

# **The Impact of Standardized Basel II on New York Banks**

**Prepared for New York Bankers Association**



# Executive Summary

- Basel II bank capital regulations are in the news ...



- We estimate that Standardized Basel II compliance will improve the regulatory capital ratios of 85.4% of 171 New York banks and thrifts
  - Aggregate potential capital savings for all 171 banks of \$1,944 million
  - The median New York bank would save \$2.5 million or 6.1% of their existing Tier 1 capital requirement
- Implementation is not without its challenges
  - Pillar II reporting can be complex and costly
  - Compliance requires demonstrated capital management capabilities
- Are your members aware of and prepared for these changes?
  - Second Pillar Consulting is uniquely positioned to help banks comply with Pillar II and obtain the capital relief they deserve

# New York Banks can save up to \$1,944 million in required capital under Standardized Basel II and improve risk management

## Capital savings estimate and asset category contribution

Regulatory Capital Requirement



Source: 2008Q3 Call Reports; SPC estimates

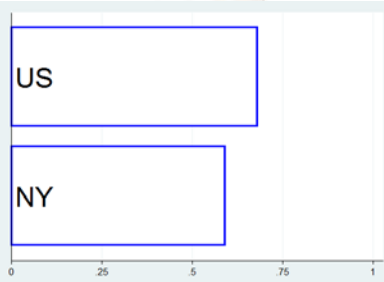
# For Alliance Financial Corporation, a representative New York bank, Basel II regulatory capital savings can be stockpiled or deployed

Capital Savings: \$7.0 million or 7.1%

Regulatory Capital Requirement



Capital Savings Percentile



Asset Mix



Capital Metrics and Management

Total Assets (millions)	\$1,349	
Gross Income Margin	4.0%	
Tangible Common Equity	5.5%	
Leverage Ratio	7.6%	
Capital Estimates	Current	Basel II
Tier 1 RBC	10.7%	11.5%
Total RBC	11.7%	12.5%
Potential Use of Basel II Capital Savings		
Special Dividend (\$/share)	\$1.48	
Share Repurchase (7/29/2008 price)	309,704	
Number of Shares	\$0.14	
Change in EPS	\$87	
Organic Asset Growth (millions)	\$87	

## Alliance Financial Corporation Syracuse, NY Highlights

- *Stockpile.* Under Basel II, total RBC increases from 11.7% to 12.5%, an amount equal to \$7.0 million or 7.1% of the existing capital base.
- *Deploy.* Incremental capital can be deployed with a variety of balance sheet actions that preserve the current 11.7% total RBC ratio:
  - Issue a special dividend of \$1.48 per share
  - Repurchase 309,704 shares, increasing EPS \$0.14 or 6.9%
  - Organically grow assets by \$87 million

Upon request, Second Pillar Consulting can provide similar information for all 171 New York banks free of charge

# New York banks with the highest percentage changes in regulatory capital under Standardized Basel II

Name	City	Asset Size (\$000's)	Basel II Capital Impact	
			Dollar Change (\$000)	Percent Change
Greater Hudson Bank	Middletown	\$ 67,969	\$ 1,418	24.5%
Global Bank	New York	\$ 89,845	\$ 1,681	23.5%
Gold Coast Bank	Islandia	\$ 42,644	\$ 3,625	23.3%
Genesee Regional Bank	Rochester	\$ 141,619	\$ 2,250	21.8%
Beacon Federal	East Syracuse	\$ 1,008,331	\$ 13,276	20.9%
Walden Savings Bank	Montgomery	\$ 322,359	\$ 5,022	20.7%
Merrill Lynch Bank & Trust Co., FSB	New York	\$ 35,845,565	\$ 477,870	20.6%
Alma Bank	Astoria	\$ 181,445	\$ 7,987	20.5%
Seneca Falls Savings Bank (MHC)	Seneca Falls	\$ 166,112	\$ 1,853	19.8%
Patriot Federal Bank	Canajoharie	\$ 51,577	\$ 944	19.7%
Waterford Village Bank	Williamsville	\$ 53,814	\$ 427	18.8%
Empire State Bank, NA	Newburgh	\$ 133,428	\$ 1,625	18.8%
Riverside Bank	Poughkeepsie	\$ 157,492	\$ 3,088	18.4%
Elmira Savings Bank, FSB	Elmira	\$ 462,649	\$ 4,723	18.1%
New York Private Bank & Trust Corporation	New York	\$ 13,692,504	\$ 139,079	17.9%
Discount Bancorp, Inc.	New York	\$ 9,400,769	\$ 113,187	17.7%
Catskill Hudson Bank	Rock Hill	\$ 200,685	\$ 2,549	17.3%
Bank Leumi Le-Israel Corporation	New York	\$ 5,620,504	\$ 96,041	17.3%
Alpine Capital Bank	New York	\$ 220,049	\$ 3,990	16.5%
Rondout Savings Bank	Kingston	\$ 205,961	\$ 3,771	16.2%
<b>Averages</b>		<b>\$ 3,403,266.05</b>	<b>\$ 44,220.35</b>	<b>19.6%</b>

