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THE JOURNAL

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"Keep Calm and Carry On"

is a phrase which caught my ear some months back. The expression was coined in Great Britain during the darkest, early days of WWII. When it seemed there was a real possibility the Germans might actually invade Great Britain, the government created a series of posters, one of which carries this phrase. If an invasion occurred, they were to be posted to remind the Brits to maintain their characteristic "stiff upper lip" in times of trouble. I'm not sure why the phrase struck me, but it did and I shared this story with a friend. They happened to find a small book with the title and gave it to me. Each page contains a single quote of philosophy or wisdom – a few of which I am going to share with you.

"If all economists were laid end to end, they would not reach a conclusion." George Bernard Shaw. We can probably all agree the economy and state of affairs in banking is better than two years ago. In the last few months we have seen a flurry of economic reports suggesting everything from "the fragile recovery is continuing" to "a double dip is just around the corner." Loan demand remains anemic, deposits plentiful, and rates low. Recent conversations with bankers suggest some of our competitors have already forgotten recent history and are reaching for loan volume by offering below-market rates and generous terms. With the economic picture still uncertain – and competition reigniting for the few willing borrowers – as community bankers we can only "Keep Calm and Carry On."

"I believe that banking institutions are more dangerous to our liberties than standing armies." Thomas Jefferson. Jefferson's distaste for banking is currently a bigger influence on some politicians than his opinions on government "of the people, by the people and for the people." With over 250 banking regulations still to be written and the Senate's failure to pass the Tester-Corker amendment delaying the implementation of the Durbin amendment, the banking industry continues to be everyone's whipping boy for the excesses of many others. It's clear the political environment will continue to create challenges for all of us. As community bankers we can continue to depend on our trade associations to help us protect ourselves and "Keep Calm and Carry On."

"I am an optimist. It doesn't seem too much use being anything else." Winston Churchill. There are worse sins than to be called an optimist, so I'll admit to being one. We work to make optimism a part of our culture at GLBB. So rather than cursing the darkness, we are lighting proverbial candles in this issue. First Data sheds light on how to comply with the new requirements of the Durbin Amendment. With the current push to get banks to diversify their portfolios away from CRE, Mike Giulioli provides practical information on C&I lending. Elizabeth Woodruff explains how our new SWIFT code will make receiving foreign wires easier for you. Lastly, because we believe community banking is here to stay, we are pleased to share information on the first recipient of the Ray Campbell Memorial Scholarship Fund. We offer these articles to help you better "Keep Calm and Carry On."

As Lin Yutang, a Nobel Prize recipient, once said, "If you can spend a perfectly useless afternoon in a perfectly useless manner, you have learned to live." Here's hoping you have more than one opportunity this summer to achieve this higher level of being – but if you're less than successful with this last goal, just "Keep Calm & Carry On!"

Charlotte Martin

C&I Investigations

By Mike Giulioli

During the ten years prior to 2008, many banks fell into the trap of relying on real estate lending as their principal source of asset growth. Hindsight being 20/20, we know this was unwise even if it made sense at the time. W. Edwards Demming once said "It is not necessary to change, survival is not mandatory". As painful as it is to contemplate changing our approach, especially while we are still resolving problem CRE loans, now is the time to begin. So how do we make changes?

Regulators and others are suggesting diversification into Commercial & Industrial loans. In some respects C&I is essentially the same as real estate lending since it requires focus on cash flows and collateral. However, unlike real estate where rent rolls may be available to determine property cash flows from which values can be extrapolated, C&I cash flows and collateral require a different approach.

If C&I lending can help diversify your loan portfolio, do these loans perform better in an economic downturn? When you look at FDIC statistics for the last two years, there is a positive correlation between the percentage of C&I loans within a bank's portfolio of earning assets and performance during this time. More C&I loans often equal better performance. While there may be a variety of factors at play, I suggest the more liquid nature of the collateral associated with C&I loans has something to do with this.

C&I loans typically involve loans predicated on the values of equipment, inventory and accounts receivable. These assets are more liquid than real estate. Equipment can be sold and relocated to businesses and locations that are performing well. Inventory can be worked down during an economic recession and turned into cash through the working capital cycle. Accounts receivable have a value that does not change with economic conditions and to the extent that business activity declines for the borrower, they self liquidate into cash.

One bank that focuses only on making loans against inventory and accounts receivable provides an interesting example. In early 2009 their non-performing loans peaked in excess of 4%, but within twelve months were again below 1%. During that interval they remained marginally profitable and the loans were not simply charged off. Instead, they were able to reduce loan balances for distressed borrowers when inventories and accounts receivable declined by their conversion to cash. **The loan balances essentially self-liquidated with proper structure and control**.

I am not suggesting you abandon real estate as a sector and focus only on C&I. Many communities do not generate sufficient C&I opportunities to support that strategy. However diversifying your portfolio by doing more C&I can be a good tactic.

If you are already doing C&I, how can you do it better? My answer is "carefully". First, management and the Board need to commit to a clear strategy since it will require time and capital. Second, you need to decide on how much capital you are prepared to dedicate to C&I lending as your organization develops expertise. Third, engage your examiners in the process. Make sure they understand why you are undertaking the change and your approach to limiting the capital you intend to put at risk in the strategy until it has been validated. Finally, you need to find resources to help your Board, management and lending staff properly underwrite and manage risk associated with C&I lending.

