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To: Lindsey Riley

the riley report June 2009 **Common Sense Banking for the 21st Century**



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

This month's newsletter is focused on Non Interest Income. Bankers have done an excellent job of referring business to other service providers, including when it comes to your commercial customer's decision to sell his company. We're suggesting there's a better way and one in which your bank can receive a referral fee. Secondly, while there may be headlines that tout improving Net Interest Margins and Non-Interest Income, a closer look reveals that's applicable only to the the largest banks. The FDIC published an excellent historical prospective of the 2008 meltdown, which should serve as an excellent reference as efforts are made to correct the deficiencies in regulatory oversight and consumer protection. Add some commentary and an update on the Fearless Prediction and I hope this newsletter provides for some stimulating discussions.

- ***1stWEST Mergers & Acquisitions LLC Referrals - Improving Your Non Interest Income***
- ***Net Interest Margins Increase !!!!! - Well, Not Exactly For Every Bank***
- ***The 2008 Financial Services Meltdown and the Federal Government's Response***
- ***Oh Really?... Banks and TARP***
- ***Fearless Prediction Update***

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

1stWEST Mergers & Acquisitions LLC (1stWEST) Referral Program- Improving Your Non Interest Income

Historically, banks have catered to, and worked with closely with, companies to build their businesses. When the owner(s) decide to sell, though, bankers have referred their best customers to lawyers, accountants, investment advisors or business brokers to handle the sale without benefiting from the transaction. 1stWEST believes banks can be great referral sources and should be compensated, upon successful consummation of the sale, in the form of referral fees to the bank. More importantly, the role of the bank is to simply make the introduction. Any confidential company information will come from the business executives and not the bank.

The ideal candidate for the referral will have \$10 - \$100 million in annual revenues and the referral fee is based on the size of the transaction. The 1stWEST referral fees could generate thousands in new Non Interest Income. Just as importantly, the banker has assisted his commercial customer maximize his investment. For more information, please email me at m.riley@1stwest.com or visit www.1stwestma.com.

Net Interest Margins Increase !!!!! - Well, Not

FIRSINC and Your Bank

FIRSINC knows these are challenging times; we are available to assist you in addressing the tough questions, throughout the CAMELS' spectrum. 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 the right decisions for your bank.

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.](#)

Fearless Prediction Update:

In March, we fearlessly predicted the end of the bear market would occur on December 9, 2009, give or take a month or two. We're still confident and pleased the ABA Economic Advisory Committee (EAC) shares this assessment. Quoting the 6/16/09 ABA News Release: "The country's economic recession will end during the third quarter, but high unemployment and large federal deficits will linger, according to the EAC of the American Bankers Association."

Specifically, here's the basis for our optimism. The May Treasury - U.S. Economic Statistics reported:

1. Payroll Employment had its third monthly lower decline

Exactly For Every Bank

The First Quarter 2009 FDIC Quarterly Banking reported Net Interest Margins (NIM) of Commercial Banks increased 20 Basis Points (BP) over the full year 2008 from 3.23% to 3.43%. That's encouraging news until the banks are examined according to Asset Size. Of the four categories, only the "Greater than \$10 Billion" group of 86 banks experienced an increase in the NIM from 3.09% to 3.39%.

Net Interest Margin	All Commercial Banks	Less than \$100 MM	\$100 MM to \$1 BN	\$1 BN to \$10 BN	> than \$10 BN
1 st Qtr. 2009	3.43%	3.83%	3.63%	3.44%	3.39%
2008 (full year)	3.23%	3.95%	3.83%	3.64%	3.09%
Increase (Decrease)	.23%	(.15)%	(.20)%	(.20)%	.30

Earnings are further exacerbated as Non Interest Income to Earning Assets have suffered similar declines, except in the "Greater than \$10 Billion".

Non interest income to earning assets	All Commercial Banks	Less than \$100 MM	\$100 MM to \$1 BN	\$1 BN to \$10 BN	> than \$10 BN
1 st Qtr. 2009	2.51%	0.79%	1.08%	1.42%	2.85%
2008 (full year)	1.96%	1.01%	1.18%	1.40%	2.14%
Increase (Decrease)	.55%	(.22)%	(.10)%	(.02)%	.71

There may be some optimism in rising interest rates later this year, but it seems we have a convergence of interest rate compression, fixed overhead expenses and continuing non-performing assets to address. If your bank is well capitalized, has adhered to prudent underwriting standards, developed new products and services to compete and has a loyal customer base, then business as usual will serve you well. If, however, your bank is facing significant challenges, now's the time to look at the way your bank is running and articulating new strategies. We can assist you in your assessment and planning process.

The 2008 Financial Services Meltdown and the Federal Government's Response

The Summer 2009 issue of FDIC Supervisory Insights leads with *A Year in Bank Supervision -- 2008 and a Few of Its Lessons*. The article is an excellent overview of what happened, what efforts were made to face the challenges and suggests elements of what needs to be done to avoid future meltdowns. It's fascinating reading and even though it's been less than a year, I found myself thinking "Oops, I forgot about that crisis or this event." Historians will scrutinize the first decade of the 21st century for years to come.

Oh Really?... Banks and TARP

According to an article in the June 22, 2009 Newsweek magazine, of the \$643 billion of TARP funds, "banks got \$252 billion (39%); the rest went to AIG, the auto companies and other lenders." When the bank amount is reduced by the \$68 million repayment that leaves banks with \$148 billion or 23% of the total TARP outlay. That's a good point to everyone to remember as new regulations and agencies are discussed to deal with the problems. The overwhelming majority of the banks were not involved in the debacle. *They shouldn't be penalized because they are easy targets.*

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compared to the previous months. This suggests the nation will be turning a corner and having net increases in employment within a year.

4. Housing Starts, Vehicle and Retail sales reported increases over April.
5. New Orders for Durable are up over April and the Retail Inventories / Sales Ratio is reflecting a slight improvement at 1.54, down from 1.62 in December 2008

We're confident banks have identified their non-performing assets and have undertaken efforts to address the problems. The federal stimulus program will begin to impact the recovery as funds are distributed. Inflation appears to remain under control, although many of us are concerned of a whiplash effect in several years. The big unknown in our assessment is geopolitical. With four hot spots, Afghanistan, Iraq, Iran and North Korea, any significant disruption caused by events emanating from these countries could severely impact the national and global recovery efforts.

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

Previous Articles

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

<http://www.bankresourcesandsolutions.com/>.

- 1stWEST Mergers & Acquisitions LLC
- The Home Equity Conversion Mortgage Product - an Intriguing Product at an Opportune Time
- The SBA and the 2009 Recovery Act - Well Worth Taking a Look At
- 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
- Know Your Customer 2 of 3

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

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