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Charlotte Martin,
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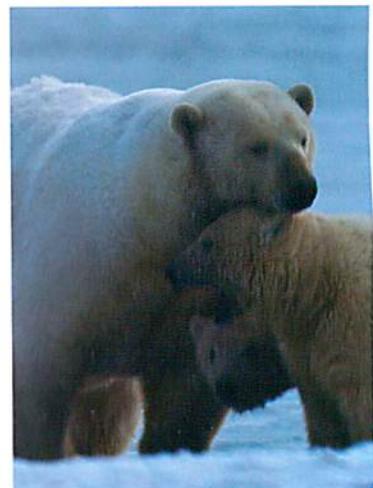
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It's my nose you say!?

Ricky Gervais is one of my favorite comedians. He does a hilarious bit on how polar bears cover their noses when they hunt to help camouflage themselves. Apparently a black nose in an all white landscape is a bit of a give away. The imaginary dialogue between the bear and the arctic hare discussing the bear's nose is just too funny. While I suspect this fact is about as credible as his assertion all polar bears are left handed (or should I say pawed), it is amusing to consider.

Occasionally we say "it's as obvious as the nose on your face." Even though our nose is there in plain sight, it takes some work for us to see it without the benefit of a mirror. So like polar bears, sometimes we need to step back and reflect on the obvious. The fact that I work with great employees is both obvious and one which deserves recognition. Our annual report this year is titled "Transitions" and we talk about our change of address, the addition of new products, and changes on our board. One obvious thing which hasn't changed is the dedication of our staff to you – our clients. While we strive to offer great products, they don't mean much without great service – which can only come from great employees!



Each day Elizabeth, Diana, Barb, Robin and Joyce handle dozens of calls, hundreds of wires, and much more so your bank can run smoothly. We know you have choices in providers. Our goal is to distinguish ourselves from our competition with a support staff who knows your name and cares about your problems – just like your staff does for your customers. Since loan demand has been soft, Scott Burke and Ann O'Halloran have used this time to make sure our participants have the items they need for a complete credit file and they are working to resolve asset quality problems. Already this year they've resolved three problem loans, or 23% of our substandard loans, through payoffs with no additional loss to our bank.

Our sales crew, comprised of Bob McGovern, Chris Knight, and Gale Ritchie, with the strong support of Barbara Runyon, helped 15 banks convert to our ECL service and 25 banks convert to our safekeeping service last year. 40 banks are now getting great service at a great price from a provider who cares about their well being. Like any modern business we are dependent on technology and I sleep well knowing Van McGowan keeps our systems running smoothly. Mark Yates, his assistant Elizabeth Wozniak and the crew at our sister company, F & M Credit Services, also deserve recognition for the support they provide their community bank clients. Finally, if I don't acknowledge my partner Tom Tenwalde for his support and counsel to me and our clients I'll never hear the end of it from him – so, "thank you Tom".

Last Fall my husband and I made another trip to Alaska with the express purpose of seeing polar bears in their natural habitat. While we did see lots of polar bears in the wild we never saw any of them covering their nose or favoring their left paw! While these "facts" are mostly fiction, the sense of purpose among the bears was very evident. My favorite sight was a mother with two cubs. This mother knew her obvious responsibility was to look out for her cubs and it helped remind me of my responsibility to my work family. She took her mission of "serving, preserving, and promoting" their well being as seriously as we do for our clients - and our staff.

Charlotte Martin

How to Anticipate, Prepare For or Defend Against the Next Round of Consolidation

By **Chad Hull**, Managing Director of Financial Services in Boenning & Scattergood, Inc.'s Investment Bank

As the banking industry emerges from the Great Recession it finds itself presented with a slow economic recovery and a heightened level of regulatory supervision. Many of its participants remain saddled with a relatively weak financial foundation. Modest economic growth will provide a significant challenge for community banks to grow their loan balances and place increased pricing pressure to originate and/or retain quality credit relationships. Heightened regulatory supervision culminating from the implementation of Dodd-Frank legislation will likely exacerbate profit issues as community banks will be faced with fewer opportunities to derive off-setting fee based revenue. They will be forced to bolster administrative overhead to keep on top of additional compliance monitoring. As a consequence of stagnate, to perhaps declining, revenue opportunities many industry pundits envision a massive wave of consolidation as the industry seeks to boost profits through expense rationalization. An equally important driver of consolidation is expected to be the ability to efficiently access capital. As the last several years have shown us, "Capital is King". As the inevitability of this new consolidation wave comes crashing down, now more than ever, community banks need to know how to anticipate, prepare for, or defend against being swept up in the wave.

