



Cash Management 210

Banking in the 21st Century



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Overview

- Changing Landscape of Banking
- Economic Trends
- Cash Management Trends
- Future Outlook



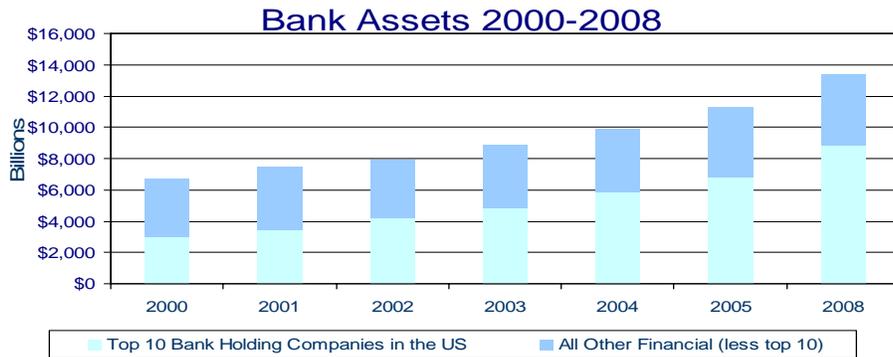
Banking Landscape



U.S. Bank Holding Company Assets

| | Rank 2007 | 2007 In Millions | Revenues In Millions | Rank |
|-------------------------|-----------|------------------|----------------------|------|
| JP Morgan Chase Bank | 1 | 1,318,888 | 116,353 | 3 |
| Bank of America | 2 | 1,312,794 | 119,190 | 2 |
| Citibank | 3 | 1,251,715 | 159,210 | 1 |
| Wachovia | 4 | 653,269 | 55,528 | 4 |
| Wells Fargo | 5 | 467,891 | 53,593 | 5 |
| U.S. Bank | 6 | 232,760 | 20,308 | 6 |
| HSBC Bank | 7 | 184,492 | N/A | |
| SunTrust | 8 | 175,108 | 13,465 | 9 |
| National City Bank | 9 | 138,755 | 11,791 | 11 |
| Bank of New York/Mellon | 10 | 115,672 | 14,798 | 8 |

Top Ten Bank Holding Companies



Market Segments

- Largest banks are getting exponentially bigger, while some in the top ranks have lost significant ground and other new entrants to the list have emerged.
- Smaller banks hold strong within under-served geographies or by providing a unique niche.
- Middle market/regional banks are those that are on the bubble.
- Economic factors and regulatory impacts affect ability to develop products and affect survivability.



TARP

Troubled Asset Relief Program

- Originally \$700B now \$850B.
- Intended to buy back residential and commercial mortgages.
- Infuse capital into financial markets.
- Purchase of \$600B in debt from Fannie Mae, Freddie Mac, Ginnie Mae and FHLB.
- Exchange Stabilization Fund to guarantee money market mutual funds.

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Changing Landscape

Banking: Top 5 banks comprise 58% of the industry's total cash management revenue.

Economy: Falling interest rates minimize the value of balances cash management customers use to purchase services.

Cash Management: Exponential increases still seen in all electronic services, with biggest percentage increases in PCard and ACH/EDI.

Migrating to electronic payments brings benefits in operational efficiencies, costs savings (direct and indirect) and revenue opportunities.

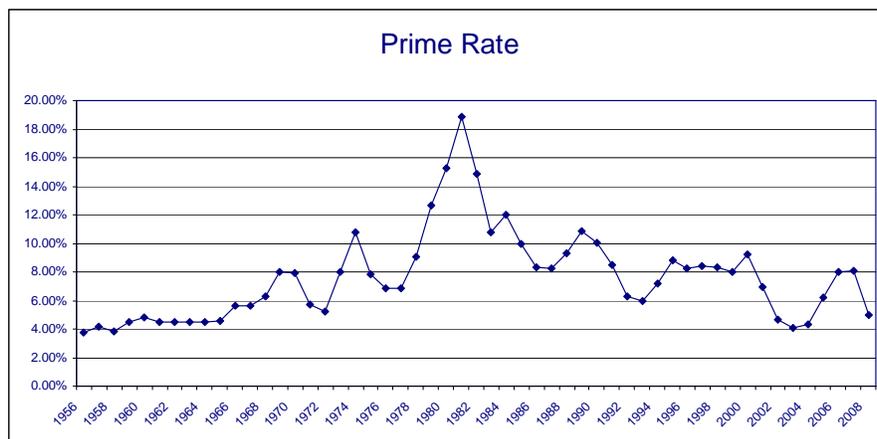
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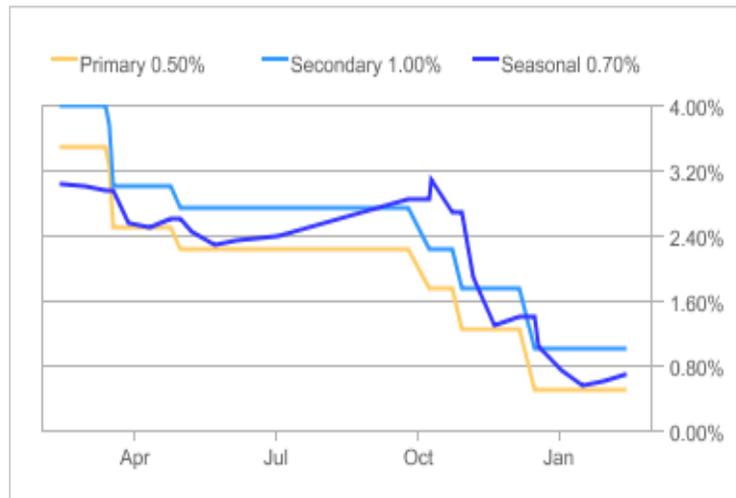
Economic Trends

