Bankers' Bank Northeast pays dividend

Bankers' Bank Northeast has distributed its first dividend to shareholders of record on December 31, 2007.

The Bank paid a cash dividend of \$6.67 per share to each of the 44 community banks which own Bankers' Bank Northeast common stock. The distribution amounts to approximately 10 percent of the Bank's 2006 net, after tax income.

"The payment of our first dividend is another milestone for Bankers' Bank Northeast," states Peter J. Sposito, President and CEO, who pointed out that the Bank became profitable in 2001, three years after it was founded, and has grown its net income after tax since then at a compound rate of 29 percent. "The dividend payment provides a tangible benefit of the growing value of our retained earnings," Sposito says.

## President's Message

### Hire a Non-Banker



Peter J. Sposito  
President & CEO

In a 2006 *Commercial Record* article, Ralph Shulansky, Chairman of the Board of Bankers' Bank Northeast, suggested that community banks are in danger of going the way of the corner drug store. To avoid such a fate, he urged community banks to find a niche and work it hard.

Banks have long viewed themselves as unique businesses that must balance institutional growth and profitability with prudent business practices. Because they play an important role in their local economies, they take their responsibilities seriously. They win their customers' trust by concentrating on meeting their needs, whether families or small businesses.

As I think of our Bank's third-party strategic partners, we chose them because we trust them when it comes to pricing and customer service. Over the long term, we want to do business with people and companies we trust to do the best thing for us. That's why we seek relationships that are strategic, not transactional.

It's the same with community bank customers. I recently asked one of our vendors to help us to build a new settlement service for ATM transactions, even though I knew the company doesn't currently provide such services. Yet, I trust them to help us to find a solution. If a community bank meets or exceeds customer expectations with basic account relationships, it is likely to win the next service whether it's an Internet-based banking service or a home equity line.

The mortgage brokerage industry, for example, grew to the point that community banks were an afterthought for home mortgages. Many of the competing products were designed to close real estate sales as quickly as possible, as opposed to responding to the borrowers'

*Continued on page 2*

Commenting on the dividend declaration, Board Chairman Ralph Shulansky, Esq., noted, "In just over nine years, Bankers' Bank Northeast has come to play a key role in assisting community banks to operate more efficiently and competitively. The economies of scale and the growing list of bank to bank services enable our client banks to meet competitive threats."

BBN, with a staff of 26, listed assets of \$92,109,000 as of September 30, 2007 and \$550,000,000 of assets under management. Bankers' Bank Northeast provides correspondent banking products and related services to 173 community banks in New England and New York State. Its client banks list assets totaling \$73,419,966,000, creating a large virtual economy of scale.

Continued from page 1,  
**President's Message**  
credit capacity.

Recent negative developments in the mortgage markets are anything but surprising. However, the fact that banks have lost significant home mortgage market share has translated into problems for homeowners who were enticed into loans they could not afford in the long term. The home loan business was aided and abetted by Wall Street, wherein portfolios of sub-prime mortgages were eagerly financed with little heed to the potential impact on consumers and the bond markets themselves.

The fact that the banking public trusts its community bank poses an opportunity. Community banks can gain market share by actively selling services to people who trust their local banker.

Accomplishing this goal requires a more focused sales culture. We often hear that banks have generally hired extremely effective customer service personnel who are unable or unwilling to sell or cross-sell bank services. Branch personnel are renowned for providing high levels of customer service; however, they are not inclined to introduce new services such as courtesy overdraft protection, insurance and investment brokerage or cash management services for small businesses.

From what I see of de novo and prospective de novo banks, each one has identified a niche it intends to serve. Will they be able to compete effectively? I am convinced that many will. Those that recognize they must sell and market to be successful will achieve their objectives. A de novo bank, by definition, must sell or die. Is that not true for the 150-year-old community bank as well?

When reviewing commercial loans, bankers spend a significant amount of time

examining a company's sales history and projections and emphasizing the importance of sales and marketing as the key ingredient for success.

Whether working with a real estate developer or a manufacturer of machine tools, serious attention is given to a company's prospects of closing sales. Lenders equate sales with revenue and the ability to repay a loan is often attributed to a business's ability to generate sales as a primary source of repayment. The formula also works as a measure of success for the business of banking.

To be highly successful, it may be time for community banks to hire non-bankers. It's difficult for a banker to train another banker to become an effective salesperson. It's much easier to teach a sales professional the intricacies of banking.

When we encounter high performing banks during visits to hundreds of banks in the Northeast, we generally find them focused

on a niche and marketing to that specialty with enthusiasm.

Installing a sales function at an old bank is a formidable task; yet, it's one that can be accomplished. The nation's largest banks have historically achieved their size by buying market share, one way or the other. Now that they have

achieved massive economies of scale, they have realized that they must concentrate on internal growth since many of them are [supposedly] limited to a 10 percent national market share and are consequently prohibited from additional merger and acquisition activity to gain deposit share.

