

UTAH Focus

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Banking & Finance

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A discussion about bank capital, capital ratios and concentrations

Banking 101

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$\begin{aligned} \text{Assets} &= \text{Loans} \\ \text{Liabilities} &= \text{Deposits} \\ \text{Equity} &= \text{Capital} \end{aligned}$$

$$\text{Loans} = \text{Deposits} + \text{Capital}$$

Banking 101

Assuming 10% Capital Ratio

$$\begin{aligned} \$1 \text{ million} &- \text{Capital} \\ \$9 \text{ million} &- \text{Deposits} + \\ \hline \$10 \text{ million} &- \text{Loans} \end{aligned}$$

$$\text{LEVERAGE} = 10 \times \text{Capital}$$

Banking 101

Assuming 10% Capital Ratio
Bank loses \$100,000

$$\begin{aligned} \$0.9 \text{ million} &- \text{Capital} \\ \$8.1 \text{ million} &- \text{Deposits} + \\ \hline \$9 \text{ million} &- \text{Loans} \end{aligned}$$

(reduction in loans = 10 X loan loss!)

Banking 101

Assuming 12% Capital Ratio
Bank loses \$100,000

$$\begin{aligned} \$0.9 \text{ million} &- \text{Capital} \\ \$6.6 \text{ million} &- \text{Deposits} + \\ \hline \$7.5 \text{ million} &- \text{Loans} \end{aligned}$$

(reduction in loans = 25 X loan loss!)

By Howard Headlee

President, Utah Bankers Association

Unfortunately, most of what you hear in the media about banks is predominantly inaccurate. In fact, usually when someone on TV refers to a bank, they are not even talking about a real, FDIC-insured bank. In order to help consumers understand what they are hearing in the news and experiencing in the real world when it comes to borrowing money, it is important to understand how a bank works.

A bank's balance sheet looks like any other business' balance sheet. A bank's assets must equal its liabilities plus its owners equity. In general a bank's assets are the loans it makes (money borrowers owe the bank), its liabilities are the deposits it takes (money the bank owes its depositors) and the owners equity is the bank's capital. Therefore, in a bank its loans equal its deposits plus its capital.

Banks have to maintain a certain level of capital for every loan they make. Therefore, the ratio of capital to loans limits the overall size of every bank. On average, banks have capital ratios of around 10 percent. This means that the total loans they can make are about equal to 10 times the amount of capital they have.

For example, if a bank has \$1 million in capital, it would need to collect \$9 million in deposits and make \$10 million in loans to properly leverage its balance sheet. If the bank makes good loans and those are repaid with interest, the bank earns a profit.

As a bank earns a profit, its capital grows. For every dollar in profit a bank makes, it can make an additional \$10 in loans. So when it is reported that banks are making record profits, this is good news for everyone in the community. It means that businesses will be able to grow and create more stable, higher-paying jobs.

However, when banks lose money on loans, those losses come directly out of the bank's capital. For every dollar a bank loses it can make \$10 less in loans. So in the previous example, if the bank loses \$100,000, ideally it would lower its deposits by \$900,000 and reduce its outstanding loans by \$1 million, thus maintaining a 10 percent capital-to-asset ratio. The reduction in loans is 10 times the original loan loss. This process is referred to as "de-leveraging" the balance sheet.

During a serious economic downturn, if loan losses become significant, bank

regulators will often require banks to carry higher capital ratios. This results in further "de-leveraging" of a bank's balance sheet. In the example above, if the bank which had lost \$100,000 were also required to increase its capital ratio to 12 percent, it would have to reduce its outstanding loans another \$1.5 million to \$7.5 million, resulting in a total reduction in loans equal to 25 times the original loan loss.

Another factor bank regulators will take into consideration is the concentration level of certain types of loans as a percentage of a bank's capital. For example, commercial real estate (CRE) loans can be more volatile than other types of loans, especially during a significant real estate correction. Regulators watch the ratio or "concentration" of CRE loans as a percentage of capital. Specifically, in Utah regulators have been very concerned about the concentrations of a particular type of CRE loan — construction and land development loans (C&LD).

Historically, Utah banks have used their capital to make a much higher percentage of C&LD loans than banks throughout the country. Over the past 15 years, Utah's banks have had much higher concentrations of C&LD loans than the other banks in the West and the rest of the country. Bank regulators have been putting extreme pressure on Utah banks to bring these concentrations down. This has been very painful for banks as well as their real estate borrowers.

With this understanding, it is easy to see why it is so important to our local communities and economy that banks are able to return to profitability and begin to restore depleted capital. Banks are watching for quality loan demand to begin to grow because ultimately, if banks aren't lending, they can't generate earnings and build capital. Unfortunately, despite record low interest rates, qualified borrowers appear to be hesitant to borrow due to economic uncertainties. At the same time, the enormous amount of new regulation recently adopted by Congress has led to significant increases in bank compliance costs, further undermining bank profitability. This will only serve to further delay a recovery.

