Great Lakes
BANKERS BANK

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THE JOURNAL

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Can you envision my niece being quite pleased with herself when she recently announced she couldn't go to school because of an "eye problem." When my sister-in-law asked what was wrong, she reported she "just couldn't see going to school that day." I chuckled at the retelling of this story, remembering the first time I heard this joke.

My thoughts also went to my own vision. A few years ago I found myself at that point in life where nature overcame good genes. After never needing glasses, I suddenly found print kept getting smaller and my arms kept getting shorter. My ophthalmologist explained that, statistically speaking, within a few months of reaching a particular milestone many people need reading glasses. She said my vision could be easily corrected and it was no cause for alarm. After struggling with contact lenses, I moved on to glasses. Yes, it is now easier to read and to see; when I choose to see it in a more positive light, I have a new fashion accessory.

Changing circumstances in our work world frequently require a change in vision or a new focus - and may require corrective action. At our 2005 strategic planning meeting we decided a change in vision was called for. Though we had never offered cash letter services, we knew client banks' circumstances were changing. Electronic presentment of checks was no longer a concept, it was becoming reality and we felt the need to help our clients as they focused on this transition. In 2006 we began offering image cash letter presentment and it has proven to be a great success for our clients. They have seen costs drop, availability improve, and the migration from paper to images has proved easier than anticipated.

Much like the need for reading glasses, 2007 appears to be the year when moving to image cash letter will become reality for most of our clients. We are prepared to work with you and explore the options. Your vision of how your bank operates is unique and deserves individual focus. When you have an eye exam, your doctor will ask you which looks clearer "number one or number two?" – refining the answers until your precise prescription is discovered. We will do the same for you – by helping you sort through the options so you can develop a clear vision of how image presentment should work for you.

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President & CEO
Great Lakes Bankers Bank

Lights, Camera, Action!

by Ellen Heffner

The passage and enactment of the Check 21 Act was one step along the path to full electrification of the check payments system, but it was not the final "scene". While the passage of this important legislation was a step in the right direction, there is still a need for rules beyond the provisions of Check 21. Additional rules coverage is needed based on the fact that there is no law to govern the exchange of check images. The Check 21 Act, while encouraging truncation and image exchange, provided for the creation and legal equivalency of the substitute check. The legislation did *not* provide rules to govern the exchange of check images.

Great Lakes Bankers Bank, in keeping with its stated mission to serve and promote independent community banking, recently became a Sponsoring Organization with the Electronic Check Clearing House Organization (ECCHO). As a Sponsoring Organization they may now offer the protection of ECCHO rules to their client institutions by "sponsoring" them for ECCHO membership. These rule protections, offered exclusively to ECCHO members, address the gap in check law by providing a common set of operating rules to cover the check image exchanges between members. Without ECCHO rules, institutions exchanging images could assume an indeterminately large amount of risk. ECCHO rules, designed to be both vendor and solution independent, are the only set of comprehensive clearing house image exchange rules. They have broad industry recognition and support.

Membership types available to financial institutions that join ECCHO include Full Members, Participating Members, and Sponsored Members. Any depository financial institution ("DFI") as defined by the Federal Reserve Act is eligible for membership in ECCHO. And all membership types are equally protected by ECCHO rules thereby reducing their potential risk.

As a Sponsoring Organization, Great Lakes Bankers Bank is also eligible for participation in the ECCHO Operations Committee where the rules and other key industry initiatives are discussed. In this role, Great Lakes Bankers Bank represents its "audience" of client institutions to ensure their voices are heard in the Operations Committee meetings and other industry subcommittees and workgroups.

To become a Sponsored Member a DFI need only sign a Sponsored Member agreement with an approved Sponsoring Organization such as Great Lakes Bankers' Bank. By becoming a member, the institution gains the ECCHO rules coverage and fills the gap in check law while avoiding significant legal expense.

The financial advantages of the Sponsored Membership type are clear. There is no initial fee to become an ECCHO Sponsored Member and the annual fees are quite low. For information about the ECCHO rules or to learn how simple it is to become a Sponsored Member through Great Lakes Bankers Bank, please contact Elizabeth Woodruff, Vice President, Operations at 800-227-9593 or by email at elizabeth@greatlakesbb.com.

Don't delay – the curtain is up and the show has started!

Ellen Heffner is the Director of Product Management at ECCHO and is based in Dallas, Texas. She may be reached via email at eheffner@eccho.org.

"Can you" continued from front page

You can choose from many alternatives for cash letter presentment. While larger correspondents would love to help you with this need, it should be clear that having you as a cash letter client is, for them, like wearing bifocals. By processing your cash letter they earn profits from you while reducing their own costs – both perspectives help them compete for your customer. Our mission statement, or strategic vision, remains *serving, preserving, and promoting community banking*. So that we can continue to realize that vision, we made corrective changes that better enabled us to focus on your needs. When you choose GLBB to process your image cash letter you will see the benefits of personal service, the best in technology, and you can be assured our prescription for success matches yours.