I have been told that Bank of America has achieved a "customer friendly" perception with consumers, even though its predecessors may not have enjoyed that reputation. I've visited BofA branches, where customers were asked for business while waiting in line. Although they may be accused of pressing too hard, they have certainly created a sales

culture that can be further refined and improved. Such a stance is better than having no marketing presence or process in place.

I heard recently that BofA personnel went to college campuses in Connecticut to open bank accounts as the freshmen arrived this past fall. That type of activity results from adhering to a marketing plan that constantly searches for new methods to close sales.

The difficulties encountered in closing sales causes many banks to avoid moving into a marketing mode. Our Business Development and Marketing Director consistently reports that our own sales cycle is 18 months on average. In other words, the time taken from first contact to the time that we sell a service is well over a year and often longer. However, if a bank does not employ a sales effort, the sale seldom happens and the lack of sales stunts growth and prosperity.

Today, a bank's senior management's attention is on credit administration, IT, compliance, branch operations, back office operations and general administration. Few banks make sales a top priority. Do bank boards allot sufficient time on their agendas to discuss marketing and sales management? Do banks in fact have a marketing and sales function that goes beyond advertising? What portion of the officers' reviews address sales results?

A brief look at the products and services at our fingertips indicates that great strides forward can be made. During my career in banking, major service offerings have found their way (or are finding their way) to prominence within our banking markets: ATMs, banking-at-home, debit cards, web-based banking, remote image deposit, convenient branches, automated balance inquiries and courtesy overdrafts are a few examples. Services designed for commercial customers include payroll processing, merchant capture of imaged checks, credit card merchant processing, lockbox and international payments. Community banks have the products; they now need to effectively sell them.

One of my favorite cartoons underscores the point that the sales function, done properly, can provide a service to the bank's customers. It depicts a medieval general trying to hold off

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## Bankers' Bank Northeast launches new website

Banker's Bank Northeast entered 2008 with a totally new website. The original website dated back to the opening of the bank in 1998.

"In constructing the new website, we wanted to make it more informative and easier to navigate," says Richard B. Lockwood III, Senior Vice President. Through the planning process, he indicates that making it a helpful

resource for clients banks was a primary goal.

"We appreciate the interest and effort of the bank's staff in helping with the task, as well as suggestions from others."

Visitors will find the navigation much more convenient and the graphics clean, crisp and pleasing. The address remains the same: [bankersbanknortheast.com](http://bankersbanknortheast.com)



## President's Message *(continued from page 2)*

enemy hordes with a small platoon of soldiers wielding swords. Behind him is a salesman with a machine gun waiting to give the general a demonstration as to how much more effective such a weapon could be in winning the battle. "No! I can't be bothered to see any crazy salesman. We've got a battle to fight," says the general to his aide.

Do your customers act like the general? I would guess many do. Bankers who believe delivering a message of prudent customer-oriented services as their primary mission serve their customers well. They capitalize on their bank's major strength, namely, customer trust. As a result, more customers will take advantage of the services offered by

their community bank, thereby enhancing the bank's profitability and growth.

The community banking industry can win business while maintaining the trust of the banking public by delivering products that our customers truly need. The challenge is to hire the people capable of delivering that message successfully.

Peter J. Sposito



President & CEO

## New Business Profile

Between September and December 2007, Bankers' Bank Northeast added 9 new client banks and cross-sold a total of 49 services.

### New Client Banks

Connecticut	2
Massachusetts	1
New Hampshire	4
New York	2

### Services Sold

Cash Letter-OnWe® Image	2
Cash Letter-Fiserv Clearing Network	6
Coin & Currency	4
Deposit Reclassification	1
Escrow Accounting	4
Fed Funds as Agent	9
Fed Funds Liquidity Line	5
International Payments	5
Letters of Credit	2
Loan Participations	4
Lockbox	1
Merchant Processing	1
Official Checks	2
Safekeeping	1
Shredding	1
STARST™ Comprehensive	5

## Bankers' Bank Calendar

### Opportunities to participate

#### Annual Spring Seminars

Bankers' Bank Northeast will hold its annual spring seminars as follows:

✓ Tuesday, March 11th  
Cromwell, CT

✓ Wednesday, March 12th  
Marlborough, MA

✓ Thursday, March 13th  
Bedford, NH

✓ Friday, March 14th  
Brunswick, ME

#### Annual Meeting at BankWorld

✓ Tuesday, April 29th  
Crowne Plaza  
Cromwell, CT

#### Annual Golf Tournament

✓ BBN's sixth Annual Golf Tournament takes place on Monday, August 11th at the Longmeadow Country Club, Longmeadow, MA.