While the speed at which the industry consolidates is debatable, few people deny that it is inevitable. Ironically, most believe a quicker recovery will accelerate the process as buyers will have more confidence to seek external growth opportunities than if the recovery is prolonged. In any event, banks need to prepare for the future and seek to determine whether they are positioned to be a buyer or a seller. For banks that aspire to be the former, a few key characteristics will define them. First, quality of management is pivotal for any bank to be successful. Not only must the current management team be of high caliber, but those employees waiting in the wings need to be of similar competency. This management team needs to be supported by a board of directors that is active in developing an appropriate framework for corporate governance and not the day to day business of the bank.

Second, access to capital will be almost as important in the destiny of the bank. Capital generally will not be committed

to deficient management teams so quality of management will generally remain the paramount factor. Banks that can't access capital will find their strategic options far less flexible and, in some cases, limited. Community banks need to have an active capital planning program to prepare for the foreseen and unforeseen needs of their institution. As a consequence of the last couple of years, the types of capital available to banks will be fairly narrow. After the existing and pending government programs expire, banks will largely be dependent on retention of earnings and increasing common equity ownership as the principle forms of capital. As for the latter, banks will need to demonstrate a compelling investment proposition to garner shareholder interest. Hence, the ability for shareholders to generate either a current (i.e. dividend) or a long term (price appreciation) return will greatly influence those institutions which receive capital and those that don't. Accordingly, management should not solely focus on the day to day value of their stock, but rather on executing a comprehensive strategic plan designed to create long-term sustainable growth and profitability. As the saying goes, "if you build it, they will come", hence strong financial results should attract shareholders, and in turn a more desirable stock. As a result, those that can't attract capital will need to partner with those that can.

Lastly, shareholder liquidity has and will continue to play a pivotal role in banks maintaining their independence. Banks cannot think big with their business plans while remaining small with their shareholder base. More times than not, banks are not sold because activist shareholders buy up their stock and stir up the pot. To the contrary, banks are often sold because their existing shareholders require liquidity. Banks should never take their shareholders' need for an outlet for their stock for granted. As demographics shift and shareholder bases shift into generations of ownership, the affinity for the local bank often gets trumped by the desire of the next generation to monetize the value of their investment.

Strong management, access to capital, and shareholder liquidity are all linked; one or two components in isolation are not enough to guarantee on which side of the consolidation food chain a given community bank will emerge. Given the importance of these factors, institutions need to actively and objectively assess their competency and needs in these areas when making the "acquire or be acquired" decision.

Chad Hull is a Managing Director of Financial Services in Boenning & Scattergood, Inc.'s Investment Bank. He can be reached at (610) 832-5310 or chull@boenninginc.com.

Preventing ACH Fraud

Tracy Hearson, Marketing Coordinator, LendingTools.com

What should have been a pleasant holiday break for members of the Western Beaver County School District in Pennsylvania, in 2008, ended in a financial nightmare. District officials returned to work to find that during a four day break, over \$700,000 had been siphoned out of two of the school district's bank accounts by cyber criminals. Western Beaver's financial institution, ESB Bank, was able to reverse some of the transfers, but the school district was out more than \$441,000. On July 9 Western Beaver sued ESB Bank to try and recover the remaining money.¹ Now the nightmare becomes the bank's. Cases like this are not unusual. According to the FBI, many online fraud cases involve small to medium sized businesses which have their accounts in local community banks or credit unions.² Once the corporate account takeover was discovered, ESB Bank asked the same typical questions any bank would have. How could this happen? How could this be prevented?

How could this happen?

