

New Jersey League of Community  
Bankers

May 5, 2007

## Issues Requiring Immediate Attention



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## The 7 Issues requiring immediate attention . . .



1. The changing face of the customer
2. The new competitive environment for customers
3. The future of financial institutions
4. Technological revolution
5. Concentration of real estate
6. Focus on executive compensation and finding good people
7. Shareholder activism

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# 1. The changing face of the customer

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New Jersey currently has an older, wealthier population than the country . . .



### Customer Segment Group Summary - by Affluency

DESCRIPTION	New Jersey		The United States	
	HSHLDS	PCT	HSHLDS	PCT
WEALTH MARKET \$150,000 or More HHI	300,822	9.4%	6,597,095	5.9%
UPPER AFFLUENT \$75,000 to \$149,999 HHI	924,614	28.7%	25,450,280	22.7%
LOWER AFFLUENT \$50,000 to \$74,999 HHI	661,665	20.6%	22,560,938	20.1%
UPPER MIDSCALE MARKET \$40,000 to \$49,999 HHI	297,380	9.2%	11,311,636	10.1%
LOWER MIDSCALE MARKET \$30,000 to \$39,999 HHI	307,261	9.6%	12,844,291	11.4%
LOWER MARKET \$20,000 to \$29,999 HHI	306,652	9.5%	13,561,510	12.1%
DOWNSCALE Under \$20,000 HHI	418,012	13.0%	19,943,168	17.8%
	3,216,406	100.0%	112,268,918	100.0%

**When Compared to the Nation, New Jersey has a higher affluency level with 10.0% more of the households in the upper three groups**

### Customer Segment Group Summary - by Life Cycle

DESCRIPTION	New Jersey		The United States	
	HSHLDS	PCT	HSHLDS	PCT
24 OR YOUNGER	106,413	3.3%	5,479,261	4.9%
25-34	422,746	13.1%	19,594,415	17.5%
35-44	761,407	23.7%	26,403,860	23.5%
45-54	814,204	25.3%	24,305,318	21.6%
55-64/PRE RETIRED	542,521	16.9%	15,832,823	14.1%
65 OR OLDER/RETIRED	569,077	17.7%	20,650,213	18.4%
	3,216,368	100.0%	112,265,890	100.0%

**When Compared to the Nation, New Jersey has a higher concentration in the 45-64 age groups.**

Source: Claritas

In fact, New Jersey households are projected to increase in wealth over the next 5 years . . .

DESCRIPTION	2006 ESTIMATES		2011 PROJECTIONS		GROWTH	
	HSHLDS	PCT	HSHLDS	PCT	#	%
<b>New Jersey</b>						
WEALTH MARKET \$150,000 or More HHI	300,822	9.4%	315,598	9.4%	14,777	4.9%
UPPER AFFLUENT \$75,000 to \$149,999 HHI	924,614	28.7%	965,704	28.9%	41,089	4.4%
LOWER AFFLUENT \$50,000 to \$74,999 HHI	661,665	20.6%	687,629	20.6%	25,964	3.9%
UPPER MIDSCALE MARKET \$40,000 to \$49,999 HHI	297,380	9.2%	308,236	9.2%	10,856	3.7%
LOWER MIDSCALE MARKET \$30,000 to \$39,999 HHI	307,261	9.6%	318,096	9.5%	10,835	3.5%
LOWER MARKET \$20,000 to \$29,999 HHI	306,652	9.5%	310,706	9.5%	10,054	3.3%
DOWNSCALE Under \$20,000 HHI	418,012	13.0%	429,856	12.9%	11,844	2.8%
	3,216,406	100.0%	3,341,824	100.0%	125,418	3.9%

**With the largest growth occurring in the upper and lower affluent customers which account for over 50% of the total growth**

Source: Claritas

Surprisingly, the age distribution of the customer base in New Jersey is projected to remain relatively constant over the next 5 years . . .



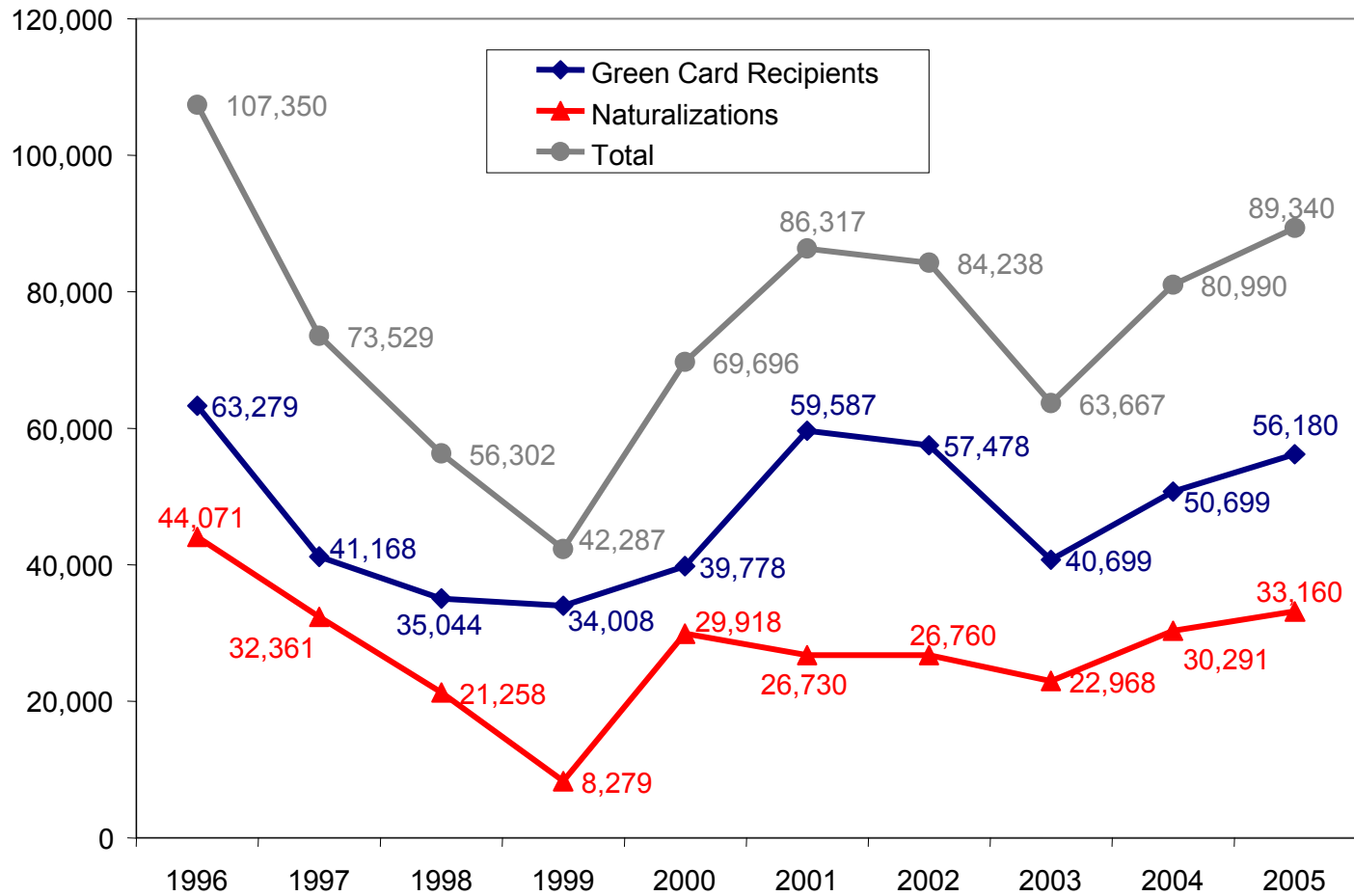
<b>New Jersey</b> DESCRIPTION	2006 ESTIMATES		2011 PROJECTIONS		GROWTH	
	HSHLDS	PCT	HSHLDS	PCT	#	%
14 OR YOUNGER	106,413	3.3%	109,429	3.3%	3,016	2.8%
25-34	422,746	13.1%	438,426	13.1%	15,680	3.7%
35-44	761,407	23.7%	792,047	23.7%	30,640	4.0%
45-54	814,204	25.3%	846,373	25.3%	32,169	4.0%
55-64/PRE RETIRED	542,521	16.9%	562,765	16.8%	20,244	3.7%
65 OR OLDER/RETIRED	569,077	17.7%	592,746	17.7%	23,669	4.2%
	<b>3,216,368</b>	<b>100.0%</b>	<b>3,341,786</b>	<b>100.0%</b>	<b>125,418</b>	<b>3.9%</b>

