Newsletter of the RMA New England Chapter October 2016

Meet the New President of our Chapter, Joe Herzog!

On behalf of the RMA New England Chapter, thank you to our immediate past President Rick Labrecque for his dedication and service to the RMA membership. Rick has been a long-time champion of the RMA, and exemplifies the organization's mission statement with his commitment to advancing fundamental and sound risk management principles in commercial banking. Among his many contributions to the Chapter, we would especially like to recognize Rick for his continued support of the Chapter's Commercial Credit for Lenders ("CCL") program. For the past four years, Rick has volunteered his time and resources to serve as the instructor of this 40+ hour intensive course. Thank you, Rick.

As the incoming Chapter President, I would also like to take a moment and introduce myself. I originally became involved with the RMA in 2010 through the Rising Professionals committee. I joined the Board of Directors a few years later upon assuming the role of Chairman of the RP Committee, and most recently, as Vice President of the Chapter for the past two years. Professionally, I'm an Asset Based Lender with Rockland Trust, having joined the bank after seven years with BDC Capital, working in both lending and credit capacities.

The RMA recently celebrated its Centennial, and as one of the oldest Chapters in the country, RMA New England is well-rooted within our local banking community. While we aim to continue to serve our existing membership, we must also recognize the importance of developing the next generation of commercial bankers. This is the initiative that I am most excited about as the incoming Chapter President. Whether it's locally-developed programming through our Rising Professionals affinity group, or on a national level via RMA HQ's academic initiative, career development is critical for the long-term stability of our industry.

So thank you to our Chapter membership for your continued support of RMA. If you have any questions or are interested in becoming active in RMA New England leadership, please feel free to contact me at 508-830-3241 or Joseph.Herzog@RocklandTrust.com.

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Highlights from S&P Global Market Intelligence Presentation

In May 2016, at the Annual Meeting of the RMANE at the Federal Reserve, the RMA invited S&P Global Market Intelligence to provide a briefing on the state of the commercial loan market. S&P presented the latest market trends in volume, pricing and structure, as well as expectations for the year ahead.

There was much discussion around the continued disconnect between supply and demand, and the impact on commercial loan pricing and terms. S&P shared the results of a recent survey of New England community banking executives, which showed that most banks expect to grow their own portfolios faster than the broader market – implying that the competitive climate will remain intense.

The presentation also focused on industry best practices for maximizing revenue in the context of market realities. Among the topics discussed were proactive management of renewals, utilizing risk-based profitability models in conjunction with market pricing data and implementing governance around pricing, paralleling the exception management process which exists on the credit side.

The RMA participants were very much engaged in the discussion and the feedback was overwhelmingly positive.

Women in Banking - Finding Sustainable Solutions | Part I

By Dima Berdiev

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"Women (in banking, generally) often have to work twice as hard to ever be noticed, and often train young men who get the promotion. We know we have to look like a girl, think like a man, act like a lady, and work like a dog to get ahead."[1]

Mary George Waite, chairperson and president of the Farmers National Bank of Centre, Alabama, and president of the Alabama Bankers Association, 1971

Many either know firsthand or have heard there is a shortage of women in commercial banking, specifically a low percentage of women in senior management. There is a general sense that the industry needs to do more.

Yet, for a number of people in banking, especially men, the true causes of the issue and the challenges faced by women can be quite unclear. The lack of women at senior levels is particularly puzzling since more and more men in banking support the idea of employing more women at all levels.

Undoubtedly, the industry has come a very long way from the following language expressed in "Womanpower's Quiet Revolution," an article published in 1967: "Not only in Virginia but also along Main Street, U.S.A., the new face of banking is likely to be a pretty one."[2] While that article includes stereotypical remarks that would certainly come off as disrespectful and unacceptable today, it highlights the start of a trend toward more women as banking customers, more women in control of household finances, and more women employed in banking.

The effort to boost the role of women in banking has visibly accelerated in the last 10 to 15 years. Examples include *American Banker*'s "25 Most Powerful Women in Banking" event; Sallie Krawcheck's latest venture, Ellevest; the WomenCorporateDirectors Education and Development Foundation; the organization Catalyst; and a plethora of initiatives by banks, states, academic institutions, nonprofits, industry organizations, and publications to bring more women into the banking industry at all levels.

But is the tide turning fast enough?

