

The Unprecedented Guide to High-Performance Banking

# EXTRAORDINARY<sup>®</sup> BANKER

Vol. 13, No. 1 | \$7.95

**Meet Ken Burgess, Chairman  
of FirstCapital Bank of Texas  
and Chairman of the ABA  
Community Bankers Council**

*Also in this issue:*

**5 Biggest Wastes  
of Marketing Dollars  
Made by Almost  
Every Bank**

**A 7-Step Checklist  
to Reduce the  
Chance of a  
Train Wreck from  
Your Acquisition**

**Capital Planning for  
Financial Institutions**

**Understanding Your  
Competition and  
Rallying Your Team  
to Win Against Them**

**Why You're Dead Wrong About Your Need for Sales Training**

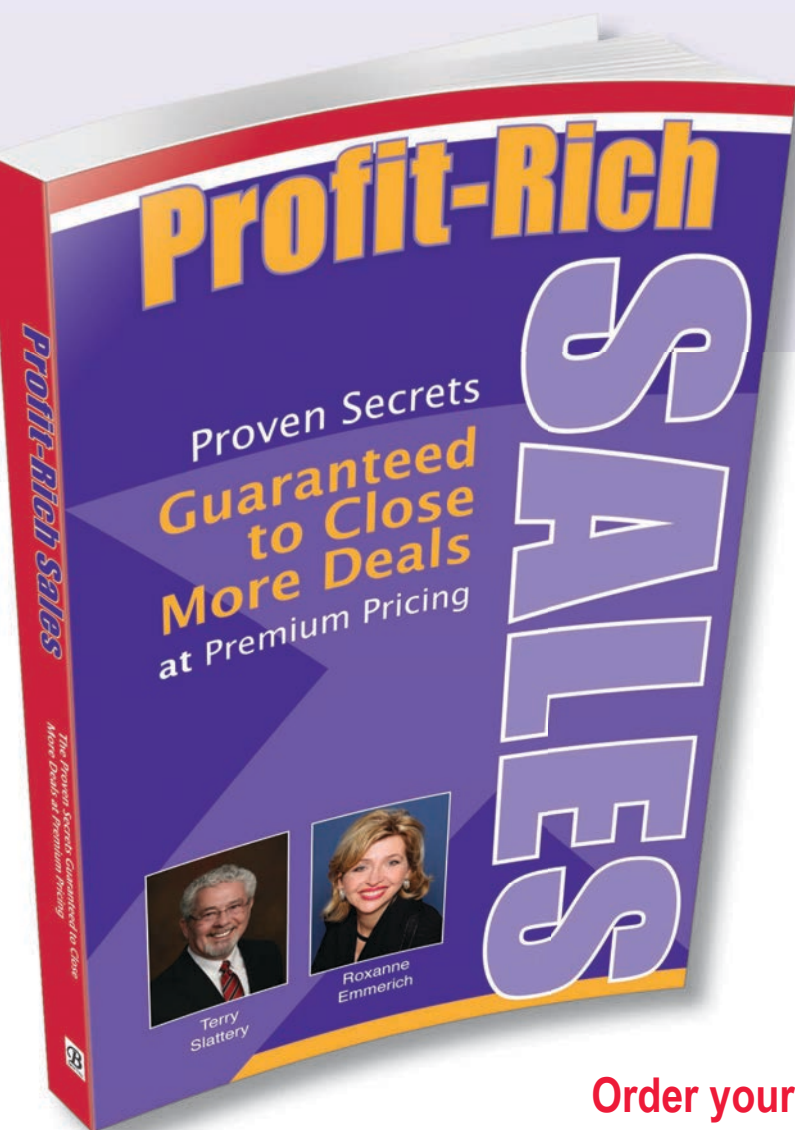




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Blackhawk Bank

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STAR Financial

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# COVER STORY



## Page 6 | Ken's Proclamation of a Fresh Future for Community Banking

A 2-part conversation with the Chairman of the ABA Community Bankers Council.

## FEATURED ARTICLE

### Page 15 | Don't Even Think About an Acquisition Until You Read This

If you have your house in order, this could be the year for a few great acquisition moves. The blue light specials are going to be plentiful in 2013, so not all acquisitions will be for wimps this year.

But don't even think about doing an acquisition unless your own house is in order. Problems only compound when the scale gets bigger... find out why.

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1st Quarter 2013

EXTRAORDINARY  
**BANkeR**

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# 2013

## Schedule of Upcoming Seminars

(Dates and locations subject to change)

Event	Date	Details	Who
 <p>Formerly Sales and Marketing Management Boot Camp™</p> <p>Public Event</p>	January 15-16, 2013 Dallas, TX	Discover the profit-rich secrets of how to transform your workplace into a <i>Thank God It's Monday!</i> ® environment, develop a full pipeline of high-potential leads with almost no marketing budget, and shift your people from order takers to business developers.	CEOs, presidents, executives, and top "movers and shakers"
 <p>Member Clients Only</p>	March 6, 2013 Atlanta, GA	Stop giving away margins and fees to get the sale and to go after and win the big elephants. This program will give you the tools and templates to turn even the most analytical lender into a top-performing business attractor.	Insurance agents, commercial lenders, trust officers, private bankers, sales managers and any person who sells high ticket items with heavy competition
 <p>Formerly Sales and Marketing Management Boot Camp™</p> <p>Public Event</p>	April 4-5, 2013 Minneapolis, MN	Discover the profit-rich secrets of how to transform your workplace into a <i>Thank God It's Monday!</i> ® environment, develop a full pipeline of high-potential leads with almost no marketing budget, and shift your people from order takers to business developers.	CEOs, presidents, executives, and top "movers and shakers"
 <p>Private Event</p>	May 16-17, 2013 Minneapolis, MN  For Presidents and CEOs	Radically rewire your mind about your possibilities and your ability to transform others and lead. Raise your consciousness and tap into your power to lead extraordinary change, far beyond the applauded successes you've already created.	CEOs and Presidents of high-performing organizations. Executives, leaders, and those identified as potential executives
 <p>Public Event</p>	June 25-26, 2013 Minneapolis, MN	Discover how to lead transformation and shift culture within your organization. Become skilled at creating significant emotional events, developing codes of honor, enrolling your employees to become unstoppable, and preventing and correcting dysfunctional behavior.	Executive and all senior leadership team members, department heads, trainers, and human resource professionals—send your clients. This one is for non-bankers as well.
 <p>Member Clients Only</p>	June 27, 2013 Minneapolis, MN	Walk away with your year of rollouts planned, fine-tuned, and optimized for kick-butt results. Discover the secret breakthroughs of other Hoopla Teams® and how they make them happen!	Designed for your entire Hoopla Team.
 <p>Public Event</p>	August 20-21, 2013 Minneapolis, MN	Radically rewire your mind about your possibilities and your ability to transform others and lead. Raise your consciousness and tap into your power to lead extraordinary change, far beyond the applauded successes you've already created.	CEOs and Presidents of high-performing organizations. Executives, leaders, and those identified as potential executives

**For more information on our upcoming seminars  
visit [www.EmmerichFinancial.com](http://www.EmmerichFinancial.com)**

# LETTER

## FROM THE EDITOR

Great news! The world didn't end at the end of the Mayan calendar. And we haven't fallen off the fiscal cliff. So unless I'm missing something, we're running out of reasons to delay transforming the results of our banks...don't you agree?

With Basel III looming, it might be a really great time to raise your net interest margin by 50+ basis points this year so you don't end up in as a "capital carnage" statistic in 2015.

Is this the year you're going to get serious about pulling ahead?

If it is, then it's time to start asking yourself a few direct questions: Do you really have the right systems, mindsets, strategies and skillsets to make it happen, or are you clicking your heels and hoping you end up in Kansas?

This edition is about getting ready for a breakthrough in a no-kidding kind of way to boost your capital through a predictable and sustainable improvement in profitability by boosting your profit margins.

Most banks give lip service to having a breakthrough. They think it would be "nice," but they aren't willing to do what it takes because they are married to their old ways of doing things—ways that haven't worked since your mobile phone was the size of your shoe. You'll need to assess your readiness. Most banks simply do not have the right platforms of strategies, systems, skillsets and mindsets, and they don't know how to get those on course. If that's the issue for you, what will you do and how quickly will you do it to change that and fast?

