Business Plan For

ABC Bancorp

A Bank Holding Company

Stratamar, Inc.
May, 2008

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1. Executive Summary

ABC Bancorp (ABC) is the fictitious name for a proposed *de* novo bank holding company to be established in the tri-state area of New York, New Jersey, and Connecticut.

The expressed intent of the founders of ABC is to grow the company to an asset size of $250 – 500 million within five years after business launch, then exit by either conducting an Initial Public Offering or selling to another financial company or investor group. While it is impossible to predict an expected stock multiple six years in the future, it is expected that a substantial return on investment is possible.

After due consideration, it is recommended that ABC apply for a national commercial banking charter. This will provide the best combination of friendly laws, expansion possibilities, and regulatory oversight to allow reasonable growth. It is expected that ABC can obtain all necessary regulatory approvals within 9-12 months of the launch of this process.

The proposed project carries a moderate level of risk for the investors in ABC. On the positive side, the targeted sector is growing, and profit margins should be sufficient to generate a premium ROA as long as reasonable credit standards are applied. In addition, the current problems in the financial industry stem primarily from poor past lending decisions. Any *de novo* bank will not have that liability.

On the negative side, financial services is an extremely competitive industry, and there is no guarantee that ABC will be able to attain a sufficient level of profit to attract new ownership in five years, the intended resale date.

Five year summaries of the pertinent key financial figures are given on the following three pages:

Five-Year Summary

Number of Accounts, Year-End

	A	B	C	D	E	F
209		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
210						
211	# of Accounts, Year-End					
212						
213	Overdraft Loans	201	398	600	812	1,018
214	Credit Cards	604	1,195	1,799	2,436	3,055
215	Home Equity	302	597	900	1,218	1,528
216	Auto Loans	1,007	1,992	2,999	4,061	5,092
217	Consumer Installment	403	797	1,200	1,624	2,037
218	Mortgage	81	159	240	325	407
219	Business Lines	91	179	270	365	458
220	Business Installment	45	90	135	183	229
221	0	0	0	0	0	0
222	Consumer DDA	3,868	7,647	11,517	15,593	19,552
223	Consumer NOW	967	1,912	2,879	3,898	4,888
224	Business DDA	453	896	1,350	1,827	2,291
225	Savings	3,022	5,975	8,997	12,182	15,275
226	6 mo. CD	806	1,593	2,399	3,248	4,073
227	1 year CD	403	797	1,200	1,624	2,037
228	5 year CD	201	398	600	812	1,018

Five-Year Summary

Assets and Liabilities, Year-End

	A	B	C	D	E	F
231		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
232						
233	**Balance Sheet**					
234						
235	Assets:					
236						
237	Overdraft Loans	50,369	99,576	149,955	203,030	254,586
238	Credit Card Loans	438,811	867,502	1,306,411	1,768,799	2,217,954
239	Home Equity Loans	3,626,538	7,169,440	10,796,785	14,618,174	18,330,198
240	Auto Loans	14,909,101	29,474,363	44,386,783	60,096,937	75,357,482
241	Other Consumer Inst.	2,417,692	4,779,626	7,197,857	9,745,449	12,220,132
242	Mortgages	20,147,434	39,830,220	59,982,140	81,212,077	101,834,435
243	Business LOCs	3,173,221	6,273,260	9,447,187	12,790,902	16,038,924
244	Business Installment	3,399,879	6,721,350	10,121,986	13,704,538	17,184,561
245						
246	Total Assets	48,163,044	95,215,336	143,389,104	194,139,906	243,438,272
247						
248	Liabilities:					
249						
250	Checking	11,136,494	22,016,154	33,155,128	44,889,975	56,288,984
251	NOW	7,253,076	14,338,879	21,593,570	29,236,348	36,660,397
252	less 10% reserves	(1,838,957)	(3,635,503)	(5,474,870)	(7,412,632)	(9,294,938)
253	Savings	15,110,575	29,872,665	44,986,605	60,909,058	76,375,826
254	CDs: 6 month	6,044,230	11,949,066	17,994,642	24,363,623	30,550,331
255	1 year	4,029,487	7,966,044	11,996,428	16,242,415	20,366,887
256	5 year	1,007,372	1,991,511	2,999,107	4,060,604	5,091,722
257	Fed Funds	0	0	0	0	0
258						
259	Total Liabilities	42,742,277	84,498,816	127,250,610	172,289,391	216,039,208
260						
261	Owners' Equity/Tier 1 Capital	5,420,768	10,716,520	16,138,495	21,850,515	27,399,064
262						
263						

Five-Year Summary

Profit and Loss

	A	B	C	D	E	F
265		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
266						
267	**Income Statement**					
268						
269	Income:					
270	Interest	738,840	1,460,640	2,199,644	2,978,181	3,734,437
271	Acct. Maintenance	80,629	159,398	240,045	325,006	407,535
272	Penalty Fees	4,363	8,626	12,990	17,587	22,054
273	Loan App. Fees	52,980	111,703	171,827	235,664	297,191
274	Cash Mgmt. Fees	25,499	50,410	75,915	102,784	128,884
275	Other Fees	0	0	0	0	0
276	Less: Net Charge Offs	(70,214)	(138,809)	(209,038)	(283,025)	(354,894)
277						
278	Total Income	832,097	1,651,969	2,491,383	3,376,198	4,235,207
279						
280	Expense:					
281	Interest Expense	181,034	357,892	538,967	729,727	915,028
282	Human Resources:					
283	Salaries	316,092	353,804	404,231	420,644	437,724
284	Benefits	79,023	88,451	101,058	105,161	109,431
285	Hiring Bonus/Reloc.					
286	Bonus Pool/Options	31,609	35,380	40,423	42,064	43,772
287	Contractor Compensation	63,100	63,100	63,100	63,100	63,100
288	Internet Service Provider	1,500	2,500	4,000	4,000	4,000
289	Equip. Amortization					
290	Employee	2,251	2,493	2,816	2,921	3,031
291	General	6,000	6,600	7,260	7,986	8,785
292	Software Amort. & Maint.	60,000	60,000	60,000	60,000	60,000
293	Outsourcing Expense	13,056	25,810	38,868	52,625	65,989
294	Bank Expenses - Facilities	238,772	258,454	279,759	302,820	327,783
295	Board Expenses & Stipends	13,125	13,125	13,125	13,125	13,125
296	Advertising & Promo.	67,000	76,000	85,000	91,200	91,500
297						
298	Total Expense	1,072,562	1,343,611	1,638,607	1,895,375	2,143,268
299						
300	Net Income Before Tax	(240,465)	308,358	852,776	1,480,823	2,091,939
301	Tax @ 30%	(72,140)	92,507	255,833	444,247	627,582
302	Net Income	(168,326)	215,851	596,943	1,036,576	1,464,357
303						
304	Quarterly ROA annualized	(0)	0	0	0	0
305	Trailing 4-qtr. ROA	(0)	0	0	0	0
306						
307						

II. Company Description

ABC Bank/Bancorp (ABC) will be located somewhere in the immediate metropolitan area of New York City. Due to the familiarity of the principals with northern New Jersey and the immediate New York City area, it is expected that the physical location will be within the NYC SMSA (Standard Metropolitan Statistical Area) of approximately 16 million people.

The first major decision the Board of ABC must address is the type of financial institution it will be, and with what regulatory body the charter will be filed. The bulk of this section will address those issues. While this Plan makes a recommendation on the optimal business form, it is recognized that the ultimate decision rests with the Board of ABC. Therefore, all arguments and procedures are summarized below so that a full discussion may ensue without delaying the remainder of the Plan.

There are dozens of variations within the general category of financial institution. However, given that this is to be a Plan for a "bank", and that many of the aforementioned variations are arcane and useful only to a narrow range of investors, the interests of ABC's initial investors will best be served by forming one of the five main types of bank-like vehicles:

- Commercial bank which, by definition, must accept demand (checking account) deposits and make commercial loans
- Savings bank, a charter type formed to encourage financing of individual housing units as well as savings for retirement.
- Savings and loan association (S&L), a charter which is similar in intent to a savings bank but which has higher minimum thresholds for asset allocation to housing stock (70%, per current federal law)
- Federal Savings Bank (FSB), a charter type increasingly popular in the aftermath of the savings and loan crisis of the 1980s.
- Credit union, a not-for-profit charter in which the institution is actually owned by the customers (depositors), to whom accrue the profits

Without launching into a fifty-page legal dissertation, the general pros and cons regarding the differing charter types can be summarized as follows:

1. All can be set up under Federal charters; all but credit unions also have state charter options in CT, NJ, and NY
2. S&Ls have generally been replaced by FSBs, due to the tainted nature of the S&L designation since the segment crisis two decades ago
3. Service options are greatest at commercial banks, as traditionally they have been granted the broadest and most flexible range of powers
4. Savings banks and S&Ls/FSBs have minimum asset percentages that must be invested in housing-related assets, in order to maintain their favorable tax treatment

5. Commercial banks will generally require $6-10 million in capital to open, with savings institutions requiring more in the $3-6 million range
6. At the other extreme, a credit union can usually be opened for $1 million in capital. The downside is that growth in credit unions is usually slower than other types because, by law, they must be far more consumer focused. Credit unions are also non-profit institutions, and need to be converted to FSBs before an IPO or sale (of the type envisioned) is enabled. This will slow down the "flipping" process envisioned by ABC's investors substantially.

The next debate is whether ABC should be established under a federal or state charter (since the current principals are located in New Jersey, examination of state charter options has been limited to New Jersey and New York. Again, there are pros and cons to each, with the major arguments summarized below:

1. State charters are generally easier to obtain – requiring lower capital and having a faster decision process
2. National laws (also meaning "charters") can generally override state and local regulations, and will thus allow ABC's services to be uniform if the institution crosses state borders
3. Credit unions are pretty much all federally-chartered, as state charters almost disappeared during the S&L crisis of the 1980s due to the failure of many state deposit insurance funds.

There are two collateral issues to be addressed here:

- there is major interest on the part of ABC principals to use the bank as a conduit to funnel residential mortgage contracts from brokers. In this vein, it was hoped that a national charter might allow an entity to bypass the myriad of state mortgage broker regulations, and source the business under one governing body. The law overviews show that this is still heavily regulated by the states….perhaps on the grounds that houses are not portable, while credit cards, auto loans, and the like can easily be moved. Therefore, the principals need to proceed on the expectation that any such business will still need to be licensed state-by-state. This may cause some operational difficulties if mortgages are intended to be a major asset turnover source for the new bank.
- There are contentious deliberations in Washington as of this writing (late April, 2008) regarding changes in financial institution regulation due to the recent credit meltdown. No one can reasonably predict what the final changes will be or, if in fact, there will be any. It is possible that the current fragmented regulatory system will remain unchanged, or that all financial institutions will be consolidated under one regulator and set of rules. Given this muddled situation, this Plan will be written under the premise that no substantive changes will be forthcoming.

