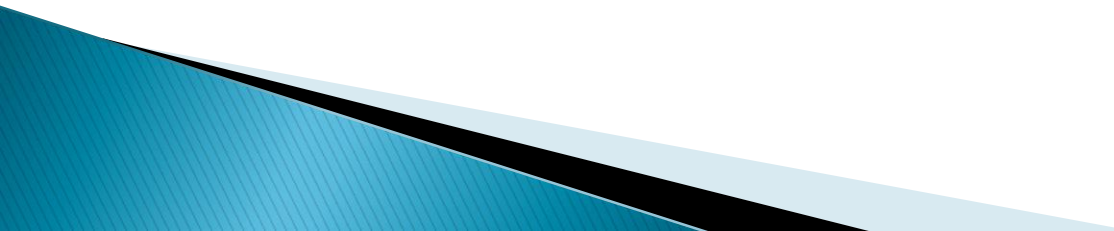


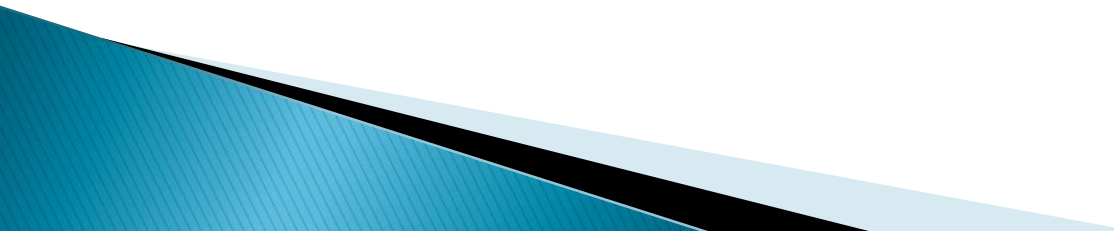
Credit Environment and Credit as a Part of Wealth Management

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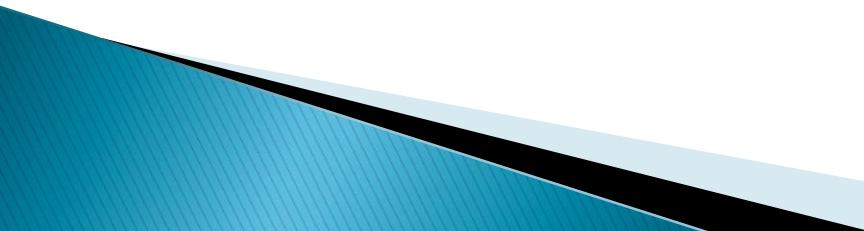
Outline

- ▶ Market findings regarding credit and wealth management
 - ▶ Types of Credit
 - ▶ Current Credit Environment
 - ▶ Partnership between Lenders and Trust Professionals
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Market information

- ▶ Wealth managers that offer lending have the opportunity to build long-term relationships with their clients
 - ▶ Industry experts believe that lending as part of a holistic wealth management approach is the way forward
 - ▶ Financial statistics reflect increased interest in lending among wealthy clients
 - ▶ Lending is part of a holistic approach that will deepen client relationships
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Market information

- ▶ A holistic wealth management approach is more than just assets and liabilities
 - Consultative approach for all generations
 - Understanding inter-relationship with the array of financial services
 - ▶ There is increasing demand for lending products from younger wealthy individuals
 - ▶ Offering liability management is an effective means to increase one's client base
 - ▶ Wealth managers that do not offer liability management will lose clients
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Types of Credit

► Commercial Loans

- Lines of credit
 - Marketable Securities or corporate assets as collateral
 - Short term assets matched with short term lending
 - Demand notes – interest only payments
 - Clean up may be required
 - Floating rate – LIBOR or Prime
 - Guarantee by principals of entity

Types of Credit

Commercial Loans

- Term loans
 - Equipment financing
 - Professional practice purchase or partner buy in loans
 - Long term need matched with longer term loan
 - Amortizing principal payments plus interest
 - Fixed or floating rate – LIBOR, Prime or Fixed
 - Guarantee by principals of entity

