



Autumn 2011 Newsletter

www.RMANewEngland.org

More of the same or something new?

As the RMA New England Chapter is kicking off its 2011-2012 fiscal year, it is hard not to notice very similar headlines as we have seen in the last 2 years. The most prominent of them is the fear of recession that just would not go away. Some may say: "Let's have another (double dip) recession just to get it over with and get on our way to a true recovery." Otherwise, we are all in limbo, including governments and central banks, with nobody willing to be proactive, consistent and decisive in addressing the economic challenges.

The seesaw of the stock market is just as unnerving as the economic uncertainty. One day we get a bit of a positive news, and the market is rallying, grasping onto the news as a drowning person grasps onto a life vest. The following day the news are negative and the market is down in triple digits. In addition, there is a constant good news - bad news game coming from Europe with the stability point nowhere near in sight and everpresent threats of impending recession. Analysts "wisely" predict that if the European problems and global economic challenges are resolved, we will be fine. Sure, it commercial banking weren't a competitive and commoditized industry, we would work for very profitable organizations and all deals will be ours to lose. One does not have to be very bright to guess that ...

All this is before specific industry issues we as commercial bankers and financial professionals face. They include immense competition, liquidity and capital, portfolio management and workouts, quality employee recruiting and retention, budget cuts and many others ... The list does not seem to have an end.

In the midst of this turmoil, however, is the opportunity for the most nimble, entrepreneurial and positively-minded banks and bankers to gain a competitive edge because instability always breeds opportunity. A part of capitalizing on opportunities around you is the strength of your network and quality of your resources. This is where the RMA New England Chapter can and will be of value. A part of the Risk Management Association with close to 100 years in existence and 2,600 institutional and 18,000 individual associate members, RMA New England Chapter is the local branch of the RMA that operates primarily in MA as well as some neighboring states. RMA New England is represented by 220 institutions and over 900 individual members. The Chapter organizes events throughout the year, including forums, round tables, feature presentations, networking events, and educational programs. We are your network to develop, learn, exchange ideas, and help you become more successful.

We look forward to seeing you at our future events! Please contact one of our Board members (list on the last page) if you would like to get involved or interested in learning more about what we do. This newsletter will provide you with lots of exciting information about our recent and future events.

We welcome our newest institutional members:

Clinton Savings and Reading Co-operative Banks

They join over 200 member institutions of the RMA New England Chapter that range from large super-regional to small banking institutions and financial service firms

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From the Board of Directors

As we are opening our 2011-2012 fiscal year,
we would like to welcome the following individuals to our Board:

Diana L. Carito, Senior Vice President and Director Enterprise Risk Management, Salem Five
Megan Desso, Enterprise Risk Manager, Banker's Bank Northeast
Richard J. Labrecque, Vice President / Credit Officer, Sovereign / Santander
Thomas Holbik, Vice President / Enterprise Risk, Blue Hills Bank

If you are interested in getting involved with the RMA New England,
we would love to hear from you!

New Directors' brief bios:

Diana L. Carito

Ms. Carito's professional experiences comprise over 20 years in risk management and internal audit. In her current role she chairs her bank's Enterprise Risk Management Committee and is involved in various risk management activities. Her prior role at the bank was heading the Audit Department. Prior to that she was the Audit Director at Century Bank and held various audit positions at US Trust. She holds a Mechanical Engineering degree from Worcester Polytechnic Institute.

Megan Desso

Ms. Desso has over 10-years in banking with an emphasis on auditing, internal controls, compliance and risk management. She has a strong working knowledge of both community banking and correspondent banking. Ms. Desso joined the Bankers' Bank Northeast in 2008 as the Assistant Vice President of Internal Audit & Compliance. Previously she was an internal auditor and then the Privacy Officer at a \$3.2 billion Connecticut bank. Ms. Desso graduated from UConn with a dual Bachelor of Science degree in Actuarial Science & Mathematics.

Thomas Holbik

Mr. Holbik has close to 20 years of experience in finance and banking with focus on risk management. Prior to his current role, he was a First Vice President in Enterprise Risk Management area at Safra National Bank, Vice President and Senior Credit Review Examiner at HSBC, Vice President and Senior Risk Manager at Citizens Financial, in compliance and analysis roles at FleetBoston Financial / BankBoston, and bank examiner at the Fed. He also held finance roles in Serono, Inc and Raytheon. He holds a Bachelor's degree in Economics, a Master's degree in International Economics and an MBA from Boston University.