Overall, it is recommended that ABC adopt a **federal commercial banking charter**, giving it the broadest possible range of powers and making the location within the tri-state area irrelevant. However, following is a summary of the pertinent rules and regulations for different charter types should the board of ABC wish to consider further, plus some commentary from other sources:

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SUMMARY OF CHARTER REQUIREMENTS:

State of New Jersey Charter Requirements:

http://www.state.nj.us/dobi/division_banking/depositories/bankrequirements.html

Application requirements are set forth in ***NJAC* 3:1-2.2 et seq.** and ***NJSA* 17:9A-1 et seq.** : ***NJAC* 3:1-2.2a**
Requires a Certificate of Incorporation
1. Feasibility study/Three (3) year deposit projections **2.** Three (3) year pro forma balance sheet and income statement showing projected breakeven **3.** Interagency biographical financial data (See FDIC form) **and** Police checks (@ $18.00) for all incorporators, Directors and officers (should be a bank check, attorney or consultant check made payable to the "Division of State Police-SBI") **4.** Filing fee $15,000, non refundable **5.** Indicia of title **6.** Copy of application to be filed with the FDIC, if the applicant has applied for a charter that includes the authority to accept deposits. When the final application is filed with the FDIC a copy shall be simultaneously transmitted to the Department. **7.** Director code of conduct **8.** Affiliated person application, if necessary **9.** Business plan (See Interagency charter application) **10.** Fingerprint cards if **not** FDIC insured

***NJAC* 3:1-2.5**

For the first three (3) years after issuance of the certificate of authority, the depository shall maintain a tier I capital to asset ratio, as ratio is defined in 12 CFR 325.2(k), that is at least 8% of the bank's total assets. Must also maintain a fully funded reserve.

2.19a

Commercial or Savings bank minimum capital **$6,000,000 (par value $2.00 minimum)**

State of New York Charter Requirements:

Effective May 11, 2006 On May 11, 2006, revised licensing and application fees, which eliminate annual licensing fees, were put into effect for all institutions chartered or licensed by the New York State Banking Department. The Application Fee Schedule below is a listing of the fees corresponding to specific applications filed by depository and non-depository institutions. As authorized by changes to Section 18-a of the New York Banking Law, all application fees will now be applied to the operating costs of the Department.

Depository Institutions

Banks & Trust Companies
Banks (Out-of-State; State-Chartered)
Savings Banks (mutual)
Savings Banks (Stock Form)
Savings & Loan Associations (Mutual)
Savings & Loan Associations (Stock Form)
Credit Unions
Foreign Banks (Branches & Agencies)
Foreign Bank (Representative Offices)
Private Bankers
Investment Companies
Safe Deposit Companies
Holding Companies
Mutual Holding Companies

Non-Depository Institutions

Mortgage Bankers
Mortgage Brokers
Check Cashers
Money Transmitters
Licensed Lenders
Sales Finance Companies
Premium Finance Companies
Budget Planners

APPLICATION FEE SCHEDULE

Institution	Banking Law	Fee
Depository Institutions		
Banks & Trust Companies (including Limited Purpose Trust Companies)		
Charter Application	§23	$12,500
Branch (not in a Banking Development District) or Public Accommodation Office	§29 / §191	$750
Branch (in a BDD)	§29 / §96-d	$0
Savings Banks - Mutual		
Charter Application	§23	$12,500
Branch (not in a Banking Development District) or Public Accommodation Office	§29 / §191	$750
Branch (in a BDD)	§29 / §96-d	$0
Savings Banks - Stock Form		

Charter Application	§23 / §14-e.2	$12,500
Branch (not in a Banking Development District) or Public Accommodation Office	§29 / §191	$750
Branch (in a BDD)	§29 / §96-d	$0
Savings & Loans - Mutual		
Charter Application	§23	$12,500
Branch (not in a Banking Development District) or Public Accommodation Office	§29 / §191	$750
Branch (in a BDD)	§29 / §96-d	$0
Savings & Loans - Stock Form		
Charter Application	§23 / §14-e.2	$12,500
Branch (not in a Banking Development District) or Public Accommodation Office	§29 / §191	$750
Branch (in a BDD)	§29 / §96-d	$0
Holding Companies		
Initial or Expansion Application	§142	$12,500
Acquisition of Banking Institution (no change of control)	§143-a	$12,500
Mutual Holding Companies		
Initial Application	§290	$0
Conversion (from Mutual to Stock Form)	§294 / §14-e.2	$12,500
Sale of up to 49% of Subsidiary Bank Stock	§290.1 / §14-e.2	$12,500
Non-Depository Institutions		
Mortgage Bankers		
Original License	§591.2	$3,000

Branch License	§591.3	$500
Change of Control	§594-b.1	$3,000

Mortgage Brokers

Original Registration	§591-a	$1,500
Branch	§591-a.2	$500
Change of Control	§594-b	$1,500

Regarding National Bank Charters:

http://www.klgates.com/files/Publication/f5af52c9-8150-44e5-bfd5-7f9b85b88f4c/Presentation/PublicationAttachment/2c9b0ABC6-3600-4195-b7d5-6c6ff5eea624/charterofchoice.pdf

and, from the Application Manual from the Comptroller of the Currency:

http://www.calbar.ca.gov/calbar/pdfs/sections/buslaw/financial/resources_occ-corporate-manual.pdf

Here are pertinent excerpts from their 109-page document:

Procedures: Establishing a National Bank

Exploratory Inquiry, Conference Call, or Meeting

Licensing Staff

1. Ensures that the inquirer and/or organizers have reviewed the information available on Internet banking on the OCC's Web site (OCC.treas.gov), including this booklet and other applicable booklets of the *Comptroller's Corporate Manual* (*Manual*) for guidance about the OCC's policies and procedures to establish or acquire a national bank. Forwards any requested information about these processes to the inquirer.
2. Notifies headquarters Licensing (HQ LIC) E-banking senior advisor about an inquiry, providing names, sponsor, proposed location (city/state), business line, and any issues raised.

Inquirer

3. Reviews the written guidance and information about the process and begins to develop and document the proposal by preparing the bank's business plan (see Appendix A for sample plan).
4. When key ideas are framed, requests an exploratory conference call or meeting to clarify any questions or concerns. Mails or faxes a copy of any written documents that describes the proposal to the district Licensing staff for distribution to other OCC staff for review *prior* to the

call or meeting. Allows adequate time for OCC staff to review the
material.
Licensing Staff
5. Schedules an exploratory conference call or meeting with proposed
organizers, counsel, and consultants, along with the appropriate district
supervisory, legal, and licensing staff, and the E-banking team

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Next, here is a cogent discussion on the relative merits of state vs. national charters:

http://www.hunton.com/files/tbl_s47Details%5CFileUpload265%5C1821%5CPW_State_Bank_vs_Nat_Bank_Charter.pdf

State Bank vs. National Bank Charters Where is the Grass Greener?

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By: Peter G. Weinstock*

There are a number of options when it comes to selecting a bank charter, the existence of which begs the question 'How do I know which one is right for my bank?' The decision is one you should reach after carefully evaluating the relative strengths of each type of charter. The grass is not always greener on the other side of the fence.

For those chartering a commercial bank, the advantages and disadvantages between national and state bank charters must be scrutinized before a decision is made. This requires understanding of the operations of a national bank's primary regulatory authority, the Office of the Comptroller of the Currency (OCC), and the operations of a state-chartered bank, governed primarily by the law of the state of incorporation or organization as applied by the state banking authority (Banking Department). The operations of a national bank are governed primarily by the National Bank Act of 1864. The operations of state banks are regulated on a federal basis by the applicable Federal Reserve Bank if they are a member of the Board of Governors of the Federal Reserve System (Federal Reserve), or by the Federal Deposit Insurance Corporation (FDIC) if they are a nonmember. Thus, the rules and regulations of either the Federal Reserve or FDIC will apply to state-chartered banks.

With regard to state-chartered banks, the advantages are as follows:

Dividends. Generally, state law regarding the payment of dividends is much less restrictive than the provisions governing dividends by national banks. The restrictions on a national bank's ability to pay dividends arise principally from two National Bank Act sources: 12 U.S.C. § 60 and 12 U.S.C. § 56. Title 12 U.S.C. § 60(b) places a recent earnings limitation on the payment of dividends by a national bank by requiring prior

OCC approval of a dividend if the total of all dividends declared by a national bank in any year exceeds the total of its "net profits" of that year combined with net profits of the two preceding years, less any required transfer to surplus. The OCC further restricts the ability of national banks to pay dividends on common stock by preventing national banks from including provisions for loan losses in "net profits," and thus, in the funds available for payment of dividends.

Perhaps most significantly, 12 U.S.C. § 56 prohibits a national bank from paying dividends on its common stock from its stated capital and surplus accounts. All dividends on common stock must be paid out of net profits after making deductions for expenses, including losses and bad debts. Thus, a national bank with negative retained earnings must "zero out" retained earnings before it may pay dividends. The OCC does not possess the statutory authority to waive this requirement. This limitation is significant in the case of a new national bank, which must "expense" its organizational costs for generally accepted accounting principles. As a result, a new national bank must earn back such costs before it may pay a dividend.

Fees and Assessments. The OCC has an extensive fee schedule for transactions, such as mergers and branch applications. In contrast, the Banking Department charges filing fees on fewer types of transactions, and, in cases when filing fees are charged, those fees tend to be less than those of the OCC. Currently, national banks are charged higher assessments annually than are state banks in most states.

Lending Limit. Generally, the legal lending limit for a state bank tends to be higher than for a national bank. In many states, a state bank is entitled to a legal lending limit of 25% of capital. In contrast, the general lending limit under the National Bank Act equals 15% of total equity capital plus the allowance for loan losses.

The OCC has adopted a three-year pilot program to raise the legal lending limit of national banks domiciled in certain states with regard to certain types of loans. Specifically, the pilot rule provides special lending limits for loans secured by 1-4 family residential real estate, loans to small businesses and unsecured loans in states in which the lending limit authority is higher for state banks than the current federal limit. For purposes of the pilot program, "residential real estate loans" are defined to mean loans secured by perfected first-lien security interests in 1-4 family residential real estate in an amount that does not exceed 80% of the appraised value of the collateral at the time the loan is made. The term "small business loan" is defined by cross-reference to the definition of "loans to small business" from the Call Report instructions (without the $1,000,000 cap that is part of the definition in the instructions). The definition includes loans secured by nonresidential real estate and certain commercial and industrial loans.

The new regulations provide that a national bank domiciled in the state that has a higher lending limit than the federal limit can loan funds to a borrower in excess of the federal limit without the excess representing an overline. The calculation of the increased limit under the pilot program is the lesser of (a) 10% of the national bank's capital and surplus or (b) the percentage of the bank's capital and surplus that a state-chartered bank could lend. The OCC, however, desires to limit the applicability in the special lending limit to circumstances consistent with safe and sound banking practices. Accordingly, the higher limits are only available to "eligible banks" who apply to receive approval to use such limits. "Eligible banks" are defined as banks that are "well capitalized" and have a CAMELS-rating of 1 or 2 on a composite basis and for both the management component and the asset quality component. The program is also limited to banks with fewer than $1 billion in total assets.

The OCC also imposed aggregate limits with regard to any bank in the program. There is an overall cap of $10,000,000 on loans to any single borrower. The final rule also provides that the total outstanding amount of a national bank's loans and extensions of credit to any one borrower cannot exceed 25% of the bank's capital and surplus. The regulation also added a limit which provides that the aggregate amount of all loans made in reliance on the pilot program cannot exceed 100% of the bank's capital and surplus. The pilot program extends until September 10, 2004. In the event the OCC decides to end the pilot program at any point, any loans outstanding that otherwise would be lending limit violations would be deemed to be nonconforming. In this way, such loans will not become illegal, but the national bank could not advance additional funds while the amount outstanding to any one borrower exceeded the federal limit.