Types of Credit

Commercial Loans

- Time notes
 - Short term
 - Interest only with a bullet or 1 time payment
 - Floating rate typical
 - Bridge loans or loans tied to a specific event
 - Guarantee by principals of entity

Types of Credit

► Commercial Real Estate Loans

◦ Construction

- Loan amount based on as completed value
- 6 month to 18 month construction draw period
- Non revolving advance note
- Floating rate – Prime Rate or LIBOR
- Interest only payments

◦ Mini-Permanent

- Long term financing instrument with 3,5 or 7 year balloon periods
- Amortization of principal typically 20 years
- Typically fixed – fixed note rate or interest contract (SWAP)

Types of Credit

▶ Yacht Loans – certain banks have expertise

- New or Used – \$500,000 plus
 - Up to 20 year principal amortization – 75% LTV
 - Up to 15 year principal amortization – 80% LTV
 - Floating with LIBOR or rate fixed with interest Rate contract
 - Some fixed rate providers in the market for lower dollar amounts
- Offshore titling
 - Key question – US Coast Guard Documented or offshore?

▶ Consumer Loans

- Home Equity Loans
- Auto loans

Types of Credit

▶ Residential Mortgages

◦ Conventional

- Less than \$417,300 loan amount
- Low fixed rate environment
- No exceptions must meet all documentation requirements
- 30 year amortization is typical

Types of Credit

Residential Mortgages

- Jumbo
 - Loans over conventional limit
 - Portfolio loans – loans retained by the bank
 - 15 and 30 year fixed rate mortgages – investor
 - Typically fixed for 3,5, 7 or 10 years and then adjusts annually based on a 1 year LIBOR plus a set margin – portfolio
 - Underwriting can take assets and other mitigating factors into consideration

Impact of changes in Credit Markets

Commercial Real Estate

- Appraisal challenges
- Significant decline in values and rental rates
- All recourse financing
- Investor Real Estate Financing
 - Only if fully pre-sold or leased- limited availability
 - Difficult to justify – no speculative ventures

Commercial Loans

- Closely held companies
 - Liquidity and guarantor strength critical
 - Current and future strength within industry must be demonstrated - medical
 - Conventional small business lending is limited
 - SBA government support on the increase
- Specific Industries with difficulties
 - Automotive, real estate, marinas, boat sales
 - Retail, restaurant, service station continue to be risky

Residential Mortgage Loans

- Appraisal challenges
 - Greater challenge with the higher priced homes
- Jumbo Mortgages
 - Limited secondary market
 - Limited fixed rate availability
- Conventional market
 - Conservative standards again – FNMA
 - Foreclosure backlog coming to market
 - Condominium lending difficulties

Consumer Credit

- Home Equity Lines
 - Limited equity availability
 - Pricing is higher
 - More restrictive underwriting - LTV
- Credit Cards
 - Usage and limits being reviewed
 - High limit cards more difficult to obtain

Opportunities due to the current credit/economic environment

- Residential real estate purchases – buyer's market – careful selection process – low rates
- Commercial real estate purchases – buyer's market – owner occupied most advantageous – low rates
- Transfer of assets for estate planning – low valuations
- Opportunities for business acquisitions if client/ guarantor is financially strong

How can a Private Banker be a resource for a Trust Professional ?

- Closely held corporation experience
 - Business succession planning
 - Exit strategies for retiring business owner
- Leverage options to resolve estate issues or to preserve investment positions
 - Reduce commercial real estate loan balances
 - Secured line of credit to maximize return and to address tax position
- Structuring of loans for business or personal investments

How can a Private Banker be a resource for a Trust Professional ?

- Review of potential business investments for clients
 - Analyze information provided to the client by the seller – run financing scenarios
- Deepen and widen the overall relationship with trust clients or trust beneficiaries
- Professional relationship enhancement
 - Lending and business consulting for the firm
 - Mutual client financing needs
 - Resource for business referrals