Source: 2008Q3 Call Reports; SPC estimates

# New York banks with the lowest or negative percentage changes in regulatory capital under Standardized Basel II

Name	City	Asset Size (\$000's)	Basel II Capital Impact	
			Dollar Change (\$000)	Percent Change
Delaware National Bank of Delhi	Delhi	\$ 170,562	\$ (343)	-1.9%
Golden First Bank	Great Neck	\$ 28,230	\$ (88)	-2.1%
PCSB Commercial Bank	Brewster	\$ 25,394	\$ (163)	-2.2%
Ulster Savings Bank	Kingston	\$ 672,882	\$ (1,908)	-2.4%
Smithtown Bancorp, Inc.	Hauppauge	\$ 1,690,945	\$ (5,871)	-3.5%
New York Community Bancorp, Inc.	Westbury	\$ 32,161,610	\$ (90,659)	-3.5%
Chinatown Federal Savings Bank	New York	\$ 168,270	\$ (1,091)	-3.9%
Esquire Bank	Garden City	\$ 82,187	\$ (587)	-4.1%
Metropolitan National Bank	New York	\$ 566,424	\$ (2,784)	-4.5%
Brooklyn Federal Savings Bank (MHC)	Brooklyn	\$ 482,773	\$ (3,832)	-4.7%
Putnam County National Bank of Carmel	Carmel	\$ 157,307	\$ (2,083)	-4.7%
Bank of Cattaraugus	Cattaraugus	\$ 14,547	\$ (83)	-5.2%
Interinvest Bancshares Corporation	New York	\$ 2,180,746	\$ (17,737)	-6.3%
Abacus Federal Savings Bank	New York	\$ 230,245	\$ (2,821)	-6.9%
Atlas Savings and Loan Association	Brooklyn	\$ 58,658	\$ (1,535)	-8.5%
NorthEast Community Bank (MHC)	White Plains	\$ 394,057	\$ (7,705)	-8.8%
Apple Financial Holdings, Inc.	New York	\$ 7,098,580	\$ (71,223)	-8.8%
Victory State Bank	Staten Island	\$ 208,066	\$ (3,941)	-14.9%
Guardian Trust Company, FSB	New York	\$ 6,588	\$ (849)	-18.0%
Mitsubishi UFJ Trust & Banking Corporation	New York	\$ 286,786	\$ (48,798)	-19.1%
<b>Averages</b>		<b>\$ 2,334,243</b>	<b>\$ (13,205)</b>	<b>-6.7%</b>

Source: 2008Q3 Call Reports; SPC estimates

## But banks must be prepared to answer the tough risk management questions posed by Basel II compliance

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- Do you have a well-functioning risk oversight structure?
- Do you have clear risk management policies and procedures?
- Have you identified the important risks faced by your institution?
- Have you articulated an institutional appetite for risk-taking?
- Do you have accessible data on the risk characteristics of your existing portfolio?
- Do you have accessible data on the past performance of your portfolio?
- Do you have personnel that can fill critical risk assessment gaps?
- Do you actively manage and plan your capital position?
- Are you committed to enhancing your overall risk and capital management?

# Second Pillar Consulting can help banks prepare for Basel II compliance

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- Our principals have over thirty years of experience in enterprise risk management, regulatory capital compliance, and regulatory relations
  - Supported International Basel II compliance at a top-ten bank
    - Developed analytical and reporting capabilities
    - Created governance structure and supporting policies
    - Led regulatory exams for approval
  - Managed risk in retail banking, commercial banking, and insurance
  - Focused on building strong regulatory relationships
    - Active participants in several Basel II industry and regulatory forums that facilitated drafting the new rules
    - Frequent speakers at industry and regulatory conferences on Basel
    - Several Basel II academic papers written jointly with regulators

## Summary

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- Second Pillar Consulting is uniquely positioned to help banks comply with Basel II and get the capital relief they deserve
  - Services
    - Detailed Capital Savings Estimate
    - Gap Analysis
    - The Internal Capital Adequacy Assessment Process or ICAAP
  - Education
    - We conduct seminars for institutions and organizations on topics including Basel II compliance, Enterprise Risk Management, Capital Management, and Balance Sheet Strategy
  - Facilitation
    - We are currently coordinating the NPR response for the Risk Management Association and can help organizations and institutions with their response

## Contact Information

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