The pilot program makes national banks more competitive than they would have been otherwise. Nonetheless, state banks will have a higher limit in general than national banks irrespective of the pilot program.

Working Relationship. An intangible factor to be evaluated is the working relationship among the primary regulatory authorities and the officers and directors of the bank.

With regard to a national bank charter, the advantages are as follows:

Legal Certainty. The statutes, regulations and interpretive letters governing national banks tend to be more numerous and more explicit than those governing state banks. Accordingly, a national bank may be able to obtain clearer guidance concerning the extent of its permissible activities than a state bank.

Single Regulator. A national bank has one primary regulator. In contrast, a state bank is subject to examination and supervision by either the Federal Reserve or the FDIC <u>and</u> the Banking Department. This will have a cost in the form of overlapping regulatory authority. Obviously, multiple regulators will increase the "soft" cost of a state charter relative to a national bank charter.

The impact of the overlapping regulatory authority is not as easily identifiable. For example, there may be times when the Banking Department, on one hand, and the FDIC or the Federal Reserve, on the other hand, disagree upon an issue, such as the classification treatment of a loan. Generally, the bank will be required to abide by the less favorable treatment.

Prestige/Name Change. In a metropolitan market, there may be a perception that national banks are sturdier than state banks. In addition, various ethnic groups may associate national with the federal government, and thus, provide such a bank with greater credibility than a comparably sized state bank. Lastly, the larger commercial banks, those with a national presence, tend to be national banks.

Obviously, the officers of a bank are more familiar with the statutes and regulations to which their former bank was subject. Accordingly, organizers will want to consider the charter with which the proposed officers are comfortable. Otherwise, the officers and directors will need to be re-educated regarding the different statutes and regulations that will become applicable if the bank becomes a differently-chartered bank.

In conclusion, there are both advantages and disadvantages to state and national charters. Careful evaluation will help you select the one that will best serve your business plan, thus avoiding the time-consuming and costly process of switching from one to another should you initially choose the wrong one.

Forms and directions for filing for a national commercial bank charter can be found at:

http://www.occ.treas.gov/corpapps/forms.htm

Forms and directions for filing for a national thrift charter can be found at:

http://www.ots.treas.gov/resultsort.cfm?catNumber=21&dl=10&edit=1

A summary of the various licensing requirements for mortgage brokers, by state, can be found at:

http://www.bankrate.com/brm/news/mtg/20010104b.asp

For example purposes, the summaries for CT, NJ, and NY are below:

A few final things to keep in mind: some states refer to mortgage brokers by different names while others license brokerage offices, but not individuals.

STATE	REGULATOR (linked to Web site, where available)	CONSUMER HOTLINE	WHERE TO CHECK YOUR BROKER'S LICENSE INFORMATION	SELECTED REQUIREMENTS
Connecticut	Department of Banking, Consumer Credit Division	1-860-831-7225	Licensing information	Required to maintain a surety bond for $40,000. No specific education or experience requirements.
New Jersey	Department of Banking and Insurance	1-609-984-2777	Not available online yet	Brokers are required to have a net worth of $50,000 and a bond for $50,000. They also must pass a written exam.
New York	Banking Department	1-800-334-3360	Licensing information	Mortgage brokers are required to have two years of experience in the

				field.

SOURCE: *1999 State & Federal Mortgage Banking Regulators Guide*, by Robert S. Lotstein. Published by Mortgage Press, Ltd.; additional research by Julie Bandy, Dani Arthur, Cassie Nordenbrock and Naomi Gaff of Bankrate.com
*Some sources are Adobe acrobat files and require downloading the Adobe Acrobat Reader

Niches to Consider:

Banks (especially small ones) in a large metro area need to specialize. General market needs are already being addressed by long-existing institutions that can afford to spread their fix & promotional costs across a larger customer and prospect base

1. An ethnic minority that is underserved or is growing rapidly. In NYC, a focus on Hispanic populations would be an obvious choice. Steer clear of Muslim populations, as religious dictates do not allow participation in situations that involve paying or receiving interest. The risk to this approach is that "underserved minorities" tend to have lower incomes & profit potential.
2. Locational, e.g. "We only lend in Bergen County". This can give people a reason to patronize a new bank over their existing one. However, such an approach can be self-limiting when expansion time comes, can act against itself in a heavily-commuting area, and can inject a higher level of concentration risk if a given area sees its relative growth rate slow.
3. Retail only, concentrating only on the needs of individuals and households, with a minimal amount of business-to-business activity. These tend to be easier, less risky, and more scalable; but result in a slower growth curve.
4. Specialize in business-to-business, but concentrate by SIC or NAICS code. For example, you may choose to become THE bank for the NJ construction industry. The primary risk here is that of (surprise!) industry concentration.
5. Become a small business-oriented bank, such as Commerce National (here in Columbus). If you are going to specialize, this might be the best combination of risk, profit, and growth. In addition, having a small business's corporate banking gives you an in towards securing the owners' personal banking.
6. Concentrate strictly on wealth management and private banking. While a specialty, there are already competitors in the NYC market. In addition, it requires significant lending sophistication, plus a willingness to be on call 24 x 7.

Other than the standard trademark and copyright issues found in any business (business name, web site and collateral copyright, etc.), there are no unusual legal issues to resolve. Of course, there are a myriad of legal barriers to navigate (see Regulations), as is the case with any new banking entity.

The holding company and bank will be involved in a number of businesses, all directly related to the delivery of financial products and services to a consumer and business audience. The most common services available from ABC include:

a. deposit accounts
b. loans
c. mortgages
d. sweeps
e. funds transfer – internal
f. bill payment
g. financial advisory
h. online brokerage
i. IRAs
j. Business administrative services (IRAs, Keoghs, SEPs, etc.)
k. Tax advisory
l. Trust and investment
m. Bill presentment

Services will be added and deleted as market opportunities and regulatory changes dictate.

3. Industry analysis and trends

The financial services industry in the tri-state area, as well as in the nation, is gigantic by any standard. According to the FDIC's Statistics on Banking, dated December 31, 2007, there are 378 FDCI-insured commercial banks in the three states, with aggregate assets of some $721 billion. Beyond that, competition exists in the form of thrift institutions, credit unions, loan companies, captive finance companies, and various gradations of financial planners and managers that do not come under FDIC jurisdiction. In addition, this data reflects employees and assets statewide, and necessarily includes data from Buffalo, Atlantic City, and Hartford. Regardless, we must all concede that the vast bulk of the activity is in the metro NYC area.

FDIC Data as of 12/31/2007

State	Institutions	Assets ($B)	Employees
Connecticut	56	$ 64.8	12,457
New Jersey	127	147.7	18,416
New York	195	509.1	73,500

The industry is mature – much the same as with any group of commercial banks anywhere in the country. Substantial mergers have occurred over the past fifteen years due to effective failures of banks in various narrow markets, or as part of the search to grow one's way into cost containment and market competitiveness. While many large institutions are still owned (headquartered) locally, there are enough successful outposts of out-of-state entities to prove that local ownership is no longer necessarily a prime consideration when choosing a financial institution.

The change in the number and aggregate asset size of tri-state commercial and savings institutions in the past few years is very different from the trend on the national level (numbers from the FDIC's Statistics on Banking) (bear in mind that mergers and acquisitions have a significant impact on the numbers, even if there is no meaningful change in a local market):

Combined Commercial Banks and Savings Institutions

	12/31/04	12/31/07
United States		
# of Institutions	8,976	8,533
Aggregate Assets ($B)	10,105	13,038
Tri-state Area		
# of Institutions	396	378
Aggregate Assets ($B)	1,389	722

Banks in greater New York are no different from those in other parts of the country – their future health will be affected by a number of factors over which they have no control. Premiere among these factors are:

Global and economic health. Current credit crunch issues aside, the economic status of the U.S. is ever more tied to economics outside of our borders, regardless of what regulators in Washington may think or do. This will require the smart bank to remain alert and flexible, and not assume that a given action will work today because it has worked in the past.

Seasonality. In NYC, economic activity slows somewhat in the winter due to a decline in construction and tourist activity. Realistically, such a change is not sufficiently significant to adversely affect any local bank.

Technological factors. The advent of the internet, preceded by phone centers and ATMs, has shifted much of the routine service to the consumer, resulting in enormous cost savings. Unfortunately for banks, it has also made physical location somewhat irrelevant for financial management, greatly increasing the competitive universe for any given institution.

The impact of regulatory factors has been somewhat muted in recent years as the fervor of consumer protection has largely evaporated and been reversed. Recent and probable federal legislation eliminates many distinctions between banks and non-bank competitors. As these institutions cross-merge and the nation's courts sort out the ramifications of the laws, competition will focus more on marketing and innovation instead of legal gyrations. However, the writer expects federal legislation within two years regarding (1) bringing nearly all financial institutions under the umbrella of a sole federal regulator, and (2) restrictions on the use of private data to market to consumers.

Supply and distribution do not tend to be major considerations in the financial services world. Supply is a function of monetary policy as enacted by the Federal Reserve, and fiscal policy enforced by Congress; and distribution is really just a function of the movement of electrons.

Financial considerations and anticipated industry trends go hand-in-hand, as the trends are primarily driven by financial considerations (reducing or outmaneuvering competition, achieving operational efficiencies, etc.). Overall, the major trends impacting financial services over the next ten years are expected to include:

- migration of individual institutions towards both ends of the service spectrum, and away from the middle. This trend has been observed in Canadian banking for the past 25 years. Many experts have predicted that the U.S. will shortly have no more than 5-10 major banks serving customers from coast to coast with every imaginable service. However, because large institutions don't tend to deliver service very well, many smaller entities will emerge to profitably serve niches (geographic area, a small business community, a specific SIC, etc.). Both of these extremes will profit at the expense of the disappearing middle tier bank.
- Continued consolidation, both within banking and within the financial services industry. While studies show that financial institutions become less efficient as they grow, it also becomes much easier for them to move markets or hold off competition. Certainly, given the mobility of Americans, it is difficult to argue that it is necessary to have over 10,000 separate financial institutions with their redundant management, operations, and the like.
- increased competition, in the sense that geographics no longer isolate a given institution. It is just as easy for a consumer to be offered an auto loan from a bank across the country as one from across the street.
- A higher focus on relationships, as the remaining institutions try to capture a larger share of the household wallets of their customers
- Less of a focus on community, since "community" may not even exist for a number of competitors in a given market

In terms of an embryonic wave that could help ABC establish a position with several of its target groups, the following release by Juniper Research may suggest an opening:
Friday, Apr 18, 2008 7:00 AM ET

News Brief Mobile Banking To Jump To 37 Billion In 2011 Mobile banking transactions worldwide will jump to 37 billion in 2011 from 2.7 billion in 2007, according to a new report by Juniper Research.

A growing variety of mobile financial services including funds transfers, bill payment and account management will help to drive the increase in transactions. Improved security safeguards will also be crucial to the rise of m-banking's expansion.

Moe than 816 million consumers will use mobile banking services by 2011--a tenfold increase from 2007. Regionally, the China/Far East region will have the greatest number of mobile banking users, followed by Western Europe and the Indian subcontinent.