Another trend that is occurring in New Jersey is the large influx of a new legal and illegal immigrant population . . .



- Asian Population
  - Indian
  - Chinese
  - Filipino
  - Korean
- Iron Curtain Population
  - Russian
- Hispanic Population
  - Puerto Rican
  - Mexican
  - Cuban

The number of immigrants obtaining green cards and naturalizing in New Jersey has increased since 2003 . . .



Source: Office of Immigration Statistics

## Asian Population in New Jersey . . .

- The Asian American population in the United States was estimated at 10.5 MM people in 2000 and is projected to increase to over 14.0 MM by 2010.
- The State of New Jersey has approximately 623,309 Asian Americans concentrated in Middlesex and Bergen Counties.
- The Asian American population has strong demographic characteristics:
  - Strong population growth
  - High level of household income
  - Strong cultural affinity
  - Entrepreneurial attitude
  - Strong emphasis on savings and home ownership

	New Jersey	The United States
<b>POPULATION BY RACE - ASIAN ALONE BY CATEGORY</b>		
	623,309	12,492,949
Chinese, except Taiwanese	20.03%	22.45%
Filipino	16.98%	17.80%
Japanese	3.02%	7.46%
Asian Indian	35.63%	17.21%
Korean	13.77%	10.72%
Vietnamese	3.07%	10.81%
Cambodian	0.13%	1.59%
Hmong	0.00%	1.56%
Laotian	0.10%	1.61%
Thai	0.42%	1.10%
Other Asian	5.72%	5.54%
Two or more Asian categories	1.13%	2.14%


## Asian immigrant population by county . . .

County	Asian Indian	Chinese*	Filipino	Korean	Vietnamese	Japanese	Thai	Cambodian	Laotian	Hmong	Other Asian	Two or more Asian categories	Total
Middlesex County, NJ	75,838	28,617	17,124	8,251	2,907	1,069	285	25	20	0	8,423	1,188	143,747
Bergen County, NJ	23,411	17,344	18,529	47,542	706	9,814	595	25	95	0	4,134	1,111	123,306
Hudson County, NJ	22,243	8,209	20,323	3,475	1,981	1,044	275	22	19	0	3,744	759	62,094
Morris County, NJ	14,784	11,685	3,957	3,431	1,140	920	121	38	41	4	2,869	522	39,512
Somerset County, NJ	15,223	11,339	4,042	2,121	795	694	107	25	40	9	2,523	366	37,284
Essex County, NJ	10,185	7,034	8,566	2,728	1,081	791	221	18	11	0	1,980	446	33,061
Monmouth County, NJ	9,456	11,054	4,480	2,763	822	404	97	23	4	3	1,742	388	31,236
Mercer County, NJ	11,263	7,411	1,933	2,791	406	924	92	56	7	0	2,401	318	27,602
Union County, NJ	7,852	4,551	6,586	1,420	554	456	49	26	14	1	1,154	308	22,971
Camden County, NJ	5,329	4,100	3,970	2,813	3,815	343	55	444	33	6	1,186	373	22,467
Passaic County, NJ	9,340	2,246	4,654	1,829	246	342	137	0	6	2	1,389	332	20,523
Atlantic County, NJ	4,490	3,644	2,310	979	2,925	136	117	23	241	0	1,707	358	16,930
Burlington County, NJ	5,672	2,574	2,477	2,865	638	805	197	45	29	0	1,015	201	16,518
Ocean County, NJ	2,099	1,495	3,361	851	293	284	81	4	15	0	443	149	9,075
Gloucester County, NJ	1,291	1,007	1,559	625	271	149	57	30	24	0	305	53	5,371
Hunterdon County, NJ	1,267	1,121	431	400	96	111	40	6	3	0	175	41	3,691
Sussex County, NJ	746	496	620	353	141	82	13	13	7	0	160	58	2,689
Warren County, NJ	823	541	340	287	171	89	30	3	4	0	108	23	2,419
Cumberland County, NJ	484	203	283	175	46	281	7	2	1	0	130	23	1,635
Cape May County, NJ	163	114	243	69	48	23	17	1	2	0	27	14	721
Salem County, NJ	98	63	77	87	43	43	3	1	0	0	36	6	457
New Jersey	222,057	124,848	105,865	85,855	19,125	18,804	2,596	830	616	25	35,651	7,037	623,309
The United States	2,149,883	2,805,045	2,223,611	1,339,708	1,350,048	932,464	137,333	198,955	201,413	195,234	691,887	267,368	12,492,949

\*except Taiwanese

- Middlesex County and Bergen County have the highest Asian American populations.

## Russian immigrant population by county . . .



County	Russian
Bergen County, NJ	25,651
Middlesex County, NJ	19,706
Monmouth County, NJ	15,876
Essex County, NJ	12,684
Morris County, NJ	10,435
Union County, NJ	8,687
Camden County, NJ	8,448
Somerset County, NJ	6,941
Ocean County, NJ	6,529
Passaic County, NJ	6,264
Mercer County, NJ	6,025
Burlington County, NJ	5,192
Hudson County, NJ	4,141
Atlantic County, NJ	3,601
Hunterdon County, NJ	1,920
Gloucester County, NJ	1,764
Sussex County, NJ	1,607
Warren County, NJ	1,032
Cumberland County, NJ	972
Cape May County, NJ	669
Salem County, NJ	198
New Jersey	148,342
The United States	2,021,755

- Bergen County and Middlesex County also have the highest Russian American populations in New Jersey.