So let's get serious. Ask yourself if you're giving lip service to a breakthrough this year or if you're going to risk getting even further behind. There is a rare group of banks that are pulling ahead and having performance beyond what the "reasonable" bank executives even think is possible.

Is it your time to get unreasonable?



A handwritten signature in black ink, which appears to read "Roxanne".

Roxanne Emmerich



The Executive Team of FirstCapital Bank of Texas.  
From L-R: Phyllis Bechner, Jay Isaacs, Brad Bullock,  
Tracy Bacon, Greg Burgess. Seated is Ken Burgess

“Public perception is everything to elected officials. When the public image is negative toward our industry, regulation is going to be negative. Until we turn the tide on public perception, we can’t turn the tide on all the regulation and legislation coming our way.”

## Enough Already! ABA Chairman Committed to Improving the Image of Community Banking

Roxanne Emmerich sat down to talk with Ken Burgess, Chairman of FirstCapital Bank of Texas in Midland, Texas, and the new Chairman of the Community Bankers Council of the American Bankers Association (ABA). They talked about Ken’s vision for his chairmanship and the challenges facing community banking today.

**ROXANNE EMMERICH:** Give me a sense of what you’re trying to accomplish as Chairman of the ABA Community Bankers Council. What kind of consciousness do you want to bring to the bankers? Why did you wake up in the morning and say, “Yes, I’ll do this?”

**KEN BURGESS:** The biggest thing that I wanted to accomplish going into my year as chairman was to work on rebuilding the image of community banking. Community banks were more or less thrown into the bucket with the large banks and the investment banks on Wall Street back in 2008-2009, and that damaged the banking industry’s name and public image. I think it is really important that we as community banks take control of our message and quit letting ourselves be defined by others so we can bring the reputation of community banks back where it needs to be.

**RE:** And what are the key strategies you want to implement to make that happen?

**KB:** There are about 101 members of the Community Bankers Council, from every state in the country. They represent the grass roots of community banking, and the only way we are going to take charge of our message is for each one of us to get off the sidelines and get involved. We have to tell our story in Washington and in our local communities.

There are several different ways to do that. We can tell the story as much as possible in their local communities about just what we do, including stories in the local media. Then we can also participate in the PAC program so we have a voice in Washington, taking opportunities to talk with lawmakers who are making the decisions about the direction of our future. Those decision makers need to understand the important role that community banks play in that future.



**RE:** Right now, research is showing that banking is the third least respected industry. So we can complain about that, or we can say, “What an opportunity!” How can community banks seize that opportunity?

**KG:** It’s an interesting problem, because ABA research shows that when you ask people in local communities about their bank, their perception is generally good. But if you ask the public about banking generally, the perception is not good. So bankers have to get the message out about what community banks do in their communities and how important they are to the vitality of those communities.

**RE:** So if you are talking one on one to a banker about how to be a part of that movement, what would you suggest they do differently to really drive that message home?

**KB:** The key is to be heavily involved in their local communities and to tell the story of that involvement in their local media. I would also strongly advise them to get involved in one of the big banking organizations. ABA is the one I believe in. It gives us that voice in Congress, where the rules are written. We need as many bankers from all over the country involved in that process, so they know we are paying attention to what they are doing. It’s not good enough anymore to sit behind a desk and deal with the daily problems of your bank. We have to put our resources of time and money into shaping the story outside as well.

**RE:** So it’s like making the move from success to significance. You can sit behind your desk and make a successful bank, but if you get outside of that space and make a significant contribution to help



Ken and team members accepting the 2012 Cornerstone Award

transform the reputation of banking, that will lead to more success for your bank. It’s a whole different mindset.

**KB:** Exactly right. In the past, a lot of bankers just paid attention to their own bank and didn’t pay much attention to what was going on elsewhere.

**RE:** So suppose you’ve got a banker who has seen the ABA research, or who knows his or her bank has a good reputation in town. How do you convince that person that it’s important to transform the reputation of the industry? What difference does that bad reputation make if my bank is well liked locally?

**KB:** That’s a good question. Here’s why it matters. Public perception is everything to elected officials. When the public image is negative toward our industry, regulation is going to be negative. Until we turn the tide on public perception, we can’t turn the tide on all the regulation and legislation coming our way. Because of the Dodd-Frank legislation that came out two or three years ago, you have this

massive amount of new regulation that’s being written. As bankers, we have to be involved in reviewing that regulation as it comes out and stating our opinions as to how it negatively impacts our customers in each of our markets. If we don’t give the regulators feedback, it will just come out as it’s written, and all the unintended effects of that regulation will go into the place. We need a grass roots movement to provide that feedback so the impact on real people is known. If we don’t do those things, we can’t expect a good outcome.

**RE:** So the bottom line is image and regulation.

**KB:** That’s right. It wasn’t always that way. There was a time when a banker could really focus on the tasks right in front of him, but that’s just not the way it is anymore. We have to all be connected to the larger realities around us and doing what we can to have a positive impact on those realities.





Ken rolling up his sleeves with the executives of Western Builders on the future site of a Texas A&M dormitory

## Commitment of Steel: How a Focus on Community Involvement Rocked This Bank's Performance

Part 2 of Roxanne Emmerich's conversation with Ken Burgess, Chairman of FirstCapital Bank of Texas in Midland, Texas, and the new Chairman of the Community Bankers Council of the American Bankers Association (ABA). In this segment, Roxanne asks Ken for the secrets of FirstCapital's phenomenal success, growing from \$275 million to \$713 million in a few years.

**ROXANNE EMMERICH:** Your growth has just been phenomenal. Tell me what makes FirstCapital different.

**KEN BURGESS:** Well that's an interesting question because I spend half my time trying to differentiate our bank from every other bank. What I tell our staff all the time is that if we don't do something different in the way we treat our customers, then we really aren't different from any other bank. We have all the same products and services. What it comes down to is how well we take care of our customers and staff. We've created a great culture over the last four or five years. And I know from our customer feedback that we do a good job taking care of them on a daily basis. That's the biggest thing. It's not about how good a debit card you have, or how good your checking account product is—it's how well you take care of people, especially when you have the opportunity to help them solve a problem.

**RE:** One of the things you have mastered as an organization is organic growth. A lot of banks would have said it's impossible to go from \$275 million to \$713 million in the time period you've done it—but you've done it! What have been some of the most brilliant things you've done to help ensure a systematic approach to organic growth?

"I firmly believe that in life you get what you expect and what you firmly believe in. If you set low goals and low expectations, that is exactly what you will get.

If you set high goals and high expectations and firmly believe and commit to those expectations, you will get those as well."

**KB:** Well I don't know that it's been brilliant, but one of the most important things we've done while growing our bank is having a strong focus on getting our staff involved in the community. A lot of our goals for our people are based on that. By being involved in the community, we're supporting the community itself, and we're developing relationships all over that community. By doing that, we become first in mind when people have a banking need. We feel like we can do a much better job developing the growth of our bank by involvement than by advertisement. We haven't historically done very much advertising. Instead, it's a focused effort on building relationships with people.

**RE:** You were also talking about the great culture you've created in the last few years. When it seems that America's favorite sport after football is banker bashing, what have you done to build a culture that creates a talkable experience for customers in your bank so they feel loved and cared for, and share that feeling with others?

**KB:** Just before we started working with The Emmerich Group, we developed a culture statement, which was, "We are family, we serve people, and we change lives." The first thing we do when people start working for us is have a 30-minute conversation about what we expect, including what that culture statement is and what it means. We reinforce that



at all times. Since working with The Emmerich Group, we started doing a lot more intentional things to make sure we are doing what we need to do on the front end. One of the biggest things we started doing with your help was implementing the telephone Moments of Truth. Generally the first entry into our bank is through the telephone, and we knew that a bad experience at that first entry point could mean they wouldn't come back. Since focusing on that with you, we've seen a significant improvement in feedback about the quality of experience at that point of entry.

