



Lindsey Riley <lindsey.riley@gmail.com>

the riley report: - April Edition

2 messages

Mark Riley <mriley@bankresourcesandsolutions.com>
 Reply-To: mriley@bankresourcesandsolutions.com
 To: lindsey.riley@gmail.com

Mon, Apr 27, 2009 at 10:20 AM

the riley report April 2009 **Common Sense Banking for the 21st Century For CEOs, their Executives and Boards of Directors**



Welcome to the April Newsletter - Ideas and Strategies to Improve Your Bank's Performance

Throughout the financial crisis, there has been one linchpin that has provided impeccable strength: FDIC Insurance. Over 2,900 banks have expanded the FDIC coverage through their participation in the Promontory Network CDARS program. From many perspectives as outlined below, every eligible bank should give this service careful consideration.

Intellectually speaking, we can agree that loan modifications are a good idea in many cases, but with initial reports reflecting a 41% recidivism rate, maybe it's time to look at alternative approaches, such as the 2008 Neighborhood Mortgage Stabilization Program, a.k.a The Riley Plan?

There are heated conversations about the apparent disconnect between failed leadership and being held accountable for their actions. Collectively, Americans understand the recovery will be difficult, but they also believe the failed leadership should not be rewarded, especially with taxpayer dollars.

- **CDARS: Bankers Competitive Edge**
- **The OCC/OTS Mortgage Metrics 2008 Report and Why We Need to Take Another Look At How We're Assisting Homeowners In Crisis**
- **Reagan, Ponies and FIRSINC - It All Makes Sense**
- **Leadership 101 - Accountability, Bonuses, Unemployment and Doing What's Right**
- **Fearless Prediction Update: The Bear Market Ends on December 9, 2009, Give or Take a Month or Two**

*As always, we appreciate your comments and suggestions.
 Mark Riley*


CDARS: Bankers Competitive Edge

In October, as part of legislation designed to restore stability to financial markets, Congress approved a provision to temporarily raise the standard Federal Deposit Insurance Corporation (FDIC) insurance maximum to \$250,000 (per insured capacity per bank). This was the first "across-the-board" increase in the FDIC coverage limits since 1980, when the cap was raised from \$40,000 to \$100,000.

Reagan, Ponies and FIRSINC

President Reagan used to regale in the story of the little boy who received a mound of horse manure. The little boy was thrilled as he knew there was a pony in there somewhere. While somewhat colorful, at FIRSINC, we can help you find the ponies in your bank.

With an extensive track record of turning around community banks, we would enjoy having the opportunity to assist you, your management and Board in making your bank a top notch financial institution.

For more information, please contact me at mriley@bankresourcesandsolutions.com or  757-642-8353 .

Refer a Colleague

We would like to share this information with your colleagues. [Click here to add your colleague to our mailing list.](#)

The OCC / OTS Mortgage Metrics 2008 Report and Why We Need to Take Another Look at How We're Assisting Homeowners in Crisis

It is still too early to understand the full impact of the temporary increase to the FDIC maximum on depositor behavior, the health of the banking sector, and, more broadly, the economy. But one thing we at Promontory Interfinancial Network ("Promontory") do know is that the market for "safe" investments has never been stronger and likely will continue to remain so for the near future.

In fact, based on data from Promontory's network of over 2,900 banks, we believe there has never been a better opportunity to pursue the safety-conscious investor. Just listen to Joseph Collum, Vice President of Burke & Herbert Bank & Trust Company, in Alexandria, Virginia who asserts, "In the current environment, having the option of offering large-dollar depositors access to additional FDIC insurance coverage matters, and CDARS[®] is the easiest way to offer such protection."

CDARS is a patented technology-based service that banks can integrate into their traditional product offering. With it, they can accomplish a number of things, including providing depositors with access to up to \$50 million (frequently more) of FDIC insurance. Banks that offer CDARS are members of the Promontory Network. When a bank places a customer deposit using the CDARS service, that deposit is divided into amounts under the FDIC maximum and spread out among other banks that are part of the Promontory Network. This occurs in increments below the FDIC limits to ensure that both principal and the interest are eligible for the full protection. This process enables customers to access FDIC insurance from multiple banks while working with just one. (Of note, customers receive one regular statement detailing all of their holdings and the originating bank maintains full control over the customer relationship.)

There are three distinct types of CDARS transactions. CDARS[®] ReciprocalSM enables banks to provide depositors with access to up to \$50 million in FDIC insurance, the easiest and most convenient way for banks customers to protect large deposits, and receive matching funds in return. CDARS[®] One-Way SellSM is a tool that banks can use to sell excess deposits and earn fee income. Finally, CDARS[®] One-Way BuySM is an easy, cost effective source of funding without collateralization (more on these later).

Over the past several months, Promontory Network members have attracted billions more in CDARS deposits. (Indeed, weekly placements through the Promontory Network have grown five-fold since the beginning of last year.)

Many institutional investors -- from large corporations and small businesses to non-profits and government entities -- are looking to CDARS. Currently, CDARS holdings average over \$1,000,000 per customer, with institutional investors tending to hold significantly more (see chart for detail).