Falling Interest Rates



As of June 2008

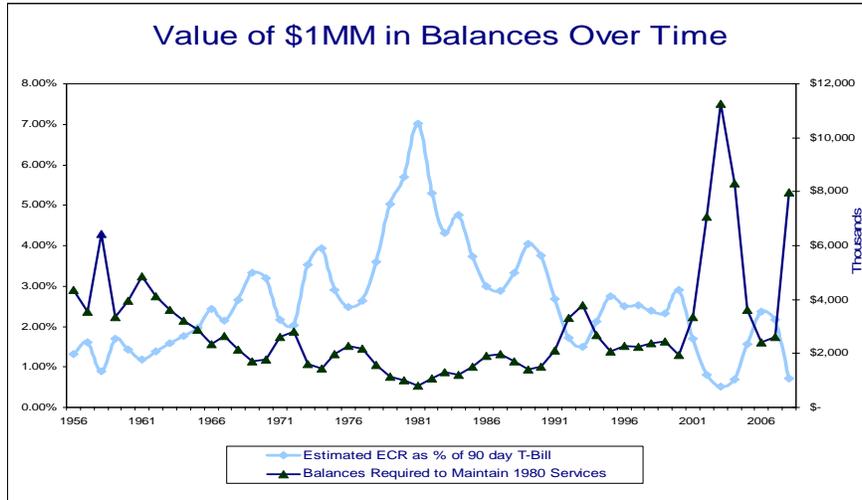
Falling Fed Fund Rates



Key Indicators

- Falling interest rates – Current Fed Funds Rate is 0.25% as of 1/09.
- Housing starts are down to 1,034,000 as of 6/08 compared to 1,341,000 – average in 2007.
- Mortgage rate, 30-year fixed – 5.00% as of 1/09 compared to 6.34% average in 2007.
- Unemployment rate is up to 7.9% as of 1/09 compared to 4.6% Average 2007.
- What does all of this information translate to for cash management?

Impact of Interest Rates



Cash Management Developments



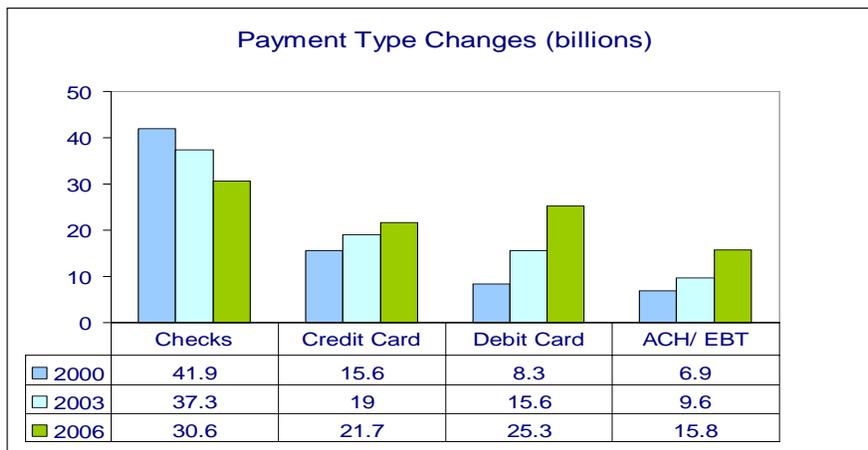
Cash Management Developments Innovation

- Banks went through a decrease in revenue stream and in new developments.
- This changed over the last 3 years – Revenue has increased for Cash Management Services and the product offering has been expanded.
- Governments are now looking for better, cheaper and more efficient products that meet their specific treasury needs.