We are still in the mode of rolling out new initiatives of course, with your help, and trying to get better at all of those things.

**RE:** To get the kind of numbers you have, you've got to have some people with great stories. Tell me some stories about how FirstCapital has conquered impossibilities and made them possible. What are the things that have most warmed your heart?

**KB:** There was one person who left a large company about 10 years ago. This person had all the skills to start a company and make it successful, but they didn't have the money. So we went out and helped them find some investors to bring the capital they needed in the business so we would be able to work with them from a lender's standpoint. Then once they had the capital, we provided them with a loan. They greatly surpassed the projections they'd given us, and last year the company made about \$6 million in profit for the second or third year in a row. Had we not done what we did, I don't know that that person would have been able to put the business together.

Another person was an engineer working for another company in town who wanted to start his own business. We started small with him, investing in some drilling projects about 8-10 years

back. By about two years ago, he had grown some investments in oil and gas properties and sold for \$15 million.

**RE:** Wow, that's really where the magic happens, isn't it? It also shows your creativity. Not a lot of banks would have thought to go out and scout those investors. Too many think they're competing on rates and on product lines. What they don't get is that neither one of those should matter at all. The thing that matters is the much larger question: *"How are you making small businesses successful?"* Getting employees to understand that can be the toughest part of leadership. They often think the job is to go get loans, when it's really, *"Go make people successful."* Of course if you do that, you're going to get all their business, and they're never going to ask you about the rate.

**KB:** I can tell you, those two people have never questioned our interest rate.

**RE:** Of course not! You made the impossible possible for them.

**KB:** On the other end, we have an officer in the bank who works with the local community development corporation that does low-income housing, and we have been providing construction financing for people who wouldn't normally be able to get a house. We worked through the Federal Home Loan Bank and through some state sources to get people down payment assistance. That's an area where some people don't want to get involved because you don't make a lot of money on that, and they are work intensive. But it really is a way of giving back to the community.

**RE:** Let's talk a little more about your own people. What are some of the best practices you've been putting in place lately to keep your people engaged and focused?

**KB:** For the last four or five years, we set out well-defined objective goals at the beginning of the year for everyone who's in a position to make things happen. We focus on those goals throughout the year, measuring and tracking them. We use the huddle system you brought to us, where our people within departments will sit down and look at individual goals and give feedback to each other against those goals, which keeps the goals front and center instead of waiting until the end of the year when they suddenly find they didn't make it. Every goal is written to tie back into either our budget or the attainment of elements of our strategic plan.

**RE:** When you grow as fast as you have in a blink, it's easy to end up hiring some people who aren't the best. How have you improved your hiring practices?

**KB:** Any time we interview someone, we generally have a large group interview them. Anybody who will work with them will have an opportunity to interview an applicant. Obviously we look at their skill sets, but we also want to get a feeling of whether they will fit our culture. They can have all the skills they need for the job, but if they can't work with our team and with our customers, it's not going to work.

**RE:** So your expectations are very high right from the start.

**KB:** Yes, that has to be the case. I firmly believe that in life you get what you expect and what you firmly believe. If you set low goals and low expectations, that is exactly what you will get. If you set high goals and high expectations and you firmly believe and commit to those expectations, you will get those as well. We have done that for a number of years now, and we have almost always hit the high goals we have set. I think our recipe for success is that we expect to perform at a high level and we are committed to that mindset. When you have that faith and that mindset, things seem to always fall in place.





I loved the Profit-Growth Banking™ Summit! ***I would recommend it to any community banker that is wanting a dramatic difference.***

—Sam Fant Jr., Bank Manager  
Citizens National Bank

The Profit-Growth Banking™ Summit provided a great base of knowledge for creating structured sales calling plans and an ***effective sales program that leads to the closing deal.***

—Amy Engelberg, Chief Lending Officer,  
American National Bank

This was a high-energy event that ***inspired me to go back and implement cultural change*** and more effective sales and marketing techniques.

—Lea Ann Capel, EVP  
Legacy Texas Bank

***The Profit-Growth Banking™ Summit is the first step in a process that will change your bank's culture*** and allow it the tools to attain excellence in banking and relationship building.

—Tony Pena, SVP  
FirstCapital Bank of Texas

***Nobody ever asks us to match rates anymore.*** Our executive team can't imagine where we would be today if we had not signed up with The Emmerich Group.

—Karen Miller, President & CEO  
The Farmers Bank

The Profit-Growth Banking™ Summit was fabulous! I'm leaving feeling energized to grow our sales and implement change. ***Everyone should attend this summit.***

—Johanna Kittelson, Marketing  
Decorah Bank and Trust

Profit-Growth Banking™ was dynamic, inspirational and energetic! It brought the whole picture together on ***how to change the focus of success into an organizational concept for each and every employee.***

—Kathi Marcus, SVP & Regional Manager,  
1st Bank Yuma

Roxanne is "the one" when it comes to profit-growth banking! Nobody ***I've heard in 40 years of banking has it down like her!***

—Steve Tschertter, CEO  
Lincoln Savings Bank

Wow! I have so much to implement to massively improve what I didn't have time for in my day-to-day work. ***Love that it was more than just concepts; but was all about implementable ideas.***

—Terri Burdick, SVP  
Blackhawk Bank

What a breath of fresh air to make banking fun again!

—Dean Thibault, EVP  
Landmark National Bank

***Roxanne's approach of taking care of customers and caring from the heart is key to community bankers.*** The summit is great for the crusty banker or the new sales manager.

—Robert Reaves, EVP  
Hometown Bank

A great two-day event—***Profit-Growth Banking™ Summit will make you want to go home and change the attitude of your employees.*** It will make you want to come back for more.

—Lisa Pominski, SVP & CFO  
Wilson Bank and Trust

Excellent, fun-packed seminar on how to get your bank on a fast-paced growth path.

—Lonnie Heckmaster, President & CEO  
Hometown Bank

Profit-Growth Banking™ Summit is an excellent seminar that ***opens your eyes to a whole new approach to the way we approach our customers and prospects.***

—John Suskie, EVP & CCO  
First Federal Bank

After 26 years in banking and working at 4 other banks that "claimed" to have given me effective sales and marketing training, ***I have finally found a system that will work and that I can use effectively.***

—Tom Free, SVP  
First Volunteer Bank

Culture change is a difficult process. ***This program gives you and your company the tools to succeed as a person, company and allows success for your customers as well.***

—Chris Meyer, CCO  
United Prairie Bank

All banks are concerned about their bottom line. ***The bottom line on this program is that it works!***

—Tim Taylor, CCO  
KS Bank

Profit-Growth Banking helps participants understand the culture and methods which ***are proven to create and sustain profitable growth*** in their institutions. ***It works!***

—D. Adkisson, SVP and Senior Lender,  
The Hardin County Bank





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- Create a system to pull your next (and most profitable) top 100 customers away from the competition—**with no need to match rates**.
- Normalize in your retail team the ability to **get 7 to 10 cross-sales on every new account** starting immediately.
- Establish a template that ensures you're ready for a potential acquisition—with a **"franchise system" that records the best processes** for every key function of business development.
- And most important, **get your team to start playing nice in the sandbox** together so you can repurpose that 37 percent of every manager's day currently spent dealing with low performers and disruptive behaviors.