Establish a plan of action your Board monitors, which will be executed over time with specific benchmarks to ensure the project does not fall victim to other short-term business demands. Start with considering if your senior lender can sustain your current book of business and contribute to this strategic shift. They must understand how underwriting C&I loans is different than CRE. Universal Cash Flow is a better approach than traditional cash flow, valuation of collateral may be difficult, and monitoring collateral may be ongoing. You also need to consider how to structure Lines of Credit vs. term loans and evaluate the true size of a LOC. The amount requested is not always the amount needed.

You can look to your correspondent bank relationships, community banking associations and third party training and development resources to support your efforts. Most importantly, be disciplined in managing the resulting portfolio until the Board, senior management and perhaps even the bank examiners have become confident in your bank's C&I skills. This may mean walking away from those deals that are too big, too complex, or too "storied" given your bank's capabilities. The discipline of actively monitoring and managing the resulting portfolio will pay future dividends.

Albert Eistein once said "The definition of insanity is doing the same thing over and over again and expecting different results". So there you have it, two really smart guys advocating change. When approaching C&I lending it is your job to be really smart.

Mike Giulioli *is an experienced lender who has worked with large banks and most recently ran a commercial finance company. He is currently providing consulting services to banks in the area of C&I and asset based lending. For more information contact Mike at (614) 530-0080 or mgg@columbus.rr.com*

Succeeding in The New Payments Landscape

As financial institutions await the Federal Reserve Board's final rules of the Durbin Amendment, one thing is fairly certain: many financial institutions will need to choose a new or additional PIN debit network partner to comply with the forthcoming regulations. While it is not yet known which network non-exclusivity alternative the FRB will choose, or what the final implementation date will be, card issuers should start evaluating their options and determine which additional network or networks they will add to their payment processing capabilities to ensure they are in compliance.

First Data is uniquely positioned to bring innovative solutions to the payments market because it serves both merchants and card issuers as well as operates the STAR Network, the second-largest PIN debit network in the U.S., providing access to over 2 million merchant POS and ATM locations. No other company in the payments industry has the kind of scale and breadth of solutions that First Data offers.

The traditional approach of choosing a debit network solution based solely on interchange revenue potential will no longer be valid. Instead, FIs must choose their network partner(s) based on long-term value, opportunities for growth, and a strategic business advantage. Important considerations include:

- Acceptance
- Operational Capacity
- Fraud Mitigation and Risk Reduction
- Future Proofing
- Relationships

Why Act Now? Early decision-making enables FIs to execute a planned approach to meet regulatory deadlines in a timely fashion. First Data has been focused on Durbin and has considered and prepared for a wide range of alternatives regarding the proposed regulations so that it is prepared to serve the needs of our merchant and financial institution customers.

Around the world, every second of every day, First Data makes payment transactions secure, fast and easy for merchants, financial institutions and their customers. For more information, contact your First Data Sales Representative, Terry Gore at 614-855-3793 or Terence.Gore@firstdata.com.

GLBB has joined SWIFT Alliance Lite

In recent years, your customers have become increasingly active in international commerce, increasing demand for foreign wire transfers. Your customers are sending funds for purchasing inventory from overseas and many of them are receiving incoming payments as well.

GLBB has joined the SWIFT Alliance Lite network, which allows us to become a part of the SWIFT messaging network. Providing our code to your customers can simplify the communication process when providing wiring instructions to an overseas sender.

What is a SWIFT code?

A SWIFT code is a standard format of Bank Identifier Codes (BIC) approved by the International Organization for Standardization (ISO). It is the unique identification code of a particular bank, much like the ABA number that we use in the U.S.

Our SWIFT Code is **GRLKUS33**. In order for us to identify your bank as the beneficiary bank, it is critical that you provide accurate instructions to your customer, identifying all of the receivers in the chain. If you would like to receive international wires in your GLBB account, please contact Elizabeth Woodruff at 800-227-9593 or download the instructions from the homepage of Bankers Pathway.

First Recipient Named!

The first recipient of the Raymond Campbell Memorial Scholarship fund was named last month. Sadie Daeger, the daughter of Kristen Nusbaum, an employee at The State Bank and Trust Company in Defiance, was awarded the first scholarship of $500. Edwina Campbell traveled to Defiance to present the scholarship to Sadie on May 24th at the Awards Ceremony at Defiance High School. Sadie will be attending Bowling Green State University in the fall and plans to major in education. The Community Bankers Association of Ohio created the scholarship fund in recognition of Ray Campbell's lifelong interest in education and to memorialize his work in community banking. Children of Community Bank employees located in Ohio are eligible for the scholarship.

Tom Rubadue Joins GLBB!

Tom Rubadue recently joined Great Lakes Bankers Bank as the Controller reporting to Charlotte Martin. Tom brings a great deal of experience to the position having worked in the accounting area at a large regional bank as well as in the accounting area of another national business. Tom will be responsible for accounting, financial reporting, and audit and regulatory reporting. He will also provide the same support to F&M Credit Services. Tom has a Bachelor of Science in Accounting. He and his wife and three children live in Westerville. Please join us in welcoming Tom to the family of community banking.

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