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INFORMATION



Don't Spread the Peanut Butter Too Thin

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Overview

1. Bank Market Trends
2. Bank Selection – Which Ones?
3. The Bank's Perspective
4. Consolidation vs. Diversification – How Many?

1. Bank Market Trends

“A bank is a place where they lend you an umbrella in fair weather and ask for it back when it begins to rain.”

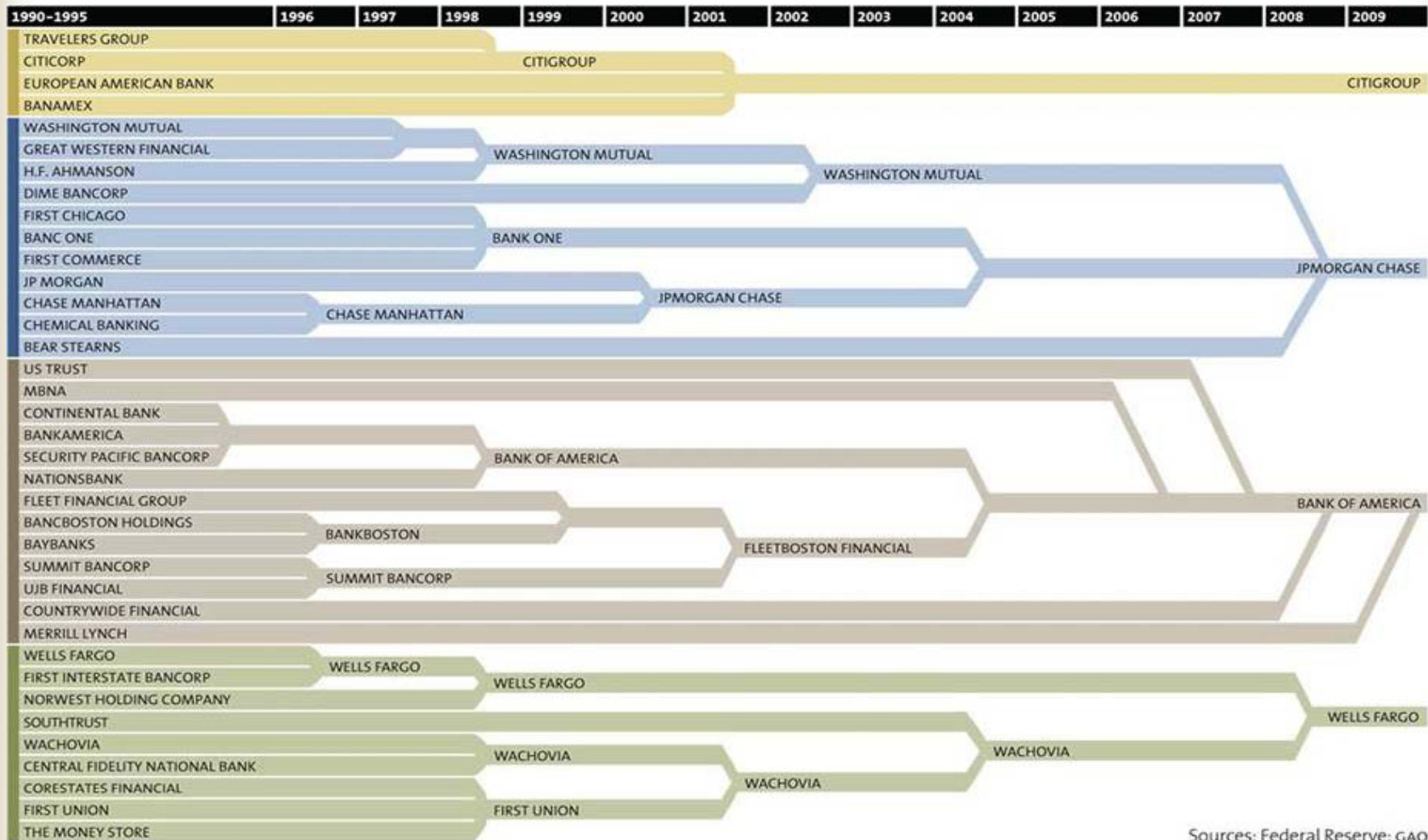
– *Robert Frost*



Types of Banks

	Local	Regional	Global
Description	Branches in a few states	10+ states	International capabilities
Examples	Bank of Texas, Amegy, Sterling	US Bank, PNC, Regions	BofA, Chase, Citi, Wells Fargo
Benefits	Flexibility, fast decision making	Fits most needs	Diverse product offering, branch presence
Limitations	Small loan size	Limited footprint and capital markets	Bureaucratic