**And, get results like these:**

Since working with you, we've grown from \$238 million to \$368 million...**a 54.49% increase**, net income grew from \$2.1 million to \$4.1 million... **95.2% increase**, and earning assets grew from \$213 million to \$332 million—**a 55.66% increase**. Net interest margin increased from 3.90 to 4.32, and we're operating with 1.25 or less past dues. We did this without growing staff. We now target only A+ credits like you taught us. We cycle several people through your Profit-Growth Banking™ Summit every year. It's a part of who we are. **You've taught me to take myself lightly and my results seriously.**

—Gordon Majors, President & CEO  
The Hardin County Bank

# THANK GOD IT'S MONDAY!

## The Choice is Yours: Stop the Excuses... or Close the Bank!

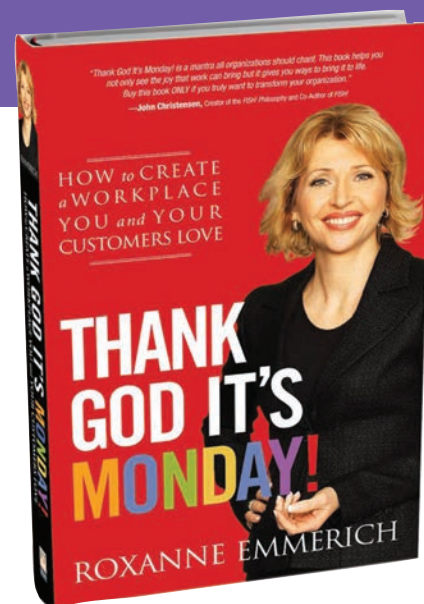
By Roxanne Emmerich

Loan demand dried up. I don't have enough time. The economy is bad. The competition undercut our pricing...so we HAVE to match the rate. Enough already!

How in the world can you run an extraordinary bank when your team has even one person who thinks an excuse is a replacement for a result?

The world didn't end when the Mayan calendar ran out. We didn't go splat off the fiscal cliff. And World War III hasn't started.

So... it's time to get going and get some real work done.



Your board looks at you like you have two heads if you come in with an excuse about why you didn't hit your numbers—so why should you accept any excuses from the people you count on to make it happen? If the people who report to you are allowed to give excuses, then you'll be the one wearing out your knees begging for forgiveness.

That dog don't hunt.

Worse yet...once you get a few people making excuses, excuses seem to breed like rabbits. Suddenly everyone feels that an excuse—a well-crafted story about the hangnail they had that caused them to have to take the afternoon off—becomes the culture. It spreads like wildfire, and in no time at all, excuses become the norm, and you can just forget about achieving great things.

It's not that your workforce won't be "productive." They'll just all be producing one product only—an elaborate and beautifully laid out story about why it can't be done. And it doesn't matter what "it" is.

So what do you do to make sure the excuse epidemic stops RIGHT now before your life becomes difficult, unfulfilling and filled with drama?

First, declare that your bank is an excuse-free zone.

### Really. Zero tolerance. Starting now.

Make it known, loud and clear, that not one excuse is to be uttered from any person's lips.

Lines in the sand are important in the law, in parenting AND in running an extraordinarily high-performing bank.

Second, create an interruption process that stops excuses in their tracks. A smile on your face as you give an acknowledged hand sign should suffice as long as everyone knows the rule—if you get the sign, stop the excuse immediately and start defining your massive corrective action plan.

Third, make it part of your new employee orientation. Remember that excuses, or the lack thereof, are a cultural thing. So as new people bring the old ways of being into your organization, the common approach of giving an excuse can be normalized quickly...and we know what happens next. (Hint: it involves rabbits.)

Fourth, applaud changes of behavior. Whenever someone comes clean, tells you

Make it known that goals and deadlines are meant to be hit, and if it looks like one will be missed, the ONLY right action is to negotiate in advance for a change.




Suddenly everyone feels that an excuse—a well-crafted story about the hangnail they had that caused them to have to take the afternoon off—becomes the culture.

they blew it and starts to explain to you their massive corrective action plan, it is great to applaud visibly so others can see that covering up lower performance or missed deadlines is a hideously inappropriate activity that will not be tolerated. Repeat over and over again that without trust, there is no basis for a relationship. People will get that.

Along the same lines, make it known that goals and deadlines are meant to be hit, and if it looks like one will be missed, the ONLY right action is to negotiate in advance for a change, if a change is possible.

Next, create a system to make sure you are the broken record—the person who keeps telling the same story over and over again until people “get it” in their bones. Once they start to think you’ve lost your marbles and can’t remember your own name, you’ll know you’re starting to repeat yourself enough.

And then...enjoy having free time and many high-fives for results. In the absence of excuses, results RULE. 

If you're ready to stop the excuses and get the strategies to improve your bank's culture and performance, call us today at 952-820-0360.

## Why is Every Banker in America Raving About This Book?

Finally...the proven, iron-clad, step-by-step “secret handshake” about how to transform a bank’s culture

In less than two years using the Thank God It’s Monday! approach, we not only *met EVERY goal in ALL our branches*, but we exceeded many of our goals by 100 percent! I can’t imagine any CEO who wouldn’t want this for their organization.

—Chad Hoffman  
CEO and President  
Richwood Banking Company



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Don't Even Think about Doing an Acquisition Until You Read This:

# A 7-Step Checklist to Reduce the Chance of a Train Wreck from Your Acquisition



It's true. I've been preaching for almost a quarter of a century that acquisitions are for wimps. Mad that I brought this up? Sorry...but better mad than to destroy a perfectly good bank.

Unfortunately, many banks will try again this year to solve their inadequacy of systems, education, and correct strategies with an acquisition.

That said, *if* you have your house in order, this could be the year for a few great acquisition moves. The blue light specials are going to be plentiful in 2013, so not all acquisitions will be for wimps this year. A few could actually be good strategic moves. But don't even **think** about doing an acquisition unless your own house is in order. Problems only compound when the scale gets bigger.

If you didn't know how to systematically achieve organic growth before, an acquisition will make that worse. Don't plan on being the exception to that rule.

If you don't have a system to ensure a great culture, the "us-vs.-them" games will multiply, and the passive-aggressive CYA strategies will get refined to the point that "big company disease" will rob your ability to get any financial benefit out of the acquisition turned nightmare.

This doesn't just happen once in a while. Three overview studies in the *Strategic Management Journal* show that acquisitions fail to increase value an astonishing 70-80 percent of the time. Do you really think you're immune to those numbers?

You can boost your immunity from a cold or flu

with some antioxidants, a little ginger root and some vitamin D, and by staying away from the sugar and carbs! These things actually work.

Three overview studies in the *Strategic Management Journal* show that acquisitions fail to increase value an astonishing 70-80 percent of the time. Do you really think you're immune to those numbers?

But how do you boost your immunity to an acquisition gone awry?

First, stop thinking that the primary job of an acquisition is to align products and MCIF systems. Sure, you have to do that, but that's just one little piece of making an acquisition successful—and the least significant piece at that.

Here are three much more critical areas that can reduce the potential for breakdown *if* you think them through carefully:

*continues on page 16...*

**Bluntness warning:**  
With the exception of a few strategic buys, acquisition has most often been the answer executives and boards bring to the table when they haven't mastered the skills, mindsets and strategies to create predictable organic growth and premium pricing in their existing organization.



