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 Our Approach is simple...  
**PARTNERSHIP** in business  
**QUALITY** in product  
 and **INTEGRITY** in people

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**Newsletter** **1<sup>st</sup> Quarter 2012** **Issue No. 2012-001**



## RLR is moving!

RLR will soon be relocating its offices from La Quinta to Palm Desert. Late last year, we decided to purchase a commercial building just north of the 10 Freeway in Palm Desert, which is pictured below. We anticipate relocating our offices in the second quarter of this year, once we have completed the build out of a portion of the interior. Please watch for a change of address notification coming to you in the not too distant future.



A short story accompanies this move...As Ruth and Mitch complained about the high cost of rent over conversation with friends one evening, we were asked “why don’t you buy a building”? Well, I guess we never thought about it, but low and behold, the mortgage is less than what we are paying for rent and we now are the proud sponsors of four tenants who also contribute to our bottom line! Guess we should have had this discussion a long time ago. Anyway, special thanks to **Paula Turner** of Desert Pacific Properties for making this happen and taking time away from working OREO properties and from her Commercial Real Estate company to help us through this purchase!

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 PROPERTIES, INC.  
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*Recent article published in the January/February 2012 issue of the Western Independent Banker:*

## **Best Practices-Keeping Compliance Costs under Control**

By Ruth Razook and Myers Dupuy

New Year, New challenges. There is always the temptation to cut costs on anything deemed “not essential”. How does that impact the budget for the compliance/risk management department? A survey was conducted by cbanc Network ([www.cbancnetwork.com](http://www.cbancnetwork.com)) in September 2011 to find out:

- Resources that compliance staff use to do their jobs;
- Spending amounts for resources;
- Free/affordable resources available to curtail costs in the coming year. \*\*

From the 300 respondents ranging from \$20 million to \$13.1 billion in assets with a median asset size of \$480 million, the results were encouraging!

From a budgetary standpoint, here’s how compliance departments are faring with shifts in spending:

- 47% - department budget remains the same
- 35% - budget increasing
- 5% - budget decreasing
- 13% - don’t know

Spending related to compliance department support:

- 46% - 0-\$10,000
- 36% - \$10,000-\$50,000
- 4% - \$50,000-\$100,000
- 2% - \$100,000+
- 12% - don’t know

With the ever-increasing rules and regulations, we are pleased to see that the majority of financial institutions’ budgets have remained the same, and they spend less than \$10,000. We must note that the 35 percent that stated the budget is increasing and the 36 percent that spends between \$10,000 and \$50,000 may be the trend going forward. The Bureau of Consumer Financial Protection (CFPB) just opened for business in July 2011. The passage of Dodd-Frank suggests that we are going to be in an ever-changing regulatory environment for some time. With more than 200 “regulations” in Dodd-Frank, no one knows exactly what will be required from financial institutions in the years to come. Of course, we have those that continually say Dodd-Frank only affects the “big guys” – but hasn’t banking shown us that whatever the “big guys” do, the little ones follow? Stay tuned...

A recent article in *Bank Info Security* suggests that FFEIC compliance could actually save you money! A study, conducted by the Ponemon Institute and sponsored by Tripwire, found that companies that regularly review and maintain compliance with leading industry standards save three times more annually than companies and agencies that fall out of compliance. Of course, selling that to management is not that easy. For those banks that have encountered a regulatory order of a Civil Money Penalty (CMP), it is much easier to sell an increase to budget to management. We believe that financial institutions need to take a hard look at the future of compliance activities and prepare for an increase in the activity in the years to come.

The cbanc survey asked compliance professionals to list the resources they use to do their jobs – both cost-based and free:

Top Five Cost-Based Resources Used by Respondents:

1. Online training
2. In-person training
3. Newsletter subscriptions
4. Consultants
5. Training manuals

Top Five Free Resources Used by Respondents:

1. Colleagues at other banks
2. Industry websites
3. cbanc Network
4. Interactions with regulators
5. In-house testing

We have seen more and more financial institutions outsource components of compliance. Be that training (online training programs, in-person training programs), training manuals or consulting, it is money well spent. In the past few years we have seen companies built that focus solely on compliance. They are the experts, and they can stay focused and on top of the tumultuous regulatory environment.

