Spring 2010 Volume 53.1

NEW ENGLAND CHAPTER NEWSLETTER

FROM THE CHAPTER PRESIDENT

Dear RMA New England Chapter Members,

I wish all of you a happy 2010. We say goodbye to 2009 with relief, and a sense of optimism that we will see significant economic recovery in 2010. The unemployment rate has stabilized at 10.0% (November 2009). The three states served by this Chapter are all performing ahead of the national average, with MA at 8.8%, CT at 8.2% and NH ranked ninth best in the nation at 6.7%. Leading economic indicators are trending up, according to Ken Goldstein, Economist at The Conference Board, who says "The indicators point to a bright new year. The U.S. LEI increased for the eighth consecutive month. Looking ahead, we can expect a slowly improving economy through 2010."

So, while the worst may be in our rearview mirror, we still have a long ways to go. Your membership in RMA is now more important than ever. RMA provides a critical set of tools and skill sets to help you and your bank navigate this still-rocky economy. RMA educational courses provide timely training for your staffs and now that so many in-house training budgets have been reduced or completely eliminated, RMA has become the de facto training service provider for the banking industry. The RMA Journal keeps you apprised monthly on trends that continue to shape our industry.

Our chapter's board understands the many setbacks that our member banks continue to face and we are committed to providing support services at the Chapter level. For example, we cut our registration fees for our 2010 Loan Officer Resident Seminar and we are now offering substantial discounts for multiple attendees from an institution. We will continue to offer local programming at affordable rates to provide educational and networking opportunities to our Chapter members. Still, we can do more.

If you have any suggestions on how your Chapter can better meet your needs, please let us know. You may call the Chapter at 978-263-9003 or you can send an email to our Chapter Administrator, Julie Conroy, at julie@rmanewengland.org. We are committed to providing a strong member benefit and your feedback is very important to us. Thank you for continuing to work with our Chapter and on behalf of the Chapter board, I wish you a healthy and prosperous New Year.

Dennis Stratton, President

2010 New England Chapter Officers

President	**Dennis Stratton**
First Vice President	**Donald Bedard**
Treasurer	**David O'Brien**
Secretary	**Carol Brennan**
Chapter Admin.	**Julie Conroy**

2010 CALENDAR OF EVENTS

4/6/2010	Asset Based Lending
5/4/2010	Global Cash Flow
5/18/2010	Real Estate Funding in Commercial Lending
6/8/2010	UCA II: Credit Risk Analysis for Commercial Bankers
4/25-4/30-2010	LORS

Course details can be found on our website at rmanewengland.org

Our chapter presents opportunities for individuals to get involved. Chapters rely on the talents of volunteers to stage many of their programs, conduct membership development efforts, and promote the ideals of the Association. To find out more about how you can get involved in our chapter, call *Julie Conroy @ 978-263-9003 or Julie@rmanewengland.org*

Allowance Best Practices Are Key in Troubled Credit Markets

Setting the correct ALLL is a challenge when the credit markets are still recovering.

by Kevin McLaughlin

With credit markets still in turmoil, a carefully considered allowance setting is vital for banks. Community bankers learned more about allowance for loan and lease losses (ALLL) best practices during a recent RMA audioconference.

Panelists included Richard Meyers, executive vice president and chief risk officer, Firstrust Bank; Sabeth Siddique, assistant director, Division of Banking Supervision and Regulation, Federal Reserve Board; and Suzanne Wharton, associate director, RMA.

Wharton reviewed the results of an RMA survey of community banks' allowance methodologies for both retail and commercial portfolios. The survey of more than 200 banks focused on allowance practices, execution of the reserve process, technical aspects of reserve setting, and disclosure and governance.

The survey found that more than 75% of banks surveyed used a model based on risk ratings, and the reserving model was developed and operated internally. An overwhelming percentage of community banks, 92.3%, use a single-grade rating system covering both customer and transaction risk. The borrower's risk rating and the type of collateral most likely determined the reserve estimation for both commercial and consumer loans, the survey found.

Management plays a large role in making adjustments to risk model results, according to the survey. A quarter of community banks surveyed allowed a cumulative management adjustment of more than 25% of reserves. Another 28% allowed a management adjustment of 10–25% of reserves. Four in five community banks surveyed allowed some management adjustment to model results.