NEW

# What You Don't Know Could Be Costing You A Fortune!

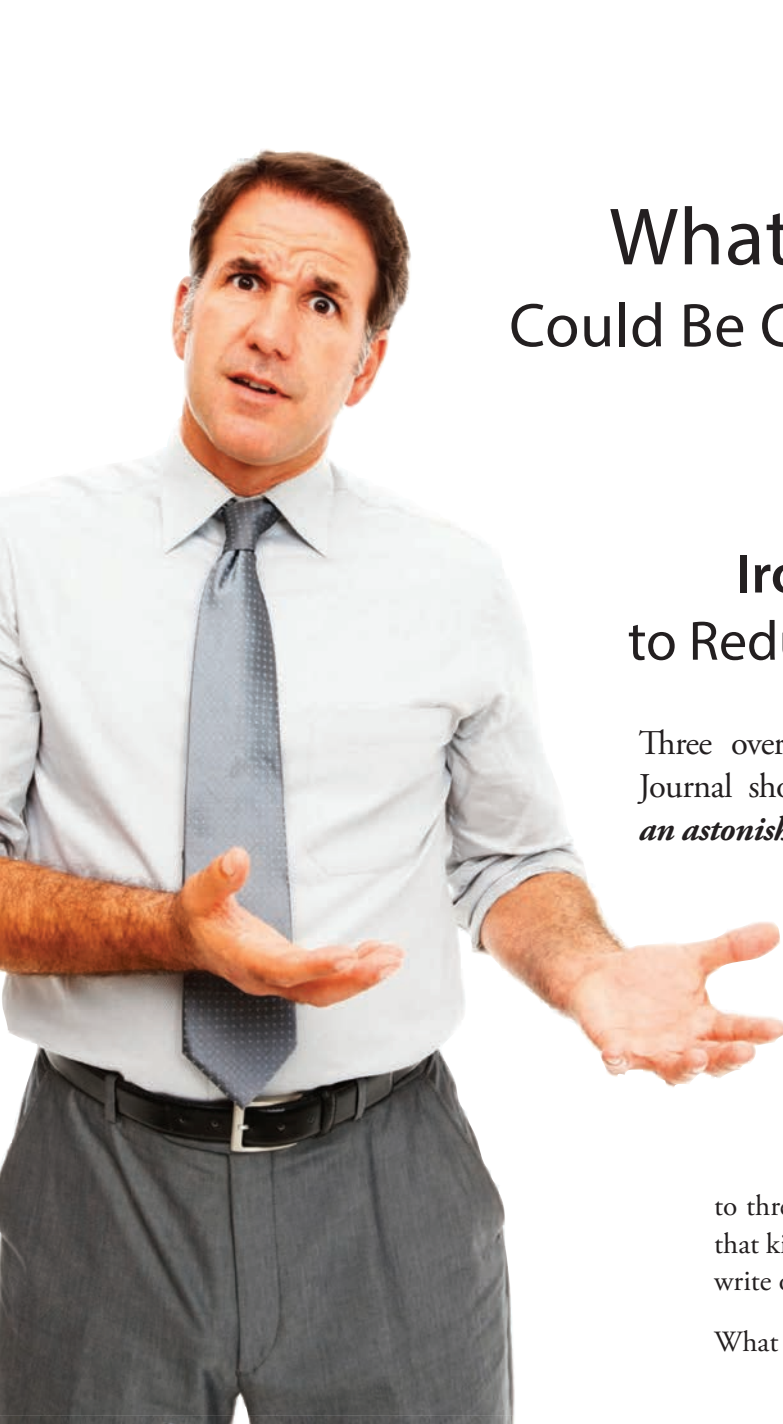
## Here's the Straight Scoop on How to Create an Iron-Clad Acquisition Plan to Reduce the Chance of Failure

Three overview studies in the Strategic Management Journal show that *acquisitions fail to increase value an astonishing 70-80 percent of the time!*


Let's face it. Acquisitions sound like no brainers...but how many times have you heard of the debacle that ensued—the branch that needed to be sold three years later because it never took off.

The “us-vs.-them” cultural fight between the new and the old that robbed profits for two to three years. The lack of accountability and uniformity that killed any hope of profit, causing years of misery from write offs and regulators.

What are the chances that would happen to you?



**FREE team-readiness review to reduce  
the otherwise predictable chance of failure.**



Go to [www.EmmerichFinancial.com/qualify](http://www.EmmerichFinancial.com/qualify) for a 5-minute assessment to help you discover where you are at risk, and receive a free acquisition preparedness template to shore up what lurks in the night—so if the right deal comes along, you'll be ready.

[www.EmmerichFinancial.com/qualify](http://www.EmmerichFinancial.com/qualify)

## Create power-packed strategies to keep ALL of the best customers

Let's face it: In an acquisition, customers and employees are what you are really buying. So how do most acquiring banks go about "buying" their new customers, convincing them to stay aboard? One little letter saying, "We're nice people, let's all stay together" isn't exactly a brainiac's approach to getting customers to stay with you and become raving fans and evangelists, now is it?

The predictable demon that robs from your dream of an acquisition being a good ROI is the finger pointing, victim laden, those-people-over-there-are-stupid culture.

But that's the strategy for most banks. It's not nearly enough.

So how do you know the biggest concerns of these new customers? How can you speak to those concerns,

create killer unique selling propositions around them, and get those articulated to them so they see tangible evidence that life is going to be infinitely better under your leadership? If you don't have them at "hello," you'll probably be hearing some "good byes."

## Build an ongoing kiss-'em-on-the-lips-until-they-chap plan to make sure the honeymoon lasts.

Since the number one reason people leave their banks is indifference after the sale, imagine how much indifference they experience if they feel abandoned by "their bank"—and now these strangers come along, and they don't trust you because they may assume the worst.

It takes some time to build reputational equity...and goodness, you better be investing that time.

Well-executed strategies are imperative. Think about these: What's your Top 100 strategy?

Your Top 1000 strategy? Your center of influence strategy? Your blitz strategy? Your first 90-day strategy? Your segmentation plan? Your plan to fully own each client? Your referral plan? Well, this could go on forever...but you better have laid out a number of strategies to make sure you actually get something for your money AND that you have a step-by-step implementation process to make sure this thing called acquisition doesn't go boom in the night.

## Stop the "us-vs.-them" two-year profit-sucking conversation immediately

Remember the campaign mantra, "It's the economy, stupid"? Well, in this case, it's the *people*, silly.

After helping a multitude of banks do acquisitions, all of which, (yup, 100 percent) turned out to be a great ROI, let me assure you that the predictable demon that robs from your dream of an acquisition being a good ROI is the finger pointing, victim laden, those-people-over-there-are-stupid culture that will happen every time without a massive strategy in place—and an equally massive execution of that strategy.

Whenever you have an acquisition, the executives of the acquiring bank immediately think their IQ just went up 10 points, while the acquired lost those same 10 points.

Because the acquired executive team and managers feel talked down to and unloved, they begin a "stick-it-to-the-man" rallying cry. In front of their employees, they begin to describe the acquiring team as the "evil empire" or the "ivory tower" to explain why they themselves are powerless and helpless.

Of course, the employees jump aboard that bandwagon quickly, and resentments build. Instead of people picking up the phone and suggesting improvements, they complain endlessly about the "idiots over at corporate."

Reading that probably brings back some unhappy memories if you still have the scar

tissue of an acquisition.

It's real. And it happens almost every time.

The executives of the acquiring bank immediately think their IQ just went up 10 points, while the acquired lost those same 10 points.

That's why your strategies MUST include a well-thought out strategy of how to engage the executives (while probably asking a few to leave and demoting a few others), how to get them welcomed to the new team and feeling inspired to add value, how to get the right people in the right slots to avoid costly mistakes, and most important, how to get all of the team on the happy bus and embroidering your logo on their pillow cases.

Tricky things. And you aren't allowed too many mistakes because, remember, they're laying for you and looking for the mistakes so they can *prove* they are, in fact, much smarter than you are.

If you don't get them to love you in the first two weeks after the acquisition and to understand there will be zero tolerance of "us-vs.-them" under any circumstances—well, bless your heart, but you've got two really miserable years ahead of you, and there's almost no fixing it without a massive intervention.

Culture is the leading predictor of future growth and profitability, and now you have a much larger organization to scatter your energy; you've lowered your capital ratio, so you have more risk at the very moment new legislation is requiring much higher capital; and you now have many more people wandering aimlessly with no idea how to get organic growth and premium pricing. So the problem just compounded.

No worries. It doesn't have to be ugly. You just need to quickly get your own house in order.

It's really not that hard, but you have to get it right the first time.





# 7-Step No-Fail Acquisition Checklist



## **Make sure you have your systems in order.**

Do you have well-defined and high-functioning systems for all key business processes? For example: Do you have an impeccable proven process checklist for hiring a branch manager? What is the job performance progress plan for a “hunter” type commercial lender? How is the weighted sales funnel coached to each week, and what levers get pulled if it doesn't match closed business?



## **Create a plan to get it right the first time by putting executive team members in the right slots.**

What testing do you use to get everyone reallocated to the slots where they are most likely to win and add value? What did your Human Capital Audit reveal about the weaknesses of your current executive team that can be shored up through this acquisition? How will you deal with those demoted or released and the emotions of those remaining? Take this time to get the right people in the right slots throughout the organization in alignment with their emotional intelligence.



## **Build your iron-clad plan to “wow” their customers at hello and make each of them more profitable relationships within six months.**



## **Plan your kick-off to make sure team members drink the Kool-Aid and fall in love. Not in like...IN LOVE!!!**



## **Assess culture before and after to make sure you don't get surprised by looming problems.**



## **Build a sequenced plan for the performance-improving limbo dance.**

Raise the bar every week on expectations, and have a celebration process with every win to build confidence and bring them to ever-higher levels of performance.