## 2007 Business Activity Report

According to Senior Vice President Richard B. Lockwood III, there has been significant activity with the Bank's core products during 2007. Here are the monthly averages for the core products:

Fed Funds Wires	1,418
Domestic Incoming Wires	2,011
Domestic Outgoing Wires	3,062
International Outgoing Wires	164
Cash Letter, image and paper	1,966,983

## BBN makes it happen for Stafford Savings Bank

*Continued from page 1*

opened the way for us to take advantage of a growing number of services available from BBN," Jay reports.

So, when it came time for Jay and Stafford Savings Bank to get involved in the Check 21 arena, Jay once again contacted Bankers' Bank Northeast. Jay was introduced to BBN's On-We Network®, a low-cost, image-based electronic check clearing house solution.

"The efficient and successful way the **On-We Network®** platform works today," says Lisa, "is the direct result of the cooperation and help we received from Jay Constantino and Stafford Savings Bank when they served as our beta location. In less than three weeks, we had both incoming and outgoing image check files flowing through the On-We system," states Lisa.

To make the daily process even more convenient for Stafford Savings, BBN receives up to four in-clearing files per day and combines them into one single posting file which is available for the bank by 11:00 a.m. daily. This allows Stafford Savings Bank to avoid making major system and operational changes.

The On-We electronic clearing network helps to reduce clearing costs since, as Lisa points out, perhaps 80% of checks prepared for forward presentment involve banks within Stafford Savings' immediate banking area.

Since BBN handles the certifications for the image files, it makes it much more convenient for client banks, notes Lisa.

Jay is confident he made the right decision in working with BBN. "They are responsive to our requests. On top of that, we are saving money."

As an experienced IT person, Jay points out that the technology is changing so fast that "it makes good business and financial sense to outsource as much technology as possible, rather than buying, installing and maintaining our own equipment. That simply doesn't make sense to us."

On the service side, Jay is equally satisfied with BBN's performance. "You get your questions answered quickly and the BBN operations team resolves issues in a timely way."



## New product profile

### New data and voice capabilities coming to Bankers' Bank Northeast

During the second quarter of 2008, Bankers' Bank Northeast will have a converged data and IP telephony solution installed to improve its telecommunications capabilities.

The system will offer not only cost savings and excellent redundancy, but will add improved network monitoring and reporting with a fixed cost. This will make it possible for the Bank to more easily budget for future expansion, while taking advantage of current and future technologies to improve its customer service and overall efficiency.

One of the many immediate benefits of this new system for client banks is that incoming phone calls will be routed more efficiently. The cost of the Bank's high-speed data link to its core processor will decrease significantly. Additionally, calls can be

quickly rolled to the Bank's Disaster Recovery Center, if necessary.

Named BITS, an acronym that stands for Banking Infrastructure & Technology Services, this system is only available to community banks and bankers' banks, a requirement stipulated by Atlantic Central Bankers' Bank in Camp Hill, Pennsylvania, which owns and supports the system.

One of the influencing factors in selecting BITS was the fact that bankers' banks understand the communication needs of community banks. Most importantly, BITS also provides the level of security required by regulators.

Bankers' Bank Northeast will be making the BITS service available to community banks later in the year.

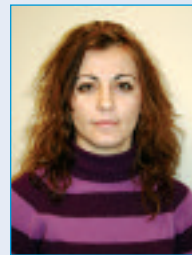
## New Staff Members



### Geoffrey S. Gibbons, Relationship Coordinator / Client Services

Geoffrey S. Gibbons fills the position of Relationship Coordinator in the Client Services area, where he is responsible for processing various account opening documents for new services being implemented, along with performing the appropriate tracking and follow-up. His other

responsibilities include coordinating client training needs, client and vendor billing processing and resolving day-to-day client inquiries. Geoff is a 2006 graduate of Plymouth State University in New Hampshire with a BS degree in Business Administration and a minor in Economics.



### Gjerahire Avdimetaj, Operations Specialist

Bankers' Bank has hired Gjerahire (Gee) Avdimetaj as an Operations Specialist. In her new position, Gee will be processing international transactions for our client banks. She was previously employed as a Teller with Webster Bank.

#### CORPORATE OFFICES

Glastonbury, CT  
1-800-449-9121  
www.bankersbanknortheast.com

#### REGIONAL OFFICES

Boston, MA  
Portland, ME  
White Plains, NY

#### Officers

Peter J. Sposito	<i>President &amp; CEO</i>	Elissa G. Reynolds	<i>Vice President/Operations Manager</i>
Allen L. Nielsen	<i>Executive Vice President &amp; CFO</i>	Susan W. Salecky	<i>Vice President/Director of Client Services</i>
Richard B. Lockwood III	<i>Senior Vice President</i>	Peter T. Garland	<i>Chief Credit Officer</i>
Richard J. Nurge	<i>Vice President/Relationship Manager</i>		
August A. Oliveira	<i>Vice President/Relationship Manager</i>		

**BANKERS' BANK**  
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