Free resources are a great way to avoid “reinventing the wheel”. Starting with a blank piece of paper really is just not required anymore. Banks do not need to compete when it comes to compliance, so why not share with others what you have done in exchange for what they have done? The challenge is to make it “your own”. Too many times we find that financial institutions take something from colleagues or a website and simply implement it. Remember, it is a starting point and must be customized for your financial institution, your culture, align with your strategy, and reflect your financial institution’s risk appetite.

Asking the regulators is a good thing! Too many times we (RLR) are asked by financial institutions to ask the regulators a certain question, because the FI does not want to be “known” as the one asking! As the answer may be different for your FI versus another one in a different situation, it is best to ask the regulator and converse with him/her openly. We encourage this behavior and have utmost confidence in the regulators that it will not “backfire”.

One resource that’s always available is the wide range of offerings available through WIB (such as educational programs, newsletters, peer-to-peer conference call network) and related endorsed association partners. To learn more about these resources, go to [www.wib.org](http://www.wib.org) or [www.wibstore.com](http://www.wibstore.com).

It is worth noting that 47 percent of the survey respondents reported that they use cbanc Network to help them perform their job in compliance (as well as other departments), utilizing such tools as Exam Watch, vendor reviews, asking questions to peers, downloading policies, spreadsheets, checklists, and more. This *free* resource is available by joining [www.cbancnetwork.com](http://www.cbancnetwork.com). By designating that you’re a member of WIB, you’ll receive special gift points to use in the network to “purchase” and download content.

Every banker will knowingly concur that though it does cost money to maintain essential compliance protocols, lack of compliance is even costlier. WIB members can be assured that there are effective, yet affordable, options at their disposal.

Final thoughts with regard to keeping compliance costs down and managing risk: Combine two efforts! Each year, FI's spend substantial time and money in managing risk and complying with the constantly changing regulatory and operational compliance requirements. FI's have typically addressed compliance with a "silo" approach. Compliance and risk activities are frequently managed by different departments within the FI. This leads to duplications of efforts and unnecessary costs. FI's should look at adopting a strategic approach to governance, risk, and compliance where activities can be combined and duplication of efforts eliminated.

**\*\*** *Want to see a summary report of the survey? Go to [www.cbancnetwork.com](http://www.cbancnetwork.com) and click on the "join" button. Be sure and click on Western Independent Bankers in the association dropdown box. Once you're a member of cbanc, you can search for the survey by name and download.*



## DID YOU KNOW?

### **New FFIEC Guidance effective January 2012 Supplement of Authentication in an Internet Banking Environment Highlights**

The purpose of this Supplement to the 2005 Guidance is to reinforce the Guidance's risk management framework and update the Agency's expectations regarding customer authentication, layered security or other controls in the increasingly hostile online environment.

The Supplement contains a significant amount of background information and reiterates and reinforces the expectations in the 2005 Guidance. Since 2005 there have been significant changes in the threat landscape.

The 2005 Guidance's definition of "high-risk transactions" remains unchanged, i.e., electronic transactions involving access to customer information or the movement of funds to other parties.

The Agencies believe that it is prudent to recognize and address the fact that not every online transaction poses the same level of risk.

Online Retail/Consumer banking transactions pose a comparatively lower level of risk. FI's should implement layered security consistent with the risk for covered consumer transactions.

Online Business/Commercial banking transactions pose a comparatively increased level of risk. FI's should implement layered security utilizing controls consistent with the increased level of risk for covered business transactions.

There are three (3) significant actions that an FI must take to comply:

- Perform a risk assessment at least every twelve (12) months
- Implement a system of layered security
- Provide customer awareness and educational efforts to both retail and commercial account holders

Call us to assist you with complying to the new guidance. Financial Institutions should start now! You can also subscribe to our Technology Guidance program for more details.

Check out [www.rlrngmt.com/technologyguidance](http://www.rlrngmt.com/technologyguidance).

# Leveraging Your Technology Vendors

To leverage your technology vendors, you need to know that you have the right vendors, or you need to know you need to make a change. So let's talk about Technology Planning.