There are several techniques used to commit online fraud, many of which include installing a Trojan horse on a victim's computer to intercept personal information. Western Beaver discovered that a virus had been placed on a computer they used to login to the on-line banking site at ESB Bank. Often this type of malicious software lies right inside the web-browser, waiting for the victim to log into a bank site before springing into action. Once Western Beaver logged into their account, password and account information was intercepted by the malware, allowing the cyber-criminals to log into the bank over the holiday and make over 74 transactions to 42 different accounts³.

Here are a couple common examples of how malicious software can make its way onto a computer.

Phishing Scams A scam in which an unsuspecting user is directed to a fake web site through a link in an email or pop-up message. This email message often mimics a legitimate business that the victim either does business with or would otherwise trust, such as a bank or the IRS. The message will usually ask for verification of a person's account to gain access to passwords and other sensitive information. Once the victim's identity is stolen, accounts can be accessed and money can be transferred via ACH or wire to the criminal's accounts.

Keyloggers Also known as keystroke logging, occurs when a Trojan horse is placed on a computer to log certain key strokes as they are typed to access accounts. Keyloggers can be inadvertently downloaded through corrupted email message attachments, or web site links. Employees of a business, or in this case a school district, could easily download a virus from what may seem like a safe source.

How can this be prevented?

Experts tell us that the first step to preventing online fraud is education. Your business customers need to be aware of the potential dangers and how to mitigate risks. Simple practices such as limiting internet access and personal email can help deter fraudulent access points. Some financial institutions require stand alone computer terminals for their business customers who access online accounts and transactions.

The next step is to implement direct safe guards.

Great Lakes Bankers Bank has utilized LendingTools.com's correspondent gateway branded "Pathway" for the past several years to provide transaction services through a "Software as a Service" model. Through collaboration with LT, GLBB has implemented multi-factor authentication for access to Pathway via biometrics. Deemed to be more secure than passwords, tokens, or other "strong" authentication methods, biometrics provides a proven method to ensure a user's identity. Biometric security such as this would have helped prevent an attack such as the one on Western Beaver and ESB Bank.

Other online prevention efforts include monitoring and controlling ACH transactions at the end user level. Make sure your online vendor software provides these additional safeguards to protect you and your business customers:

- Dollar limits on transactions
- SEC code limitations
- Dual controls at the business level
- Email notifications of ACH file activity
- Complete activity reporting and monitoring
- Full transaction audit trails

LT's ACH risk management solution includes these safeguards to help you mitigate ACH risk. Ask GLBB how you can be protected by implementing these additional measures. It may save you money, time, and your reputation.

¹ FBI "Crime in the U.S: Preliminary Annual Uniform Crime Report 2009, U.S. Department of Justice- Federal Bureau of Investigation, September 2010.

² Linda McGlasson, "How to Beat Keyloggers," Bank Info Security Article, October, 2010.

³ Robert McMillan, "Cyber Attackers empty business accounts in minutes," ComputerWorld, August 6, 2009.



Howard T. Boyle II Joins Board of Great Lakes Bankers Bank

Charlotte W. Martin, President & CEO, and Thomas W. Tenwalde, Chairman, of Great Lakes Bankers Bank are pleased to announce Howard T. Boyle II has joined the board of Great Lakes Bankers Bank. Mr. Boyle will also serve on the boards of Bankers Bancshares, Inc. and F & M Credit Services, Inc. He will fill the term of Michael Kerschner who recently left the board.

Mrs. Martin commented, "We are pleased to have a banker of Howard's talent and experience joining our board. His work with community banks, especially as Past Chairman of the ABA's Community Bankers Council and as a member of the Federal Reserve Board's, Washington, DC, Community Depository Institutions Advisory Council will bring additional insight to our board." Tom Tenwalde remarked, "Over the last several years I have come to know Howard and his staff at Home Savings Bank; he has a great understanding of the community banking world, particularly thrifts."

Mr. Boyle is President and CEO of Home Savings Bank located in Kent, OH. Established in 1898, Home Savings currently has \$143 million in assets and operates three offices in the Kent area. "I'm pleased to be a member of the board at Great Lakes – we have worked with them as a correspondent bank and find them to be knowledgeable, helpful, and focused on the needs of community bankers."

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