

# Ball State Business Roundtable

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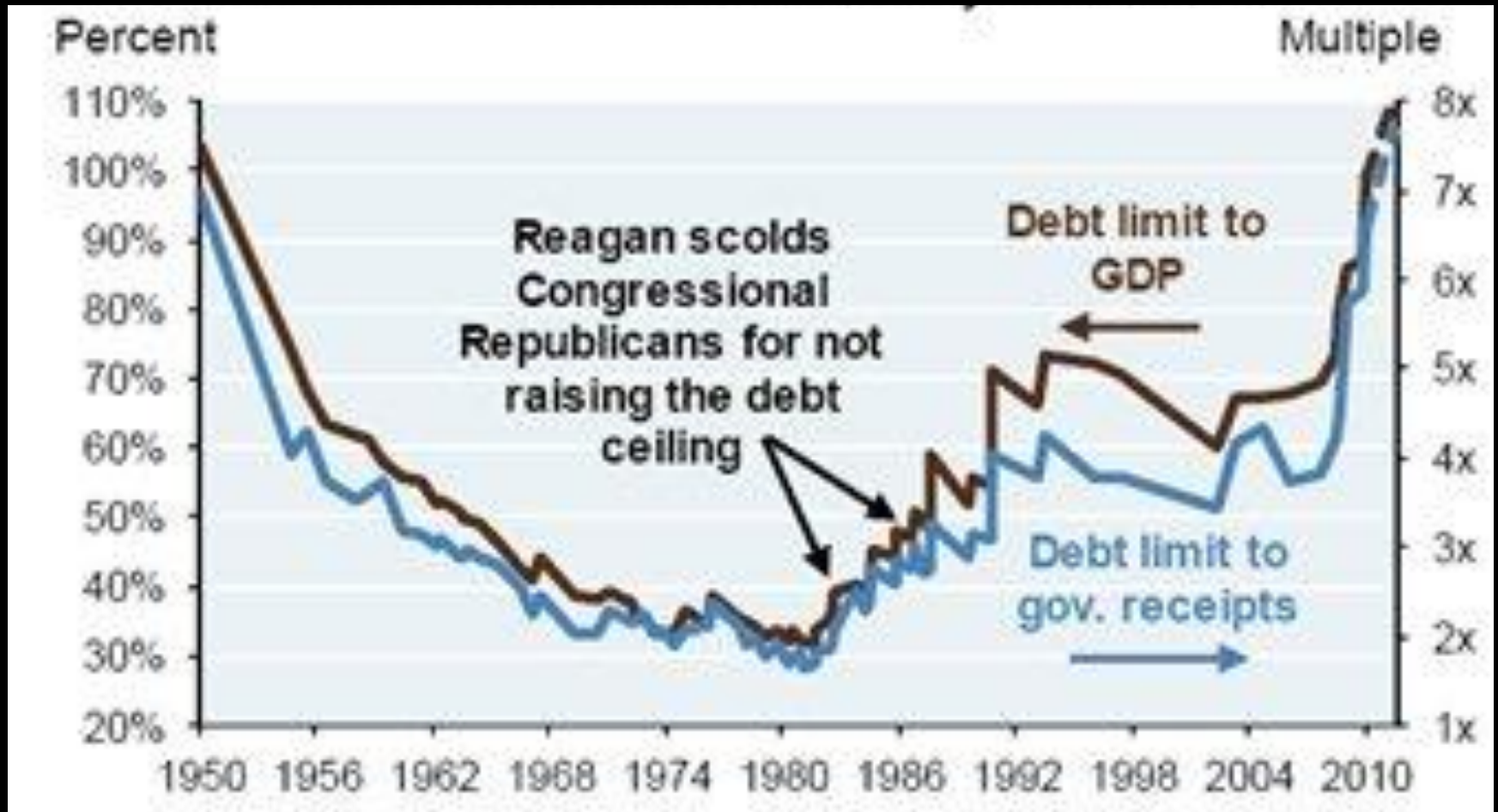
**RAYMOND JAMES®**



***Welcome***

**Steve Smith, Roundtable Chair**  
Midwest Metal Products Co., Inc.

# Debt Limit Debate of the '80s: *An Entirely Different Discussion*



Source: OMB, BEA, JP Morgan Private Bank



# ***Introductions***

**Dagney Faulk, PhD**  
Ball State University



# ***The Banking Environment Today: From the Inside***

**David Heeter**

MutualFirst Financial, Inc./MutualBank

# The Banking Environment Today— From the Inside

BSU Business Roundtable

August 24, 2011

David Heeter  
President & CEO  
MutualBank

*MutualFirst* Financial, Inc.