## Technology Planning

When was the last time you actually took a look at the technology that is implemented in your bank? When the contract renewed last? Within the last twelve (12) months? Within the last six (6) months? We typically find that banks do not take a look at their technology on an annual basis, rather it is looked at on an “as needed” basis or when your contract(s) are up for renewal. You know what you have, you know what you don't have, but it is what it is. Right? No, not really.

For the most part, we see banks have an annual “Review of Technology”, but not always in the right way. Most of the time, the technology *leads the discussion* and planning review, rather than the *business needs leading the technology requirements, strategy and planning*. Realize that there are two “types” of Technology Plans:

- Tactical
- Strategic

Tactical Plans typically:

- Identify solutions to technical issues and problems that the bank is experiencing
- Are driven from the IT department
- Are a short-term fix to issues/problems

The Strategic Technology Plan will identify what technology is right for your Bank. Strategic Technology Plans typically:

- Look at what technology is needed or should be evaluated over the next 3 – 5 years
- Include a methodology to align technology with the bank's strategic plan, as well as prioritize projects and monitor them
- Continually look out to industry trends and “what other banks are doing”
- If done right, will minimize the “tactical” issues!

Key considerations of a Strategic Technology Plan are:

- What technology do your customers want to be improved upon or want in addition to what they have?
- What market are you targeting to retain or get into?
- What do you want the customer experience to be?
- Should your technology be run in-house or outsourced?

A Technology Evaluation should start with:



- Defining your requirements (drive the solution, do not let the solution drive you)
- Doing your research and identifying all services providers offering the product/service
- Identifying current and anticipated volumes, product offerings, and technology spend
- Identifying operating efficiencies that may be realized with improved technology
- Looking to your core provider first (assuming you have a good relationship and no plans to change soon)

## Selecting your Technology Vendor

To RFP or not to RFP? That is the question?? The answer is YES! Many of our clients wrestle with this question. Do we dare put out an RFP for the purpose of reviewing other technology platform alternatives? Oh my...Do we dare change cores? What a disaster to think of going through a core processing conversion. Therefore, after this thought process, it often comes down to let's stay with who we are currently with and try to get the best price we can. End of one of the most important decisions a Financial Institution will make. Unfortunately, being scared of a conversion is not a good decision to stay with your core provider. Nor is it a valid excuse for not doing an RFP. Rather, let's examine some of the key items you should be asking:

- Is my core solution provider a trusted technology partner, or do I feel like I am alone on an island waiting for lightning to strike?
- Does my core solution provide me with an offensive weapon against my competition?
- Are we a growing bank, and do we have the core technology to meet our future growth, product and processing needs?
- Are we operating efficiently?
- Do we have the right security and risk management solutions in place?
- Is our technology cost effective?

We recognize that making a decision to conduct an RFP process is not for everyone. There are clearly legitimate reasons for not considering an RFP. Regulatory burdens, shrinking balance sheet, stabilizing a recently and/or significantly changed organization, or simply being very pleased with your technology provider.

However, if the answer to any number of the above questions are of concern, the RFP process has proven time and again to warrant innumerable benefits. That said, we recommend you consider the following:

- Take the time and publish a Request for Proposal (RFP)
- Consider all the factors:
  - Feature/Function
  - Provider reputation, financial condition
  - Client References
  - Price
  - Business Partnership characteristics

Key Considerations are:

- Remember the rule of thumb – you get what you pay for
- Cheaper is not always better
- Comparing pricing with your peers is not always the best idea
- It pays to shop around!

- Think outside the box
- Use consultants that more than likely know the “best price” out there

## Negotiating the Contract

When negotiating your contract, be tough! Just because the vendor “says so”, does not mean it has to be that way. Don’t be afraid to ask for what you want. Avoid long term contracts and if the vendor tells you that the 5 year pricing is 20% higher than the 7 year pricing, tell them that you want the 7 year pricing for 5 years. It may just work!

Some considerations in Contract Negotiations:

- Avoid long term contracts
- Include *tight* Service Level Agreements (SLA’s) and penalties for non-performance (including termination of contract)
- Make sure you know what you are paying for and what you are not paying for. Often times vendors bundle pricing and you may find out you are paying for something you just don’t need
- Ensure contracts address:
  - Security and Confidentiality of customer confidential information
  - Internal Controls (in addition to a SAS70)
  - Compliance with all state and federal regulations
  - Business Resumption and Contingency Planning
- Common Contract Pitfalls:
  - Limitations of Liability
  - Liquidated Damages
  - GLBA
  - Information Security



Let’s talk about “Exclusivity”....