## Hispanic immigrant population by county . . .

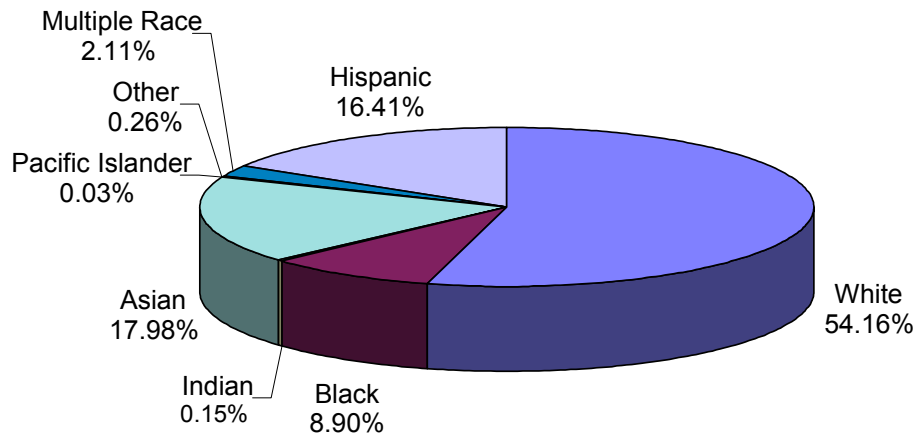
County	Puerto Rican	Mexican	Cuban	All Other Hispanic or Latino	Total
Hudson County, NJ	59,720	11,016	35,053	144,239	250,028
Passaic County, NJ	48,516	23,731	3,774	96,075	172,096
Essex County, NJ	60,679	5,210	5,986	68,262	140,137
Middlesex County, NJ	44,502	18,241	5,953	62,036	130,732
Union County, NJ	27,684	5,819	13,161	81,805	128,469
Bergen County, NJ	22,977	5,881	12,462	79,877	121,197
Camden County, NJ	40,109	5,123	888	13,012	59,132
Monmouth County, NJ	18,784	12,216	2,487	15,742	49,229
Morris County, NJ	10,375	4,516	2,307	30,798	47,996
Mercer County, NJ	17,522	3,441	969	21,949	43,881
Atlantic County, NJ	18,253	6,165	810	13,515	38,743
Ocean County, NJ	15,785	8,070	2,023	10,440	36,318
Somerset County, NJ	6,471	4,093	1,520	23,989	36,073
Cumberland County, NJ	22,522	6,475	452	4,670	34,119
Burlington County, NJ	12,409	2,477	861	6,967	22,714
Gloucester County, NJ	4,787	1,230	320	2,240	8,577
Sussex County, NJ	2,990	711	718	3,441	7,860
Warren County, NJ	2,152	623	477	3,095	6,347
Hunterdon County, NJ	1,456	770	435	1,987	4,648
Cape May County, NJ	2,404	644	108	755	3,911
Salem County, NJ	1,840	533	51	785	3,209
New Jersey	441,937	126,985	90,815	685,679	1,345,416
The United States	4,166,097	25,436,551	1,490,853	12,157,537	43,251,038

- Hudson County and Passaic County have the highest Hispanic American populations in New Jersey.

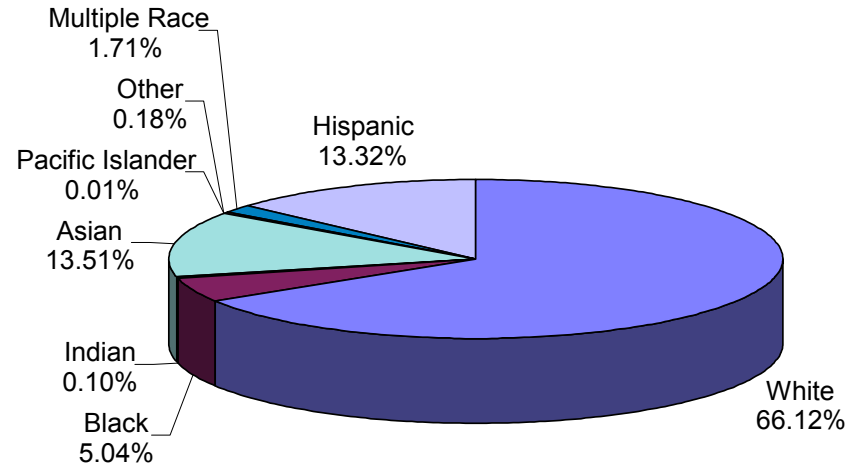
# How do minority groups stack up to the total population in Middlesex and Bergen Counties?



Middlesex County Ethnic Mix



Bergen County Ethnic Mix



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## 2. The new competitive environment for customers

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The new competitive environment for customers

## *Why do people select an institution?*

**Promotion**

**Price**

**Purchase**

**Product**

**Process**

**Place**

**People**



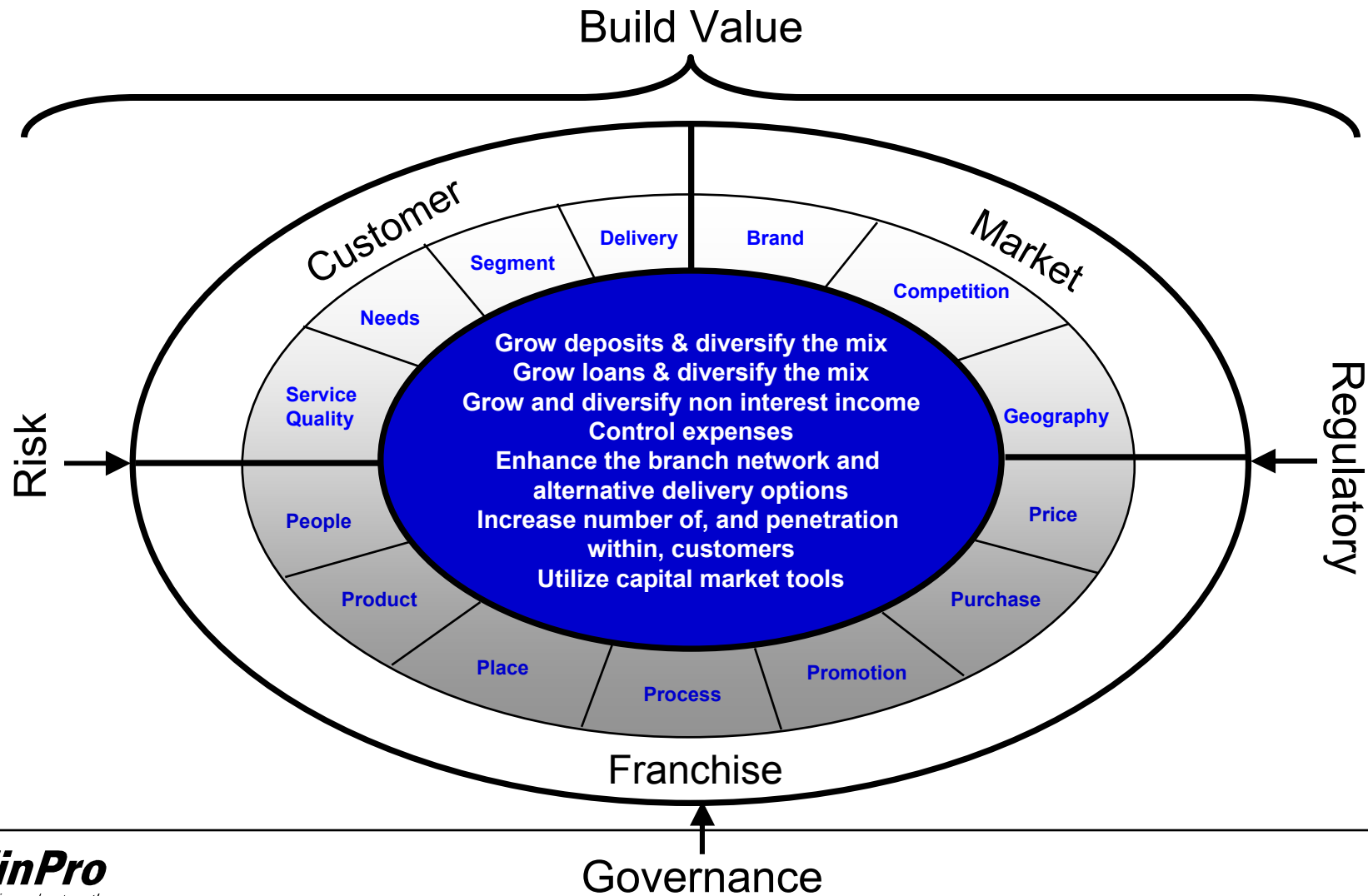
# Customer Balance Sheet . . .