Trend of Banking Consolidation



Sources: Federal Reserve; GAO

Increasing Regulation from Recession

- Over 30 regulations
 - Varied guidelines and interpretations
- TARP
- Restoring American Financial Stability – Financial Reform Bill



Trend of Globalization



TOP 10 BANKS BY MARKET CAPITALIZATION

1999		2010	
	1 Citigroup		1 Industrial & Commerce Bank of China
	2 Bank of America		2 China Construction Bank
	3 HSBC Holding		3 HSBC
	4 Lloyds TSB		4 JPMorgan Chase
	5 Fannie Mae		5 Bank of America
	6 Bank One		6 Wells Fargo
	7 Wells Fargo		7 Agricultural Bank of China
	8 UBS		8 Bank of China
	9 Bank of Tokyo – Mitsubishi		9 Citigroup
	10 Chase Manhattan		10 Banco Santander

Bank Market Trends - Summary

- Change is constant
- Take time to develop banking relationships



2. Bank Selection



Top 10 Things to Consider

TOP 10

1. Relationship
2. Industry
3. Needs vs. products
4. Geography
5. Culture
6. Risk
7. Economics
8. Perception
9. Fatigue
10. Stability of bank

Bank Selection - Summary

- Step 1: Understand your needs
- Step 2: Find banks with matching strengths
- Goal: Make a Love Connection



3. The Bank's Perspective



Risk Adjusted Return on Capital

- Capital allocation and performance evaluation
- Customers assigned a rating of 1 to 10
- Based on 13 factors
 - Seven financial (80%)
 - Six non-financial (20%)

Financial Factors

Factor	Weighting
Size (Revenue)	13%
Profitability	18%
Liquidity	6%
Capitalization Ratio	15%
Interest Coverage	6%
Operating Leverage	13%
Net Sales Growth	8%
Total Weight	80%

Non-Financial Factors

Factor	Weighting
Default History	3%
Forward Warning	4%
Economic Cycle	3%
Performance vs Projections	4%
Performance in Adverse Times	3%
Industry Volatility	4%
Total Weight	20%

Why Banks “Fire” Clients

- To exit a business segment
- “Lender fatigue”
- Inadequate performance
- Geography
- Capital reallocation

The Bank's Perspective - Summary

- Banks have a choice on where to invest their money
- Must earn an adequate return for their risk
- Understand how your company will be evaluated



4. Consolidation vs. Diversification



Reasons for Consolidation

- Important relationship to the bank
- Potential for better pricing
- You don't have enough to spread around
- Lower transaction costs
- Easier to manage bank relationships

Reasons for Diversification

- Banks have different strengths
- Risk mitigation through multiple bank relationships
- More banks = More capital

Consolidation vs. Diversification - Summary

- There is no right or wrong decision
- Depends on needs and risk tolerance

Don't Spread the Peanut Butter Too Thin



...or Should You?

Top 10 Things to Consider When Selecting Banking Partners

1. **Relationship** – Do you have a good working relationship with decision makers at the bank?
2. **Industry** – Does the bank have an intimate knowledge of the industry in which you operate, and does the bank lend to others within the same industry?
3. **Needs vs. products** – Does the bank have the products or service offerings that you require? (i.e. card solutions, leasing, M&A advisory, merchant services)
4. **Geography** – Is the bank well established in your footprint with retail branches and local relationship managers?
5. **Culture** – Does your company and the bank share a similar corporate culture and values?
6. **Risk** – How does the bank view your company and the management team? Do they view your industry as being particularly risky? Will they be with you for the long term?
7. **Economics** – Are the financial terms of the loan (lease, swap, etc.) favorable compared to alternatives?
8. **Perception** – Does the bank have a reputation of being a lender of last resort?
9. **Fatigue** – Does the bank ask too many questions and drain company resources?
10. **Stability of Bank** – Is the bank an acquisition target or on the verge of financial collapse?