Every contract we have ever seen has a clause in it that states something like:

*“Customer agrees that during the term, VENDOR shall be Customer’s sole and exclusive provider of all requirements covered by the Services”.*

This is not a good thing for the bank. Say you decided that you wanted to move to a new Internet Banking system that was not offered by your core vendor, and your contract is not up for renewal. If an Internet Banking product was in your contract, by having this clause in your contract, your vendor can continue to charge you for the service, for the contract duration. When negotiating your contract think about certain products and services that you may want to “exclude” from this clause and negotiate them with the vendor. Some additional products and services to consider are Mobile Banking, Account Analysis, Remote Deposit Capture, and Positive Pay.

**Ruth Razook**  
 CEO and Founder  
 RLR Management Consulting, Inc.





**Consultant Spotlight**

We are pleased to announce our newest consultant, **Melodee Fontana**, who started with RLR February 21<sup>st</sup> of this year. Melodee joins RLR as our newest Senior Consultant, and brings to us over 30 years of banking and bank executive management experience. Melodee most recently held the position of EVP/Operations Administrator. Her extensive expertise includes operations/administration, central operations, data processing and IT management, policy and procedure development and implementation, disaster recovery, project management, and customer service awareness/retention.

Melodee was a member of her institution’s Salary, ALCO and Compliance committees, She also Chaired the Audit Review, IT Steering, Business Resumption, and Operations committees, and was approved by the Board of Directors to also serve as the Bank Security Officer.

Melodee has extensive knowledge and experience managing Operational functions and departments within financial institutions. She has managed such organizations as central operations, item processing, branch banking and operations administration. Additionally, Melodee is a strong project manager, having managed and implemented a variety of Operations and IT programs including new accounts, RDC, Electronic Banking, IP, archival systems, branch certifications, report writing, wire services and intrusion detection. She has further managed bank system conversions and new product implementations.

Melodee has participated in various training opportunities provided by California Bankers Association, Independent Community Bankers, American Bankers Association, Wespay, and the Federal Reserve Bank.

Melodee is an avid Dodgers fan (this was a requirement of the job!), has one son, Josh who lives in Minnesota, and a 5 year old grandson, Sam. Melodee resides in Paso Robles, California.

**Please join us in welcoming Melodee to RLR!**

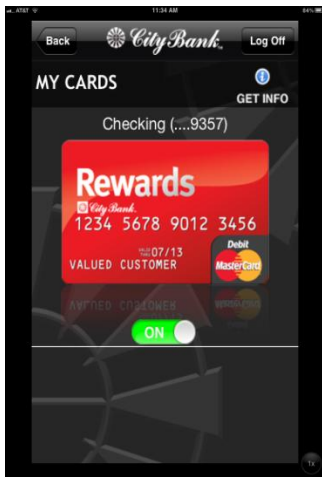


In loving memory of Barbara J. McPherson who was on the RLR Team for 10 years.

# A Story Of Three Mobile Banking Customers

By Robb Gaynor, Malauzai Software Inc.

Mobile banking apps are emerging as the channel of choice for community banks and credit unions. As of January, 2012, over nine-hundred (900) community banks and credit unions offer mobile banking apps in the App Store and Android Marketplace. Mobile banking is providing an opportunity to reach customers and members in ways that were unheard of only a few years ago. At the heart of the mobile transformation, is a focus on the customer or member. Great mobile offerings focus on satisfying end-users at the “speed-of-mobile” and use the channel in unique ways doing things you can only accomplish with mobile. This is a story of three customers and how they experience mobile banking.



A customer of City Bank Texas turns their debit card off during the frantic 30-minutes where they thought the card was lost. Another customer stops all possibility of debit card fraud by leaving their card off until they need it. Using a feature offered in the mobile banking app, both customers can turn on and off their debit cards in real-time. "If you wake up in the morning and don't know where your debit card is, or if you've misplaced it, you can log onto the mobile app and turn your debit card off," says Jim Simpson, senior vice president, CTO at City Bank Texas. "Then if you find the card later in the day, you can log back into the mobile app and turn the card back on. You're able to avoid calling an 800 number and going through all sorts of manual steps to do the same thing," says Simpson.