--Mark Walsh

Backing that up is this article from recent weeks:

Media Post Publications March 24, 2008:

> http://www.publications.mediapost.com/index.cfm?fuseaction=Articles.sa
>
> Report: 2008 May Be Tipping Point for Mobile Banking
>
> Highlights:
>
> > 40 million mobile (cell phone) banking clients by 2012
> > Relatively undeveloped so far by U.S. banks
> > Totally unexploited niche: low-income consumers (using prepaid phones)

Document links:

State of New York Banking Dept. – License & Charter Applications

> http://www.banking.state.ny.us/iafees.htm

State of New Jersey – Dept. of Banking & Insurance: Requirements for Organizing a New Jersey State Chartered Bank or Savings Bank

> http://www.state.nj.us/dobi/division_banking/depositories/bankrequirements.html

"Wild Card" authorizations for NYS banks to mirror national bank powers:

> http://www.banking.state.ny.us/pr071023.htm

Savings & Loan Assns. Seeking state Charters:

> http://query.nytimes.com/gst/fullpage.html?res=9C0CE2D71E30F934A35752C1A966958260&sec=&spon=&pagewanted=all

4. The Target Market

Given the relatively substantial growth plans for ABC over the first five years, combined with the dynamism of the chosen geographic market, there are really several target markets that are attractive for penetration:

a. Primary – those people who have an extremely high likelihood of being interested in self service when banking. These people will initially be from the Innovator, Early Adoptor, and Early Majority stages of product diffusion theory. According to VALS segmentation from SRI Consulting, general characteristics of those prospects are:

    1. Innovators (11.4% of population): successful, active, sophisticated, take-charge people.
    2. Experiencers (12.9%): young, vital, enthusiastic, and impulsive. Seek variety and excitement, savoring the new.

b. Secondary – those people who do not necessarily fall completely into a segment suggesting internet adaptation, but who have characteristics that logic and research suggest are in line with what a self-service (online) bank offers. Some groups that probably fall into this category include:

    1. local college students
    2. single-person households (time-prro people)
    3. elderly (looking for better interest rates on deposits)
    4. upper income neighborhoods (professional workers)

We have selected these groups as the primary initial targets of our marketing because they are able to be identified for relatively easy targeting of tactics. Also, experience at other online banks indicates members of these groups will respond positively to financial services concepts that offer one or more of the following benefits:

1. time convenience
2. physical (hours of access) convenience
3. modal convenience or preference
4. lower fees for self-service
5. lower loan rates
6. higher deposit rates
7. easier to manage money

It will not be easy or inexpensive to convince prospects to move to ABC from their current banks, whether they currently bank predominantly online or offline. Industry research indicates that customers at commercial banks churn (turnover) at rates of 14-20% a year, although much of this is due to either the bank making a major error, or the customer physically moving to a new residence.

New York Times, Monday, March 10, 2008

Your Money: Banks Springing Up to Serve the Underserved

By LIZ GALST

At first glance Raleigh, N.C., may not seem like a logical place to open a Latino-oriented bank. After all, Raleigh is not a city like Los Angeles, for instance, where more than 47 percent of the population is Hispanic.

But David Flores, a former senior vice president at Chase Manhattan Bank, looked at the skyrocketing Hispanic population in North Carolina - from 1990 to 2006, it rose to 593,385 from a mere 76,726 - and saw a business opportunity.

Last September, Mr. Flores opened Nuestro Banco, offering a host of specially tailored services that other banks in the area were not, among them check cashing for new immigrants and small business loan applications in Spanish. The bank building is replete with Hispanic-inflected touches: a stucco exterior with a tile roof and bilingual signs.

"Our long-term goal is to become a regional Hispanic bank in the Southeast," said Mr. Flores, the bank's president and chief executive.

Nuestro Banco is certainly outside the mainstream of banking in this country, a mainstream dominated by financial giants like Bank of America, Chase, Wachovia, Wells Fargo and Citibank. But many bankers and banking customers find benefits in that niche position, where particular consumer and small-business demographics can be accommodated - to the profit of all.

For bankers, focusing on a niche is a way to set themselves apart from the competition. "If a person sees three banks on the same block, each one offering the same products at the same price, what differentiates you?" asks Steven F. Young, senior vice president for consumer banking at Wainwright Bank and Trust in Boston. Wainwright's reputation as a socially responsible bank that invests most of its deposits in community development and progressive nonprofit organizations "has led us to be very profitable," Mr. Young said. "People like what we're doing with their money."

For consumers and small businesses, niche banks offer products, services and expertise that are often unavailable elsewhere. "With the big banks, you have a fairly impersonal relationship," says Ingo Walter, a finance professor at the Stern School of Business at New York University. "Small banks are part of the community and people perceive that they get a different level of service."

Though no one keeps records indicating whether the number of niche banks is rising or waning, experts in the banking field see growth in three particular areas: Hispanic banking, environmentally responsible banking and banking aimed at observant Muslims.

Hispanic-focused banks are the largest trend, Mr. Walter said. "It's a giant-sized niche."

The number of Hispanics in the United States is expected to triple by 2050, to more than 102 million. According to a 2004 report by the Federal Deposit Insurance Corporation, the "rapid growth of the underbanked Hispanic market suggests a new growth opportunity for many institutions."

In fact, Mr. Flores said, "25 or 30 Hispanic banks are either starting up now or have started up in the last two or three years." Among them is Plaza Bank in Seattle, which offers low-fee fund transfers and Spanish-language checks, statements, loan applications and online banking. "All of our personnel are bilingual and bicultural," says Carlos Guangorena, Plaza Bank's chief executive. "That helps people who haven't been banked come into the fabric of the economic community."

Similarly, many of the nation's almost five million Muslims have special banking concerns that often go unaddressed by mainstream banks. In particular, Sharia, Islamic law, forbids the charging or paying of interest. "This hampers most bank transactions," said Amjad Quadri, assistant vice president for business development and new markets at the University Islamic Financial Corporation, a bank based in Ann Arbor, Mich. As a result, many Muslims decide to rent rather than buy homes. "And most Muslims only have interest-free checking accounts and credit cards that they pay off at the end of the month," Mr. Quadri said.

To accommodate special concerns of Muslims, University Islamic, with additional offices in East Brunswick, N.J., and McLean, Va., offers rent-to-own agreements for home buyers, along with savings accounts that offer "profit sharing" rather than interest. (The bank's profit-sharing rates are competitive with those at other financial institutions.)

This profit-sharing strategy has enabled Haaris Ahmad, a lawyer in Canton, Mich., to earn money in a money market account for the first time. "Now, my wife and I get the same benefits that other people have, but in a way that's compliant with our faith requirements," Mr. Ahmad said.

For environmentalists - be they consumers or small- business owners - banking with a large bank can pose problems as well since large banks are often the underwriters for projects like coal-fired power plants and unsustainable logging. "I was concerned that a bank was going to invest my money in companies that might help cause global warming or human rights abuses," said Adam Taylor, a green building engineer in San Francisco.

Mr. Taylor had been a customer of the West Coast banking giant Wells Fargo. But in 2006, he decided to switch his accounts to the New Resource Bank in San Francisco, which invests its deposits in green businesses. "If I was thinking about where my coffee beans were coming from," Mr. Taylor said, "why wasn't I thinking about who was investing my life savings?"

The founder and vice chairman of New Resource Bank, Peter Liu, says his bank understands green businesses in a way many mainstream banks do not. "A lot of times, in lending, it comes down to an assessment of risk," he said. "If you don't understand the business, a banker will see a lot of perceived risks - like the higher price point of organic food - as opposed to real risks."

Those kind of perceptions can lead some larger banks to deny financing to green businesses. "When you focus on an industry, you learn to appreciate the real risks and you underwrite to those."

Banks like New Resource and ShoreBank Pacific of Ilwaco, Wash., often introduce products and services tailored to the special environmental interests of customers. ShoreBank offers free consulting to small businesses.

"Whenborrowers come to us," said Laurie Landeros, the bank's vice president for ecodeposits, "we help them move up the scale on their environmental and social health, as well as their fiscal health."

New Resource Bank introduced a reduced-rate home equity loan that allows homeowners to purchase solar electric and thermal systems with no money down, at rates that are often lower than their monthly electric and home heating bills.

Mr. Walter of New York University said he did not "see any evidence of a systematic shift in market share," from large banks to niche banks. But at a time when the large banks make many users feel like numbers rather than cherished clients, he added, "customers appreciate the service the niche banks offer."

5. The Competition

On the surface, the competitive position of ABC in the NYC financial services market is weak. However, we are convinced that the opportunity outweighs the historical results.

First, taking the FDIC statistics a step farther, we see:

Tri-state Area – ALL FDIC-Insured Institutions, 12/31/07:

	Total	Comm. Banks Under $100 million
# of Institutions	378	52
Aggregate Assets ($B)	722	2.6

It is the market share distribution that provides the niche opportunity for ABC. Of the total financial institution assets, commercial banks with assets of less than $100 million constitute about 18% of the institutions, but only about 0.3% of the assets.

From a marketing perspective, the bi-polar asset distribution provides a major opportunity: the opportunity to out-finesse the larger banks by selecting a limited market and serving it extremely well, and a competitive field among niche players that does not provide any with market dominance.

To the extent that ABC's board does follow the path of internet banking, there are some potential significant barriers that must be addressed:

a. Availability of IT talent – even the B-1 work visa program has not eliminated the severe shortage of skilled programmers and engineers. If there ius a lack of competent employees, some web ventures cannot be built or afforded.
b. Promotional resources. Even the world's best web site will not succeed unless consumers know of it and why they should visit it. Prime online advertising outlets are at a premium, and obtaining sufficient promotional space can be quite expensive.
c. Trust – more so than purchasing a DVD or registering for a contest, a person's financial resources are held to be more private, and require a higher level of security, professionalism, and trust in the supplier. Fpor these reasons, consumers are less prone toi changing banks than changing dry cleaners, and are particularly less likely to switch to a financial services provider about which they have never heard before.
d. Infrastructure. Any commercial online venture requires major behind-the-scenes investments in equipment, customer service personnel, webmasters, programming, and clerical personnel. These expenses will typically exceed those for the web site itself.

6. Strategic Position and Risk Assessment

A SWOT is a standard entry diagnostic tool designed to allow a company to view its entire world, both from and internal and external point of view. While more conceptual than detailed, it is useful in guiding the details that will be addressed later.

Strengths:

- as a *de novo* financial institution, ABC will not initially carry any of the financial instrument baggage that is currently hindering most similar institutions – subprime mortgages, overrated mortgage securities, upside-down auto loans, and the like.
- As a new and small institution, ABC is in a position to be more nimble and reactive to a rapidly changing marketplace than a larger competitor such as Citi or Bank of America
- ABC can help minimize operational costs by creating the Day One expectation that many customer transactions will be self-service. This will help weed out potential customers who prefer higher-cost personal service
- Will stick to basic services, without spending a lot of money creating esoteric services (e.g. international cash management) that would interest only a few customers.