With this understanding, it is easy to understand one of the biggest myths in the mainstream media — the so-called "Bank Bailout." Anyone who uses the word "bank" and the word "bailout" in the same sentence is either misinformed or attempt-

ing to deceive; either way they probably are not a reliable source of information.

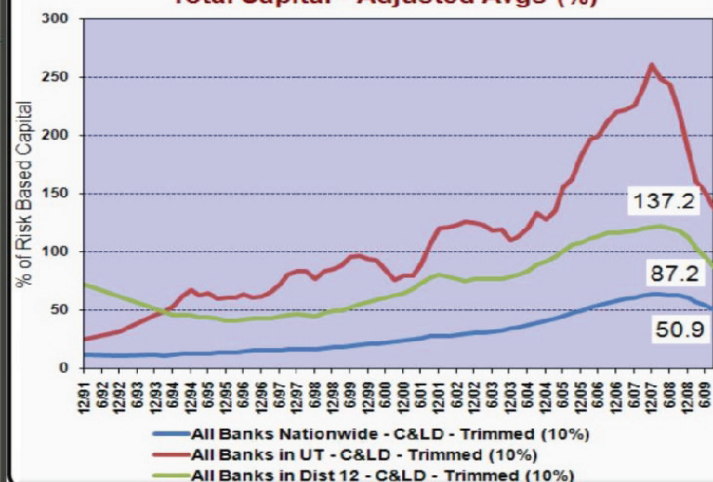
Legally, the only institution that is allowed to use the word "bank" in its name are those institutions insured by the Federal Deposit Insurance Corporation (FDIC). AIG, Bear Stearns, Merrill Lynch, Lehman Brothers (and of course Chrysler and GM) are not banks. Assuming the word "bailout" refers to the injection of capital into an institution in order to prevent its failure, not a single FDIC-insured bank received TARP money in order to prevent a failure. In fact, only healthy banks were allowed to apply for TARP funds and only healthy banks received TARP funds.

This banking initiative was called the Capital Purchase Program (CPP) and was entirely separate from other TARP disbursements (bailouts). The program was designed to offset the negative effects of the massive de-leveraging that was naturally occurring in the banking industry due to loan losses. In some cases the CPP injections allowed banks to hold lending levels constant, in some cases overall lending by individual banks even rose slightly. Criticism that banks took TARP money but did not increase lending was made by individuals who didn't understand the corresponding de-leveraging that was taking place.

The distribution of TARP funds to some non-bank institutions clearly represented a bailout. However, when the public stigma of these bailouts was projected onto the banking industry and the CPP program, most banks refused to accept CPP capital injections, preferring to let the market run its course by de-leverage their balance sheets. This has and will continue to result in an overall reduction of credit in the marketplace. Combined with the destruction of the secondary credit markets, this de-leveraging will no doubt result in a much more gradual economic recovery.

Howard Headlee became president of the Utah Bankers Association in April 1997. Previously, he served six years as vice president of the Utah Taxpayers Association, where he was responsible for the association's legislative activities, analysis of state tax policy and association marketing and strategic planning. Headlee received his B.S. from the Brigham Young University School of Accountancy and earned a Master of Business Administration from the University of Utah.

Construction & Land Development Loans / Total Capital - Adjusted Avgs (%)



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Top Credit Unions in Utah Ranked by total assets as of 12/31/2010

Credit Union name	Phone Web	Total assets as of 12/31/2010	Out of state assets as of 12/31/2010	# of UT branches	# of full time employees	Type of charter Top local executive
		Total deposits as of 12/31/2010	Out of state deposits as of 12/31/2010	# of members	# of part time employees	
America First Credit Union 1344 W. 4675 S. Riverdale, UT 84405	801-627-0900 americafirst.com	\$4.9 billion	N/A	94	1,148	Federal
		\$4.4 billion	N/A	548,808	769	Rick Craig
Mountain America Federal Credit Union 7181 S. Campus View Dr. West Jordan, UT 84084	801-325-6228 macu.com	\$2.7 billion	\$397.1 million	55	796	Federal
		\$2.5 billion	\$138.8 million	348,668	225	Sterling Nielsen
Goldenwest Credit Union 5025 S. Adams Ave. Ogden, UT 84403	801-624-4550 gwcuc.org	\$765.5 million	0	18	225	Federal
		\$677.2 million	0	82,000	44	Shelley B. Clarke
Utah Community Fed. Credit Union 188 W. Riverpark Dr. Provo, UT 84604	801-223-8188 uccu.com	\$727.53 million	N/A	19	265	Federal
		\$647.30 million	N/A	107,486	41	Jeff Sermon
Cyprus Credit Union 3876 Center View Way West Jordan, UT 84084	801-260-7600 cypruscu.com	\$553.5 million	N/A	16	165	Federal
		\$553.5 million	N/A	71,109	79	Todd Adamson
University Credit Union 3450 S. Highland Dr. Salt Lake City, UT 84106	801-481-8800 ucreditu.com	\$550.3 million	N/A	15	142	Federal
		\$502.4 million	N/A	78,526	49	Jack Buttars
Deseret First Credit Union 2480 S. 3850 W. Salt Lake City, UT 84120	801-456-7000 dfcu.com	\$418.7 million	N/A	11	100	Federal
		\$396.6 million	N/A	53,000	60	Clint Gurney
Granite Federal Credit Union 3675 S. 900 E. Salt Lake City, UT	801-288-3000 granite.org	\$321.9 million	N/A	8	86	Federal
		\$276.9 million	N/A	29,698	10	Lynn Kuehne
Utah First Federal Credit Union 200 E. South Temple Salt Lake City, UT	801-320-2600 utahfirst.com	\$240.4 million	N/A	8	66	Community
		DND	N/A	66		Darin B. Moody
Utah Central Credit Union 25 E. 1700 S. Salt Lake City, UT 84115	801-487-8841 utahcentral.com	\$158.3 million	N/A	7	51	State
		DND	N/A	22,258	6	Brett Blackburn
Alliance Credit Union 2780 Adams Ave. Ogden, UT 84403	801-627-8700 alliancecu.org	\$92.5 million	DND	3	34	Federal
		DND	DND	13,540	11	C. Blake Burrell
Weber State Credit Union 4140 Harrison Blvd. Ogden, UT 84403	801-399-9728 weberstatecu.com	\$85.07 million	0	5	27	Federal
		\$76.97 million	0	9,270	12	Vickie van der Have