Why are we so challenged to build a sustainable solution beyond the rhetoric, after decades of concerted efforts to create gender and pay equality in commercial banking? Are we at risk of losing the rising generations of women? This article aims to explore the issues, challenges, and opportunities presented in order to make commercial banking more appealing to people of all backgrounds, including rising generations of women.

Some Helpful Data

In the U.S. as of 2014, females accounted for a majority of the population (51%), with individual state numbers ranging from 49% to 53%.[3] The same relationship (51% to 49%) holds true in population groups ages 21 to 64, the majority of our workforce.[4]

Organizational Self-check #1: How do these numbers compare with your company's employment of women and men, including the breakdown within individual divisions?

Among "employed in civilian labor force" ages 25 to 64, females represent 47% of the total.[5] The data begins to get more interesting when we look at "employed females in labor force" compared to total females ages 25 to 64. This figure stands at 66%, compared to 77% for the same data set among males.[6]

TABLE: OCCUPATIONAL CATEGORIES

	Female	Male
Management, Professional, and Related Occupations	52%	48%
Service Occupations	56%	44%
Sales and Office Occupations	63%	37%

Women in Banking - Finding Sustainable Solutions | Part I *Cont'd*

The lower employment numbers for women are likely due to those who take time off to start families, take care of their children, and then struggle to get back into the workforce. Data by large occupational categories (a total of six groups) show that women hold the majority of positions in roles most closely aligned with employment opportunities in commercial banking, as shown in the table below.[7] The data appears to be impacted by the legacy issue of more women in banking historically holding clerical, secretarial, and other administrative positions.

Organizational Self-check #2: How do these numbers compare with your company's data on women and men in senior and executive roles?

While no clear data exist for the percentage of women employed in commercial banking specifically, U.S. Bureau of Labor Statistics data show that, for 2014, women in the broader "finance and insurance" group accounted for 56% of employees. The comparable number for "banking and related activities" was 62%, and for "savings institutions, including credit unions" it was a sizable 72%.[8]

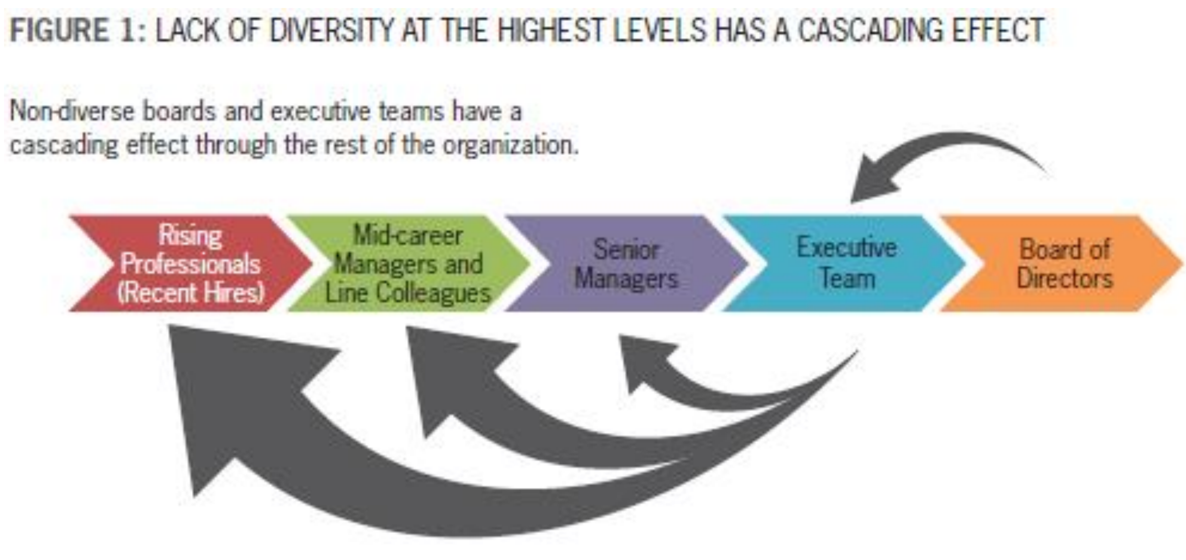
Organizational Self-check #3: How do these numbers compare with your company's data on women board members?

By now you've probably noted that the total number of women in banking appears to be represented quite well, above the national population levels and the totals for some other industries.