		MARKET AREA (Retail only)							MARKET AREA (Retail only)						
		HSHLDS	AVG	POTENTIAL	MKT			HSHLDS	AVG	POTENTIAL	MKT				
		W/ACCT	BALANCE	MARKET	% MIX	INDEX			W/ACCT	BALANCE	MARKET	% MIX	INDEX		
<b>New Jersey</b>															
<b>DEPOSIT PRODUCTS:</b>															
Non-interest DDA		1,614,071	\$6,630	\$10,701,290,730			<b>Direct.com</b>								
Interest DDA		1,648,758	\$11,676	\$19,250,898,488	13.4%	1.05									
<i>Total Transaction/DDA</i>		2,887,208	\$10,374	\$29,951,895,792	20.8%	1.01									
Savings - Regular		2,315,965	\$20,067	\$46,474,469,655	32.3%	1.00									
Money Market		814,849	\$32,125	\$26,177,024,125	18.2%	1.25									
CD		627,829	\$54,862	\$34,443,954,598	23.9%	1.31									
IRA-CD		140,107	\$49,541	\$6,941,040,887	4.8%	1.53									
<i>Total Savings</i>		2,543,451	\$44,835	\$114,035,625,585	79.2%	1.02									
<b>TOTAL DEPOSIT PRODUCTS</b>		<b>3,032,770</b>	<b>\$47,477</b>	<b>\$143,986,340,000</b>											
<b>LOAN PRODUCTS:</b>															
1st Mortgage		1,374,188	\$138,409	\$190,199,986,892	71.4%	0.92	<b>Mortgage Company</b>								
2nd Mortgage		191,652	\$41,057	\$7,868,656,164	3.0%	1.06									
Home Equity LOC		411,966	\$27,508	\$11,332,195,680	4.3%	1.23									
<i>Total Real Estate Secured</i>		1,558,051	\$134,399	\$209,400,496,340	78.6%	0.97									
Auto		981,885	\$15,174	\$14,897,909,010	5.5%	0.81									
Student		305,347	\$41,057	\$12,536,631,710	4.7%	0.91	<b>GSE</b>								
Other Personal Loans		151,713	\$14,513	\$2,201,810,769	0.8%	0.67									
<i>Total Installment Credit</i>		1,301,224	\$24,341	\$29,636,351,618	11.1%	0.86									
Bank Credit Card		2,653,564	\$4,309	\$11,434,207,276	4.3%	1.07									
Overdraft		463,704	\$6,177	\$2,864,299,608	1.1%	0.88									
Other PLOC		882,019	\$14,886	\$13,129,734,834	4.9%	1.09	<b>Credit Card Company</b>								
<i>Total Revolving Credit</i>		2,693,242	\$10,209	\$27,428,241,718	10.3%	1.03									
<b>TOTAL LOAN PRODUCTS</b>		<b>2,847,849</b>	<b>\$93,567</b>	<b>\$266,465,089,685</b>	<b>100.0%</b>	<b>1.01</b>									

One customer is being pulled apart and nobody is getting the whole customer.

In order to compete you'll need to adopt a customer centric model . . .

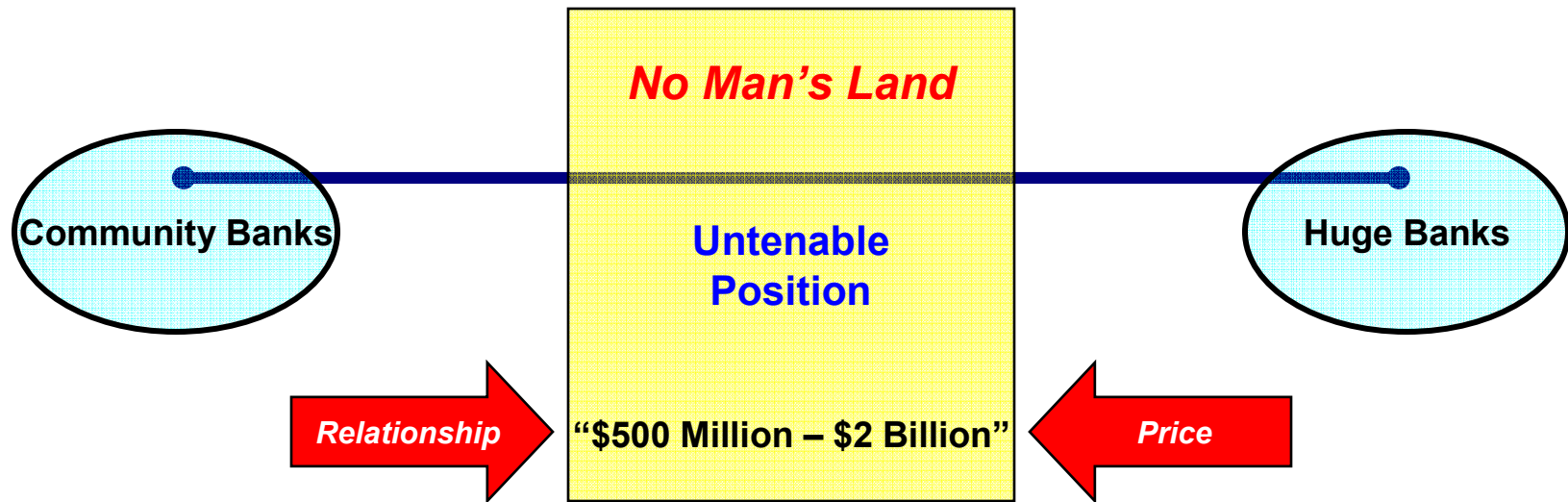




# 3. The future of financial institutions

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## The evolution of financial institutions . . .

