

Charting A New Course



+ TRENDS IMPACTING MUNICIPAL BANKING

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Paradigm Shift

- 2008 overturned 4000+ years of banking history

- Now banks look upon some type of deposits as less desirable
 - Being felt by all types of entities, especially those with added expense related to insuring safety of deposits

Three Trends

in municipal banking



Regulations



Technology



Interest Rate

Trends Impacting Banks

Regulations

- BASEL III
- Dodd-Frank
 - Durbin Amendment

Technology

- Internal
- Introduction of non-traditional financial service providers

Interest Rates

- Continued historical predictions linger



Banking 101

How banks make money

- Fees
- Net Interest Spread on loans

Bank Capital

- $\text{Assets} - \text{Liabilities} = \text{Bank Capital}$
- Bank capital comes from investors or retained earnings (profit) from prior year

Bank Liabilities & Leverage

+ How banks make money - using its Liabilities

- Deposits - banks are caretakers - money belongs to other people

- has expenses associated with accepting deposits

- If they can't do anything with it, then not very appealing

+ Borrow - money still belongs to other people

- required to pay back with interest

Purpose of Bank Capital

- + Banks make loans using Other People's Money (OPM)
 - o If those loans are not paid back, then they need the ability to absorb the loss without going out of business
 - o Bank Capital provides that cushion
- + Challenge - you maximize the return on capital (money paid out to investors) by using OPM to make money.
 - o When ability to use OPM is diminished, so is your ability to increase your return



Dodd-Frank

- Increase Capital Ratios
- Liquidity Ratios
- Both limit the ability to use deposits and/or borrowed funds to make loans

REGULATIONS



BASEL III

- Return on capital is reduced
- Need to satisfy investors (as they help keep you solvent)
- Banks start determining what type of deposits are valuable - what needs to go somewhere else

REGULATIONS

What have you seen over the past year?

Letters?



Calls?



Special Requests?



Technology

People Behaving Differently

- + How has your banking activity changed (personally)?
 - How many checks do you write?
 - How much do you do on “smart” device?

- + How are regulations impacting this arena?
 - Pressure to decrease checks floating through the system
 - Pressure to reduce the acceptance of cash
 - Anti-Money Laundering regulations

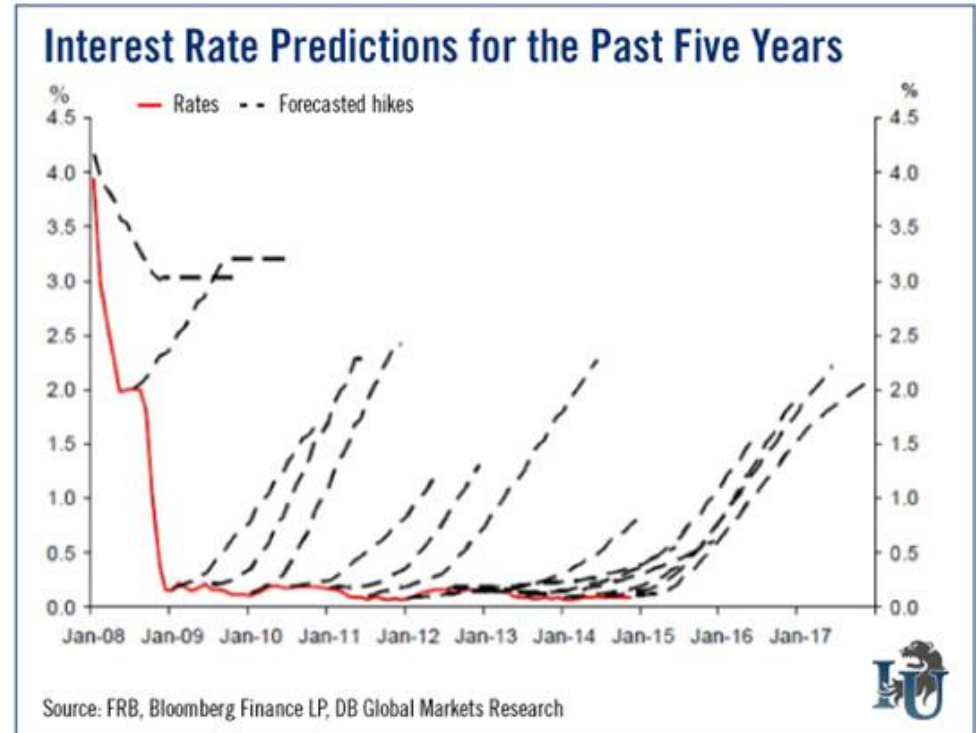
Technology

Who Could be Your Provider

- Non-financial Companies entering the arena
 - Investment in FinTech skyrocketing
 - Banks investing in, buying up, but not doing a lot of their own “innovation”
- What is needed?
 - How to make payments to vendors electronically
 - How to make payments to people electronically

Interest Rates

When will rates rise?



No need to wait for rates!

- Banks have less desire for certain deposits
- Comptroller approves safe investment vehicles
 - Challenge - as each year passes, fewer people have used them
 - No comfort
- Solution
 - Bank Deposit Investment Account (BDIA)

Questions?

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