Customer Type	Approximate Avg Holdings Per Customer*
Banks & Credit Unions	\$6,125,000
Public Entities	\$3,250,000
Partnerships	\$1,350,000
Corporations	\$1,300,000
Non-Profits	\$950,000
Estates & Trusts	\$800,000
Associations & Clubs	\$675,000

With 41% of modified mortgages 60+ days delinquent after eight months, the percentage suggests current modification efforts may be seriously flawed. A closer examination supports the notion that only by lowering the borrower's current monthly payment, in a program that promotes long term stabilization of the mortgage, will recidivism rates fall into more acceptable levels. *The OCC / OTS Mortgage Metrics 2008 Report* notes: "When loan modifications decreased monthly payments by more than 10%, only 22.7% of those loans were seriously delinquent six months after modification. In contrast, when modifications left payments unchanged, 50.6% of such loans were seriously delinquent after six months, and for modifications that increased payments, the comparable rate was 45.8%."

The message is clear: when homeowners in crisis can reduce their monthly payment to more affordable levels, there is a higher probability of success in avoiding foreclosure.

In January 2009, we published the *Neighborhood Mortgage Stabilization Program* proposal in which we proposed that homeowners, with upside down mortgages not exceeding 120%, in distress, but had not fallen into delinquent status, be eligible for modified loans that substantially reduced their current payments and provided up to seven years to get back on their feet. Metaphorically speaking, these were hard working Americans who were exhausting their assets to maintain their satisfactory credit, but who were rapidly approaching the financial cliff.

The current programs may assist some homeowners up to 105% Loan to Value ratios, but exclude millions. While an excellent start, there are millions that are asking for more breathing room, not a bailout.

The proposal and other resources

Individuals	\$600,000
Average Holdings Across All Customer Types	\$1,025,000

**As of 12/31/08. Includes both Reciprocal and One-Way Sell transaction data (all placements).*

Additionally, these investors are motivated -- perhaps more than ever before -- to protect *all* of their money. To that end, CDARS remains the perfect tool to attract the billions of dollars that are now in money market mutual fund investments (e.g., Treasury Funds, Government Funds, or Prime Obligation Funds) that may be "looking for a new home." The opportunity to encourage safety-conscious customers to consolidate their investments with an institution that offers CDARS remains large, especially given that the spread between CDs and Treasuries has seldom been wider. This is a challenging time for the financial services industry, but it is also one of great opportunity.

But helping banks to bring new deposits in the door is only one benefit of CDARS. Another is that once you win a CDARS customer's CD business, there's a better than 80 percent chance you'll keep it. (We invite you to compare this to the reinvestment rate for your institution's current CD offering.)

And deposits placed through CDARS Reciprocal transactions, while technically brokered, share many of the same key characteristics associated with core deposits:

First and foremost, deposits placed through CDARS Reciprocal transactions have a high reinvestment rate and, thus, are a very stable source of funding -- 83 percent of these deposits were renewed in 2008.

Second, CDARS placements are overwhelmingly gathered within a bank's geographic area. In fact, our analysis indicates that about 80 percent of deposits placed through CDARS Reciprocal transactions are made by customers within 25 miles of a branch location of the relationship institution.

Third, rates on CDARS Reciprocal deposits are typically lower than rates on brokered deposits and other wholesale fund sources. With CDARS, banks have complete control over the interest rates they pay to their customers. This gives each participating bank the ability to manage its cost of funds within the context of its local market. On average, even in today's thin rate environment, CDARS Reciprocal funds are gathered at costs up to 50 basis points less (depending on maturity) than the all-in costs for traditional brokered deposits.

Of course, the reason for these similarities can be explained with one word: relationships. Like core deposits, CDs issued through CDARS Reciprocal are built on established tangible relationships. Each owner of a CD issued using CDARS has an account and a relationship with the bank itself (and retains full control over that association). And as befits a large dollar relationship, this association is substantial and generally long-lasting. Finally, because the bank sets the interest rate it offers to its customers, it can help insulate itself from changes in national liquidity demand.

In addition to helping banks to attract (and retain) stable funding in the form of six-, seven-, and eight-figure deposits, CDARS offers a number of other benefits.

Through CDARS One-Way Sell transactions, network members with high liquidity or low loan-to-deposit ratios may (with their customers consent) sell their "excess deposits" to other members -- banks that need funds.

for your bank are available through our website: <http://www.bankresourcesandsolutions.com/>
If you agree that more work needs to be done, I encourage you to contact your banking associations and elected officials.

Commentary - Accountability, Bonuses, Unemployment and Doing What's Right

The current furor over bonuses paid to publicly traded corporations that have received bail out funds will continue to churn heated discussions until the majority of Americans are satisfied those that were involved in the management of firms that created the financial debacle are not financially rewarded for their incompetence, greed and any other similar adjective to describe the mis-management. The notion that we must retain the executive officers that contributed to this mess because their skill sets are so unique that no one else is qualified to perform their jobs insults the millions of unemployed in this country. While I'm not suggesting that every unemployed person can step up, surely* there are those that are eminently qualified to fill these positions.