DND= Did Not Disclose N/A= Not Available

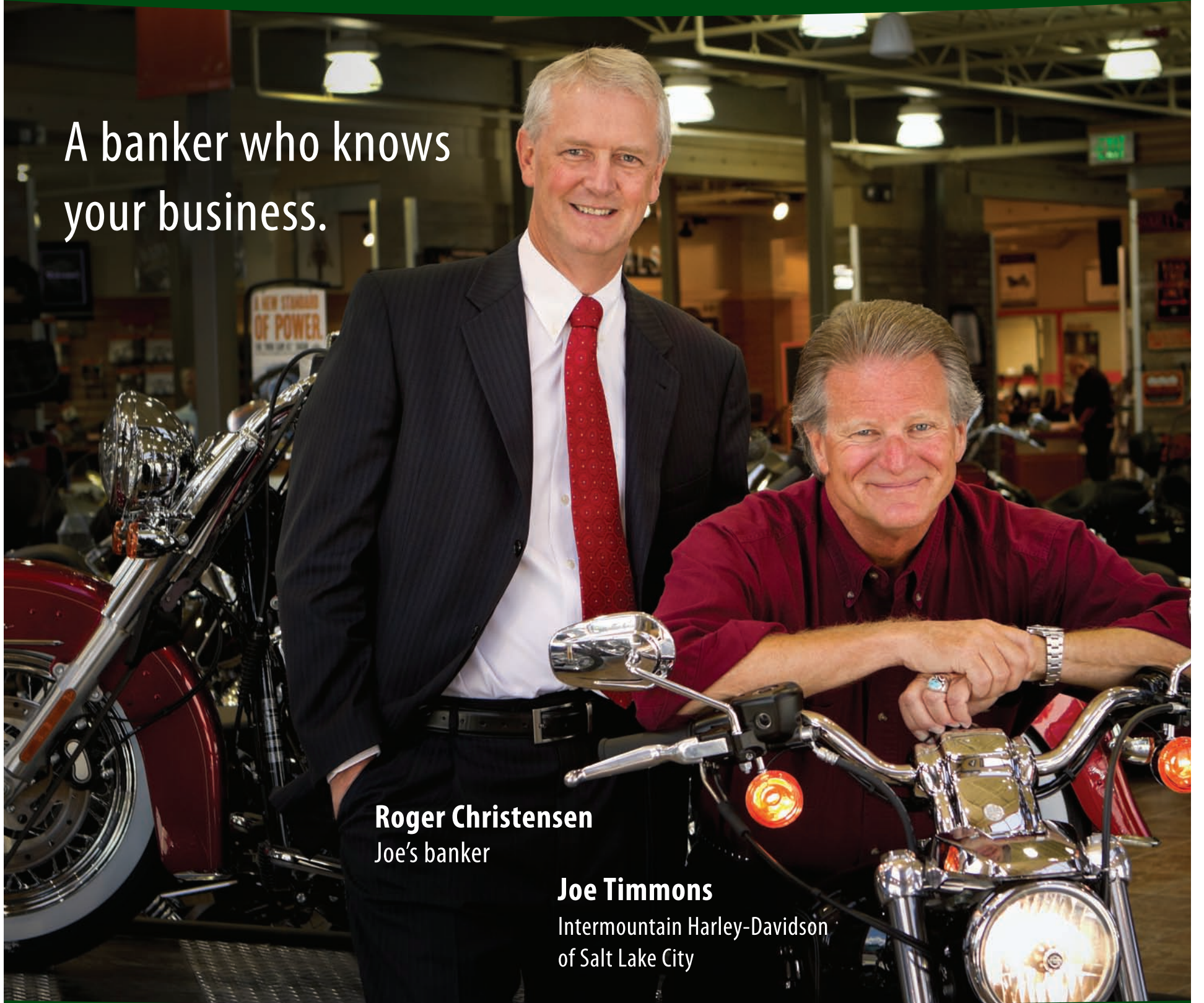
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Top Banks in Utah