"The tide is turning somewhat," said Carol Brennan, an industry observer and a director of business development at Wakefield, Massachusetts-based BDC Capital. As a representative of a certified development company providing SBA 504 loans, "I've been calling on banks for 17 years," said Brennan, who is also a member of the RMA New England Chapter and has been a leader of the chapter's Women in Banking affinity group. "I remember calling on commercial lending staff and only having men in attendance - not one woman. But now that would be unusual."

Moving up to senior levels and board seats is where the problem persists. Of the top 50 largest banks in the U.S., only two are led by female CEOs (with CIT just missing the top-50 cut and one of the two being the CEO of Ally Bank but not Ally Group). In the same group, female board members account on average for only 22% of total board seats. Few commercial banks have a board where women account for even 30% of the total. Meanwhile, women on executive teams (executive or operating committees) account for only 20% of total executive management. The data are comparable to 4.2% of CEO spots in the S&P 500, 19.2% of the board seats, and 25.1% of the executive/senior officer and manager positions.

While the percentages are higher for the CFO, COO, CRO, subsidiary or divisional CEO, and president roles, they are still far below the percentages for men. And a number of women holding senior positions are in the traditional head-of-marketing or HR roles, as opposed to leading lines of business.



Key Challenges

Legacy: The Past That's Difficult to Shed

It's not easy to eradicate centuries of cultural stereotypes and expectations for women's roles to be distinctly different

Women in Banking - Finding Sustainable Solutions | Part I *Cont'd*

from men's. The turning point for moving women in banking from rudimentary customer service, back-office operational, secretarial, and clerical roles toward middle, senior, and executive levels is attributed to a great extent to the 1960s and 1970s federal anti-discriminatory enforcement efforts under Title VII of the Civil Rights Act. Mounting pressure from lawsuits also created opportunities at different levels of banking organizations.

A charge of the Commission on Equal Employment Opportunity and other government agencies during that era was to bring gender diversity to banking. At that time, small institutions in particular were seen to be challenged in that area. Decades on, regulators have played a critical role in starting to eliminate certain practices, such as lower pay and lack of growth opportunities for women, which were often accepted as the normal course of business. But the patience of women - and, yes, many men - is running out, and bankers don't want to wait for their grandchildren to see the real benefits of their efforts. We can't afford to miss out on would-be female bankers who never join the industry because of a perception of inequality.

Stereotypes: A Major Roadblock

Stereotypes, as well as discrimination, are still among the challenges preventing women from advancing to senior levels of the industry. In 2008, Marcia Honomichl was honored as one of *NorthWestern Financial Review*'s Outstanding Women in Banking. But when attending conferences and other events, she was often presumed to be the wife of a banker and was automatically directed to events for spouses.[9]

Here are a few common stereotypes that, believe it or not, still exist in some quarters:

- Women cannot be as effective as men in certain roles.
- Women should stay at home and raise children.
- It is risky to hire pregnant women because they'd want to become stay-at-home moms and take care of their children. Why invest in developing them?
- Women with children are not as focused on their work as men.
- Women are too soft as bosses.
- For a woman to be effective as a manager, she needs to become a (b-word). When she becomes just that, no one likes her for becoming what they expected.
- Certain behavioral traits are not appropriate for a woman, but are fine for a man.

The Similarity/Attraction Theory

One senior banker reminded me of the saying "Tell me who your friends are, and I'll tell you who you are." He mentioned it in the context of the similarity/attraction theory - the tendency of people to relate to and hire individuals similar to themselves in looks, behavior, speech, and values. Sometimes, a single look at a senior management team and board of directors can reveal the composition of the pipeline for the next levels of talent in that organization. Sadly, this condition tends to persist.

FIGURE 2: KEY CHALLENGES TO BRINGING MORE WOMEN EXECUTIVES INTO BANKING

Women in Banking - Finding Sustainable Solutions | Part I *Cont'd*

Executive teams that lack diversity will likely continue to pull through the next tier of managers who look like them and think like them. Furthermore, they are less likely to genuinely prioritize female diversity within their organizations, which impacts all subsequent layers of employees. If organizations have non-diverse teams, they won't be able to attract young or rising professionals to the industry, relate to clients, or be able to deal with the diverse range of critical situations that commercial banking faces.

As Brennan put it, "I'd rather call on a bank with more gender diversity." That the cycle tends to repeat itself makes it all the more important to address it, lest we lose opportunities to recruit young women.

