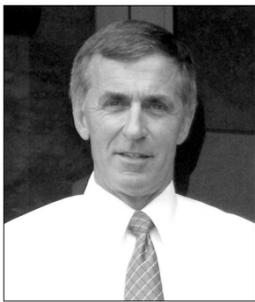


BURROUGHS FINANCIAL REPORT



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A BANK IS A BANK IS A BANK?

*Not anymore,
so choose wisely.*

At the request of my friend and colleague, John Burroughs, I will be his substitute writer for this edition, and as a slight change of pace, focus on issues of practical interest concerning banks and banking relationships. Much has changed.

A Bank is a Bank is a Bank, meaning banks are all largely the same, was a true statement if you look back forty years. At that time the industry was heavily regulated, with restrictions on lending programs, as well as mandated limits on rates paid for deposits. Deregulation hit the banking industry in the 1970's and with it came

change. That change has accelerated in recent years, and as we are painfully aware, much of the change was not for the better. As a result, there are now extraordinary differences between banks, something few of us have needed to think about in years past. Since virtually all of us do business with banks, here are some points to consider when choosing a new bank, or evaluating your current provider.

- **ACCESS:** Surveys reflect that access is far and away the most important consideration for individuals as well as for businesses when selecting a bank. Access means both prompt and efficient availability of your money, as well as the means by which to interact with company decision makers, be that in connection with a loan request or to resolve an account question or problem. As you might expect online banks, telephone banks, and brokerage banks often have difficulty delivering on monetary access, as it routinely takes up to two weeks to receive funds after making a request. Additionally, banks that have outsourced customer service and lending functions across the county, or even around the globe, struggle with providing decision maker access to their clients at every level.

You can begin to see how your bank stacks up with a simple test. Using the phone book dial the number listed for your local office. Keep track of how long it takes to talk with a live representative, located in the specific office you are attempting to call.

Realistically this process should take thirty seconds or less during business hours. If it actually takes a number of minutes, there's a real problem.

- **SERVICE:** What first comes to mind are traditional notions of service. Is the Bank open? Are the lines long? Does the staff know me? Does my bank use the latest technology? Will I need to commit an entire lunch hour to cashing a check or making a deposit? Your bank should provide prompt service without compromising quality, or requiring an unreasonable wait. They should know your name. This means more than running you through a rapid fire assembly line, with someone reading your name off a monitor once they have swiped your bank identification card. There is also the purely business side to service. Is your bank providing you with the financial services and advice you need, or are they only interested in selling you the products they want you to have?

It pays to be a cautious purchaser. New services most often lead to new fees, so be deliberate in your selection process, and don't be oversold.

- **PRICING:** Make no mistake; there are vast differences in interest rates and service charges among banks. Locally, one year CD rates currently range from 0.30% APY (annual percentage yield) to 2.00% APY depending on the institution. If you have a \$100,000 CD, that's a \$1700 difference between the highest and lowest paying institution. It helps to shop around. Account service charge differences also abound, most significantly in the "extra" fee area. Costs for a variety of services including cashier's checks, overdraft fees, and bank added "foreign" ATM transaction charges can vary tenfold (1000%) with the detail usually lost in the account disclosure fine print. Be particularly wary of account offerings advertised as free. The "free" generally only applies to a base monthly charge and excludes the extras that some banks are experts at creating. These costs can be significant, and it is real money, so again, it pays to ask questions and do a bit of homework.

- **SAFETY:** All FDIC insured banks currently provide minimum \$250,000 coverage on depository

accounts, with the coverage being significantly higher in many cases. Even banks that are in financial trouble continue to provide FDIC insurance, but troubled banks are more likely to consolidate operations, lay off staff, increase fees, and make other changes that decrease service, than their healthier counterparts. It is also important to note that many banks offer investment products that are not true deposits at all, and therefore are not covered by FDIC insurance. It's critical to determine what type of account your bank is offering, and you need only request an account disclosure to find out. Of potentially greater concern are higher paying accounts that are represented as being "as safe as a bank deposit". A proliferation of such accounts emerged from non bank organizations particularly during the boom times between 2003 and 2007. Keep in mind that there is always a direct relationship between risk and return. If you are offered a dramatically increased return, while being told there is no risk, you should run rather than walk from the building. The collapse and bankruptcy of companies such as Cedar Funding Inc. last year, caught many Santa Cruz County investors off guard, and

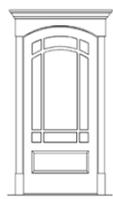
unfortunately many are likely to experience significant losses of their investment.

- **VALUES:** We all have values; does your bank share yours? It's fair to ask what your bank is doing with your money. Are your bank's local deposits reinvested locally? Are your deposits headed out of town, or even out of the country in support of the economic growth elsewhere? Does your bank contribute to local economic development, support education, youth sports, the arts, and social services, to a degree reasonable when considering its size and share of the market in this community? Again, it's a good idea to ask, and if no one can tell you, keep asking. If no one will tell you, head for the exit.

Times have changed, and banks have changed, with the assumptions and myths of banking past now a part of history. It's your money. Ask questions, and be selective. It will result in a much better choice.

Rick Hofstetter is President and Chief Executive Officer of Lighthouse Bank, and was previously President of Coast Commercial Bank. He has been a community banker in Santa Cruz since 1983. Lighthouse Bank is locally owned and operated in Santa Cruz County.

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