Ranked by UT assets as of 12/31/2010

Bank name	Phone Web	UT assets as of 12/31/2010 UT deposits as of 12/31/2010	Out of state assets as of 12/31/2010 Out of state deposits as of 12/31/2010	# of UT branches # employees	Year established Type of charter	Local executive
Zions First National Bank One S. Main St. Salt Lake City, UT 84133	801-974-8800 zionsbank.com	\$14.9 billion \$9.6 billion	\$1.2 billion \$4 billion	106 2,323	1873 National	A. Scott Anderson
US Bank 170 S. Main St. Salt Lake City, UT 84101	801-534-6256 usbank.com	\$1.2 billion \$1 billion	\$307 billion \$204 billion	71 550	1863 National	Damon G. Miller
Bank of American Fork 33 E. Main St. American Fork, UT 84003	801-756-7681 bankaf.com	\$842.8 million \$740.4 million	0 0	12 278	1912 State	Richard T. Beard
Bank of Utah 2605 Washington Blvd. Ogden, UT 84401	801-409-5000 bankofutah.com	\$746.8 million \$596.8 million	N/A N/A	13 283	1952 State	Doug DeFries
Central Bank 75 N. University Ave. Provo, UT	801-375-1000 cbutah.com	\$642.5 million \$486.9 million	N/A N/A	10 153	1891 State	Matt C. Packard
First Utah Bank 3826 S. 2300 E. Salt Lake City, UT 84109	801-272-9458 firstutahbank.com	\$306.3 million \$184.2 million	0 \$81.6 million	8 115	1978 State	David L. Brown
First National Bank of Layton P.O. Box 248 Layton, UT 84041	801-544-4241 fnbutah.com	\$256 million \$217.1 million	0 0	7 140	1905 National	K. John Jones
Brighton Bank 7101 S. Highland Dr. Salt Lake City, UT 84121	801-467-3009 brightonbank.com	\$142.9 million \$114.7 million	N/A N/A	5 55	1979 State	Shanna Spredon
Celtic Bank 340 E. 400 S. Salt Lake City, UT 84111	801-363-6500 celticbank.com	\$114.9 million \$15.8 million	\$105.9 million \$169.5 million	1 41	2001 Industrial	Reese Howell Jr.
Prime Alliance Bank 1868 S. 500 W. Woods Cross, UT 84087	801-296-2200 primealliancebank.com	\$107 million \$44.5 million	\$34.5 million \$47.25 million	1 20	2004 State	Jason F. Price
Am Bank 3670 N. University Ave. Provo, UT 84604	801-377-4222 ambank.com	\$53 million \$40 million	N/A \$5 million	3 24	1996 State	Leonel E. Castillo
Bonneville Bank 1675 N. Freedom Blvd. Provo, UT 84604	801-374-9500	\$36.5 million \$28.7 million	N/A N/A	1 9	1978 State	J. Douglas Christensen
Key Bank 36 S. State St. Salt Lake City, UT 84111	801-297-5900 key.com	DND DND	\$92 billion \$60.6 billion	40 349	1825 National	Jill Taylor
Wells Fargo 299 S. Main St. Salt Lake City, UT 84111	801-246-5328 wellsfargo.com	DND DND	\$1.3 trillion \$798 billion	130 4,000	1852 National	Greg Winegardner
Far West Bank/ American West Bank 10757 S. Riverfront Pkwy South Jordan, UT 84095	801-208-4075 farwestbank.com	DND DND	\$1.2 billion \$1 billion	18 185	1974 State	John Dean

DND= Did Not Disclose N/A= Not Available

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Banks, retailers have opposing views about impact of upcoming caps on debit card swipe fees

By Andrew Haley

The Enterprise

With 21-cent price caps to debit card swipe fees set to take effect Oct. 1, banks are fuming at what some see as a multibillion dollar giveaway to the retail sector. The caps are mandated by the Durbin Amendment, a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law by President Obama July 21, 2010. The amendment limits the so-called interchange fee a bank can charge a retailer for a customer swiping his or her debit card.

Banks and retailers have been battling over interchange fees for decades, with retail groups and merchant associations calling them excessive and banks maintaining the fees cover the costs of fraud protection, subsidize free checking accounts and other perks, and pay for the overhead necessary to set up and run sophisticated electronic payment systems. Currently, consumer groups estimate the average debit card interchange fee to be 44 cents per swipe. The Durbin Amendment originally imposed a 12-cent price cap on the charges, but the Federal Reserve, which implements the provision, relented under enormous lobbying pressure and upped the fee cap to 21 cents.

