

CEO/CFOnly Conference – Green Lake, Wisconsin

Summary of Godfrey & Kahn Presentation

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Topics:

1. Regulatory Reform (JTR)

- Brief discussion of the proposed Consumer Financial Protection Agency (CFPA).
- Discuss proposals to consolidate all federal bank regulatory agencies into one “super” federal regulator.
- Discuss likelihood that Office of Thrift Supervision (OTS) will be merged into the Office of the Comptroller of the Currency (OCC).
- Discuss increasing role of the federal “Pay Czar.”

2. Supervisory Enforcement Actions (TRH)

- Discuss progression from CAMELS downgrades to Memorandum of Understanding to more formal agreements and orders, including Cease and Desist Orders and capital directives.
- Explain the process and the requirements for directors to sign certain orders.
- Explain that some negotiation may be possible, but that adopting an adversarial or confrontational stance with examiners is ill-advised.
- Recommend getting counsel involved early in the process to facilitate the negotiations and help “coach” your board of directors.

3. FDIC Assisted Transactions (JTR)

- Quickly summarize the FDIC’s process of soliciting bids before ultimately closing a bank.
- Discuss the bid packets, the various bidding structures and considerations, and the post-closing option periods that exist.
- Finally, quickly summarize the concept of FDIC loss sharing arrangements.

4. Disposition of OREO (TRH)

- Explain structures that banks and bank holding companies have been using to manage REO properties.
- Discuss tax, legal and environmental considerations.

- Briefly summarize pooled sales and other management strategies we have seen. .
5. Stock Control Loans (JTR)
- Quickly summarize the risks that clients have seen in bank stock control loans.
 - Explain how important it is to monitor these credits and restructure them quickly if there is any deterioration in the underlying bank. Otherwise, if the underlying bank fails, you can find yourself with essentially worthless collateral and a bank holding company that has no meaningful assets.
 - There may be ways to sell the loan or restructure the collateral.
6. RESPA Requests (JTR)
- Briefly summarize a variety of written complaints, demands and threats that bank clients have been receiving from disgruntled borrowers, lawyers and “home counseling” intermediaries.
 - Explain that most purport to be “Qualified Written Requests” under RESPA, but do not actually satisfy the requirements set forth in RESPA. Be careful in how you respond.
7. Loan Participations (JTR)
- Similar discussion as to bank stock control loans. Review these credits closely. We are seeing a lot of clients fighting with lead banks of deteriorating participations.
 - Also, if the lead bank has taken or is about to take title to the underlying real estate and collateral, the participants need to think about how that property will be managed. Most participation agreements and certificates do not contemplate managing real estate for months or, in this market, possibly years. How should it be managed? By whom? What are the appropriate improvements and repairs? What is an acceptable sale price?
8. Capital Raise Strategies (TRH)
- Summarize the differences between common stock, preferred stock, sub-debt and trust preferred securities.
 - Explain the various regulatory approvals required and regulatory implications of each.
 - Focus on the recent series of sub-debt transactions that we have done for clients.
9. Scope of Credit Card Act (JTR)
- Point out that certain provisions of the Credit Card Act apply to all open-end credit and not just to credit cards. Many clients do not issue credit cards and were unaware that the Act applied to home equity lines of credit, etc.

10. Class Action Suits (JTR)

- Quickly summarize two class action trends: (a) ATM notices regarding fees must be posted on the machine, regardless of whether the screen also contains a notice; and (b) certain banks have a policy of using a general ledger account to balance any deposit discrepancies under a certain amount (i.e. \$10, \$5, etc.).

Questions:

- Use of job descriptions for all positions?

It is highly recommended that each position have a job description.

- CAMELS dropped?

All of our clients are seeing some drop in their CAMELS ratings. As a starting point, assume you will drop one level. Also, we think it wise to manage the expectations of your board of directors prior to the examination so they are not surprised when the downgrade comes.

- Explain the Texas ratio?

Measures banks' credit troubles and predicts failure. Developed by private equity firm and = (non performing loans + REO) divided by (tangible common equity + reserves). A ratio of greater than 1:1 indicates a high risk of failure.

- Remote banking / Imaging and Scanning of Documents / Technology (ESIGN, online banking, email retention, paperless transactions, etc.)

There was insufficient time to discuss these items, but it was indicated that G&K spends a lot of time assisting bank clients with all of these technology issues and more. We have drafted policies, agreements and training pieces on many of these items.

- Moderators for strategic planning?

While G&K does not typically moderate strategic planning sessions, G&K welcomes the opportunity to meet with management teams and boards to discuss strategic planning, regulatory concerns, capital raise options, etc. Such meetings often allow for more expansive interaction and Q&A than conference settings which are subject to time constraints.

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