Weaknesses:

- There are literally thousands of current and potential competitors for ABC, ranging from entrenched full-service banks like CITI to pawn shops and captive finance companies. Much of the potential success hinges on the extent to which ABC narrows its focus and, by extension, competition.
- ABC's small size and expected market may make it difficult to cast a sufficiently wide net to gain marketplace recognition. This may hinder the pace of growth or require higher-than-expected promotional expenses to stay on track.
- As a new financial institution, ABC will be subject to extra regulatory scrutiny in its first few years. This will restrict its flexibility to respond to new marketplace opportunities rapidly
- Potential customers may perceive that ABC offers little advantage over their current institution, and may only switch to take advantage of abnormally high deposit premiums or low loan rates. This could narrow any projected spread income
- Timing will be a key component of the exit plan. While the initial goal is to sell ABC to another entity in five years, price multiples will be heavily dependent on the market's perception of banks' viability at any given moment. For example, a sale of ABC in 2006 would have brought a much higher premium than a sale at the time this Plan is being written (April 2008). ABC's management must be willing to delay the sales process should maket conditions be unfavorable in five years.

Opportunities:

- Many institutions, financial and otherwise, make an error by trying to be all things to all people, thus spreading themselves too thinly and doing nothing well. ABC may find an excellent market niche by concentrating on just one type of customer (e.g. emerging businesses, Ukrainian immigrants, DINKs within one mile of Union Square, etc.), and serving that niche better than anyone else. This can often create intense loyalty and premium pricing opportunities.
- ABC does not need tens of millions of dollars in new revenues to make this endeavor a success. By presenting itself as a solution that can help a defined customer segment, it can create a niche that large competitors cannot profitably compete in
- through judiciously-selected outsourcing and origination tactics, ABC can offer a wider array of services, and expand assets and profits at a faster rate, than if it attempts to process everything in house.
- Affiliation with a fraternal or other NGO as a "preferred financial institution" to ensure a steady flow of interest and opportunities

Threats:

- a major competitor may attempt to corner the market by a combination of generous interest rates and reduced fees, reducing profitability for all in the market.
- Some economists believe the current economic malaise means consumer spending and credit norms may morph into diminishing the use of credit, the most profitable deployment of a bank's funds.
- Until the client base builds and becomes less concentrated (a function more of time than anything else), the risk of business concentration is a concern
- The more successful online banks enter new markets by offering special deals (higher deposit rates, lower loan rates, lower fees). If these bargain seekers cannot be converted into profitable and loyal customers, profits will be severely impacted.

Whatever niche is selected, the strong attempt should be made to provide sufficient services so that 95-98% of the customers attracted can consider ABC to be an "all services under one roof" institution. According to the American Bankers Association, the "average" bank customer has a relationship with as many as fifteen financial institutions, covering credit cards to IRAs to mortgages. Fewer than 7% of customers have five or more services at a given institution, while 65% have two or fewer services. It is here that the greatest potential for profitable sales, or major servicing cost reductions, lies.

7. Marketing Plan and Sales Strategy

The following summary of recommended marketing tactics is designed to address potential customers in both online and offline venues, ensuring that our message is delivered regardless of personal media preferences. Through the application of integrated marketing communications, it will also ensure that the effectiveness of multiple channels is greater than the sum of those channels individually.

To begin, it is NOT recommended that mass media, typically in the form of daily general circulation newspapers, television, and radio be employed as a promotional tactic. The cost of ads in these media are based on circulation or viewership across the entire metro area. This, ABC would be paying a significant premium to advertise to people who are too far away to even be prospects. Therefore, the recommendations focus on a combination of paid online advertising, search engine optimization, emails, and direct mail.

The tactics below are presented in relative order of precedence, so that they should be implemented in roughly this order should scarce resources dictate that not all of them can be implemented.

Per the Direct Marketing Assn., as published in DMNews on March 24, 2008, Data Bank, p. 8:

> $13.4 billion was spent on direct marketing by U.S. banks and credit institutions in 2007
>
> That spend generated $178.8 billion in sales
>
> Forecasted revenue by 2012 is $286.2 billion

Traffic Report: Based on recent research, targeted paid online ads deliver a much better success rate than other forms of online "attraction":

Role of Source in site visitors' purchase behavior

Average order value: (per Engine Ready, Inc.)

Paid search	$138.04
Organic search	117.09
Direct access	170.32
Other referring sites	168.45

Average sales dollars per visit:

Direct access or via bookmark:	5.69

Organic listing	1.35

Paid traffic converts at 20% higher rate, with 18% larger orders, than organic traffic

Source: Direct magazine, March 2008. Subsource: Engine Ready, Inc., Brian Lewis, VP.

Targeted Ads via Online Publishers:

It is recommended that ABCBank experiment with online publishers that show promise of delivering the investors that might see the benefits of using a competitive online startup financial institution.

However, the campaign needs to be limited to$X per day, as success is tracked.

Recommended from Top Online Publishers, as detailer in OMMA, February 2008 issue, pages 35 and 37:

CNN, #9, $2.46 CPM
NYTimes.com, #13, $7.81 CPM
Wall Street Journal Digital, #22, $1.72 CPM
Business Week, #53, no CPM given
Bizjournals, #68, no CPM given

And, if the bank is entirely or predominantly online, and the ongoing effort moves into specific geographic markets, here are very local online publishers in the Top 100 OMMA list that should be considered for promotional purposes (same source as above):

Houston Chronicle, #51, $2.31 CPM
Atlanta Journal Constitution, #69, $6.45 CPM
Orlando Sentinel, #80, no CPM given
DallasNews.com, #82, no CPM given
MiamiHerald.com, #87, no CPM given
Baltimore Sun, #89, no CPM given

Source: A Bigger Bang, by Daisy White. OMMA Magazine, February, 2008.

Recently, substantial success has been obtained online by advertising on business networks, which find the advertiser a variety of targeted sites instead of concentrating on merely a handful of likely sites. One of the more prominent networks is at business.com. Following is an excerpt from one of their recent solicitation emails:

"With a Business.com online advertising account, you will find new customers among the web's most concentrated group of business buyers and receive distribution through our Network, which hosts the web's largest group of business-related sites. Best of all, there are no set-up fees -- you pay only for the clicks you receive, which start at $0.40 per click and move up in $0.10 increments.

You can use our online reporting tool 24 hours a day, 7 days a week, for real-time click counts, changes in ad copy, managing your own bids, and other account-related updates.

You'll also have support from myself, and our experienced editorial team and account manager, who will offer you expert level copywriting support and suggestions to help you optimize your campaign.

Visit Business.com here to see one of the many categories XXXXXXXX could be listed in:

http://www.business.com/directory/

All of the Featured Listings you'll see are supported by paid advertisers.

These advertisers are interested in reaching business buyers who are challenging to target with Google and/or Yahoo.

Business.com can help you reach this exclusive audience and connect them with your business-related goods or services.

We have over 65,000 categories on our site with more being added every day and we would love to add you to our growing list of satisfied advertisers. "

In addition to ongoing search engine optimization (SEO) and eyeball campaigns on appropriate web sites, ABC should also experiment with direct marketing (phone, snail mail, and email) to appropriate mailing lists. Here are some selected sources for executive email lists, depending on the niche direction ABC decides upon:

From: Edith Roman: $160/M postal
Add $100/M phone
Add $325/M email addresses

Business Professionals: 789,000 postal addresses
345,000 email

C-level executives:	387,000 postal 148,000 email
Mortgage brokers	40,000 postal 31,000 email
Senior management	365,000 postal 141,000 email

From: Nielsen Business Media: $395/M email
Add $15/M for each of 38 selection categories, with totals of 32,000 to 1,350,000 recipients

Mortgage Brokers and Bankers email database: universe 77,345
Infinite Media, White Plains

In terms of metrics to track, ABC's relatively small size dictates that it cannot afford to spend massive amounts on image or brand advertising during the first few years. It will be imperative to try to secure the sale, instead. In that vein, following are synopses of recent research to give guidance on online success rates:

Marketing Experiments Journal
http://www.MarketingExperiments.Com
Members Edition
March 28, 2007

Test #1 Ad Performance

Ad	Click Through Rate
Send 1	.34%
Send 2	.24%

*** What you need to understand: On both sends, this ad yielded unremarkable clickthrough rates and only one conversion.

:: Test #2 (Emarketer)

We ran three ads on this site.
The first stood out from the content in both size and content type:

The second ad stood out in color scheme and copy style:

The third much more closely resembled the site's native content in font size, copy style, and color scheme:

Test #2 Ad Performance

Ad	Click Through Rate
Ad-1 - (Standout)	.27%
Ad-2 - (Standout)	.17%
Ad-3 - ("Native" Looking)	.32%

*** What you need to understand: The click through rate for Ad 3 was 88% higher than Ad 2, and 19% higher than Ad 1.

:: Test #3

We tested two offer links on this site. The first was a button that stood out from the primary content; the second was a text link that matched the native page content in font style, size, and color scheme.

Here are the results:

Test #3 Ad Performance

Ad	Conversion Rate
Button (Standout)	.015%
Text Link ("Native" Looking)	.034%

http://www.marketingpower.com/content29004S1.php

How Search Engine Rank Impacts Conversions

Our analysis is based on conversions that advertisers designated as their "primary" conversion. Most of the data represents online sales. However, the data also includes and is relevant to conversions such as lead acquisitions, account sign ups, and requests for information. We analyzed July and August 2004 traffic representing 41,460,000 clicks and 408,000 keywords.

Conversion rate is the percentage of click-throughs that result in a conversion. Our method of calculating conversions counted a maximum of one conversion per visitor. That is to say that a visitor who bought more than once still counted as a single conversion. Visitor behaviour was tracked in most cases for 90 days following an initial click-through from a search ad.

What We Have Learned

The question we sought to answer in our investigation was: how does a change in the rank of a search ad affect conversion rate for that ad? To do so, we looked at the aggregate change in conversion rates for thousands of keyword ads as they moved among ranks. Due to the fact that conversion rates vary greatly across advertisers, we expressed the differences between the ranks relative to rank 1. By doing so, the following tables provide measures relevant to any industry category.

Although the conversion rates for both Google and Overture only fall about 20%-30% between the rank 1 and rank 10, the overall impact on conversion potential is a 90% decrease. The dramatic drop is mostly driven by the fall in click potential rather than big differences in conversion rates. Let's take a look at how these metrics can be used to forecast clicks, conversions and ROI metrics when planning changes to your search marketing strategy.

Marketing Experiments 03:31 PM 4/23/2007 28
MEC: Research Brief - Email Marketing Tested (Part 1 of 2)

We found the following:

TEST: Good vs. Bad Copy

Email	CTR (%)
Email A	2.93%
Email B	1.96%
% Difference	49.50%

***> What you need to understand: Email A yielded a 49.5% higher click-through rate than Email B.

"Why?" you might well ask. The differences included familiarity, tone, trust, order of presentation, and other essential factors that we will explore in detail in this two-part series on email copy effectiveness.

As we look closely, we find that Treatment A begins with a greeting using Marketing Experiments' name, while Treatment B begins with the word "Profit."

The primary difference in approach is the primacy of an appeal to trust through familiarity vs. that of the potential for monetary gain. Familiarity is an essential factor in establishing and maintaining trust.

Subject: Research Brief: More Retail E-Mail, But Delivery, Open And Click-Through Rates Lag
From: Center for Media Research <research@mediapost.com>

May 11, 2007

Jordan Ayan, CEO of SubscriberMail LLC, says "The fact that more merchants aren't reporting better delivery rates tells me they aren't doing the right mix of list management and data analysis. If I had to grade... most merchants would only get a C on their report card."

Only 17.1% reported e-mail click-through rates of 15.1% or more.

