

CURRENT CHALLENGES IN BANKING

CE ONLY MEETING 6/24/09

- 1) CHALLENGES OF I.T. CONVERSIONS & RELATED PRODUCTS-NOT COMPATIBLE/COSTS
- 2) IMAGING- FED RESERVE CLOSING OFFICES
 - >BANKS HEADED TO PAPERLESS LOAN FILES
 - > DUAL FILES - CORE DOCS TO HARD DOCUMENTS ONLY
 - > I.T.I. SYSTEM "DIRECTOR" COLUMBUS ON 8YRS
- 3) F.D.I.C. ASSESSMENT
 - > BANKS REQUIRED TO ACCRUE BY 6/30 CALL REPORT/EXPENSE ON INCOME
 - > PAYABLE 9/30/09
 - > 2ND QUARTER - ASSESSMENT FROM PRE-PAID TO ACCRUED PAYABLE-ADJ #2
 - > C.U.N.A. - CREDIT UNIONS ASSESSED IQ- 2009 (BILL TO EXP 7 YRS)
- 4) ON-LINE BANKING- DEPOSITS & LOANS
 - >LOAN APPS- DO NOT ACCEPT- DISCLOSURES TRIGGER
 - > DATA GATHERING- PRINT APP- COMPLETE & MAIL-IN
 - > DO NOT SAVE - DATA LOST (CANNOT SUBMITTED ELECTRONIC)
 - > MOST USE FIPCO DOCS
- 5) FIRST TIME BUYER TAX CREDIT- \$8000 PROMOTE ON-LINE
 - > MAY GO TO \$15,000 IF ECONOMY STAYS LAX
- 6) INTERNET BANKING COSTS (\$2-\$2,500/MONTH WITHOUT BILL PAY)
 - > ONE CHARGES \$5.00/MONTH TO ELIMINATE NON-USERS
- 7) PARTICIPATION LOANS- JUST ABOUT ALL PHASING OUT
 - > CHALLENGES IF OUTSIDE REGION
 - > LOSSES PUSHING LOAN LOSS RESERVE EXPENSE
 - > STRESS TEST- TEXAS RATIO: NON-PERF/CAPITAL & LLR
- 8) EMAILS- RECOMMEND SET TO DELETE "OFF" SYSTEM
 - >IF LEGAL ISSUES- EXPENSE TO DIG INTO- AT LEAST ANNUALLY
- 9) BOARD PACKETS- EXAMINERS WANT TO SEE PRE-SENT
 - > CAUTION ON OUT OF BANK W/O CONTROLS
 - > MANY REQUIRED TO DO "QUALITY" MINUTES - NOT BULLETS
- 10) POLICY REVIEWS- SERVERAL REQUIRED TO "PROVE BOARD REVIEWS ANNUALLY"
 - > RUBBER STAMP NOT ACCEPTABLE
 - > WORKING COPY FOR CURRENT YEAR CHANGES

- 11) ACH- BANKS FINDING LIABILITY OF " COLLECTED FUNDS"
 - > NEED SIGNED AGREEMENT/ ISSUE SAME AS CREDIT RISK
 - > TYPICALLY A CUST SERVICE/ \$0 PROFITS/RISK ASSOCIATED

- 12) BUSINESS DEBIT CARDS- MORE & MORE ISSUING
 - > SUBJECT TO RISK OF USERS NOT QUALIFIED
 - > WRITTEN CHECK HAS FORGERY TYPICALLY HARD COPY
 - > BANK EXPOSURE IS LOSS DEDUCTIBLE ON BOND (\$10, 000) CFB

- 13) COMBINED REPORTS WITH HOLD CO/BANK/INVEST-SUB

- 14) MANAGEMENT SUCCESSION PLAN
 - > PUBLICLY HELD- THIS IS REQUIRED
 - > RECOMMEND BANKS ADOPT (LIKE DISASTER PLAN)

- 15) BOARD OF DIRECTOR- RETIREMENT - RECOMMEND ADOPT A PLAN
 - > ROTATIONAL DIRECTORS 3 YR TERMS (PREVENTATIVE)
 - > TOBY SHERRY - COMMISSIONER 65 MANDATORY/70 IF ACTIVE IN BUSINESS
 - > ONE 75 YEARS NO OPTIONS/ ONE RESIGN AT 70+ IF BOARD ACCEPTS
 - > ONE IF NO LONGER ACTIVE IN A BUSINESS (5 YR MAX)

- 16) FORECLOSURE EXTENSION- TARP RECIPIENTS +30DAYS
 - > I.E. BRENT JOHNSON- WELLS FARGO 5/14 TO 6/18 TO 7/23

- 17) NON PERF LOANS/TOTAL ASSETS
 - 2006 -.89%/2008 - 2.69%(3X)
 - > LOAN LOSSES 2006-2008 UP 400%
 - > 40 BANKS IN WIS FAILED Y-T-D

- 18) UNEMPLOYMENT ON THE RISE 4% -6% - 9.4%
 - > SOME SECTORS 20%+ EXPECT TO SEE 12-15% (SURVEY)
 - > STRESS TEST LOAN PORTFOLIO - EXPECT INCREASE- LLR
 - > NON-PERF LOANS/ CAPITAL - DIVIDEND PAYMENTS WITHHELD
 - > EFFECT OF DROPPING HOME VALUES/ COM'L REAL ESTATE (VACANCIES)

- 19) BANK CAPITAL EQUIVALENT TO LICENSE OPERATE (FDIC)

- 20) APPRAISAL REVIEWS- EXAMINERS CHECKING FOR SELF ANALYSIS
 - > DO NOT SIMPLY ACCEPT & FILE
 - > IMPACT OF CALL REPORT RC-R RISK OF PORTFOLIO
 - > CAUTION-- SOME BANKS HAVE LOST OR REDUCED ACCESS TO FED FUNDS
 - > CAPITAL IS CUSHION FOR UNSECURED DEBT TOO

- 21) BANKING LOCATIONS IN WI <\$500,000.00/250
 - > BRANCHES + 5% NEW BANKS +14%
 - > BRANCHES - KNOW BREAK EVEN POINT CRITICAL
 - > ACCOUNT FOR VARIABLES/ DIRECT EXP/ OVERHEAD

22) COMMON OWNERSHIP TAX SHARING SEC 179 DEPR

23) FTE LARGE BANKS \$6.2- 6.9 MM/EMPLOYEE

- > ADD TECHNOLOGY COSTS IN ANALYSIS
- > SMALL BANKS TARGET 3.0MM /EMPLOYEE W/O TECH
- > AVE 250 ACCTS HANDLED/EMPLOYEE

24) RISK BASED CAPITAL 12-15% VS 8% -CARE WITHOUT ADJ

- > NEW CAPITAL EXPENSIVE- 10 YR SUB DEBENTURES 8.75%

25) LLR- REDUCED CAPITAL BY LOSSES/ INCR IN LLR EXPENSE

- > LIQUIDITY WATCH : LOSS OF FF ACCESS/
- > BORROWING COSTS/ REPUTATIONAL RISK/RESTRICT DIVIDENDS

26) FDIC COSTS- SPEC ASSESSMENTS BY 6/30- 2-Q INCREASING

- > #2 TO #3 W/ MOU #3 TO #4 W/ CEASE &DESIST
- > CLOSED BANK 25-40% LOSS FDIC/B.I.F

> MAX INT RATE .75 BP

> EXPECT ALL BANKS 2010 NATIONAL INDEX

>40 BANKS CLOSED YTD