"The survey shows there are a lot of dynamics going on within the allowance-setting process," Wharton said. "People are taking a vigorous look at the allowance and trying to get it right.

"Accounting and regulatory guidance explicitly indicates that institutions must consider both quantitative and qualitative factors in developing and maintaining their allowance," she added. "On the qualitative side, much difficulty arises when determining exactly which factors to evaluate."

Among the qualitative factors considered, according to Meyers, are economic confidence and sentiment among area manufacturers and real estate professionals, along with housing starts, unemployment, and oil prices.

Community banks use a finite number of trailing months in evaluating historical loss rates, the survey found. In the current market, banks are shortening up the loss period to apply more weight to recent loss.

"None of us has a clear view of how long the current situation is going to continue," said Meyers. "Until there are clear signs that we're out of this recession, we'll all be under pressure from external and internal constituencies to have a short view of recent experience."

For most community banks, a combination of the credit risk group and finance area is responsible for signing off on final reserve numbers, the survey found. The risk area conducts the analysis and proposes changes in methodology to the board of directors.

Allowance information is presented quarterly to the board, and 63% of banks surveyed present overall results to the board with occasional loan-level detail for relationships that cause volatility in provisioning, the survey found.

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 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**

Credit Risk Management Audioconference Series

April 20, 2010 – New Issues in Bankruptcy

May 11, 2010 – New Issues in Lender Liability

June 8, 2010 – Regulatory Update

Time: All audioconferences will be held at 1:00 p.m. Eastern Time (10:00 a.m. Pacific Time).

Fees: Multiple listeners permitted free on the same line (include as many officers as can fit around your speakerphone).

- **RMA Members –** $120 for each selected audioconference (per phone line).
- **Nonmembers –** $180 for each selected audioconference (per phone line).

The RMA New England Chapter presents - A Mock Bankruptcy Trial

Submitted by: Don Bedard, Lowell Five

On Wednesday, March 31, 2010, the Bank of America building in Waltham, MA, served as the venue for the RMA New England Chapter's unique and informative presentation a "Mock Bankruptcy Trial". This luncheon event, emceed by RMA-NE Board Member **Paula Zaiken** of PCI Funding, focused on issues and pitfalls that banks face in today's troubled credit market, with the goal of answering the question –

> "If push comes to shove, are you really ready to go to Court against your Borrower to collect your debt?"

Starring roles in this fun and informative "mock trial presentation" included Attorney **John Hackett**, of Bartlett Hackett Feinberg, P.C, as the "fair-minded" Bankruptcy judge, while Attorney **James Liston**, of the same firm, provided sage legal representation for the beleaguered Bank Officer, played by Eastern Bank's own **Katerina Papp**. Attorney **Christine Devine**, of Mirick O'Connell DeMallie & Lougee, LLP, acted as the learned legal counsel to the Borrower, played by Mary Cartier of Bank of America.

Attendees were treated to viewing the interaction between the Bank Officer and the Borrower in good times (when all seemed well) and in the not-so-good times (when business suffered and the relationship deteriorated). The players then staged subsequent workout events, culminating in formal hearings in the Mock Bankruptcy Court. In this well paced format, the audience was allowed to explore what could unfold in any commercial lending relationship, as well as in the courtroom after a default.

Of greatest import, the demonstration highlighted what we, as lenders, can do to best prepare and protect ourselves and our institutions for these types of situations. Recommended issues that Lenders could focus on within their own institution included structural/documentation deficiencies, collateral value versus guaranty strength, and issues with Credit file management.

The presentation then provided insights into enhancing your position pre-bankruptcy (benefits v. risks), potential Lender liability, working together in Chapter 11 - Cash collateral and plan negotiations, as well as "Planning for the end - Liquidating sale and relief from stay". These insights were the most anticipated elements of the presentation and provided much food for thought among the attendees. The presentation was eye-opening for many of the attendees who had little prior exposure to actual bankruptcy proceedings. The comments and reviews submitted by the attendees at the completion of the event provided an answer to the question initially posed. As best stated by one attendee "… not quite as ready as I'd like to be."