## **Create your “celebration to accountability” plan to make sure you build confidence and get control of results during your first 90-day window.**

### **Considering an acquisition?**

For your free acquisition preparedness assessment to help your executive team reduce the risks of an acquisition gone bad, visit: [www.EmerichFinancial.com/qualify](http://www.EmerichFinancial.com/qualify)

# Why You're Dead Wrong About Your Need for Sales Training

Thousands of bank executives are waking up to 2013 saying, **"SALES training! Of course! It's SALES training we need."**

Yeah, well, we all mumble crazy things when we first wake up.

Sales training is fine, but it's NOT what you need to solve your problem and create a sustainable solution.

You don't have a sales training issue...you have a confidence issue.

How many thousands of banks have spent a half million or more on the pipe dream of sales training, only to wake up in the same shape or even worse than before?

Sales may go up for a month or two, but when they go down again—and they usually do—they often go down even more.

That's when the real tragedy happens.

Your people feel like trained monkeys whose act is getting old. They don't *want* to sell. And the customers feel violated by the "salesy" approach anyway. Nobody's happy. Now what? You can't do sales training again because you don't dare make things even worse...so you're stuck.

What's going on here?

A few slick tricks called "sales training" slam head-on into two belief systems your people hold unconsciously: They don't want to sell... and they don't want to risk rejection. It all adds up to a confidence issue.

What are the telltale signs that you have a confidence issue?

Your salespeople don't block time to be out on calls. They're always too busy doing the low-return activities.

When met with a competitor's pricing, your lenders have no confidence to defend your value, so they ask to match the pricing.

Personal bankers don't have the confidence to call on large core deposit accounts, so they stick with little blue-haired ladies' CD accounts all day every day.

Let's go to the underlying reason why people who are fully capable of making a shift don't shift.

Ready for it? It's because **people are scary**.

That's right. People are really, really scary. They reject. They are unkind. They act like you are a friend and then bid you out against others to put you into the "vendor" category.

What lender hasn't had a business owner tell them "beat it loser—you turned down my great granddaddy McCoy and there ain't no way we're doing business with you slime balls."

Too scary. So instead, the personal bankers sit in the office all day long feigning exhaustion from the paperwork of opening up CDs, and the commercial lenders are busy creating files for loans that are B and C quality in the hopes that something will make it through the credit committee.

The sad part is that they're so busy churning out a level of unproductive work that they actually start to believe their beautifully crafted "story" that they are too busy to do the most important parts of their jobs.



The sad part is that they're so busy churning out a level of unproductive work that they actually start to believe their beautifully crafted "story" that they are too busy to do the most important parts of their jobs.

It doesn't even occur to them that they should have a full pipeline of A+ quality credits

**You don't  
have a sales  
training issue...  
you have a  
confidence issue.**

and that any activities other than closing those are just noise. So, how do you build confidence? In layers, and through integrated systems.

Let's cover layers. Remember UCLA coach John Wooden, the NCAA's winningest coach? He took the top-gun hotshot recruits in the country and told them they needed to learn how to tie their shoes first.


It was genius. He helped them master the basics, then gradually gave them more and more challenging projects... always making sure mastery happened because **mastery builds confidence.**

There are 42 steps to getting the sales process to stick for good...and the first step is the equivalent of tying your shoes. That's why having some trainers come on site never works. It's NOT about

the training. It's about all 42 steps...starting with Step One. Nobody wants to start with the shoes. But when they skip the basics and go right into the rim-hanging jump shot, they've lost any chance of real, sustainable mastery.

Just as important is having **integrated systems.** Sales skills by themselves are worthless without identifying and warming top prospects, management skills to hold people accountable, clear deployment of the key initiatives to build further value, and a system to keep it all visible that ties together a process where every element incorporates the magic four: motivation, accountability, visibility, and follow-through.

All those layers have different strategies and levels of sophistication. As your lenders get better, your Top 100 and Top 1000 strategies need more segmentation and sophistication.

Bottom line: Don't solve the wrong problem! You don't have a sales training problem, you have a confidence problem. Address it as such, then watch the revenue grow. 

Want to learn how to tie your "sales shoes" before everyone else to get ahead of the game? Download a free chapter from Roxanne's book Profit-Rich Sales and discover the basics of building confidence within a proven system.  
[www.EmmerichFinancial.com/PRS](http://www.EmmerichFinancial.com/PRS)

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Executive e-Newsletter

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# Marketing Mayhem or Money Machine?

## 5 Biggest Wastes of Marketing Dollars Made by Almost Every Bank

Does this sound like your world?

Your marketing department is filled with “creatives”—they make things pretty, produce lots of “stuff,” and throw great parties.

But, when it comes to proving out ROI, well...who wants to talk about that uncreative stuff, right?

Problem is, they're doing what they learned to do in marketing schools. But did you ever meet a marketing professor who made money with their marketing strategies?



Exactly.

They teach branding, creativity, how to build slogans, how to order paraphernalia with logos on “stuff,” how to do campaigns and product launches. All fine things.

And they worked just ducky a few years back, but these things haven't seen an ROI for well over a decade. Unfortunately, nobody's updated the teaching, so most banks get a negative ROI from what are often fairly large budgets.

What's the answer: Fire the people in marketing? Not at all. They just need some reschooling about what is working now. It's not their fault. But, let's get this rolling in the right direction right now. No reason to wait.

So, what are the biggest wastes of marketing dollars today?

### 1. Branding—The “snake oil” of marketing

There is an inherent problem here. Everybody is spending ridiculous amounts of money on branding...but nobody knows what branding is.

Branding is not about having pretty logos, lobbies and brochures.

Think about it. When was the last time a \$5 million great credit walked in the door and said, “I'd sure like to pay you 100 to 200 basis points more because I *love* your logo”?

They don't come to you for the pretty things. They come because of your reputation for having an impeccable culture of people who are going to knock themselves out to make and save them money in creative ways that make sense. THAT is your brand. All the rest is snake oil.

*Incidentally, just go to [elance.com](http://elance.com) or [CrowdSpring.com](http://CrowdSpring.com) and put in bids for your logos, brochures and other pieces for \$500 or less, and you'll get what you're paying \$200,000 for. You can spend the rest on the real work of branding.*

### 2. Product pushes

*Bada bing bada boom!* And let me show you the Special of the Day! Is that what a customer wants to hear from their bank—the people they come to as a source of wisdom to help

Your bank doesn't  
need more unprofitable  
customers. It's not  
a numbers game.  
It's a profit game.

them retire with financial independence? Not a chance. But that's exactly how a product push comes off. So get over it. Marketing needs to understand that their role is to drive profit-rich "non salesy" selling in their organization in such a way that they get entire relationships at premium pricing.

Anything less than that will lower your perception to that of a salesy pusher of financial "products." Tell me how that's going to work to help you create talkable experiences where customers leave with a smile and come back with a friend in tow willing to pay premium pricing?

**Net interest margin is the gift that keeps giving.**

### **3. Silo marketing—No integration between marketing and sales**

You've heard me say this before—marketing is not a department, it is a way of being.

Well, that hasn't changed.

What does that mean specifically? It means that the purpose of a marketing department is to constantly upgrade the quality of customers. That means targeting all work to find A prospects and taking customers and making them A customers by getting all their business, advising them well so they become lower risk, and getting premium pricing.

That also means that if your marketing department doesn't have an entire plan based on the 3 to 5 segmented, tightly-niched key markets, haven't identified the key prospects in each of those segments, and doesn't have a targeted one-to-one personalized outreach process to build reputational equity with each one and

then an iron-clad system to track the hand raises from that list and properly direct them through the sales people proven to have the highest closing ratio with the highest premium pricing...well, let's just say whatever they ARE doing is a waste.

Your bank doesn't need more unprofitable customers. It's not a numbers game. It's a profit game.

### **4. Abdicating culture as *the* primary responsibility**

Since research shows that the best return on your marketing dollars comes from investment in your people first, followed by investment in customers and then investment to get new prospects, doesn't it make sense that the marketing department needs to be in charge of the culture?