For those employees of these organizations that are working diligently to address the problems and ultimately reduce taxpayer expense, bonuses, as part of an overall compensation plan, makes sense.

In essence, the recovery will occur more quickly when everyone is held accountable for their actions. That's doing what's right.


**with apologies to AIRPLANE and "...and stop calling me Shirley."*

Fearless Prediction Update: The Bear Market will end on December 9, 2008, Give or Take a Month or Two

Those that do so retain complete ownership and control over their customer relationships and can earn fee income (the difference between the rate an institution offers to its customer and the CDARS "One-Way Sell Rate"). And, by taking deposits off its balance sheet and generating non-interest income, a Promontory Network member can improve its return on assets and its return on equity ratios.

In addition to selling "excess deposits" and earning fee income, a Promontory Network member also has the ability to invest its own bank funds through CDARS One-Way Sell transactions. Often, funds can be placed at compelling rates that may compare favorably to Treasuries (and FDIC insurance, like Treasuries, is backed by the full faith and credit of the U.S. government), agency securities, and money market mutual funds (e.g. government funds). As previously discussed, these CDARS placements are eligible for up to \$50 million in FDIC insurance (and, frequently, we can accommodate higher amounts, for depositors that would like to invest more).

With CDARS One-Way Buy transactions, Promontory Network members that seek additional sources of funding can effectively "purchase" funds from other network members. In 2008 alone, members of the Promontory Network obtained billions in wholesale funding by using CDARS One-Way Buy transactions. These transactions represent an easy, cost-effective source of wholesale funding without collateralization or credit limits and without stock purchase requirements. They can help member banks to obtain large blocks of funds while providing control over pricing and diversifying wholesale funding options. The CDARS service can also provide member banks with the opportunity to add funding when needed, for the short- or long-term.

For additional information about CDARS and the recent changes in the FDIC coverage limits, please visit our website at www.promnetwork.com or contact **Erich Buckenmaier at Promontory at**  (866) 7... **x3354,** or **ebuckenmaier@promnetwork.com**.

© 2009 Promontory Interfinancial Network, LLC

On October 3, 2008, Congress temporarily raised the FDIC maximum from \$100,000 to \$250,000 per insured capacity per bank. This coverage increase is scheduled to expire on December 31, 2009. Accordingly, for CDs that mature on or before December 31, 2009, customer funds are placed with banks that are members of the Promontory Network in amounts no larger than \$250,000. For CDs that mature after December 31, 2009, customer funds are placed in amounts no larger than \$100,000.

Financial Institutions Resources and Solutions, Inc.

 757-642-8353

mriley@bankresourcesandsolutions.com

www.BankResourcesandSolutions.com

President Obama indicated there were glimmers of hope in our nation's recovery. I tend to agree. It's too early to feel the impact of the Economic Stimulus package and it comes as no surprise that foreclosures are up as the temporary freeze on foreclosures at Fannie Mae, Freddie Mac and large FIs is expiring. Unemployment, while the most painful barometer, is viewed as a lagging indicator. Initial first quarter results for financial institutions has not provided any earth shattering news. Likewise, internationally, there has not been a precipitous crisis to confront the administration.

All things considered, December 9, 2009 remains a good date... give or take a month or two.

Previous Articles to Improve Bank Performance

The following articles have been previously published and are available, in their entirety, on our website:

www.BankResourcesAndSolutions.com.

- Know Your Customer Regulations and Enhanced Due-Diligence in a Difficult Lending Environment
- Hundreds of Community Banks Are Now Offering High Interest Checking Accounts - Are These Guys Nuts or What?
- Insuring to a Better Tomorrow - Utilizing Operational Risk Management to Decrease Costs to Increase Efficiency
- Here's Why It's So Hard to Modify a Mortgage: [MSNBC: The Mortgage Modification Mess](#)
- 2008 Neighborhood Mortgage Stabilization Program Proposal - The Riley Plan

Attachments:

 [OCC OTS Mortgage Metrics Report 2008 2009-37a.pdf \(358K\)](#)

This email was sent by Mark Riley, Bank Resources and Solutions - a division of Financial Institutions Resources and Solutions Inc, 14732 Vint Hill Road, Nokesville, Va 20181, using Express Email Marketing. You were added to this list as lindsey.riley@gmail.com on 12/11/2008.

Express Email Marketing supports permission-based email marketing. You can change your [preferences](#) or [unsubscribe](#) from this mailing list at any time.

Mark Riley <mriley@bankresourcesandsolutions.com>

Mon, Apr 27, 2009 at 10:27 AM

Reply-To: mriley@bankresourcesandsolutions.com

To: leriley@bankresourcesandsolutions.com

[Quoted text hidden]

This email was sent by Mark Riley, Bank Resources and Solutions - a division of Financial Institutions Resources and Solutions Inc, 14732 Vint Hill Road, Nokesville, Va 20181, using Express Email Marketing. You were added to this list as leriley@bankresourcesandsolutions.com on 3/20/2009.

Express Email Marketing supports permission-based email marketing. You can change your [preferences](#) or [unsubscribe](#) from this mailing list at any time.