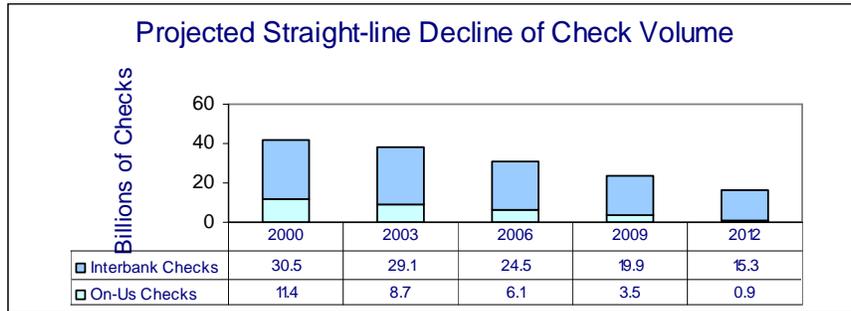
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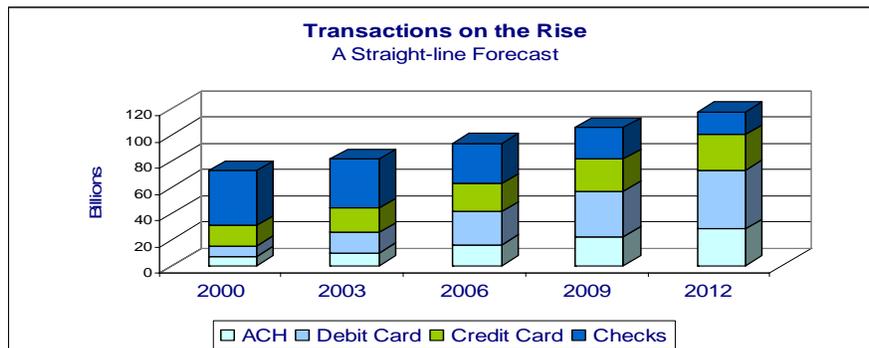
Payment Comparison Electronic vs. Paper



Payment Processing



Different Payment Types





Remote Deposit Capture

Remote Deposit Capture is a service that allows public entities to make check deposits electronically by capturing the image and data on the check in your back office and sending that information to the bank via secure internet connection for posting and clearing.



2nd Generation Technology

- Smaller, faster, better scanners
- Multi location BOC
- Process both checks and remittance coupons
- CAR/LAR reading
- Duplicate check detection
- Improved access to images and automated reconciliation
- Improved image search capabilities
- Data entry options/custom reporting



Benefits of Remote Deposit Capture

- Eliminates multiple bank accounts
- Focuses staff on more productive tasks
- Streamlines deposit processing
- Decreases deposit processing costs
- Extends deposit deadlines
- Improves employee safety
- Electronically retains deposit information

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Payroll & Stored Value Cards

- Cards that hold a dollar value
- Debit cards loaded by ACH
- They can be re-loaded or one-time use
- Can be account-based or card-based solutions
- Can be ATM/POS only or Visa logo
- Look can be customized to municipality

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Procurement Card Programs

A single solution card that can provide an efficient, cost-effective method of purchasing and paying for small and high dollar as well as high-volume, repetitive purchases.

To work effectively, the program must be part of an overall purchasing strategy.



Alternative to Traditional Process

- Can be used in place of a purchase order, check request or petty cash
- Reduces the number of purchase orders, invoices and checks processed
- Simplified purchasing process
- Reduces paperwork
- Sets and controls purchasing limits per card
- Increases information on purchasing histories
- Expedites delivery of goods



Mitigating Risk and Improving Control

The purchasing card and any transactions may become the liability of the public entity.

Be aware of the risks and maintain a purchasing policy to enforce appropriate controls.



What the Future Holds



Future Outlook

- Continuation of credit issues/sub-prime impact.
- Will cause big to get bigger and many seemingly strong players to dissolve, exit or be purchased.
- Consolidation and exiting of players will cause stagnation of product development as bank's capital is tied in merger/acquisition and will be inwardly focused.
- Rates will continue to decline.

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Future Outlook

- Will cause lower margins, causing capital to be harder to come by and a hardship for development initially; but will spark refinancing and purchases that wouldn't occur at higher rates.
- Will see further impact of foreign investment due to weak dollar.
- Banks and corporations need to do more with less, again causing initial hardship but will spark innovation and product development ideas.
- Short-term lack of economic growth as companies and banks are inwardly focused but will turn brighter as the economy corrects itself.

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Regulatory Outlook

- Increased regulatory requirements add to cost of doing business. Are banks the “new utilities industry?”
- New challenges in fraud prevention and risk mitigation.
- Product innovations, cost pressures, and enabling legislation will continue to drive conversion of paper to electronic.
- Innovations will make information more time critical to determine investment/borrowing positions, analyze same store deposits, and reduce exposure to fraud.