Language in Durbin limits the imposition of the 21-cent interchange cap to banks with assets more than \$10 billion. The \$10 billion cutoff was inserted into the amendment due to concerns that revenue



A 21-cent price cap on debit card swipe fees will go into effect on Oct. 1.

cuts might cause smaller community banks to fail. That cutoff spares most Utah banks, but not Zions Bank, the state's largest, with over \$16 billion in assets.

Advocates for the banking sector say

the \$10 billion cutoff is doomed to fail as smaller banks, with higher interchange fees, will be at a competitive disadvantage and will be forced by market pressure to voluntarily lower their interchange fees to match those of the super banks. With

lower interchange fees, community banks, regional banks and credit unions, as well as the colossal national banks with well over \$10 billion in assets, will face a

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Know the consequences of a commercial loan workout

Recently, many who have successfully negotiated a reduction of their loan obligations have been caught by surprise when they receive a 1099 from their lender showing ordinary income equal to the debt reduction. This is generally known as cancellation of indebtedness (“COD”) income and is explicitly identified in the definition of “gross income” in Section 61(a)(12) of the Internal Revenue Code. Borrowers need to understand the tax consequences of each of the proposed options as part of the decision-making process to avoid tax consequences that may be just as bad as a default.



Kyle Jones

the scope of this article, an overview of some of the key concepts and provisions may prove helpful. Borrowing money from a lender does not result in taxable income because the receipt of the money is offset by the obligation to repay the loan. However, if the repayment is for less than the amount owing, the borrower obtains an economic benefit reflected that will be treated as COD income. As is common for tax issues, the Internal Revenue Code sets forth a number of exceptions to the recognition of COD income.

Two of the most frequently used exclusions from COD income are (1) a discharge of debt when the taxpayer is insolvent or is discharged as part of a Chapter 11 bankruptcy; and (2) a discharge involving indebtedness on the taxpayer’s personal residence. While insolvency would normally sound promising, the determination of insolvency is made at the taxpayer level. Accordingly, for any

entity taxed as a partnership (such as most LLCs), the determination takes place at the owner level rather than the entity level and the owners must be insolvent to take advantage of that exception to COD income. Additionally, the exceptions do not offer a “free lunch.” The borrower pays the price for these exceptions with a reduction in basis or other relevant tax attributes.

Finally, Congress has provided additional but temporary relief to overburdened debtors by allowing the taxpayer to elect to recognize COD income over a five-year period. To qualify, there must be a “reacquisition of an applicable debt instrument.” The term “reacquisition” includes complete forgiveness of the debt or any of the following: (1) a purchase for cash or other property, (2) an exchange of one debt instrument for another, (3) an exchange of debt for stock or partnership interests, or (4) a contribution of debt to the capital of a company.

You will need to understand the practical impact of these tax considerations in order to fully assess the desirability of your workout options and to avoid surprise COD income at a time when you may be least able to pay. Consultation with tax professionals is strongly advised.

Kyle Jones is a shareholder in Fabian Law’s Business Organization, Tax and Transactions practice group. He brings more than 16 years of experience in business organizations, government contracts, commercial finance and mergers and acquisitions along with degrees from two top ten programs. Jones has also worked as corporate in-house counsel and as an auditor in a national public accounting firm. Currently, his practice focuses on crafting acquisition, structure, succession, general business advice and assistance to a diverse group of private companies and individuals. He can be reached at (801) 531-8900 or at kjones@fabianlaw.com.

Adapting financial services to capture more young adults

Ask a young person when the last time he or she actually went to his bank and credit union and chances are the answer is they they’ve never been to it and really don’t even care where it is.

That’s because more and more people are simply banking online.

“That’s a pretty important bit of critical business intelligence for most financial institutions,” said Rob Rubin, founder and CEO of Facilitas, the organization behind FindABetterBank.com and BankSwitcher. “Credit unions and community banks that fail to win over young consumers are doomed. The times are changing.”

Filene Research Institute has published a report by Rubin based upon a detailed survey of 1,400 people and several credit union executives seeking to understand how consumers’ banking attitudes and behaviors have changed. The results have significance to the management of financial institutions, particularly community banks and credit unions.

These small institutions need to attract a younger crowd. While older consumers continue to be loyal to small banks and credit unions, by 2020, Gen Y will dominate the workforce, comprising 40 percent of all workers “all of them in an important borrowing phase of their lives,” Rubin said. “Without winning these customers today, these local institutions will perish.”

The survey shows that significant changes are occurring in how young adults select and manage their money. In particular:

- A hefty 22 percent of Gen Y use an online bank as their primary banking institution.
- Forty percent of Gen-Y respondents surveyed say a recommendation from friends or family played a role in their opening an account.
- Gen Y places a premium on account features and interest rates in the immediate term.
- Online bank customers say they feel

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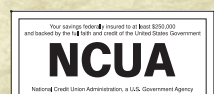
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FEES

from page 8

decrease in revenues sector-wide. Durbin critics, as well as Federal Reserve chairman Ben Bernanke, have voiced concerns that smaller banks will face a disproportionate, and potentially crippling, revenue loss compared to banks like JP Morgan Chase and Bank of America.