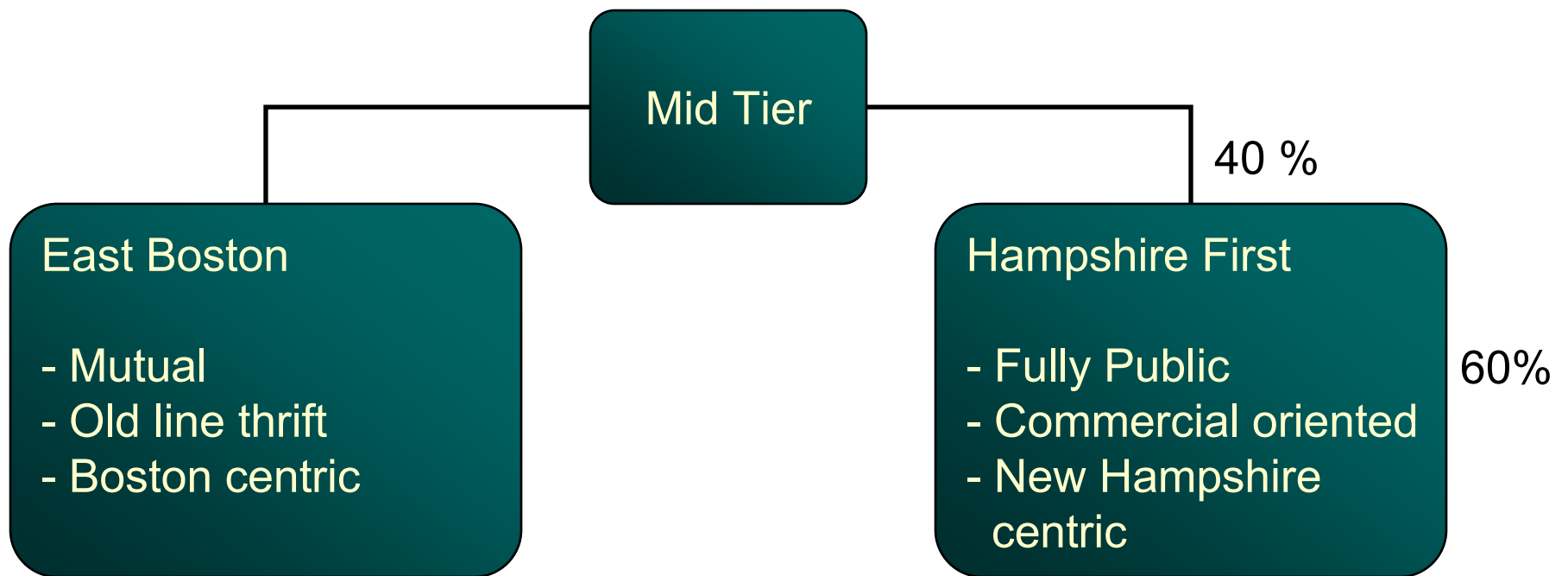


For community banks: branding is the key to the customer centric model . . .

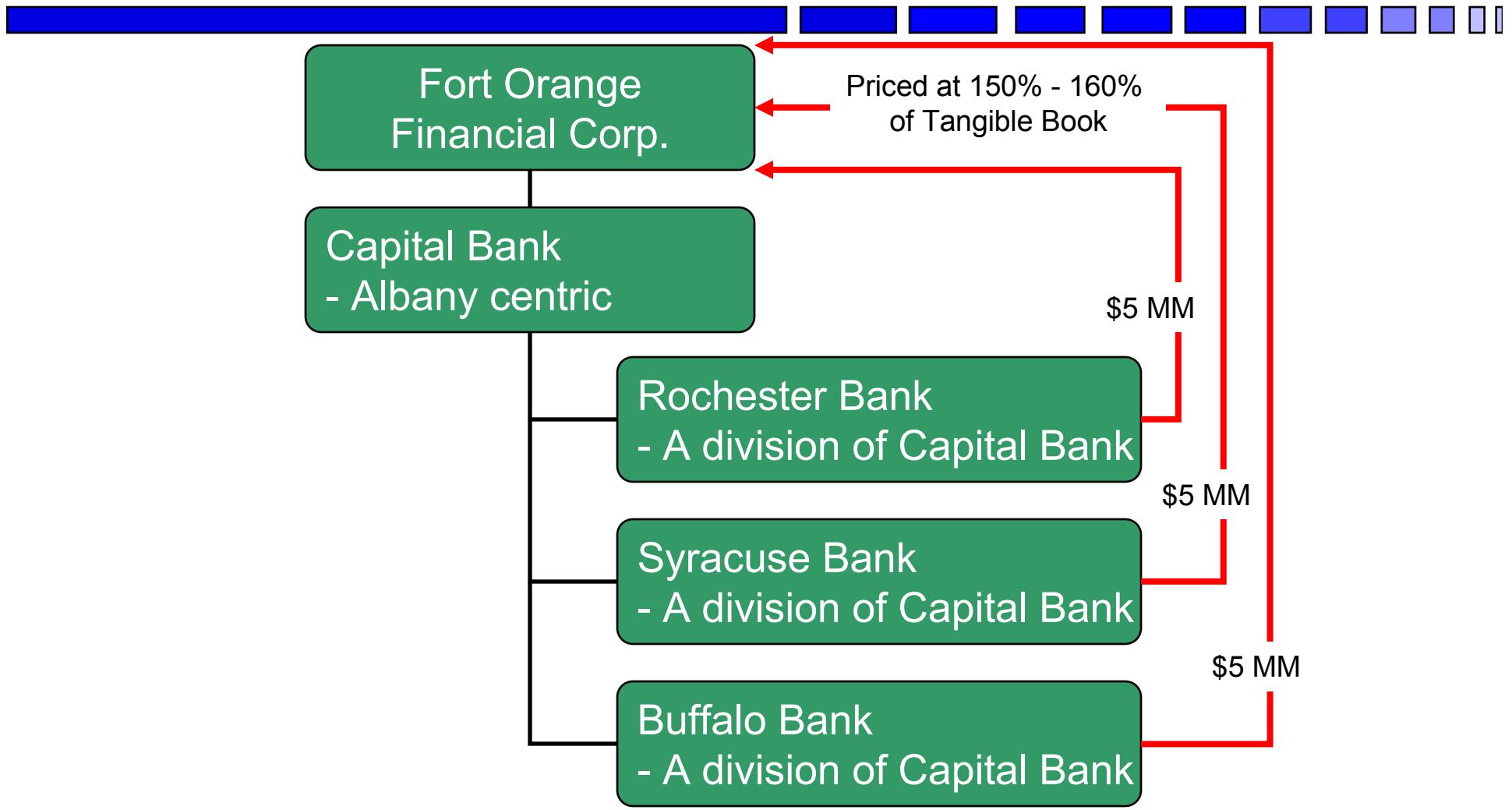


- As Bankers, we need to learn to brand to:
  - Retail customer segments
    - Life cycle
    - Wealth
    - Product propensity
  - Business segments
  - Not for profits
  - Municipal
  - Geographical markets
  - Ethnic markets
- Utilize affinity services and products

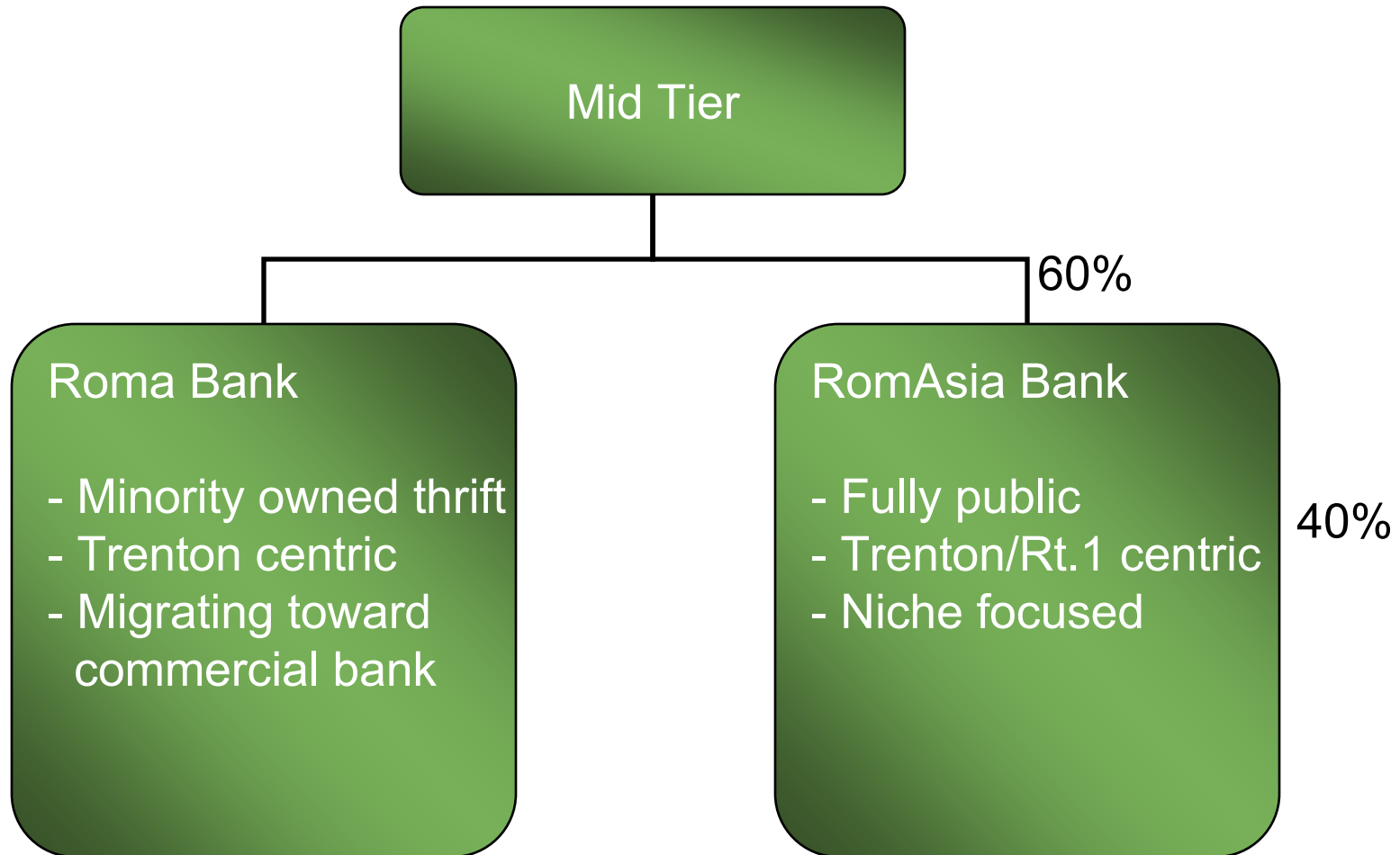
## East Boston/Hampshire First . . .



# Capital Bank . . .



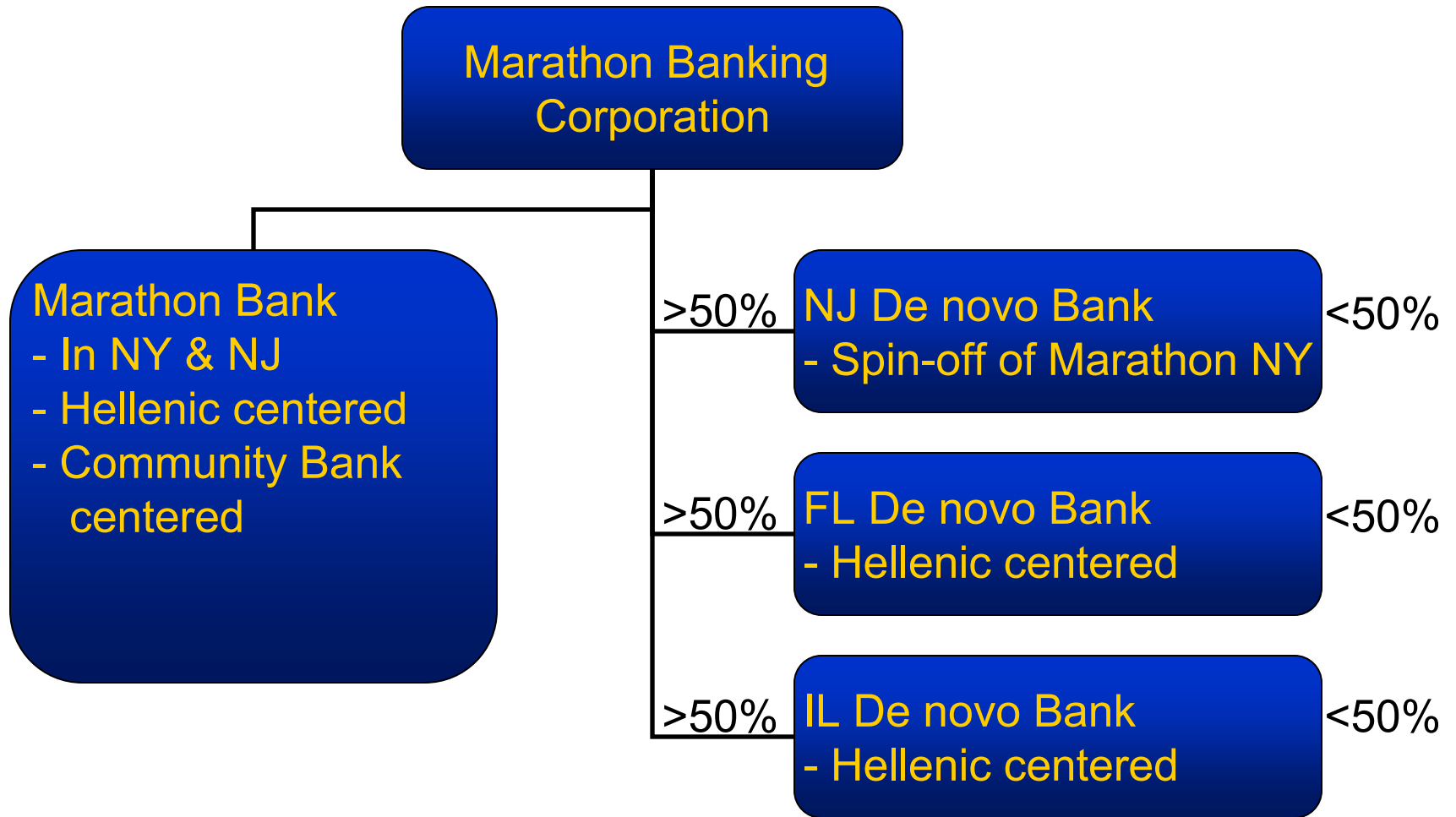
## Roma/RomAsia . . .



Firsttrust Corp . . .



# Marathon Bank . . .



For all banks: grow using the seven P's . . .



	Small Banks/ De novos	No Man's Land	Big Banks
People	X	?	
Place		?	X
Price	X	?	
Product	X	?	
Promotion		?	X
Process		?	X
Purchase		?	X

## Acquire intelligently . . .



- Seek low competition markets
- Acquire people not balance sheets
- Acquire for market entrance
- Acquire for purpose

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# 4. Technological revolution

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## Technological Revolution



- Remote image capture
- Direct.coms
- New generation ATMs
- Blackberries/Treos
- “All in One” Account
- Custom Product Build

## What issues arise with technological advances?

- Will customers go electronic and forego branches? If so, what does this portend for brick and mortar branches?
- How do you cross-sell to customers if they're not face to face?
- How quickly will plastic replace cash, if at all?
- Is internet security good enough?
- Will the Federal Reserve be necessary in the future for check clearing purposes?