If you're running a "not for profit" bank, then perhaps not. Otherwise, yup, this should be obvious.

### **5. Not understanding and managing strategies around net interest margin**

When I spoke to a group of bank marketers recently, I asked them how many of them understood net interest margin. Not one hand went up.

Whoa, Trigger! Net interest margin is the "it." It's what gets you back out of trouble quickly if you have some problem loans. It's what builds your capital for growth or acquisition. It's your Steady Eddie—the backbone of a healthy bank.

Fees do not automatically renew. RISKY. And legislatures can make fees go away.

RISKIER.

Net interest margin is the gift that keeps giving.

If you and your marketing team don't have solid strategies to get and keep your net interest margin over 5, what rabbit will you pull out of your hat the next time the economy turns worse and you have loan write offs? How will you be ready for the impact of Basel III or what comes next? What will you do to create predictable success that is more important than improving loan quality and net interest margin?

If your marketing team doesn't understand net interest margin, that's not their fault. That is the fault of the executive team not properly directing the marketing team.

The great news is that all hope is not lost. You and your marketing team can find out that marketing is not a department but a way of being that everyone in your bank must have.

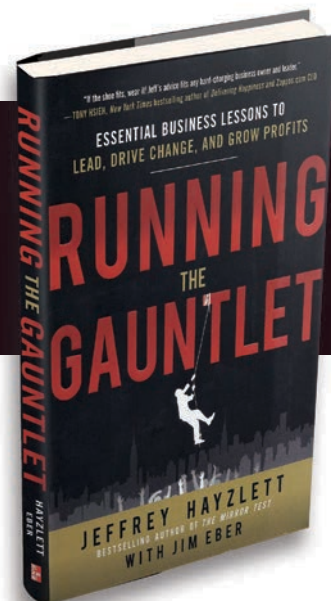
So drop the "nasty 5," and let's get about having a year filled with a culture of on fire, clear strategies to get and keep A+ quality clients, and a net interest margin where all the other banks ask, "How'd they DO that?!"



Ready to stop wasting your marketing dollars and grow your profits and safety with a predictable model of organic growth of top and bottom lines? Join us for the Profit-Growth Banking Summit and discover tried and true strategies that have increased net interest margin 40 to 100 basis points repeatedly. Visit [www.EmmerichFinancial.com/bc](http://www.EmmerichFinancial.com/bc) to register for our special limited-time offer ...available to the first 20 banks only.



# Running the Gauntlet: Understand Your Competition and Rally Your Team to Win Against Them



By Jeffrey Hayzlett

Battle is the most magnificent competition in which a human being can indulge. It brings out all that is best; it removes all that is base. This to be true for all businesses, no matter how many zeros there are on your bottom line. For the banking industry in particular, there are no excuses for not knowing your competition. If you don't have an enemy, get one, get to know them, and race as fast as possible to get ahead of them.

Extraordinary bankers know full well that great business doesn't just come from great ideas. Sure, you need the idea to get the business going, but to play in this game, you need to launch an attack and compete, and to compete you need some form of support. Some critical questions need to be answered. Where is your army? Who is in it? Will they be there on the frontline with you as you prepare to engage in battle?

**As Mark Twain said,  
“Let us be thankful  
for the fools. But for  
them the rest of us  
could not succeed.”**

even if they don't have an alternative way or idea. It's great to have input from some people some of the time. But in the end, someone has to make a decision, and that decision is best supported from the top.

You cannot hope to succeed if your team is not with you and ready. As a leader of our organizations, we need to draw out a field map to ready our elite teams to go to battle. Understanding the key fundamentals ahead of engaging in battle is vital, and initiating them is just as important. In my recent bestseller, *Running the Gauntlet*, I cover strategies to “approach your horses from the front.” It's about education and leadership. Investing in them in the beginning, being honest and open about your conditions of satisfaction, and

reinforcing your trust in them. That will bring out their best during battle.

Now you're on the frontline, you have your army behind you; you're preparing yourself for battle... Who are you fighting against? And do they know they're going into battle with you? In other words, know who your competition is. In my first bestseller, *The Mirror Test*, I use Snow White as an example; she was more likeable, had a more loyal community, and made her prince happy. The only thing she lacked to make herself apple-proof was awareness. She had no idea who the Queen really was. You don't have that luxury. I've heard business owners say, “I don't worry about the competition.” That's nice for you. But as Mark Twain said, “Let us be thankful for the fools. But for them the rest of us could not succeed.” A vital weapon in your arsenal to run the business gauntlet is knowing and understanding your competition.

So how do banking executives win the race? Finding your feet and gaining traction in your field will always help you drive the momentum that you need to face the gauntlet. Here is my formula for winning the R.A.C.E: Research, Action, Communicate, and Evaluate. Being in business is always going to be a battle, but better to battle the competition than your customers and yourself by thinking you know it all.

This rule applies beyond crafts and trades: “Measure twice, cut once.” Take the time to measure what you truly know with questions.

As George S. Patton said, no one should “fight a battle if you don’t gain anything by winning.”

The best and only way to win in business is to have a strong tactical approach. Any leader has got to see that military tactics are the same as business tactics: “the employment of units in combat,” and armoring your team with a strong tactical approach will empower them and drive home your success. Easier said than done like all things in change. If we build it, will they come?

Defining and understanding your Unique Selling Proposition (USP) will help you differentiate yourself from your competitors.

**What sets you apart and makes you stand out?** What makes you a better or more reputable or valuable solution to the customer?

Focus on what you’re good at; don’t place too many bets across the board hoping that one will work. Know where you can make your money and do it well. Then, understand what

your customers’ connection is to your USP and how you sell it to them.

If your quality is good, your message will stick—so stick to your guns. Then you’re on your way to winning before you begin. Remember, to be extraordinary, there are no excuses!



Discover how to apply the deeper strategies behind rallying your employees, understanding your competition, and the R.A.C.E formula for winning that Jeff used as a C-level execs for a Fortune 500 and as an entrepreneur.

## Join Us for Chat With The Experts™

Jeffrey Hayzlett is a global business celebrity, former Fortune 100 C-suite executive, and a business and marketing expert who drives change.

From small business to international corporations, he puts his extraordinary entrepreneurial skills and creativity into play, launching ventures using his leadership perspectives, insights into professional development, mass marketing and social media. He is a well-traveled public speaker, the author of the bestselling book *Running the Gauntlet*, and one of the most compelling figures in business today.



Jeffrey Hayzlett provides insight into the strategies behind how to organize your team and bring powerful leadership and clarity about what is needed to win.

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# Is Your Capital Plan Adequate? Basel III Planning

By Jeffery E. Smith

The banking industry has been dealing with the imposition of international standards for bank capital since the 1988 capital accord known formally as the “International Convergence of Capital Measurement and Capital Standards” and informally as “Basel I.” Basel II, or the “International Convergence of Capital Measurement and Capital Standards; A Revised Framework,” was adopted in 2004 and followed by revisions in 2005, 2009 and 2010.

“Basel III; A Global Regulatory Framework for More Resilient Banks and Banking Systems” was adopted in December, 2010, and formed the basis for several far-reaching capital proposals issued by federal banking agencies in June, 2012, referred to herein generally as “Basel III.”

Most bankers paid little serious initial attention to Basel III, assuming that it was focused on large multinational “systemic risk” financial institutions. However, upon the release of federal agency notices of proposed rulemakings in June (the “NPRs”) relating to implementation of Basel III, it became clear that Basel III, if adopted, would have a far-reaching impact on all U.S. banks, thrifts and holding companies. Mutuals would have special challenges in meeting the new requirements if adopted.

The initial comment date for the NPRs was September 7, 2012. Given the strong response by the industry and by certain bank regulators, as well as the Conference of State Bank Supervisors, the comment date was extended to October 22, 2012. Commentaries generally focused on the potential impact on community bank organizations in terms of capital management, access to capital, compliance costs, impact on products and services, and a number of possibly unintended consequences of the NPRs on community banks and thrifts.