"The banks I represent are as much a victim of the poisoning of our financial system as everyone else," said Howard Headlee, president of the Utah Bankers Association. "Nationwide, banks have taken a huge hit to their capital base and now they're having a major source of their earnings yanked. It's outrageous. People wonder why the economic recovery has been so slow. Congress encumbered banks with 2,300 pages of regulations and then strips them of one of their major revenue streams, and then they wonder why the economy isn't growing and creating jobs."

Under the initial 12-cent interchange price cap, banks were set to lose \$12 billion annually, a billion-dollar-per-month cut to the sector's revenue. With the cap raised to 21 cents, plus as much as three additional cents per swipe if certain fraud prevention measures are undertaken, banks will see approximately \$9.4 billion in revenue passed along to retailers. While all merchants accepting debit cards will see the benefit of 20 to 23 cent per swipe savings, retailers like Walmart, Best Buy and Home Depot, which see those savings magnified by the economy of scale, stand to benefit most.

"Basically, with one vote, Congress transferred billions of dollars out of the banking sector into the retail sector. This comes at a time when banks are working day and night to rebuild our capital base in order to rebuild our economy. It's a huge setback," Headlee said.

For all the acrimony felt by banks,

retail and merchant groups don't see the price caps as going far enough. David Davis is president of both the Utah Retail Merchants Association, which represents a variety of Utah retailers, from independent bookstores to big box stores, and the Utah Food Industry Association, which represents convenience and grocery stores.

"The retail community feels [the Federal Reserve] caved to the \$70-million lobbying effort by the banks against Durbin and for Tester," Davis said, referring to a failed proposal by Sen. Jon Tester, D-Mont, to delay implementation of the Durbin Amendment.

Davis said banks lobbied directly for the 21-cent cap.

"Interestingly, 21 cents puts us higher than Europe, Australia and pretty much every industrial nation in the world," he said. "Bankers did a good job of painting this as bad for consumers. Really, it's not."

Davis said that for 60 years, retailers had operated with an average 2 percent profit margin, despite the introduction of revolutionary technologies such as barcodes, automated check reading and sorting machines, and computerized inventories. Those technologies, like price caps on interchange fees, led to lower prices, he said. Banks have accused retailers of exaggerating the cost savings that Durbin will pass on to consumers, arguing that the loss of revenue from interchange fees will lead to higher banking costs for bank customers, while the savings from decreased swipe fees will go directly into the pockets of retailers, something Davis dismissed.

"The fact of the matter is someone down the street will [use lower interchange fees to] sell TVs or milk for cheaper and the margin will compress. Ultimately, even if a retailer thinks they'll absorb this, they won't. The free market won't let them," he said.

At the heart of the issue is a debate over the nature of electronic payment sys-

tems and the cost of protecting against fraud. Banks view debit cards as a platform they invented, and own, and which deliver cost savings and profits to retailers. From the banks' perspective, debit card and other electronic payment systems provide a convenience to customers and shift the cost of fraud protection, at the benefit of retailers, onto the banks, which subsidized electronic payments with interchange and other fees.

"Up until now, the retailers, the very people who benefited from it the most, paid for it. But now the cost of the debit card system will have to be borne by somebody else," Headlee said.

Davis said retailers have had their backs to the wall for decades, with customers demanding access to electronic payment systems and the banks unwilling to negotiate lower fees. Interchange prices were not just too high; they were disproportionately unfair to smaller mom-and-pop stores. While a 44-cent interchange fee had little effect on the profit margin of the sale of a luxury goods like a flat screen television, for many retailers customers have come to demand electronic payments for all items, from a newspaper to a can of Coke.

Davis said the ubiquity of debit cards had forced many retailers into a position where they were often operating at a loss. The profit margin on the sale of a candy bar, for instance, was so low that a 44-cent interchange fee meant a retailer would actually save money by giving away the candy bar free. But debit card-issuing banks, backed by Visa and MasterCard, who receive a tiny portion of debit card swipe fees, have refused to negotiate lower fees for decades, Davis said.

Retail giant Walmart tried to circumvent the payment of interchange and credit card fees to third-party bankers and the credit card companies by applying for an industrial bank charter, which would have enabled it to issue its own credit and debit cards, but withdrew its application under criticism in 2007. In terms of capital, market leverage and political power Walmart dwarfs all other retailers. Its inability to obtain an industrial bank charter, and sidestep interchange fees, was seen by the retail sector as the final failure of the private sector to resolve the fight over interchange fees, necessitating government regulation.

"We don't like the government setting prices anymore than anyone else but we need this cap," Davis said. "We, as retailers, don't have the luxury of going to Visa and MasterCard and negotiating. Their position is 'take it or leave it.' Electronic payments have become like a public utility and the government sets the maximum price of that. Though this is not a perfect solution, it is a step in the right direction."