Other customers are using the feature to fight fraud. A customer can keep the card off and when the card is needed, the mobile banking app is accessed and the card activated. Once the card has been used, and the transaction can be viewed in the mobile banking app, the card can be turned off once again. This delivers safety and security and a great customer experience. All of this is only possible via the mobile channel. It is a great example of how focus on customer experience yields results. The bank has happy customers, a useful mobile offering and most important, differentiation, as City Bank Texas is alone in the marketplace in offering this type of mobile solution.

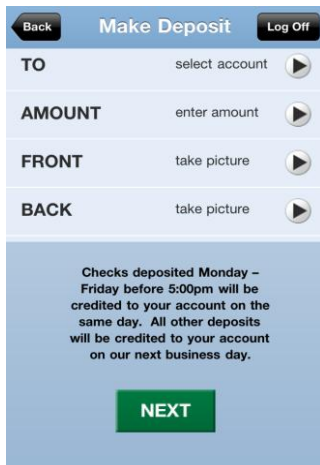
A customer of Walden Savings Bank in New York, recently experienced, well, nothing... The bank switched core processors and there was no change needed in the mobile banking app, and almost no interruption of service. Because of the appropriate level of separation between the mobile banking platform and the core-processing environment, there was no impact to customer experience. Most likely, other channels did not experience such a seamless and effortless core transition. The customer was able to conduct business, with no disruption, no App Store download, and no change to what they experienced.

A big part of having a great customer experience in the mobile channel stems from the ability to go about your day-to-day business without impacting the customer/member and creating calls or branch visits. “We were switching cores and we needed to minimize the impact on customers” says Cindy Voss, VP of Information Systems at Walden Savings Bank. “The Malauzai mobile banking offering was able to support the conversion with no impact to customers. That was our goal and they helped us get there”. Changing a core, swapping out an Internet Banking vendor or even simpler tasks like turning on and off bill pay for a customer or group of members, are all



examples of changes that need to be accommodated with a minimum impact on existing customers and members. Walden Savings Bank figured this out, gaining the advantages of a new core-processing environment with minimal customer impact.

A customer of Ameriana Bank in Indiana recently saved a trip to the branch by depositing a check via the mobile banking app on their Android smartphone. By focusing on allowing customers an easy way to deposit checks, and making the service available to all of their customers, Ameriana delivered on the promise of customer focus in mobile banking. With a minimum of steps, and only 1-2 minutes, a deposit can be completed. Customers may not deposit many checks, but when they need the solution, it creates a very positive impact on satisfaction and most important, the customer remembers.



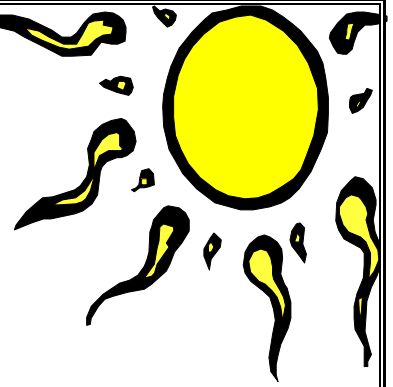
"One of our directors told me about a customer that drove 45 miles to find a bank that offered mobile banking" said Jerome Gassen, president and CEO at Ameriana Bank. "Mobile became a channel to reach customers, and mobile apps help us attract new customers, which is important to our strategy. We didn't want this channel to be dominated by the large banks". Yes, there are risks with mobile check capture. Yes, this is new. But the bottom line is Ameriana Bank is out-performing their competitors offering features reserved currently for the customers of Chase, USAA and PayPal. They are creating a great customer experience and differentiating themselves in the marketplace.

The customer and member wins when mobile banking is executed properly. In today's environment, where customer expectations are so high, and other mobile apps are so cool and easy-to-use, banks and credit unions must be focused on providing a great experience in the mobile channel. There is no "silver-bullet" to mobile banking success. The key is a layered approach where a series of really good experiences lead to a very satisfied and profitable customer or member. Mobile is the next big chance to get customer/member experience right. The banks discussed above are finding ways to push the envelope and ultimately satisfy customers in ways no one thought possible a few years ago. In the end, the customer and member wins. This has been a story of three mobile banking customers, and three innovative banks, all very focused on the customer experience.