- 51.8% report click-through rates of 2.51% to 15%
- 10.3% fewer than 2.5%
- 20.8% that don't know

"With only average or below average open and click-through rates, retailers are clearly missing a key opportunity," Ayan says.

While the survey indicates that retail marketing managers are working to improve the effectiveness of their campaigns, many aren't paying close enough attention to conversion rates. 29.5% of respondents to the survey don't know their conversion rates from e-mails. Only

- 4.5% of retailers have a conversion rate from e-mails of more than 10%
- 27.9% have conversion rates under 1%
- 25.4% have conversion rates of 1.1% to 4%.
- 12.7% have conversion rates of 4.1% to 10%.

A low sales conversion rate is a key indicator that merchants need to adjust their approach to e-mail marketing. Today only 56.6% of retailers segment their e-mail lists, which could be segmented to identify recipients by demographics such as age, sex, annual income and past purchase histories to generate more effective campaigns.

Overall, ABC should also dedicate some monies to data mining projects, whether focused on outside lists or strictly on current customers:

> “BankFinancial, a Chicago-area banking chain, was sure that the best prospects for its high-balance checking account were people age 55 and older.
>
> That was an accurate guess.
>
> But finding them was a challenge until the bank employed Clementine, a data-mining workbench from SPSS, a predictive analytics software vendor that's also based in Chicago.
>
> And then it discovered something when planning its first 2,500-piece test to customers: That certain people under 25 — those who had received settlements or inheritances — were fine prospects for the product as well.
>
> Thanks to that newfound predictive ability, BankFinancial pulled a 6.77% response rate, according to Matthew Jacobs, market research analyst for the firm.
>
> But that was only one part of a massive effort to make the bank more competitive in its commodity business, according to Jacobs' boss, assistant vice president for database marketing William Connerty.

> "Eight years ago, Excel was the only analytical tool we had," said Connerty, speaking last month at the National Center for Database Marketing conference in Orlando, FL.
>
> That wasn't good enough for Chicago's third-largest thrift. The bank, which has 16 branches and $1.6 billion in assets, jumped into predictive analytics, "an evolving process" that continues to this day.
>
> The first thing BankFinancial had to do was extract transaction data. It also had to identify households (it serves 57,000 and has a total of 71,000 customers), append demographic data, and gender- and geo-code.
>
> The goal was to predict "who's likely to buy and churn," Connerty said.
>
> That wasn't all. The bank has tried everything from focus groups to lateral-thinking technology. Mapping has been useful not only in picking sites for branches, but for targeting direct mail, Connerty continued.
>
> When Clementine, a system that starts at $75,000, was deployed roughly two and a half years ago, it was immediately put to work locating customers for the $10,000-plus checking accounts.
>
> The metrics were impressive, and they continued to be during the rollout. The bank is now mailing 10,000 pieces a year for the product.
>
> The persons chosen via Clementine generate 9.4% more income and a 9% higher balance per account than other customers. And 4.3% of the total deposit dollars for that account type have been raised by the campaign, according to Jacobs.
>
> And it's no wonder. The total household deposit balances for all the customers reached is $123 million."

And, here are some extracts from another recent article/interview regarding the success of data mining and cross-selling:

> "Think of it as a fiscal "Goldilocks and the Three Bears." Like the fairy-tale heroine, some banking customers are looking for a bank that isn't too big or too small. In the counties where it operates throughout Indiana and Illinois, MainSource Financial Group wants to be the one that's just right.
>
> "Our typical consumer is [someone] who still resides in the smaller towns and doesn't want to have to drive to Indianapolis or the major metropolitan areas to do all their financial services," says Carrie Stapp, vice president and director of marketing for the Greensburg, IN retail bank, which serves about 70,000

households. “We want them to be able to wrap up their insurance and wealth management needs and brokerage and whatever in one branch. That's the customer we're going for.”

Stapp has been with MainSource about six years, and oversees marketing, media placement, new products and services, and all written communications to customers. Prior to joining the bank, she worked for an independent contractor to the U.S. government, helping recruit civilian doctors, nurses and support staff in military hospitals to fill in for medical personnel who had been deployed.

Direct talked with Stapp about how MainSource is using CRM to increase cross-selling opportunities and position itself as a one-stop banking option for its rural customer base.

DIRECT: What is the bank's target audience?

STAPP: MainSource is primarily located in the smaller, more rural communities. We do have branches in some larger communities, such as the south side of Indianapolis and northern Louisville, Kentucky, but it's still in the smaller suburbs on the outside of those areas. Basically, the niche we're going for is maintaining a presence in communities in Indiana and Illinois that the larger banks are moving out of. That's where we get a lot of our acquisitions, from the larger regional banks that are saying we can't maintain a $15 million branch in Centerville, IN.

DIRECT: Demographically, who is your customer?

STAPP: We're very strong with the elderly generation, but we're not very strong with Generation X and Generation Y. In a small community, you don't have the ability to say, ‘We're going to go after this one market’ like you can in Boston or New York, because that limits you even further. So we're trying to kind of be all things to all age groups, still maintaining that community banking feel and personal decision-making and all the things the older crowd is used to, but yet also incorporating high technology — Internet banking, bill paying, direct deposit, all those things — for Gen-X and Gen-Y customers who say, ‘I don't want to go to the bank.’ It's a mix of all those things we go for. It's not really an age demographic.

DIRECT: Is cross selling a major goal? Do the majority of your households have multiple products?

STAPP: Cross selling is something we've only really focused on [since] the implementation of our CRM program in the last three years. So I would say our cross-selling ratios are not stellar as far as offering multiple services, but they are trending up. We do close to 100,000 pieces of direct mail annually. Sixty to seventy percent of all the advertising we do is direct mail to our existing customer base, promoting multiple products and services. The cross-sell ratio is moving in the right direction. When we started working with Harte-Hanks [three years ago], our cross-sell ratio was horrible — something like 40% of our customers were single serviced. Once we started seeing some of the results, we realized all the opportunities.

DIRECT: Are you segmenting your customers at different levels for different offers?

STAPP: Yes. For instance, in 2005 we're doing a complete single-service mail campaign. It's a coupon campaign, and probably the most sophisticated segmentation that I have seen us do. It takes all of our single-service customers and segments them by what [products] they currently have [with us]. It will also figure in some demographics such as age. We might take the under-40 age group that has single-service checking accounts with average balances of less than $5,000 and then determine what's the next most likely product for that group of customers, [like] a mortgage loan, savings account or a money market. It could be 15 different segments. Then we go to the CEO and say, 'Here are the segments, here are the products, give us special offers to do that.' We did [a similar] campaign in 2003 and in the first drop we increased total deposits by $2 million and total loans by $1 million. We track it by 30, 60 and 90 days. We've gone in and flagged those customers to see if [they received] a mailing, what mailing they got, [and if] they opened up an account.

It is recommended that ABC spend some R&D monies exploring mobile banking; that is, use of a cell phone to perform banking transactions:

From mediapost.com 3/27/08:

Buying and Banking On-The-Go **by Jack Loechner, Thursday, Mar 27, 2008 8:15 AM ET**

Buying and Banking On-The-Go

A new Harris Interactive study shows that one in four cellular phone users with mobile internet access now use their devices to buy goods and services online with a credit card, and nearly one in five saying they would like to someday use cell phones as a "mobile wallet," where charges would be billed directly to their mobile accounts. In addition, ten percent of the survey participants said they would consider wire transfers and stock trading via their mobile phones.

The study finds that mobile phone users are increasingly comfortable making banking and purchase transactions while on-the-go, a virtual taboo until now. 16 percent of mobile phone subscribers already use mobile banking services, with 60 percent of these people using the services at least once a week. Many others presently not banking and buying on-the-go expressed interest in mobile banking, with 35 percent open to checking bank account balances and transferring funds via their mobile devices. A third of those surveyed also said they would like to receive text message alerts from their financial institutions.

25% of Smartphone or iPhone users are more likely to "occasionally" use their device to make purchases, compared with 17% of mobile or cellular phone users. 77% of mobile users have "never" made a purchase with their device, compared with 65% of those with smartphones or iPhones.

Some 16% of mobile phone subscribers already use mobile banking services, and 60% of them use the services at least once a week, the study found. Consumers not currently banking or buying on-the-go expressed interest in having such applications on their mobile phones:

Interest in Banking, Commerce of Investment Apps for Mobile Device *(% of owner respondents)*	
Service Interest	***% of respondents***
Check bank account balance/transfer/funds	35%
Receive text message alerts	33
Mobile wallet	19
Shopping	16
Wire transfer	9
Stock trading	9
Other	3
None of the above	53
Source: Harris Interactive, March 2008	

Here is an excellent summary of how to launch a new b-to-b service when the supplier have a minimal promotional budget:

Marketing Sherpa, Jan. 3, 2008: How to Launch a Service with No Ad Budget; 5 Steps to Grow Leads with Email and Blogs

http://www.marketingsherpa.com/article.php?ident=30274

Summary: CEO of AskPatty.com wanted to launch a blog and web site that targets women who want car-buying and car-repairing advice. Decided to solicit dealers for “Certified Female Friendly Dealer” training and comprehensive emarketing.

1. Develop email content
2. send general interest email to prospect database
3. track responses that indicate interest
4. enter prospects into email nurturing campaign
5. phone consultation or web-demo follow-up

Result: 200 auto dealer clients within 1 year on $zero ad budget

Here are some excellent statistics to use when planning direct marketing campaigns:

Direct Magazine, January 2008: Channel Booster (Ken Magill):

Direct marketing returns per dollar of advertising in 2007:

Commercial email	48.56
Non-email internet	20.67
DR newspaper	16.99
Non-catalog direct mail	15.57

Miscellaneous Tactics:

- Hire a freelance writer/designer for 5 hours a week to create and write a monthly personal (or small business) finance newsletter. No more than 20% of this will be devoted to selling our products; the bulk will be used for bona fide articles on financial planning, debt management, and other finance issues. Newsletters will be given out free at community events and offices, and emailed to anyone requesting to be placed on the distribution list.

  Cost: Approx. $600 per month plus $.25 per hard printed copy

- Sponsorships. Events heavily oriented towards family entertainment, such as fireworks displays and county fairs, are not attractive because the presence of children does not allow adults to fully examine a semi-complicated service such as a HELOC. However, participation in these may be of value:

  Home shows

  Financial expos

  Auto and boat shows

  We also recommend trying some of the many small business oriented trade shows around the metro area. We recommend budgeting for one such show monthly, with an initial expenditure of $10,000 for the booth and $4,000 for various participation costs for each event.

8. Operations

Because of the potentially unique nature of the ABC venture, particularly compared to the historical premise of banking, we have chosen to address operational issues in two sections. This section will address basic issues typically related to brick-and-mortar facilities. The next, more important, section will address the numerous technology issues.

If it becomes a pure online entity, ABC will not have to face and address a number of issues that would be important if physical bank facilities were crucial. Issues that would be relatively moot include:

- plant and facilities (other than IT)
- manufacturing (not relevant in financial services)
- equipment and technology (other than IT)
- inventory (not relevant in financial services)
- supply & distribution
- quality control
- safety, health, environmental
- MIS (covered in IT Section)

There are also some operational areas that, while necessary, lends themselves nicely to being outsourced during the early growth years. This both keeps salary and facility costs down and gives ABC added flexibility to adjust resources as market needs dictate:

Auditing
Marketing
IT and back office processing
Loan review
Compliance
Customer service
Automated bill pay
Maintenance

Listing each of these areas may seem redundant, but we feel it serves to remind all involved that a purely online bank is a truly new method of doing business. While we can take advantage of synergies between online and offline methods of intermediating money, there are many fewer physical constraints to expanding online than there are to expanding offline.