Banks have dismissed the idea that debit cards, and electronic payments in general, have become a necessary part of the day-to-day operations of the market. Retailers are free to accept cash and personal checks, but in the latter case have increasingly opted against accepting checks. In both cases, banks maintain, retailers were privately benefitting from the technological innovations of debit cards and electronic payment systems invented, installed, maintained and owned by the banks.

Davis drew comparisons between the evolving use of debit cards and the personal check. Despite the fact that the personal check was, prior to the debit card, the most common form of monetary exchange in the United States, and that, by necessity, every transaction involving a check required some expenditure of capital on the part of banks, Federal Reserve regulations prohibit a bank from charging processing fees for personal checks. A debit card-issuing bank charges an interchange fee for a customer to access their checking account with a debit card while processing a personal check drawing on that same checking account for free.

"The thing that really sticks in our craw is debit cards are essentially an electronic check. They're charging you to access your own money. The credit card companies aren't extending you any credit," Davis said.

Headlee agreed that debit cards were much like a personal check, with the key difference that in the case of personal checks, a retailer ultimately shouldered the burden of fraud prevention. If a customer purchased a television with a bad check, the retailer selling that television would eat the loss of the television. Today, once a customer swipes his debit card, the sale of that television is guaranteed by the card-issuing bank, whether or not the sale is fraudulent.

"Debit cards transferred the fraud risks associated with bad checks from the retailers to the banks," Headlee said. "The interchange fee covered these costs. But now the retailers get to have their cake and eat it too, and banks will still be on the hook for fraud. This is unacceptable. There is no incentive for retailers to check IDs and prevent fraud, and we have no way to price for risky behavior."

Davis said the Federal Reserve had left plenty of fat on the bone in its compromise over Durbin. He said the Federal Reserve had estimated the actual cost of processing a debit card swipe at 12 cents, the initial amount of the Durbin price cap. With the cap on interchange fees now set at 21 cents, banks stand to profit approximately nine cents per swipe, down from 32 cents profit per swipe under the old 44-cent interchange fees.

Headlee said those assessments were overly simplistic.

"[The Durbin Amendment] fixes debit card fees to the cost of a specific transaction. It is like going into Starbucks and ordering a coffee and asking to pay for only the coffee in the cup without adding in the cost of the cup, the cost of creamer, the cost of sugar, the cost of the employee or the cost of keeping on the lights."

With less than two months until the new 21-cent cap takes effect, the compromise seems to have made no one happy.

Davis said the 21-cent cap "split the difference [between 12 and 44-cent caps.] It took a lot of the wind out of the sails of Durbin."

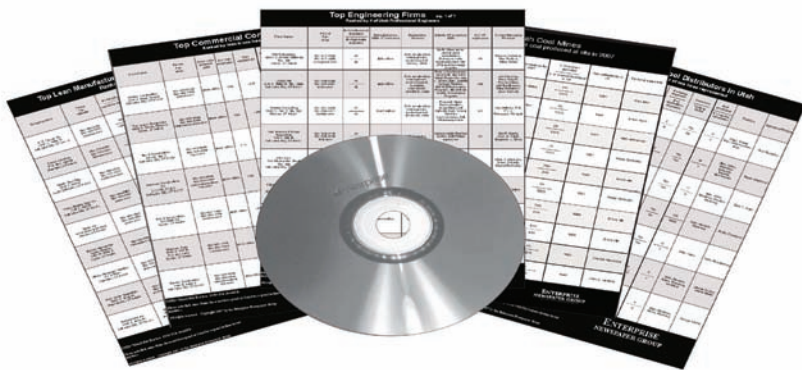
Headlee called it "federal price-fixing at its worse."

"Is the debit card financially viable?" Headlee said. "No. Are people going to stop using it? No. Now we're going to have to find ways to subsidize the debit card so retailers can have their windfall."

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On a scale of one to 10, rate your banking relationship

A banking relationship is about more than being on friendly terms with your banker (though lunch dates and third-row Jazz tickets are nice). It requires creating mutual value for both the business and the bank. And, for a growing business, having a good relationship with your banker is an important asset.

So, how's your banking relationship? Are you working with a true relationship banker, or does your banker seem more like a glorified customer service rep? Here is some guidance to determine if you're getting enough value from your banking relationship, and if not, how to find the right banker for your business.

Question 1: Does your banker "get" your business? A relationship-focused banker strives to understand a customer's business — financially and economically as well. This banker studies the market and the environment his customer is competing in — an understanding that benefits both company and bank.

I have a colleague whose customer comes to him to get his opinion before they

consider any business transaction. They regularly exchange information and insight, and with this banker's help, the company has been able to grow in multiple industries. It's a great example of how a banker's attention and expertise can impact the success and growth of a business.



Roger Christensen

In turn, longstanding trust and loyalty with this customer has allowed the bank to confidently make loans it probably wouldn't have made in situations where there was no relationship.