**Robb Gaynor**  
*Chief Product Officer*  
*Malauzai Software Inc.*

On the

# Funny Side Up



## When did LOL become Laughing Out Loud and not Lots of Love?

I don't know about you, but with the onslaught of text messaging, I realized that we all need to learn the lingo. My sister, Barbara was a text queen. She would text literally hundreds of messages a day, and knew the lingo. I had no choice but to accelerate my understanding of the chat acronyms & text message shorthand. I was truly disappointed when I got a text last week with only a <3. I convinced myself that it was a keying error! Something kept bothering me, so I checked it out and yes, it means "heart". How was I supposed to know? I have noticed that persons of our age (young mid-life) who have young children or grandchildren are the ones that are the most proficient. Thought it would be fun - take the test.

**Answers on the last page of this newsletter!**

\*\$  
9  
99  
TMI or 511  
<3  
ALOL  
AML  
AWHIFY  
B4N  
BION  
BRB  
BTW  
BYKI  
CIL  
CM  
CT  
CTO

CUL8R  
CUZ  
DKDC  
FF  
FWIW  
G2G  
GMAB  
GMTA  
GRATZ  
GR8  
GWS  
HHO1/2K  
HHOJ  
HIG  
HUD  
IDK  
IDTS

IKWYM  
J2LYK  
L8R  
LMK  
LOL  
MML  
NMP  
OBTW  
RUOK  
S2U  
SYL  
T2UT  
UOK  
WBU  
WFM  
WYM

List of text acronyms courtesy of [www.netlingo.com](http://www.netlingo.com)



## Where RLR will be:

### Conferences & Exhibits

#### RLR is exhibiting and Ruth Razook speaking engagement:

- 3/31-4/4 **WIB Annual Conference for Bank Presidents, Senior Officers, and Directors** Hyatt Regency at Gainey Ranch, Scottsdale, AZ

#### RLR is attending:

- 3/14-3/16 **WSUG Spring Meeting** – Westin Gaslamp Quarter, San Diego, CA
- 4/22-4/25 **Focus 2012-A Fiserv Client Conference** The Venetian Las Vegas Casino Hotel & Resort, Las Vegas, NV
- 5/3-5/5 **CBA 121st Annual Convention/45th Annual Bank Counsel Seminar** Ritz Carlton Laguna Niguel, Dana Point, CA

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*Answers to test on page 12*

**\*\$** Starbucks  
**9** Parent is watching  
**99** Parent is no longer watching  
**TMI or 511** Too much information  
**<3** heart  
**ALOL** Actually Laughing Out Loud  
**AML** All My Love  
**AWHIFY** Are We Having Fun Yet?  
**B4N** Bye For Now  
**BION** Believe It Or Not  
**BRB** Be Right Back  
**BTW** By The Way  
**BYKI** Before You Know It  
**CIL** Check In Later  
**CM** Call Me  
**CT** Can't Talk  
**CTO** Check This Out  
**CUL8R** See You Later  
**CUZ** Because  
**DKDC** Don't Know Don't Care  
**FF** Friends Forever  
**FWIW** For What It's Worth  
**G2G** Got to Go  
**GMAB** Give Me A Break  
**GMTA** Great Minds Think Alike

**GRATZ** Congratulations  
**GR8** Great  
**GWS** Get Well Soon  
**HHO1/2K** Ha Ha, Only Half Kidding  
**HHOJ** Ha-Ha, Only Joking  
**HIG** How's It Going  
**HUD** How You Doing?  
**IDK** I Don't Know  
**IDTS** I Don't Think So  
**IKWYM** I Know What You Mean  
**J2LYK** Just To Let You Know  
**L8R** Later  
**LMK** Let Me Know  
**LOL** Laughing Out Loud  
**MML** Made Me Laugh  
**NMP** Not My Problem  
**OBTW** Oh By The Way  
**RUOK** Are You OK?  
**S2U** Same To You  
**SYL** See You Later  
**T2UT** Talk To You Tomorrow  
**UOK** Are You OK?  
**WBU** What 'Bout You?  
**WFM** Works For Me  
**WYM** What do You Mean?