In all candor, it is more important that the issues above be addressed and decided upon, than for ABC to devote internal resources to them. If all of the partners do not consistently deliver as promised, on a timely basis, error-free, and have excellent customer service personnel, more and more calls will start being directed to ABC with questions and complaints. Or, more dangerously, customers will begin to silently abandon using maypark.com. It will be difficult for ABC to be able to handle the volume of calls in smooth times; that inability is guaranteed if partner foul-ups contribute to the trend.

9. Technology Plan

ABC's challenge will be to deliver a professional, user-friendly operation and site while keeping development and maintenance costs reasonable. According to Web Site Management and Internet Advertising Trends , the average initial development cost for all e-commerce sites is now in excess of $1 million, with ongoing maintenance of at least half that level annually.

On the other hand, the front-end of a bank web site need not be anywhere nearly as complicated as that of a retailer such as amazon.com. In addition, there are a number of banks that have created credible and profitable sites by focusing on the basics, and employing coders and developers from local colleges. There is certainly sufficient talent in the NYC area to allow this approach to be successful, reasonably allowing the web expenses to be halved.
First and foremost, it is assumed that ABC will ensure that all affiliated partners have technology quality specifications at least as stringent as ABC's. Nothing would be more effective in destroying this concept that having a series of links or feeds that consistently didn't work.

Also, we are all agreed that branding is extremely important in development of ABC, and ensuring that it is extremely well received and profitable. Although arguably a concern that belongs in Marketing just as much as in Information technology, these are the main principles ABC must deliver in the site design and performance to ensure brand loyalty:

- Get them at the door (appealing visuals, clear directions, etc.)
- Don't clutter the aisles (ease of navigation)
- Offer assistance at every opportunity
- Keep the feel and language efficient, friendly, and courteous
- Develop a relationship that the customer will want to tell the world about (viral marketing/word of mouth)
- Don't overpromise
- Listen to visitor's comments (positive and negative), and follow through on them

We have set the following Information Technology goals for ABC:

1. Minimize IT expense while attaining ABC goals
2. Avoid letting the desire to be first taint the deployment of tested, consumer-ready solutions. Research has shown that there is far more business potential to being 2nd, but best, in the marketplace; as opposed to being first but untested and full of bugs.
3. Attempt to anticipate the needs of ABC's customer universes, as opposed to waiting for needs to surface before addressing solutions. The best means by which to ensure this is continual industry networking, as well as ongoing formal education at local institutions.

4. Achieve 99%+ uptime for ABC.com.
5. Develop at least 80% of the code for ABC in-house (including contractors).
6. Examine and recommend outsourcing IT solutions when the resources of our IT staff are insufficient to address all needs within the deployment schedule.

The following non-personnel expenditures are the minimum needed to allow us to deploy the ABC institution by 12/31/08:

- Install a burstible T-1, at a cost of $800/month
- Install a Compaq server and Cisco router. Given the rapid obsolescence in the industry, we recommend that the new equipment be leased at an estimated monthly cost of $1200.
- Contract with a hot site for backup. Even if regulations allowed, there is no reason to take the chance with on-site dual servers. If the building suffered a major disaster, both servers could be ruined and ABC could be out of business permanently. For a basic charge (essentially an insurance policy) of $500/month, arrangements can be made for a backup site within 50 miles that will be up and running with ABC.com software within 30 minutes of notification.
- We are assuming that overall equipment costs will increase 10% per calendar quarter, a function slightly of inflation but mainly of the need for extra capacity to handle increased clientele.

In addition, we assume that one additional CSR for each 10,000 new customers per shift will be needed, whether in-house or outsourced. Given that the week is 168 hours long, this effectively means that ABC needs one FTE CSR for each 2500 households added.

10. Management and Organization

With proper respect being given to the two current principals of ABC, the first order of business will be to start to identify and assemble the business team for the venture.

These positions will need to be filled immediately:

President & CEO – these should be the same person, at least during the developmental phase, to speed decision making
Board of Directors – suggest that it be at least ten members, and that at least half of them with future employment outside of the bank. Some directors may be selected on the basis of their promised investment in ABC; all should be selected based on their previous business acumen (not necessarily in banking) and current community connections
Initial Investors – a minimum of $6 million in initial capital will be needed to launch the bank under a national charter. It is suggested that the capital goal be $8-10 million to allow for initial developmental expenses and some losses during the first months of operation.
Legal Counsel – This individual or firm must be selected on the basis of previous experience navigating and negotiating with the regulatory powers for the selected government body. Banking laws are extensive and complicated, and much time and money will be wasted if counsel learns on the job.

ABC's management can expect the entire approval process to take at least six months, and probably closer to twelve months, before the doors can open.

To some extent, the additional management personnel that will need to be hired will depend on whether ABC is entirely online or develops both an online and brick-and-mortar presence. However, most of the impact of the latter will be felt in the areas of banking office managers, customer service reps, and tellers.

Obviously, key employees will need to be hired in various areas if ABC is to become a healthy corporate entity. The number of such employees, and their areas of expertise, will depend to some extent upon: the Board's desire to grow quickly rather than slowly (a question which has probably already been answered), the relative comfort with outsourcing some functions instead of hiring employees at the onset, and the need or desire to obtain mezzanine funding to accelerate growth.

As capital is sought, the writer's experience is that the glaring deficit in the business plan is lack of a broad, experienced management team. While it is necessary to have available managers for all traditional parts of the business, investors will also look for management talent and experience in managing internet-based enterprises, and for the experience of a leader who has taken previous companies from infancy to regional status in 3-5 years. Professional investors will want to know that their management has a good chance of growing the company to $400-500 million in assets within 3-5 years, and that there are viable exit opportunities (buyout by another company, initial public offering, management buyback of early equity) in the not-too-distant future.

Following are key functional areas that need to be addressed relatively quickly:

> **Sales Manager**. Someone will be needed to coordinate the sales efforts among the various channels and lines of business, as it is inefficient and often divisive to have separate champions for each. Balanced growth is only obtained by attracting customers with all channels and services. This position should also be heavily incented, but such incentives are usually in the form of cash and are a relatively direct function of sales or profits.
>
> **Chief Technology Officer**: Absolutely necessary from the onset to ensure that all internal systems are synchronized and coordinated, necessary databases and transactional software talk to each other, and all hardware and software are fully scalable in excess of projected demand.
>
> **Webmaster**: Primarily responsible for the look, feel, and operations of the web site. This is a good opportunity for some coding and design help from a competent freelancer.

Other functions which need to be staffed, but which are not as critical or which can be filled part-time or through outsourcing, include:

> **Sales Executives**: Paid strictly via commission.
>
> **Professionals**: Accounting and marketing services, outsourced on an as-needed hourly basis.
>
> Executive VP - Consumer (or small business) Banking
> Senior VP Administration
> Senior VP Operations
> Chief Financial Officer
> VP Human Resources
> Loan Review and Analysis Manager
> Sales directors (online, consumer, small business)
> Testing manager, testing & deployment
> Software engineer
> Testers
> Support engineers
> Technical writer
> Banking office administration (if physical branches)
> Systems administration
> Assistant controller

11. Regulatory Issues

The breadth and specifics of the regulations that ABC needs to follow are somewhat dependent upon the type of charter the Board decides to utilize.

For example, if it were a Federally-chartered bank, ABC would not need to be concerned with differing usury statutes, branching restrictions, line of business constraints, and other factors that might arise for a state-chartered institution.

From an internet point of view, the relatively few court decisions that are pertinent hold that dealing with a company online is tantamount to dealing with them at their headquarters (physical or cyberspace) unless that company has a physical presence in a given state. Simply states, although a person in Alaska can deal with ABC over the internet, the fact that ABC Online has no physical presence in Alaska means that the applicable financial laws are those in practice in New Jersey, New York, or wherever ABC winds up being chartered.

Very bluntly, there is no feasible alternative for ABC but to contract with experienced legal counsel, from Day 1, to assist in developing all of the pertinent policies and guidelines required of any financial institution. It is beyond the purpose of this document to detail all of the regulations and current applications and interpretations. However, here are some of the main ones applicable to financial institutions:

1. Reg E – governing processing and liability for credit (and most debit) card transactions
2. Reg Z – Truth in Lending, laying out in minute detail how disclosures, rules, and the like on loans must be made
3. RESPA – Governing real estate transactions and disclosures
4. CRA – Community Reinvestment Act – enacted to ensure that banks are meeting the credit needs of their communities on a fair and proactive basis
5. BSA – Bank Secrecy Act – governing when "suspicious" transactions and customers need to be reported to security agencies, risk judgment, training of employees to be alert, etc. Includes SAR (Special Action Report) filings, such as for large cash transactions and the like.
6. Patriot Act – ensuring the identity and "appropriate business" of customers through photo IDs, including the *matricula consula* issued by Mexican Consulates and accepted as IDs by over 200 banks.
7. Foreign Corrupt Practices Act
8. Reg Q – governing interest rates, terms and consitions on deposit accounts, and the like
9. Reg DD – governing reserve requirements on various types of deposit accounts
10. Privacy, especially for online transactions

Of course, the rules and interpretations are always changing, as exemplified by these recent headlines:

HUD's new disclosure rules for real estate closings get OK reviews.

Rules include disclosure of payments to mortgage brokers

New York Times March 29, 2008

Treasury Plan Would Give Fed Wide New Powers

No need to quote from this article. Salient point is that, under Treasury Secretary Paulson's proposals, governance of many financial entities may be combined under Fed. A likely outcome is to commonalize the rules & regs for banks, credit unions, savings banks, and S&Ls under one federal regulator.

In addition to these specific regulations, ABC will need to develop and approve extensive policies in such major areas as:

- Employment applications, practices, terminations, hirings, compensation, etc.
- Training, procedures, and penalties in public policy areas such as harassment, discrimination, and workplace safety.
- Loan Review
- Audit
- Lending procedures
- Fees and penalties
- Trademarks, sales marks, and logo usage

This list is only scratching the surface, which is why it is so critical to secure an attorney, and an operations leader, with extensive banking experience.

As a general practice, it is also recommended that a designated individual stay in constant contact with:

Federal Reserve Bank of New York

New York and New Jersey Depts. Of Financial Institutions

http://www.bankersonline.com

American Banking Association

New York (and New Jersey) Banking Association

12. **Development, Milestones, and Exit Plans**

At this point, the stated goal of ABC's management is to build the bank to an asset size of $250 – 500 million within five years, and then sell ABC to a larger bank. The management may also commence serial or concurrent launches of other banks, but that thought is a bit too speculative to review at this point.

There are legitimate disagreements on whether it is more important to grow quickly, or grow profitably, when the end goal is a sale at a specific future point. Admittedly, much depends on financial theories that will be in vogue, or the rationality level (or lack thereof) of the investment market. The writer is not in a position to guess at this. However, from both marketing and banking experience, there is much evidence to suggest that a company's brand is notoriously difficult to change, and can only come after major expenditures and a substantial churn in the customer base.