Lack of Flexible Work Arrangements

Many women in commercial banking end up leaving the industry either temporarily or permanently to take care of their children. So it is critical to understand how the work environment needs to evolve in order to retain this important group of employees and become a family friendly industry. Below are some key ideas to consider:

- Family benefits and flexibilities need to include both spouses.
- Consider offering paid parental leaves in the two-to-four-month range. Progressive employers that want to get the top talent will be pushing this range further out.
- Flexible work arrangements are a must in today's environment, including reliable tech support. Flex arrangements can consist of work from home (fixed or floating days), work from a nearby office (separate from the primary office), adjusted hours, compressed workweeks, part-time and job-sharing arrangements, seasonal work arrangements, voluntary reduced hours, and phased retirement.
- The ability to move around and hold different positions in an organization can offer an opportunity to meet one's personal needs and professional aspirations.
- A robust support network is useful for providing contacts, training, and resources to help reintegrate those who had left the industry.

In return, the organization will gain one of the most loyal employee groups. Flexible arrangements around employees' personal needs can create "stickiness" in relationships with them, appreciation for doing something personal, and commitment to the company. This is akin to sticky, well-diversified banking relationships.

Inability to Relate

Of households with children, dual income households account for about 60%, compared to 31% with only the father employed and 6% with only the mother employed. The disparity between dual-income families and families with only the father employed increased steadily over the last 30 years.[10] More and more people feel that the dual-income household is a must in order to maintain desired living standards in the face of mounting living costs, student loans, and an expected retirement savings crisis.

For a number of baby boomers who are now seniors, the husband as "breadwinner" and the wife as "homemaker" was a reality of their lives. As more and more women maintain careers and their roles as parents, it is tough for their bosses to truly understand the challenges and sacrifices they make. "They can't relate to our challenges because they did not live them" is a comment I have heard from a number of female bankers when discussing the topic of women in banking. This is not a criticism but a mere fact of life. With the lack of genuine understanding can come the lack of commitment to create conditions under which working mothers will thrive. This is why banks need more women in decision-making roles who can understand what other women may be going through.

In a significant and symbolic recent milestone, Facebook founder Mark Zuckerberg recently took a two-month paternity leave. (Four months are available to employees of Facebook irrespective of their gender.) His experience will no doubt help him gain a better understanding of his employees' reality. A CEO of a major company actually taking a sizable leave sends a strong message about the company's priorities.

Shortage of Mentoring and Executive Sponsorship

More and more organizations recognize the importance of both mentoring and executive sponsorship to seek out, engage, and promote talented women. Executive sponsorship is cited as a critical link that translates mentoring into actual senior appointments. A mentoring culture rather than a forced mandate to mentor is the foundation for mentoring up-and-coming female leaders.

Women in Banking - Finding Sustainable Solutions | Part I *Cont'd*

A trick to developing talent is to engage in mentoring not only within your organization but beyond, especially if there is a shortage of rising female leaders in your organization. Professional organizations such as The Risk Management Association and other groups that sponsor women-focused events can offer additional opportunities to broaden mentoring networks. As Brennan stresses, "Support RMA Women in Banking groups!"

Prioritizing the Challenge
Gender and other diversity goals are some of the top talent-development challenges of many organizations. But do you prioritize them on an enterprise level, or is it a divisional priority of your HR that's added to a long list of divisional priorities and gets lost in the shuffle?

Given the lack of progress with bringing more female executives into our organizations, we may not be prioritizing this issue enough. Naturally, there are many challenges on the minds of executive teams, ranging from the low-interest-rate environment, regulatory costs, shareholder returns, and compressed net interest margins to cybersecurity and competition from banking and nonbanking markets. But unless you make it a key priority, you won't win the war for female talent.

The problem is reminiscent of issues with recycling, which was phase I of environmentally responsible behavior. While more and more businesses and people are catching up, we already need to be on phase II - operating at landfill neutral, as in using little to no plastics, reducing waste, and making biodegradable purchases or not buying at all.

Phase I for women in banking was raising awareness of challenges and opportunities over the past 10 to 15 years. Now we are overdue for phase II - making the move from merely recognizing and celebrating the "Most Powerful Women in Banking" to producing more dramatic and sustainable results.

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By (Dima) Neil Berdiev
Berdiev is a managing partner and co-founder of DNB Advisory LLC, a Boston-based advisory firm. A career commercial banker turned entrepreneur, he is a credit professional with a passion for developing credit and lending talent. He can be reached at dnb@dnbadvisory.com.

Defensive Banking is Always a Good Thing

By Richard E. Gentilli and John L. Hackett, Hackett Feinberg PC

Commercial lending activity has continued at a robust pace over the last few fiscal quarters, causing lenders to compete with each other to win a share of the deals. In such a competitive environment, lenders often find themselves agonizing over how thinly margins can be sliced and whether to compromise on their usual and customary credit standards in order to win a deal. It may be time to question whether the commercial lending market is overheated and to plan for a not too distant future in which interest rate spikes and other credit challenges could cause commercial lenders to exercise additional caution.

In that light, a refresher course on avoiding trouble when dealing with workout situations may be a good idea. We have compiled below a few simple rules for dealing with a declining credit situation. Although adhering to these rules will not make a bad loan better, it may limit the potential collateral damage to the lending institution and the loan officer's career well-being.

- Resist the urge to clean up or "sanitize" a loan or credit file. Destroying documents or sanitizing a file is foolhardy and wrong. Whatever you think you have erased invariably will come back to haunt you.
- Check each loan file for any unintended course of dealing with the borrower that could provide the borrower with a claim of waiver or worse. If the lender and the borrower repeatedly ignore clear contractual covenants, terms or requirements in the loan documents, the borrower could claim that the lender, through its course of dealing with the borrower, has waived the particular covenant or requirement. To avoid this issue, make sure to have the borrower

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execute appropriately drafted non-waiver letters have with respect to any and all past defaults and agree that the lender's one-time waiver of a covenant is not a general waiver.

- Although it may be tempting to promise concessions to a borrower in exchange for additional financial disclosure or to convince the borrower not to take his business to another lender, don't do it unless you are sure that you and your lending institution can deliver. Leading a borrower down the "primrose path" by promising concessions or additional financing you aren't sure you or your lending institution can grant will only damage the lending relationship in the long run. Under no circumstances lead a borrower on as to an existing or new loan intending to seek more onerous terms at the last minute when the borrower has no choice available but to agree as this has the potential of exposing lender to significant liability.

- If a loan does go into default or is in a workout situation, make sure that any extension, modification, forbearance or other agreement the borrower signs with the lender always include a full release of the lender by the borrower.

- Avoid violating privacy laws if you are contacted by a possible new take-out lender. Never disclose any information about the borrower or your collateral to a third party. Never provide a new lender with copies of your appraisals, environmental reports, etc. You are potentially exposing yourself and the bank to a law suit by the new lender or your borrower. Always remember that there is no such thing as an "off the record" discussion.

- Use a single voice to negotiate/discuss the issues with a borrower. If possible, have one person be the point of contact with the borrower on all credit issues and negotiation. If a lending institution communicates with the borrower though multiple voices, it can send mixed signals and lead to inappropriate or unrealistic expectations, which can result in liability.

- Watch what you write or say when you communicate with a borrower. Intemperate words will come back to haunt you. Always take the high road and be professional in communications.

- Don't disclose your foreclosure bidding strategy with third parties. Don't reveal the loan balance or speak to a potential buyer regarding terms of their post-foreclosure purchase of the property until you own the property after the foreclosure. Avoid "chilling" a foreclosure sale.

- For loans in default or workout situations, avoid creating issues of control. Although a lender may require that a borrower retain a turnaround consultant and may even suggest multiple candidates for the borrower to consider, a lender should never force a borrower to use a particular consultant or control that consultant's actions. A lender should never specifically direct whom a borrower should pay and whom it should not pay or regularly approve or reject particular checks. To do so is to risk creating liability to the borrower and other creditors of the borrower.

Although it can seem expedient to compromise on credit standards when the market is hot, those compromised loans can come back to haunt lenders when the market turns down and loans go into default and workout. Be smart and always have the long view in mind when managing your relationship with a borrower.

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The law firm of Hackett Feinberg P.C. has been in existence for twenty years. The firm's twenty plus attorneys have extensive experience, particularly in representing lenders. Hackett Feinberg's primary areas of practice, include commercial and real estate lending transactions, creditor's rights, business insolvency, affordable housing, litigation and general corporate matters. The firm is located at 155 Federal Street, in the heart of Boston's financial district. For more information about the firm, please contact Richard E. Gentilli (reg@bostonbusiensslaw.com) or John L. Hackett, Jr. (jljh@bostonbusinesslaw.com).

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RMA NEW ENGLAND CHAPTER
10 Back River Rd.
Amesbury, MA 01913
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