The NPRs would replace the federal banking agencies’ existing general risk-based capital rules, establish consolidated regulatory capital requirements for bank and savings and loan holding companies, and restructure the capital rules into a more standardized regulatory capital

framework. While the NPRs would not apply (at least initially) to bank holding companies that are subject to the Federal Reserve Board’s Small Bank Holding Company Policy Statement (generally non-complex holding companies with less than \$500M in consolidated assets), they would apply to all banks, savings associations and savings and loan holding companies, irrespective of size or complexity.

So what is Basel III and what is the potential impact of the NPRs on financial institutions generally?

**New Definitions and Levels of Capital.** The NPRs would change capital standards to increase the quantity and quality of regulatory capital through a new common equity tier 1 (CET1) ratio, an increase in the minimum tier 1 capital ratio and a more strict set of minimum eligibility criteria for regulatory capital instruments. It would also establish a new “capital conservation buffer,” and update the “prompt corrective action” (PCA) thresholds accordingly.

**CET1.** Under the NPRs, CET1 would be composed primarily of common stock and retained earnings. Deductions from CET1 would include goodwill and other intangibles except mortgage servicing assets, deferred tax assets that arise from operating losses and tax credit carry-forwards, certain defined benefit

pension fund assets and investments in own stock. Amounts individually exceeding 10% of CET1 as well as amounts that collectively exceed 15% of CET1 would be deducted. The deductions would be phased-in from 2014 to 2018.

**Additions to Tier 1 Capital.** The NPRs would effectively remove cumulative preferred and trust-preferred-like instruments from Tier 1 capital. Acceptable additional Tier 1 capital would be primarily non-cumulative perpetual preferred issues. Phase-out of non-qualifying capital instruments by 2016 for holding companies with at least \$15B in assets, and by 2022 for all others.

**Leverage Ratios.** All banks would be required to maintain a 4% minimum tier 1 leverage ratio using the new definition of tier 1 capital. The current 3% minimum for 1-rated institutions would be eliminated.

**Minimum Risk-based Capital Ratios.** The proposed minimum risk-based capital ratios (capital to risk-weighted assets; RWAs) slated for phase in from 2013 to 2015 are:

- CET1 to total RWAs; 4.5% (new requirement)
- Tier 1 capital to total RWA; 6% (increased from present 4%)
- Total capital to total RWA; 8% (no change)

**Capital Conservation Buffer.** The NPRs would implement a new concept intended to incent institutions to remain above capital minimums in stress situations called a “capital conservation buffer” (CCB). A CCB of more than 2.5% CET1 would be required, in addition to minimum





risk-based capital ratios, to avoid restrictions on capital distributions and discretionary bonus payments to executive officers. In short it would be a stipulated “safety net” below which institutions will be restricted with regard to dividends and executive compensation. The CCB proposal does not establish a “cliff” below which none of the foregoing is permitted, but rather provides a gradient scale which will adversely impact the foregoing if the CCB is below 2.5%.

An institution’s CCB would be the lowest of the institution’s; (1) CET1 capital ratio minus the minimum CET1 capital ratio of 4.5%; (2) tier 1 capital ratio minus the minimum tier 1 capital ratio of 6%; and (3) total capital ratio minus the minimum total capital ratio (8%).

Therefore, risk-based capital ratios plus the minimum CCB would then be; (1) CET1 Capital/RWAs of 7.0%, (2) Tier 1 Capital/RWAs of 8.5%, and (3) Total Capital/RWAs of 10.5%.

The CCB would be phased in from 2016 to 2019.

**Revisions to Prompt Corrective Action Requirements.** Regulatory “prompt corrective action” (PCA) thresholds would be revised for consistency with the new capital requirements. PCA thresholds are those capital thresholds which, by statute, require agency enforcement and other actions.

The revised PCA requirements would be effective in 2015.

**New Standards for RWAs.** The NPRs would involve new and more risk-sensitive qualifications for RWAs to take effect by 2015, with the option to adopt earlier. Current risk weightings would remain for some exposures including government issues, most corporate issues, most commercial mortgages and retail. However, important changes would

involve residential mortgage exposures with a range of risk weight categories from 35% to 200% based on LTV ratios, performance and mortgage product features. CRE exposures classified as highly volatile and related to acquisition, construction and development financing would have a risk weight of 150% as would exposures more than 90 days past due or on nonaccrual. Most short-term off-balance sheet commitments would be rated at 20% as opposed to the current zero percent. Securitizations where the institution is unable to demonstrate a certain level of due diligence and understanding of the material risks would carry a risk weighting of 1,250%. Equity exposures would be weighted at 300% or 400%. Interestingly, sovereign debt has a 0% risk weighting.

The NPRs would recognize certain mitigating factors such collateral and guarantees in assessing RWAs, and special treatment for derivatives and repos with central counterparties. There are special provisions with regard to insurance underwriting activities, with policy loans weighted at 20%.

**Reactions to Basel III.** The industry reaction to Basel III and the relevant NPRs has been strong and adverse, particularly in regard to non-systemically important institutions. Industry participants have complained that the proposals are reactionary and punitive, and have pointed out the unintended consequences on the availability of credit in the community due to the adverse impact on products and funding from residential and commercial mortgage lending and HELOCs to significantly increased compliance complexity and costs, additional difficulties in attracting capital, forced industry consolidation, reduction in competition, reduction in access to credit generally, formula volatility and the adverse impact on short-term funding.

The Conference of State Bank Supervisors objected to the proposals in a letter dated October 3, 2012, and a bipartisan group

of 53 members of the U.S. Senate voiced objections to the agencies in a September letter. State and national trade associations (and their members) have also voiced their collective objections, as well as a number of other industry participants. The Comptroller of the Currency and Chairman Hoenig of the FDIC have also voiced concerns over the universal applicability of the NPRs.

In light of the industry outcry and receipt of over 2000 comment letters, Congressional and Senate committees set hearings in on the impact of Basel III.

On November 9 the three federal banking agencies issued a guidance stating that they did not expect that any of the rules proposed would be effective on January 1, 2013. They were right.

At a Senate Banking Committee hearing on November 14, 2012, representatives of the Federal Reserve, FDIC and OCC promised additional review and analysis of the proposals prior to any further action, particularly with respect to the impact on smaller community banks. The regulators cautioned, however, that the need for stronger capital requirements remains.

While the Basel Committee endorsed an expanded range of eligible assets and revised liquidity coverage standards in early January, 2013 in order to address some concerns under Basel III, the NPRs remain unchanged for U.S. institutions at the present time. If adopted, the proposal will result in global liquidity standards for banks and extend the timeframe for implementation. The revised standards will be phased in on a schedule that is consistent with the Basel III capital adequacy requirement, subject to bank regulators working through certain Dodd-Frank limitations and restrictions.

As of the date hereof, the imposition of Basel III through the NPRs is temporarily “on hold” pending further study. While some countries proceeded to adopt Basel III, the U.S. banking industry did not meet the international proposed initial adoption date of January 1, 2013.

**Practical Capital Planning.** No matter what ultimately happens with the Basel III NPRs, institutions need to consider capital planning seriously and anticipate further upward pressure on capital. Mandatory stress testing as well as the Federal Reserve's capital retention supervisory guidance dated November 17, 2010, and March 27, 2009, impact payment of dividends, stock redemptions and stock repurchases for institutions. These and other agency initiatives all point to generally higher capital expectations going forward, although perhaps not as complex and structured so as to deter certain types of lending and discourage investment.

**Conclusions.** As a practical matter, the agencies have been "unofficially" imposing enhanced capital requirements on institutions where they feel capital may not be adequate through the examination and enforcement process for several years, setting what some have argued are higher de facto capital requirements already. Careful capital planning will continue to be closely watched by banking agencies and the markets going forward, and will be a "must" for all banking institutions including use of "stress tests". Agencies will be looking for evidence of capital planning in the examination process, and will impose additional requirements in that respect, as they have been, for institutions where the agencies have concerns.

Regardless of the outcome of the Basel III NPRs, expectations of more and "higher quality" capital have been on the radar for some time. Institutions which choose not to plan for increased capital requirements, and/or which fail to document that planning and consideration, do so at their peril.

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