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*MutualFirst* Financial, Inc.



# Impact of Financial Crisis on Banking

1. Fundamental Confidence Blow
2. Revenue Generation Weakened
3. Regulatory Scrutiny
4. Regulatory Unknown

# 1. CONFIDENCE BLOW

Bank Failures—Why do Banks Fail?

Lack of Liquidity—Inability to Meet  
Cash Flow Obligations

Bad Assets--

Investments

Loans

# 1. CONFIDENCE BLOW

## What Really Happened?

- Economy Came to Screeching Halt  
Increased Unemployment  
Housing Market Bubble
- Collateralized Mortgage Obligations (CMO's)  
Underlying Value Not There
- Asset Values  
Investment Collateral Values  
Loan Collateral Values

# 1. CONFIDENCE BLOW

## Impact to Banks:

- Collateral Dependant Loans (LTV)
- Increased Delinquency
- Borrowers Willingness to Pay
- Loan Portfolio Value
- Investment Portfolio Value
- Investment Credit Risk
- Stressed Capital

# 1. CONFIDENCE BLOW

Capital is King:

Troubled Asset Relief Plan (TARP)

Capital Purchase Plan (CPP)

5% Dividend

Plus Warrants

# Why Do Banks Fail?

*“They simply don’t have enough capital to offset the depressed value of their assets and the cash flow to satisfy their creditors-depositors and funding sources.”*

*Heet*

## 2. REVENUE GENERATION

- Loan Demand Softens in Bad Economic Times
- Non-Interest Income Weakened
  - Investment Fees
  - Loan Fees/Activity Fees
  - Mortgage Banking Fees
- Rise in Expenses
  - Provision for Loan Loss
  - Credit Costs
  - Expertise Needed

## 2. REVENUE GENERATION

### Credit Costs:

- ❖ Lost Interest Income
- ❖ Collection Costs (People and Services)
- ❖ Expertise
- ❖ Loss of Collateral Value



# Non-Performing Assets/Assets



# Net Charge Offs/Loans



### 3. REGULATORY SCRUTINY

- Loan Underwriting
  - Policy/Practice
- Loan Management
  - Servicing
  - Collection
  - Loan Grading
- Compliance
  - TIS, TIL, BSA, AML, CIP, Reg CC, Flood, Etc.

### 3. REGULATORY SCRUTINY

Capital Adequacy

Asset Quality

Management

Earnings

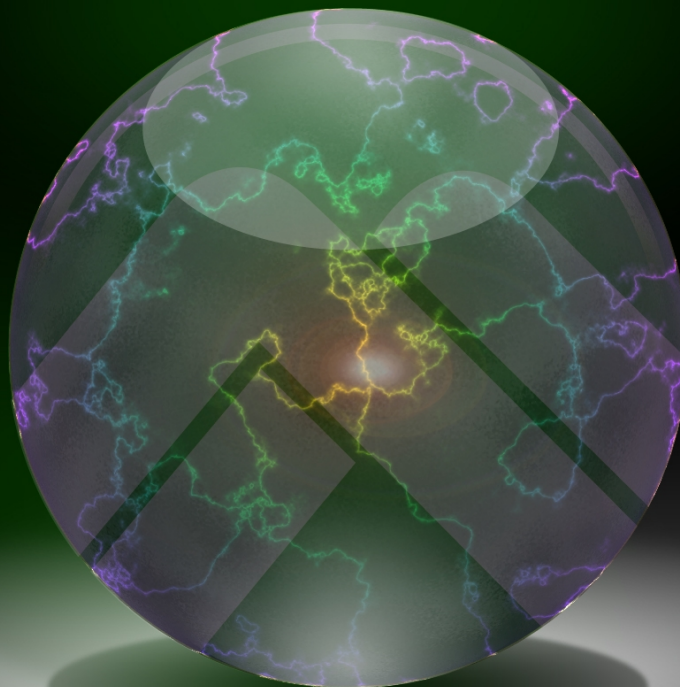
Liquidity

Sensitivity to Interest Rates

## 4. REGULATORY UNKNOWN

- ❖ Dodd-Frank
  - 235 New Regulations
  - 3 Separate Agencies Writing Regulations
  - Years to Write and Implement
- ❖ CFPB (Consumer Financial Protection Bureau)
  - Unlimited Budget
  - No Oversight

# What does the future hold?



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# Thank You

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**Thank you**  
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