That being said, it is recommended that ABC concentrate upon profitable growth, even at the expense of rate of growth. If customers are attracted to ABC only because it is the cheapest lender or most generous deposit gatherer on the block, these are the same customers who will abandon ABC immediately when future management decides to focus on profit. Knowing this, a future purchaser of ABC would not be willing to pay top dollar for ABC.

Based on that, the growth strategy is relatively simple, combining the following initial components:

- Constrain costs by:
  a. outsourcing as many back-office functions as possible
  b. obtaining professional assistance on an hourly or retainer basis, rather than employment
  c. source assets through established public outlets, such as mortgage brokers, auto dealers, and home improvement companies .
- Select a niche to service, rather than building redundant systems so that ABC can be all things to all customers.

Those achievements which should be considered milestones by Maypark, along with suggested dates, are:

- Secure capital investment commitments by 9/1/08
- Open doors by 4/1/09
- Earning a first quarterly profit by 4Q09
- Achieve $100 million in assets by 12/31/10
- Achieve annualized 1.25% ROA by 12/31/11
- Sell by 12/31/14

The major risks to this approach are:

1. Without proper planning, attention, and contingency setups, there is a chance that business could grow too rapidly to be handled professionally. While above-plan growth is usually something to be envied, ABC should not want online customers to be faced with slow downloads, database errors, error messages, or any other service problems.

2. It is getting harder and harder to find qualified IT personnel at a cost that companies consider to be reasonable. Every online company is in competition for a limited number of internet experts. The site cannot exist and thrive without ongoing talent. In that sense, it may be a major advantage for ABC to be located so closely to the NYC market and its thousands of capable professionals, many of whom may be looking for work in the near future as legacy banks implode.

3. A large competitor may decide to buy the market at any cost. We do not think this risks the destruction of ABC. However, ABC's resources cannot compete with those of a Citi or JPMorganChase. A major market battle would make it unlikely that the growth targets could be met.

ABCBank Financials

It is recommended that ABCBank form a holding company, which is actually just a shell corporation which would wholly-own the Bank and any other pertinent entities (perhaps the mortgage broker, a title agency, and insurance company, etc.). Many backoffice functions would be needed, to varying extents, by each of the envisioned entities. However, since the bank will be the largest user of said functions, this analysis treats all such expenses as being borne 100% by the bank.

The accompanying Excel spreadsheet is designed to allow us to quickly project the Income Statement and Balance Sheet for ABCBank. It attempts to reflect those factors that are directly related to, and are the direct results of, promotional efforts.

As a reference point NetBank, a former internet-only bank based in Atlanta, reported in the July 24, 2000 issue of DM News that their acquisition costs had declined to some $160 per customer that spring, from an average of $200 late in 1999. Admittedly, those figures were a necessary to buy-into the financial market with the now-discredited concept of a pure cyberbank. While more recent estimates have brought that figure down into an estimated $85 – 100 range for blended retail banks, we must stress up front that customer acquisition is not a cheap process. Experience also shows that customer retention is more important to long term profitability than bringing prospects through the front door.

Three tables on the spreadsheet concentrate the input:

> **The Input Table for Interest Rates.** Rates are plugged into the Value Used column, based upon current interest rates for the intended market (metro New York City, May, 2008). If rates are dramatically different in a later time period, expansion into a geographically different market is examined, put those rates in the appropriate row. The spreadsheets will automatically recalculate.
>
> **The Input Table for Fees.** Fees are plugged into the Value Used column, based upon current fees in the market (per above). If fees are dramatically different in a later time period, expansion into a geographically different market is examined, put those rates in the appropriate row. The spreadsheets will automatically recalculate.
>
> **The Input Table for Advertising and Promotion.** The input here will consist of whole dollar amounts planned to be spent on the various promotional means, by quarter. The accounts and balances garnered are a direct function of the promotional amounts spent, as detailed in this outline and the Marketing Plan section. Changes in any component cause the spreadsheet to automatically recalculate.
>
> The traditional rule of thumb in banking, for whatever that may be worth, is that a bank spends 1/10 of 1% of projected assets on advertising and promotion. In

ABC's case, that would indicate promotional expenditures approaching $500,000 annually by year 5. However, that figure will vary tremendously by the mix of pricing vs. other persuaders (price incentives do not get charged to marketing), the stage of the Product Life Cycle that the service or institution is in, the degree of market competitiveness, and many other factors.

Based on historical data, the formulae assume the average household relationship last for 7 years with a given bank.

Interest Rates:

Liabilities: **NOW** accts.: Rates per 5/9/08 survey of metropolitan New York City banks' NOW accounts by Bank Rate Monitor. Average rate 0.32%; est.average balance $7,500.

Savings accts.: Rates per 5/9/08 survey of metropolitan New York City banks' savings accounts by Bank Rate Monitor. Average rate 2.54%; est. average balance $5,000.

6-mo. CDs.: Rates per 5/9/08 survey of metropolitan New York City banks' 6-month CD accounts by Bank Rate Monitor. Average rate 2.76%; est. average balance $7,500.

1-year CDs.: Rates per 5/9/08 survey of metropolitan New York City banks' 1-year CD accounts by Bank Rate Monitor. Average rate 3.03%; est. average balance $10,000.

5**-year CDs**.: Rates per 5/9/08 survey of metropolitan New York City banks' 5-year CD accounts by Bank Rate Monitor. Average rate 3.56%; est. average balance $5,000.

Fed Funds: Overnight rate, 5/8/08, per Financial Times, 2.000%.

Assets: **Overdraft Lines**.: Rates per 5/8/08 survey of metropolitan New York City banks' OD lines by Bank Rate Monitor. Average rate 15.00%; average annual fee $35. Est. average balance $250

Credit Cards.: Rates per 5/8/08 survey of metropolitan New York City banks' credit card accounts by Bank Rate Monitor. Average rate 13.42%; $0 annual fee, average balance $2,200, 1/3 of customers carry balances.

Home Equity Lines.: Rates per 5/9/08 survey of metropolitan New York City banks' HELOC accounts by Bank Rate Monitor. Average rate 4.16%; est. average balance $12,000.

Auto (Installment): Rates per 5/89/08 survey of metropolitan New York City banks' auto accounts by Bank Rate Monitor. Spreadsheet assumes 50:50 split between new and used auto loans. Rates averaged 6.57% on new autos and 7.17% on used. Est. average amounts financed of $22,000 on new autos and $15,000 on used. Average balance 80% of original amount financed.

Other Consumer Installment.: Rates per 5/9/08 survey of metropolitan New York City banks' non-auto consumer loans by Bank Rate Monitor. Average rate 7.50%. Average balance 80% of original amount financed.

Mortgages: Rates per 5/8/08 survey of metropolitan New York City banks' mortgage offers by Bank Rate Monitor. Assumes a 1:1:1 ratio of 30-year fixed to 15-year fixed to 3-year ARMs. Average rate 5.76% + .48 points on 30-year; 5.28% + .5 points on 15-year; and 5.09% + .59 points on ARMs. Est. avg. original balance $250,000.

Business Lines of Credit: Rates per April 2008 metropolitan U.S. banks' commercial LOCs by Bank Rate Monitor. Average rate prime + 1.27%., floating. Est. average line $75,000; avg. outstanding $35,000.

Business Installment Loans: Rates per April 2008 survey of metropolitan U.S. banks' small business installment loans by Bank Rate Monitor. Average rate prime + 2.40%., fixed. Avg. original balance $75,000; avg. current outstanding 80% thereof.

Prime Rate: Per Federal Reserve Bank of New York, 5.00% on 5/18/08.

Charge Offs Offset against interest income; net losses.

Calculated (with a focus on historical averages, not recent levels) as 0.23% of residential real estate, 4.63% of credit cards, 1.02% of other consumer, and 0.57% of commercial loans. Non-extraordinary charge off rates per Federal Financial Institutions Examination Council for 4th quarter of 2007.

It is assumed that, in order to gain market share as a new market entrant, ABCBank will need to entice new customers with premium rates on liabilities (35 basis points above current norms) and assets (25 basis points below current norms on non-mortgage assets).

Non-Interest Income: The following fees are per the Fall 2007 Bankrate.com Checking Account Pricing Study:

Account Maintenance:	Consumer DDA	2.26/month
	NOW accounts	11.72/month
	Business DDA	15.00/month
	Home Equity LOC	50.00/year
	Online Banking	no charge
	Cash Management	150.00/month and up
Penalty Fees:	OD/NSF	29.00 per item
	Late Payment	35.00 vs. 5%
	ATM	1.78 per usage
Loan Application:	Consumer	50.00
	Business	75.00
Business LOC Annual Fee:		1% of line

Account maintenance fees will be waived on all new accounts for the first three statement cycles after that account is opened.

Non-Interest Expense

Salaries & Benefits

Benefits calculated at 25% of salaries

Salaries:

President & CEO	150,000
VP Technology	95,000
Testing Manager	65,000
Development Manager	80,000
Software Engineer	70,000
Testers	45,000
Support Engineers	42,000
Technical Writer	35,000
Operations VP	105,000
Backoffice Processors	27,500

CSRs	21,000
Credit VP	95,000
Credit Analysts	70,000
Loan Dept. Manager	85,000
Loan Processors	42,000
Asset/Liability Manager	85,000
Analysts	55,000
Funds Desk	75,000
Accounting Manager	75,000
Accountant	65,000
Bookkeepers	45,000

It is assumed that salaries will increase 4.0% annually, and that there will be an initial expense of 15% of aggregate salaries in the first quarter of operation for visa sponsorship, relocation, hiring bonus, and other miscellaneous one-time expenses. In addition, a bonus pool has been established, accrued at the rate of 10% of salaries, to be used at Management discretion to reward employees with bonuses, stock options, and the like.

Contract employees:

Web site manager	75.00/hour
Web site designer	65.00/hour
Marketing manager	75.00/hour
Marketing coordinator	35.00/hour
Legal counsel	350.00/hour
Auditor	150.00/hour

Other Expense per 2 New FTEs (assuming employees on 2 separate shifts can hotel a work area):

Computer equipment	1,100	1st month
Telephone	150	1st month
	75	Monthly
Long Distance	40	Monthly
Office space	150	monthly
Utilities & janitorial	60	monthly

Other Expense: A catch-all bucket for unanticipated expenses, new promotional or expansion opportunities, and the like. Calculated at 5% of total income.

Outsourcing fees: Assumes many back-office functions such as physical check processing, online bill payment, and the like will be outsourced to or contracted from current providers. It is assumed that online bill payment will be tried by 80% of all new accountholders and kept permanently by 75% of them (60%) of new) at an out-of-pocket cost to ABCBank of $4.50 per household-user per month.

Board retainers are estimated at a $6,000 annual stipend, plus $1,500 for each quarterly board meeting attended. These monies will be paid only to external members, which shall be seven of the ten board members.

Advertising and Promotion:

Amounts on spreadsheets in dollars for the quarters designated. Factors as indicated in Section 7 of the detailed Plan.

Newspaper:
Radio:
Local TV:
Direct Mail:
Billboards:
Event Sponsorships:
Giveaways: Average $5.00 per giveaway.
Success rate 24% for credit card approval, 15% of those will activate and average $600 in balances.
Per author's personal experiences.
Online banners & buttons:
Opt-in email:
Search engine optimization:
Webinars and video streaming:
Key word purchase:
Public relations:
Seminars: