



PRIVATE TRUST GROUP OF AMERICA

A Strategic Resourcing Partner for Wealth Management Professionals

JUNE 2005

Sharing Ideas ~ Building RelationshipsSM

VOLUME V ISSUE 2

Change is the incubator for success. We can embrace change and be energized by the opportunity, or we can shy away from it and become paralyzed by inaction.

Topics of Discussion

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Until recently, profitability and bank trust departments have hardly ever been mentioned in the same sentence.

No longer relegated to a dark corner of the bank's basement where staid, pale trust officers spent their days quietly clipping coupons and sending quarterly checks to widows and widowers, the modern-day trust department has been transformed into a highly visible "wealth management" office.

Historically considered an orphan by "serious" bankers interested in the high margins of commercial transactions, trust departments are now being managed by much more forward thinking executives who are rapidly expanding their department's influence within the bank, and

Bringing Profitability Sharply Into Focus

turning them into a sought after destination for members of the local investment community.

Along with higher visibility comes an even heavier burden to transform the trust department from the perennial loss leader to a consistently performing profit center for the bank.

Bank directors must show an "...aware[ness] of the department's contribution, or cost, to the operating earnings of the bank." (FDIC Trust Examination Manual)

Bank directors are not only held accountable by their regulators for showing an "...aware[ness] of the department's contribution, or cost, to the operating earnings of the bank", (See FDIC Trust Examination Manual - Section 9 (A)), they must also keep in mind that the bank's shareholders have a right to expect a reasonable return on their investment.

Therefore, it is becoming more difficult to justify the existence of a trust department solely on the grounds that it is a necessary "loss leader".

Although it is sometimes difficult to get bank executives to admit it, back office operations are the backbone of any successfully managed trust department or wealth management office.

Without an experienced staff with the ability to understand trust accounting principles and process transactions timely and accurately, and the technology systems to support them, a trust department simply cannot function properly - and clients are usually the first to know.

Unfortunately, good trust accounting professionals are hard to find in certain parts of the country. Even where the labor pool includes sufficient talent, there is the age-old dilemma of

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Service Level Agreements By David Hemmerling

Service Level Agreements serve three main purposes. The first is to establish minimum service levels; the second is to provide reasonable guidelines for monitoring performance, and the third is to agree on corrective actions and potential penalties for persistent non-compliance.

A Service Level Agreement must be carefully written in a clear, concise manner that avoids ambiguities and reduces the chance for misunderstandings that could give rise to unwanted and unpleasant conflicts.

It must also be carefully monitored. A log of service level exceptions is essential to create a contemporaneous record for service improvements and possible corrective action.

Quarterly meetings to review performance issues ensure that minor deficiencies do not become long-term problems that jeopardize the relationship.

A well-written Service Level Agreement should protect the party providing the services as well as the party receiving them.

It is not uncommon to find that certain service level deficiencies are caused by incomplete or inaccurate data being supplied by the organization receiving the services being performed.

Providing exceptional service is paramount to the success of our business, so we insist that each of our clients sign a Service Level Agreement.

For more information, please contact David Hemmerling at: 978.463.9099, or via email at: david@privatetrustgroup.com

Small Business Statistics

The following small business statistics were obtained from the U. S. Small Business Administration:

What is a Small Business?

The Office of Advocacy defines a small business for research purposes as an independent business having fewer than 500 employees.

How Important are Small Businesses to the U. S. Economy?

1. Represent 99.7 percent of all employers.
2. Employ half of all private sector employees.
3. Pay 44.3 percent of total U.S. private payroll.
4. Generated 60 to 80 percent of net new jobs annually over the last decade.

5. Create more than 50 percent of non-farm private gross domestic product (GDP).

6. Supplied over 23 percent of the total value of federal prime contracts in FY 2003.

Federal regulations cost very small firms with less than 20 employees about \$6,975 per employee, which is nearly 60% more than the cost per employee for firms with over 500 employees.

7. Produce 13 to 14 times more patents per employee than large patenting firms. These patents are twice as likely as large firm patents to be among the one percent most cited.

8. Are employers of 39 percent of high tech workers (such as scientists, engineers, and com-

puter workers).

9. Are 53 percent home-based and 3 percent franchises.

10. Made up 97 percent of all identified exporters and produced 29 percent of the known export value in FY 2001.

What is the Survival Rate for New Firms?

Two-thirds of new employer firms survive at least two years, and about half survive at least four years.

How do Regulations Affect Small Firms?

Very small firms with fewer than 20 employees spend 60 percent more per employee than larger firms to comply

with federal regulations. Small firms spend twice as much on tax compliance as their larger counterparts:

Type of Regulation	< 20 Empl.	>500 Empl.
All	\$6,975	\$4,463
Environ.	\$3,328	\$717
Economic	\$1,616	\$2,485
Workplace	\$829	\$698
Tax Compl.	\$1,202	\$562



Bringing Profitability Sharply Into Focus (Continued from page 1)

dealing with the direct costs of salaries and benefits, and the often overlooked costs of overhead, vacations, sick days, personal time off and other supervisory headaches.

A sharper focus on profitability

and the need to rely on steady, dependable and affordable support staff are some of the leading reasons trust and wealth management executives are steadily moving in the direction of outsourcing to single source

firms that specialize in maintaining and supporting sophisticated operations centers.

Outsourcing not only improves profit margins, it eliminates costly personnel issues, thus

allowing banks to concentrate their financial resources on increasing assets under management, client retention and new business development.

Administration and Operational Tips

How to Prepare for an Audit

This is the fifth and final installment of a five-part series designed to assist trust department personnel with preparing for an audit.

Les Revzon, who has over 35 years' experience in providing auditing, regulatory, operational and compliance services to the financial industry, assisted with the development of this series.

Part V — What will "they" be looking for???

The first four parts of this series described some of the steps

that could be taken to ensure that the audit goes as quickly and painlessly as possible.

Les Revzon — Over 35 years' experience in providing auditing, regulatory, operational and compliance services to the financial industry.

Here are some areas auditors pay particularly close attention to:

1. Policies & Procedures
2. Committee Meeting Minutes
3. House & Suspense Accounts

4. Disbursement Controls
5. Cash Balances & Overdrafts
6. Trust Checking Account
7. Trust Fee Calculations
8. Governing Documents & Account Reviews
9. Fee Exceptions
10. Protecting Assets
11. Business Continuity Plan
12. Tax Preparation
13. Real Estate Held
14. Bank Stock Held in Trusts
15. Trust Deposits

This concludes our series on *How to Prepare for an Audit*.

For a complete recap of the five-part series, contact Cindy Motta at: 978.463.9099 or via email at:

cindym@privatetrustgroup.com



Private Trust Group of America specializes in providing administrative and operational support to trust departments and wealth management offices nation wide. Our executive staff has over 100 years of combined trust and related technology experience, and our professional staff's average experience exceeds 22 years. Please take a moment to review our website at www.privatetrustgroup.com for an overview of our services.