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# 5. Concentration of real estate

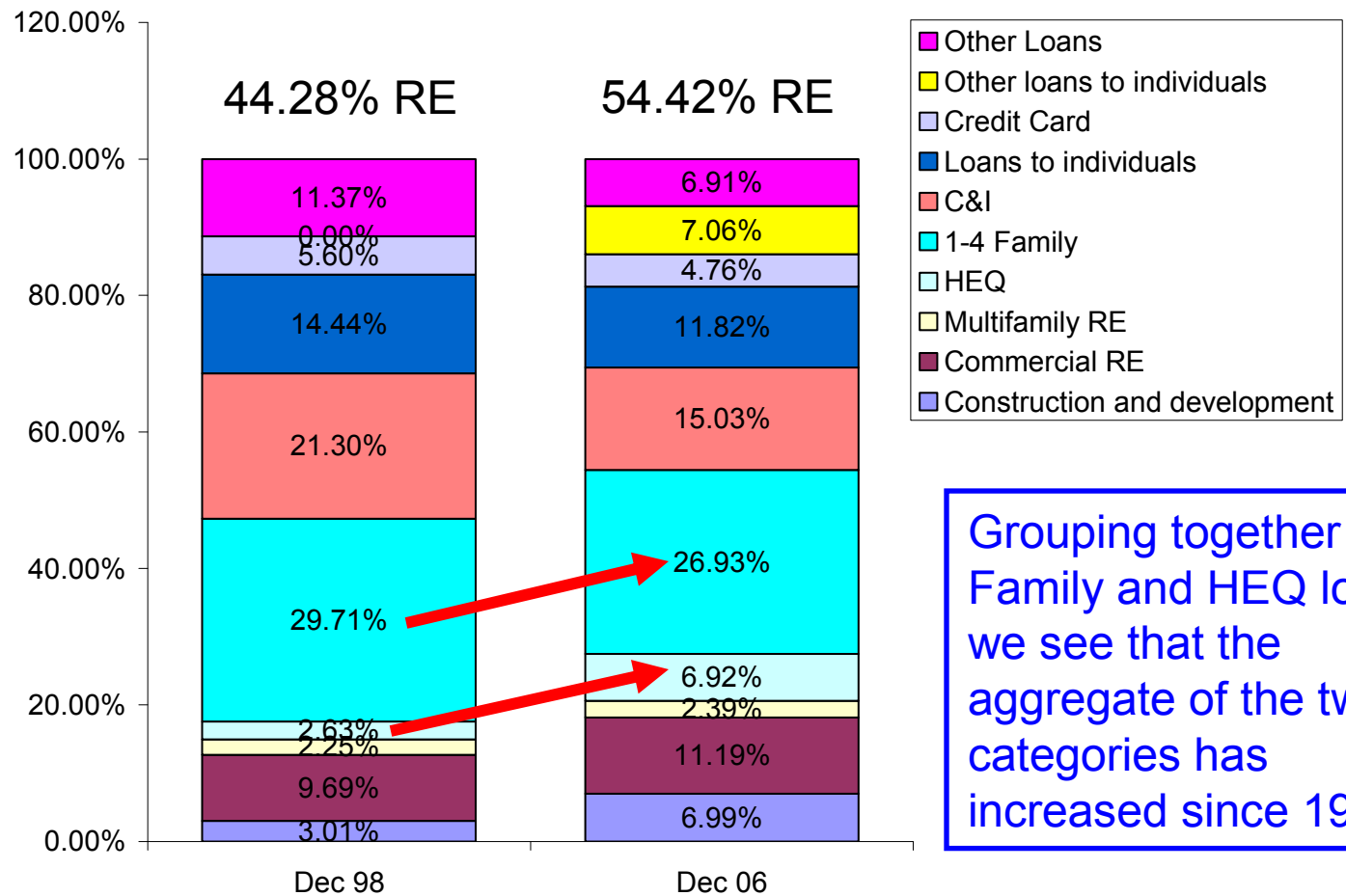
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Balances have increased in all loan categories since 1998 . . .



<b>Loans Outstanding</b>	<b>Dec '98 (\$ billions)</b>	<b>Dec '06 (\$ billions)</b>	<b>Growth</b>
1-4 Family	1,283.3	2,176.3	893.0
Other loans to individuals	-	570.3	570.3
Commercial RE	418.6	904.3	485.7
HEQ	113.5	559.3	445.8
Construction and development	130.1	564.9	434.8
Loans to individuals	623.7	955.3	331.6
C&I	919.8	1,214.3	294.5
Credit Card	241.8	385.0	143.2
Multifamily RE	97.2	193.1	95.9
Other Loans	490.9	558.4	67.5
<b>Total Loans and Leases</b>	<b>\$ 4,318.9</b>	<b>\$ 8,081.2</b>	<b>3,762.3</b>

# Insured institutions have seen a shift towards real estate loans since 1998 . . .



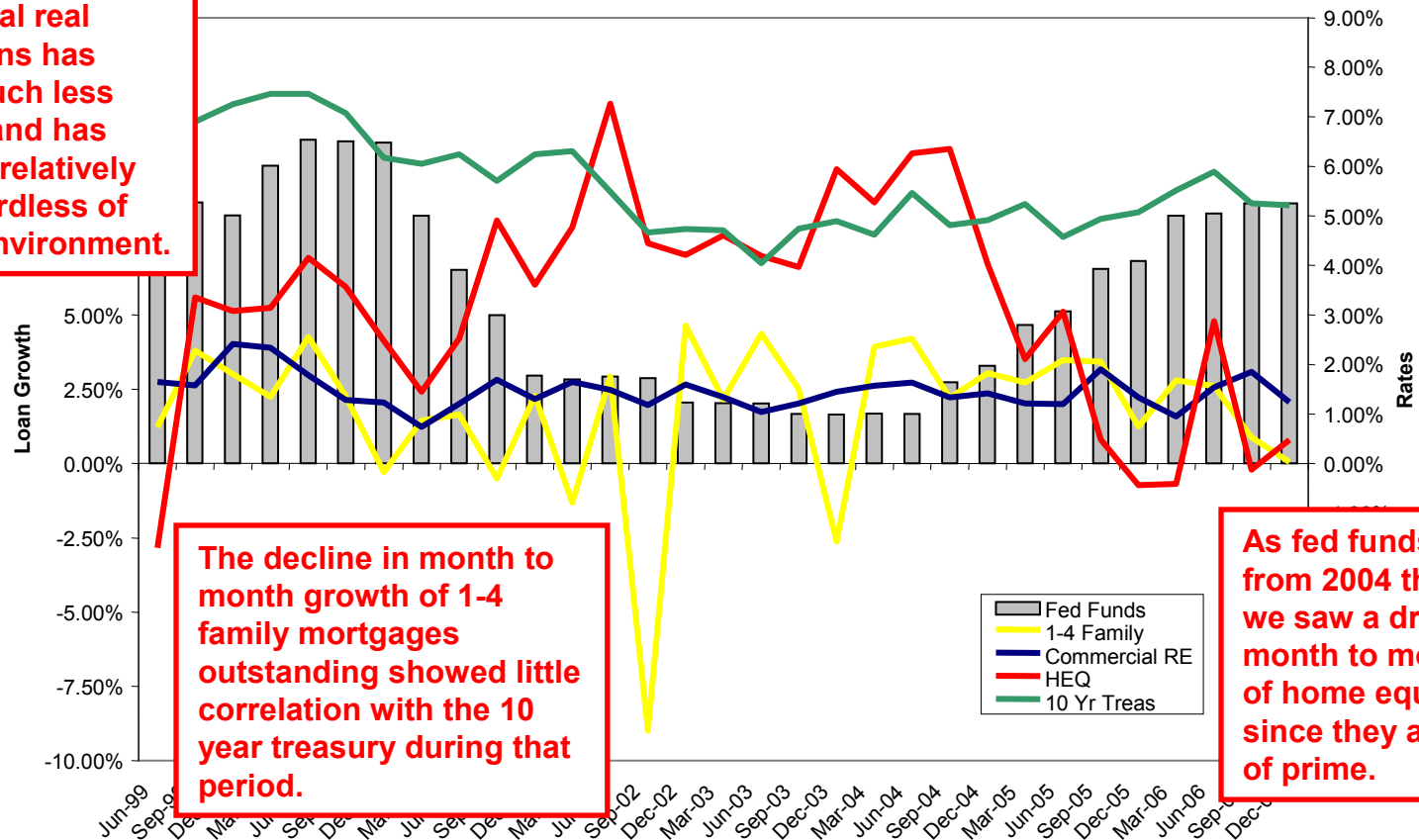
Grouping together 1-4 Family and HEQ loans, we see that the aggregate of the two categories has increased since 1998.