Richard J. Labrecque

With more than 25 years of experience, Mr. Labrecque has worked in commercial credit and lending with a concentration in the C&I, CRE and small business disciplines. He began his commercial credit career at CitiBank in the late 1980's and later moved on to RECOLL Management Corp., a subsidiary of Fleet Financial, working on the disposition of the Bank of New England loan assets for the FDIC. Over the past decade or so, he has worked at smaller institutions developing and refining their commercial credit and lending programs. Rick received his undergraduate degree in economics from Bridgewater State College and an MBA in Finance from Dallas Baptist University.

A screenshot of a web browser displaying the RMA New England website. The browser's address bar shows "http://rmanewengland.org/". The website header features the RMA logo and the text "THE RISK MANAGEMENT ASSOCIATION Serving the Financial Services Industry". Below the header is a banner for the "New England Chapter". The main content area includes a "What is RMA?" section, a "Members on the Move" section, and an "Upcoming Events" section. A large, diagonal watermark reads "For more information, visit us at www.RMANewEngland.org." The browser's taskbar shows several open applications, including eBay, Quicken, and Sony eBook Library.

Recap of recent events

In June 2011, Directors Joanne Franco of Stoneham Savings Bank and Mike Gallagher of Enterprise Bank attended **RMA's Chapter Leaders Conference** held in Atlanta, GA. This annual conference sponsored by RMA brings together leaders from chapters across North America to discuss how to expand membership and to offer the best educational courses to the members. Information gathered at the Conference will be used to help develop the strategic plan for 2011-2012.

Also in June 2011 RMA held a **Credit Department Management Forum** in Philadelphia, PA. Attendees at the event came from all over the United States and Canada to participate in this one and a half day event for credit professionals. The forum was an opportunity for those who manage the credit function for their banks to come together to discuss topics relevant to their roles, ranging from staffing and underwriting to appraisals, Allowance for Loan Loss and Troubled Debt Restructures. The structure of the forum promoted participation from all attendees via full group discussions as well as small group topic-focused discussions. As a take away from the event, each attendee received a USB memory stick filled with sample policies, templates and other documents compiled from current and prior forum attendees as well as access to all current and past forum attendees via an email distribution list that can be used as a resource to pose questions to fellow credit professionals. This forum is an annual event held by RMA, so look for it on the RMA schedule of events in 2012!

The Fall 2011, **Massachusetts Community Bankers' Senior Management Roundtable** was held on Wednesday, September 21, at Legal Sea Foods in Burlington, MA. Shannon Beattie of the Boston area FDIC Office gave an enjoyable and informative presentation covering investment in unconsolidated subsidiaries, troubled debt restructuring, non-accrual loans and SBA loan sales. The presentation was followed by a lively group discussion with each of the 11 bankers in attendance contributing insights (pictures on the right). If you are interested in attending future roundtables, please contact



RMA Board Member, Joanne M. Franco, at 781-279-8986 x256 or jfranco@stonesav.com.

The Connecticut / Western Mass. Senior Executive Community Bank Roundtable was held on Wednesday, November 16, from 12:00 to 2:00pm at Carbone's Restaurant in Hartford, CT. There was an interactive discussion of issues facing area community banks. There were 16 senior executives (the Senior Loan Officer and/or Senior Credit/Risk Officer) **representing 12 institutions**. This was the 8th time this event was held, both in the fall and spring for the past four years. If you are interested in attending future roundtables, please contact RMA Board Member, Carol Brennan, 860-218-2912 x204 or 413-237-6648 or cbrennan@bdcnewengland.com.

The RMA New England Chapter has just completed a training program called the **CCL (Credit for Commercial Lenders / Analysts)**. Commercial Credit for Lenders/Analysts (CCL) is an 8-week program, which provides a solid foundation in the basics of commercial lending and credit. The program focuses on lenders with little or no experience, loan trainees, credit analysts, or branch managers. A basic understanding of financial accounting is the only course prerequisite and the program is an ideal precursor for the popular **Loan Officer Resident Seminar (LORS)** held in the spring (stay tuned for details).

Recap of recent events (Young Professionals' Group)

The **RMA New England Young Professionals' Group** held on September 22 a **networking event** at Clarke's in Faneuil Hall in Boston. The group holds networking events two or more times a year. This was a well-attended event with employees of the following organizations in attendance: Bay Colony Development, Century Bank, RBS Citizens, Brookline Bank, Cambridge Trust

Company, Enterprise Bank, BDC Capital, Hyde Park Savings Bank, Citizens Financial and Berkshire Bank.

