ENOUGH ABOUT YOU LETS TALK ABOUT US

by Steve Brown

Given the turbulent time for the industry, you are likely to hear more information about bank closings, bankers' banks and about more institutions leaving the correspondent bank business. Today, we wanted to clarify our business model (from a consolidated entity) both to highlight the safety in dealing with us and also to give you some information that may resonate and provide insight into your own bank's strategy.

For starters, correspondent banking (as we define it) is our only business. We have nothing else to fall back on since community banks are our only customers. While we have adjusted risk practices, we are still buying and selling loans, extending credit, providing liquidity, consulting services and doing everything we can to help community banks increase performance. We know that we have risk exposures to a difficult industry and we have taken steps to mitigate much of this risk.

True to our recommendations here in the BID over the past several years, we have taken proactive steps to diversify the lending portfolio, shed construction credits and decrease leverage. In addition, we have increased capital, including both common and TARP, and currently have a total risk-based capital ratio of a hyper-strong 17.6%. As additional cushion, we have increased our allowance for loan loss ratio to 2.56%. We have increased liquidity by adding more banks to our settlement and Fed Funds pool; shifted assets away from loans and into more liquid securities; and, have placed a higher premium on the liquidity of the assets we have added to our balance sheet. Of course, lowering risk comes at a cost. True to form our ROE has decreased from the 20% range a few years ago to the 11% range today. We are OK with this, as in this market, our ability to service our client banks is our first priority.

Different than any other bankers' bank, our business model is such that we strive for proprietary products than cannot be easily duplicated, are scalable and create value long-term value for our customers. Our settlement product, business sweep, loan pricing, hedging, loan credit stress, relationship profitability and a host of other products all follow this structure. We target banks and only banks. We don't believe in growth simply for growth's sake and understand that being nimble and profitable is much more important in this market. Because we do not have the ability to fund ourselves at below market-pricing, we focus instead on providing services critical to community banks.

Diversification is important, which is why we strive to target banks across the US with a multitude of products - each one has a designated impact on our financial statements. Some of our products are subscriptions and some are transactional. We have products that help community banks manage assets, hone in on liabilities and generate additional fee income. The value of this approach is that we solve customer problems and even when credit is weak; our consulting and cash management products drive shareholder value.

Finally, our ultimate secret weapon is a combination of employees and clients. We hire the best employees, give them the tools, get out of their way and provide the business platform to shine. In return, they come up with innovative products, superior customer service and have a lot of fun in the process. Our employees ensure that we are special to our clients. In tough times, having the trust and understanding of your clients is a priceless commodity.

On that note, we wanted to let you know that if you are not a client already, but are passionate about community banking, we invite you to come and see why a thousand banks have already chosen us as a trusted partner.

BANK NEWS

M&A

Berkshire Hills Bancorp ($2.63B, MA) has entered an agreement to purchase CNB Financial Corp ($295.2mm, MA) for $19.2mm in stock or 0.98x book.

M&A

Four Oaks Fincorp ($957.3mm, NC) will purchase Nuestro Banco ($16.8mm, NC) for $2.7mm in stock or 0.29x book. Nuestro received a C&D earlier this month.

Stress Test

The Fed has postponed the release of stress tests (originally scheduled for May 4) to the end of next week, as the 19 largest US banks debate findings with examiners.

Cram Down Gets Crammed

The Senate voted down a White House proposal that would have allowed bankruptcy judges to modify the 8.1mm mortgages facing foreclosure.

Bull Market & Forward Looking

The S&P 500 gained 9.4% in Apr., the most in 9Ys, as the past 2 months delivered an 18.7% gain (the best in 34Ys). Pundits are happy to see the rebound, since equities historically serve as a leading indicator.

Bank Liability

Interesting story in the WSJ about how one small CA town (Indio) is going around threatening arrest of bank CEOs (including Citibank's) that fail to maintain OREO/foreclosed property.