The other day my sister-in-law told me there were problems with her husband's back again. Seems that every time she throws him out, the next day he's back again! Gotta love it!

Concentrations of Credit: *Increasing Importance to Management and Directors*

by Cullen McKinley

Risk management techniques pertaining to loan portfolios range significantly from bank to bank. While simply monitoring delinquencies may have sufficed in the past, today, directors, management, and shareholders (not to mention regulators) just expect more. Loan portfolio management practices must be far broader; the systems and methods employed, sound, and well documented.

The latest interagency policy statement on allowances for loan and lease losses further solidifies this reality. Methodologies pertaining to how a bank calculates its specific reserves as they pertain to impaired assets (FAS 114) have not substantially changed; nor has the rationale for using historical loss rates (FAS 5) been discounted. What has been enhanced is the need for financial institutions to provide for the development, maintenance, and documentation for the additional reserve amounts needed (based on both substantiated and unconfirmed events, circumstances, or trends.)

Knowing exactly how the bank's loan portfolio breaks down can provide great insight into the heart of its balance sheet

Knowing exactly how the bank's loan portfolio breaks down can provide great insight into the heart of its balance sheet: Where has it been? Where is it now? And, most importantly, where would we like to see it go? In today's competitive market, sound and profitable decisions pertaining to how to best employ the bank's assets should be based on relevant information including trends, growth, and general portfolio characteristics. This can be accomplished when informative reports can readily be prepared and analyzed. These reports should include data pertaining to the bank's concentrations of credit. A regulatory agency may define a concentration of credit as direct, indirect or contingent obligations exceeding 25% of a bank's capital structure. If necessary, because of some special line of business, a bank could take a more rigorous approach with an analysis down to 10%. At a minimum though, the institution should be able to define its outstanding loan balances by:

- Type - installment, residential, commercial, etc,
- Collateral - unsecured, real estate, business assets, etc,
- Purpose - consumer, business, agriculture, etc,
- Primary source of repayment.

New, high cost applications are not necessarily needed to compile and utilize information to effectively manage concentration related issues. The bank's core processing system will most likely already provide a wealth of information pertaining to "types" of loans outstanding (class codes, purpose codes and collateral codes can be utilized). To further analyze potential concentrations the need to employ a system of tracking commercial borrowers by the types of business they are engaged in is also needed. By assigning an industry code, utilizing the North American Industry Classification System (NAICS), to each of the non-consumer loans granted by the bank, a wealth of information can be generated.

Though the NAICS codes provide for thousands of categories and subcategories, banks should first think about the bulk of its own borrowers and limit the number of specific codes it employs so that the information generated is meaningful. Start with just 20-40 codes and attempt to place each borrower into one of those categories. Once the codes have been assigned reports can be generated to assist in defining potential concentrations, analyzing the bank's reserve adequacy, and determining various trends in the portfolio.

Whether it's looking at the portfolio from "5,000 feet" or managing the day-to-day activities of the loan department, the importance of being able to analyze the bank's lending portfolio is essential. When reviewing where you've been and determining where you are headed, portfolio concentration analysis can provide you with critical information. By ensuring that each loan on the system includes the appropriate codes (including NAICS) a bank will be well on its way to effectively utilizing information for concentration related issues (including additional support for the loan loss reserve calculation.)

Cullen McKinley's role as Senior Risk Management Consultant at F&M Credit Services, Inc. allows him to split his time between offering clients hands-on, outsourced loan reviews, and focusing on value-added consultative services such as policy & procedures development, ALLL methodology, workflow matters and overall loan portfolio management consulting. Please feel free to contact him directly at (614) 325-6627.

Scott Burke Joins the Band at Great Lakes Bankers Bank

Great Lakes Bankers Bank is pleased to announce that W. Scott Burke has joined its staff as Vice President and Commercial Lender.

Thomas W. Tenwalde, Executive Vice President and COO, of Great Lakes Bankers Bank said, “We are pleased to have Scott join our staff. His experience as a Loan Officer in a community bank provides him with the skills and insight needed to provide superior service to our clients with loan participations. We feel that Scott is well suited to carry on the tradition of providing personalized attention to loan participations which has made Great Lakes Bankers Bank the correspondent of choice for community banks in Ohio and Michigan.”

Mr. Burke has over 10 years experience as a loan officer with a community bank and has most recently worked for a large regional bank. In his new role he will be responsible for calling on community banks in Ohio and Michigan to purchase and sell loan participations while also offering other correspondent services. Mr. Burke is a graduate of The Ohio State University, the Ohio School of Banking, and the OBL Banking Leadership Institute. Scott is an alumnus of “The Best Damn Band In The Land” and participates with the OSU alumni band.

Please join us in welcoming Scott to the Great Lakes Bankers Bank family!

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