The RMA New England Young Professionals' Group held on October 27 the CEO Series Event with Paul A. Perrault, President & Chief Executive Officer of Brookline Bank. It is the group's 7th annual event. The goal of this



Recap of recent events (Young Professionals` Group)

event is to bring the up and coming financial services professionals to meet with some of the most accomplished individuals in the industry to learn about their careers, successes and lessons learned. Attendees represented the following organizations: Bay Colony Development, Century Bank, Brookline Bank, Eastern Bank, Randolph Savings Bank, Cambridge Trust Company, Enterprise Bank, Rockland Trust Company, TD Bank, BDC Capital, South Coastal Bank, People's United Business Capital, Bank of America, Cambridge Savings Bank, Sovereign Bank, and Crystal Financial.

Mr. Perrault's bio: Mr. Perrault is a 1973 graduate of Babson College and received an MBA from Boston College School of Management in 1975. Mr. Perrault's wide-ranging banking experience began in 1975 at Shawmut Bank, where he served in a variety of commercial banking positions in Rhode Island and Boston. From 1989 to 1990, he was President of Bank of New England-Old Colony in Providence, RI, where he also served as an Executive Vice President and Senior Loan Officer before becoming President. Prior to his current role at Brookline Bank, Mr. Perrault served as Director, President and CEO of Chittenden Corporation and Chittenden Bank beginning in 1990. He was appointed to Chairman of the Board of Directors in 1998, which he served until joining Brookline Bank in 2009 as Chairman, President and CEO. Mr. Perrault is also Director of both Brookline Bank and The First National Bank of Ipswich. Mr. Perrault serves on the board of the Greater Boston Chamber of Commerce and is a member of the SuperCommunity Bank Peer Group. He also serves on the Board of Trustees of the Shelburne Museum and is chairman of the Shelburne Museum Finance Committee. Additionally, he is a member of the PC Construction Board and serves on the Board of Trustees of the Perkins School for the Blind.

Summary of the event: Mr. Perrault started his career at Shawmut Bank spreading financial statements as a credit analyst in 1975. He recalled that he never had to look for a job in his career and opportunities found him. He attributed that to working hard and always being conscious of what was going on in the market place. During his career, he was exposed to various lines of business. One of them was the workout at Old Stone Bank in Providence, RI. Then, an opportunity presented to move to Midwest to work with shared national credits in offering commercial paper backup lines (nobody in the audience seemed to know what it was, given relatively shorter careers in the industry).

Another career opportunity took Mr. Perrault to New England Merchants National Bank in the late


1970s to develop their wholesale banking business. One experience Mr. Perrault noted is that during those days the goal of workout was to rehabilitate struggling companies and send them back. This was viewed as an evidence of banking success. He also recalled that the reason his bank was competitive is by being a bit kinder, better bank built on good business practices.

Mr. Perrault continued to talk about the real estate collapse in the Northeast in the early 1990s when New England market was in a terrible shape. It was around that time when he was pursued by a little bank in Vermont called Chittenden. He spoke fondly of the bank with its community oriented model. One of the strengths of the bank was the fact it listened to its customers' needs to develop new products. This is how the bank entered various lines of business including merchant cards and tax-exempt bonds. After many years of growth including acquisition of 8 banks, Chittenden was sold in 2007 to People's United.

One of Mr. Perrault's advices was to move around a bit, in terms of institutions, roles and geographies. It is however important to have a supportive spouse or a partner to do it successfully. Another advice is taking opportunities when they come along. Although they may not be what you envisioned or planned for or may not be your perfect opportunity, it is important to recognize them and adjust your plan of action quickly to capitalize on them.

During the Q&A session that followed, Mr. Perrault continued to share his personal experienced. He advised to presume that you will be in your job forever. And this does not mean being comfortable in what you do and have a sleepy, cushy job. He referred to making it a goal to learn everything you possibly can, do the best you can, and people will notice you. As a manager he always looks for people who he can rely on. He recommended being available, ready to roll up the sleeves and help, be prepared to raise hand, and be known for quality of your work. Also make an effort to learn how organizations are run. Some are run well and some are not. Nonetheless, these are your learning experiences.

When asked about the value of an MBA degree, Mr. Perrault responded that are much more useful for those who do not have a strong business background.

In conclusion, Mr. Perrault answered a question about competing in a highly commoditized banking industry. The key is to keep it simple, price fairly, listen to your customers and stay out of commodities - commodity (mass, low-cost) banking is a dangerous and costly path. 

The Good, the Bad, and the 1031 Exchange

Deferring capital gains taxes on property sales can have unforeseen consequences

Relationship banking has never been more in vogue than in the aftermath of the financial crisis. Despite the view that banking is a commodity service with few differences among competitors, financial institutions that focus on long-term relationships and provide value to their customers will be more likely to succeed in the future.

The 1031 exchange concept - by which a property owner disposes of one property and acquires another without having to pay capital gains on the transaction - is, by its very design, relationship-oriented because actions taken in the present will impact the future investment return for the client.