# Changes in rates impact origination volumes and loans outstanding . . .



**The month to month growth of commercial real estate loans has shown much less volatility and has remained relatively level regardless of the rate environment.**

**Monthly Change in RE Loans Outstanding vs. Fed Funds and 10 Yr Treas**



**The decline in month to month growth of 1-4 family mortgages outstanding showed little correlation with the 10 year treasury during that period.**

**As fed funds increased from 2004 through 2006, we saw a drop off in the month to month growth of home equity loans since they are based off of prime.**

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# 6. Executive compensation

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Executive compensation reform has been gaining momentum with politicians and shareholders due to recent abuses . . . .




- In November 2005, Congressman Barney Frank, introduced “The Protection Against Executive Compensation Abuse Act”.
- The bill is designed to prohibit three key areas in regards to executive compensation:
  1. **Earnings manipulation** that gives the executive an incentive to use “aggressive” accounting methods that maximize his/her compensation.
  2. **Unprofitable mergers/acquisitions** in order for the executive to obtain his/her “golden parachute”.
  3. **Compensation** that is not tied to company performance.



The board should address the following areas to protect themselves from regulators and dissident shareholders on executive compensation . . .

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1. Read and familiarize yourself with Section 39 and Part 364 of the FDIC regulations in regards to executive compensation.
  2. Review employment agreements and eliminate gross-up and evergreen provisions.
  3. Conduct peer comparisons on executive base compensation.
  4. Tie executive bonuses to bank performance and building shareholder value.
  5. Offer stock option plans instead of awarding stock grants.
  6. Offer deferred compensation plans as a long term incentive to retain and attract management.
  7. Stagger Director terms to prevent dissident shareholders from gaining control of the Board in one year.

When determining total compensation for your executive, the board should conduct a **comparable peer group analysis** . . .

- 
- When forming your peer group, consider the following variables:
    - **Type of institution** – Mutual, MHC, commercial bank, thrift, etc.
    - **Asset size** – select a reasonable asset range, **not** \$100 million to \$1 billion.
    - **Geography**.
    - **Bank performance** – balance sheet growth, asset quality, and profitability measures.
    - **Scope of position** – does the executive perform multiple job functions outside of his or her position description.
  - Typically, institutions will target base compensation around the median or 75<sup>th</sup> percentile of the peer group and award incentive bonuses to the executive.



## Finding good people is now a major concern . . .

- Recent de novo's have hired the existing supply of CEOs.
- Lenders are expensive and are locked into current employers.
- Even sale transactions are demanding employee retention and non compete agreements.
- Based on the most recent de novo task force meeting at the Chicago Fed, even minor blips on an individuals record could be a reason for denial.
  - Also agreed that recent de novo's are showing regulators B++ management candidates

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# 7. Shareholder activists

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## Activists are mobilizing and getting aggressive . . .

- At least one dissident shareholder gained a board seat at 44 of the 91 shareholder proxy initiatives for board seats in 2006 at all U.S. public companies, according to SharkRepellent.net. When including all victories such as the removal of directors, merger votes and enhanced corporate governance, the rate climbs to 59 percent.
- Ahead of 2007 annual meetings, shareholders have sent out 52 “say on pay” proposals so far, according to Institutional Shareholder Services. There were only eight issued in 2006.
- Similarly, there are 49 proposals linking pay to performance, up from 24 one year ago. Of the 24 in 2006, 17 came to a vote, according to ISS.
- Aflac Inc has announced that it will allow shareholders a nonbinding vote on its corporate pay practices beginning in 2009.
- There are 87 shareholder proposals requiring a majority vote to elect corporate directors, compared to the 94 that come to a vote last year out of 140 original proposals. Some of the majority-vote proposals have already been withdrawn this year– a sign that companies are seeking to avoid proxy fights and institute change before shareholders try to enforce change.
- As a result, only 45% of S&P companies have staggered boards, significantly less than a few years ago. Staggered boards work as an anti-takeover measure by preventing shareholders from replacing a majority of company directors in a single annual election.

## Activist Shareholders issues under attack . . .



- Executive Compensation
- Employment Agreements
- Benefit Plans
- Stock Performance
- Financial Performance
- Board Seats
- Bank Sale vs. Remain Independent

## Activist Shareholders . . .

- Larry Seidman
- Joseph Stilwell
- PL Capital
- Halas
- Seymour Holtzman
- Lawrence Garshofsky
- Jeffrey Susskind
- David Harvey



- Evelyn Davis
- Sy Jacobs
- Morton Bender
- Relational Investors
- Pensions
- Money Funds
- Board Dissent



Some of the more notable institutions under attack are . . .



## Reason for Activist Shareholders . . .


- Activists take action when they feel that management is not taking the right steps to build shareholder value. Through small stakes in the company activist shareholders may attempt to gain board seats in order to influence the companies strategic path.
- Often times activist shareholders look to:
  - Replace current management
  - Rollback insider benefits
  - Divest part(s) of the company
  - Buyback shares
  - Remove anti-takeover measures
  - Sell the company
  - Stop an M&A deal if they feel the company is paying too much for the target

Shareholder activism can take any of several forms . . .



- Proxy battles
- Tender offers
- Publicity campaigns
- Litigation
- Negotiations with management

## Key points to takeaway from this presentation

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1. Identify, target and go after specific customer segments or groups.
  2. Brand to go after new immigrants
  3. Either bulk up or decentralize – Avoid no man's land
  4. Adopt new technology now – next year is too late
  5. CRE is a good thing – but the world is very competitive
  6. Do executive compensation reviews now and put discipline into the process
  7. The best defense against activists is good performance



- Works with over 300 financial institutions nationwide
- Is an industry leader in working with start-up banks, currently advising over twenty-five organizing groups, and small community banks.
- Leader in innovative structures
- Leading edge on Regulatory issues
- Leader in innovative M&A.
- Serves over fifty retainer clients providing ongoing relationship and results oriented solutions.