Question 2: Has your banker worked with companies like yours? What if your banker had worked with enough companies in your industry that she could give you not only financial guidance, but also recommendations to improve your business?

While she wouldn't share inside information about her other customers in your industry, this experienced banker could give suggestions on best practices, having seen how a very profitable business of that nature runs.

And, using industry connections and an understanding of what you do, she

might even give referrals and bring new business to your company as opportunities arise.

Question 3: Does your banker listen? Is your banker's first goal to help your business become more financially sound and profitable? If her agenda is in sync with yours, she'll listen to your wants and concerns — about banking, your business, your fears — before making any recommendations.

Another colleague of mine has maintained a banking relationship with one of his customers for 25 years. After working with that business for a quarter of a century, he's been able to mold loans around their needs — loans, again, that would have been a variance to normal banking terms in that market.

The more a bank understands you and your vision, the better your chance of getting exactly the financial solutions you need.

The real question: Do you need a banking relationship? Creating a long-term banking relationship won't always be top priority for a business.

For most small and medium-sized businesses, a strong banking relationship will be formed at a smaller institution. But at a big bank, while they may not get individualized attention, they might get a better price on a loan — especially true if they seek a one-time transaction and strictly fit the bank's underwriting mold.

Large companies in need of multiple specialists, or a high loan amount — say, upward of \$20 million — may also be better served by working with a large institution, where they may or may not have a close-knit banking relationship.

Post-recession, most growing busi-

nesses are looking for a stronger banking partnership rather than a "cookie-cutter" loan deal, not only because they can benefit from customized financing help, but because they want a banker that will stick with them for the long-term, through good markets and bad. Should a bank quit lending in a certain market or cap the number of loans in each industry, they don't want to risk being kicked to the curb.

Finding a long-term banker. How can a business owner find the right banking relationship for his business? One great way is to talk to industry associates about the bankers they've worked with. Get three or four names and interview these bankers: What types of loans do their banks make? Do they make loans in your industry, and if so, what's their experience with these types of loans?

Once you've chosen a few bankers with industry expertise, interview your peers who worked with these bankers. Would they follow their banker to another bank? Call her on her cell phone when an issue arises, or consult her before making a business deal? Find *that* banker, and you can expect a long-term viable banking relationship — not to mention a great boon to your business.

Roger Christensen is senior vice president and commercial loan team leader for Bank of Utah. His community banking career began more than 25 years ago at Ben Franklin Savings & Loan in Boise. He has been in commercial lending and bank management for more than 20 years, specializing in all types of commercial loans. He has been with Bank of Utah since 2008.

YOUNG

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that they have the best combination of features and fees (68 percent) and that online services suit them best (68 percent). These opinions far surpass those offered by community bank customers, credit union members and big bank customers, and the strength of these opinions shows that personal service really means suitable service; often, that service is best given online.

The survey shows that contrary to the pronouncements of some of the financial pundits, young people do care about money and they care about more than just the shiny hot button factors like interest rates and account features. The survey indicates:

- Convenience is an extremely important driver of retention. Paired with the difficulty of switching over existing accounts, it keeps a majority of consumers in place.

- Painful fees and uncompetitive interest rates turn off customers of big banks, but these factors are unlikely by themselves to drive many consumers out of the bank.

- Their friends and family talk it up. The research found that online banks enjoy the highest rate of recommendations compared with other types of institutions. Not surprisingly, more than half of the under-30 set indicate that the reputation of their online bank was a key motivator in opening the account, and over 40 percent say a recommendation from a friend or family member played a role in their decision.

- Interestingly, for every six credit union members or community banks customers and 17 big bank customers that want a "do-over," switching to a new institution without pain or penalty, there is only one online bank customer that wants to switch.

Tune Up Your Website

"If you are going to remain viable in the long-term, you will have to make today's young adults your No. 1 focus," Rubin said. "Your online presence is going to be the most crucial thing you do. The things that attract Gen Y are often the things that need the most work. For example, some credit union and community bank websites are more like sales-prevention tools and it won't make sense to invest heavily in social media or tout your online offerings until your online storefront is attractive and effective."

Rubin suggested other ideas that should be explored:

- Scrap plans for the new branch and build a virtual branch for Gen Y. All of the capital and human resource costs of a new \$1 million or more branch would be better spent improving the website, investing in remote deposit capture (because 90 percent of teller transactions involve check deposits), and rebating foreign ATM fees.

- Develop products internally. Even credit unions and small banks can develop consumer-facing applications their customers will love. Relying exclusively on third parties makes it impossible to differentiate yourself from competitors. Consider services like budgeting tools and personalized text alerts.

- Expand product portfolios to include more credit cards and reward programs, two areas that young adults are interested in today. For example, credit union or bank specific rewards that build on both use and responsible behavior will help keep members around until they're ready for bigger loans and more deposits.

"It's time to really get with it," Rubin said. "Take honest stock of the competition from online banks and big banks alike. Only then can you double down on the services that will make your financial institutions the one of choice among Gen Y."

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