The concept of tax-free exchanges under U.S. tax law has its origins in the Revenue Act of 1921. This article identifies when a transaction may qualify as a 1031 exchange, introduces the economics of the exchange decision, and discusses the unintended consequences of this tax law.

1031 Exchanges

The musician Frank Zappa reportedly said that the United States is a nation of laws, badly written and randomly enforced. While this statement may or may not be accurate, it contains at least a grain of truth in that seemingly well-intended actions sometimes have perverse consequences.

Take, for example, the *like-kind exchange* under Internal Revenue Code (IRC) section 1031, which provides an exception to the payment of capital gains taxes on the sale of property. These like-kind exchanges, or *1031 exchanges* as they are often called, have the stated aim of deferring the capital gains taxes paid in qualifying situations when business or investment property is sold.

In order to qualify for the 1031 exchange, the property sold *and* the property acquired must be classified for either a business or investment purpose. This is typically an easy hurdle to clear. Additionally, the property must previously have been held for a productive business or investment use, and it is up to the taxpayer to prove that the property being sold was not owned for only a short period of time. Consequently, “flipped” properties

do not qualify for 1031 exchanges, although there are no official definitions for what qualifies as the required term of ownership.

One rule of thumb is that the property should be held for at least two years. Two other requirements are that the property purchased must be owned in the same name as the property sold and that both properties must be located either inside the United States or outside of it. That is, if one property is located within the United States and the other is not, the transaction fails to meet the definition of a 1031 exchange.

Someone unfamiliar with like-kind exchanges might think the term refers to something as rigid and specific as selling (relinquishing) one apartment building and buying (replacing it with) another apartment building, but this is not the intention of the like-kind requirement. As long as each property involved in the exchange is classified generally as

either for a business or an investment purpose, it is not a requirement that the specified properties match in type.

The Different Types of Exchanges

The simplest form of 1031 exchange applies to a *simultaneous exchange* of one qualified property for another. In this exchange scenario, there is no time interval between the closings of the relinquished and replacement properties.

A second form of 1031 exchange is the *delayed or deferred exchange*. As the name implies, the delayed exchange applies to transactions not consummated on the same day. The IRS has strict rules regarding when the delayed exchange must be completed in order to gain the tax exemption.

By G. Jason Goddard and Bill Marcum

To read this article in its entirety, please visit our website: <http://www.rmahq.org/RMA/RMAJournal>. Follow *The RMA Journal* on [Facebook](#) or [Twitter](#).



RMA New England Chapter won
the 2nd Place in RMA's 2011 Newsletter Competition!

The cash prize as well as the award were presented at the the RMA Annual Risk Management Conference in Washington, DC this past October.

Visit us at www.rmanewengland.org to view our newsletters and more.



Meet the RMA New England Chapter Board

Officers

President Donald Bedard Lowell Five	1st Vice President Michael Gallagher Enterprise Bank	Secretary Katerina Papp Eastern Bank	Treasurer David O'Brien Rockland Trust
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Directors

Dima Berdiev Marketing, Communications Boston Private Bank	Andrew Franklin Education Village Bank	Bonnie Sullivan MassDevelopment Women in Banking, Programming
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Carol Brennan Community Banking, Membership BDC Capital	Thomas Holbik Education, LORS Blue Hills Bank	Joanne Franco Community Banking National Programming Stoneham Savings Bank
Diana Carito Programming Salem Five Cents Savings Bank	Lisa Krywucki Fidelity Cooperative Bank	Megan Desso Education, Programming Banker's Bank Northeast
Paula Zaiken The Property & Casualty Initiative Women In Banking, Programming	Richard Labrecque Programming, Edu, LORS Sovereign Bank	Dale Makowski Eastern Bank

Past President's Council:

Dennis Stratton (2009-10), Immediate Past President, Long Range Planning, LORS
 Bruce Lemieux (2008-09), LORS
 Andrew Mahoney, Strategic Planning Committee, Audit, Bylaws
 Paul Butler (2002-03)
 Robert Skurka (2000-2001) Strategic Planning Committee

Upcoming New England Educational Events + CRC

Lending to Nonprofit Organizations

November 29, 2011 | Boston, MA

Global Cash Flow: A Real Estate Perspective

December 6, 2011 | Boston, MA

Problem Loan Workouts

January 26, 2012 | Boston, MA

RMA Credit Risk Certification

Why RMA-CRC?

In today's rapidly changing financial services industry, you need practical, day-to-day knowledge that will help you excel in your profession. You need the latest skills - skills that are current and complete. And you need the demonstrated ability to serve a diverse base of clients. Plus, you need all of your knowledge, skills, and abilities to be validated by a respected organization like RMA.

For more information, check out our website:

www.rmahq.org



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