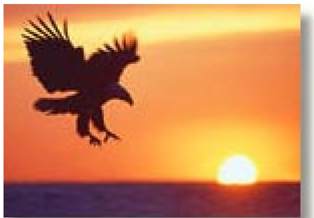

Eagle Net

WHERE EAGLES SOAR INC.
500192 Grey Road 12
Markdale, Ontario. N0C 1H0
Tel: 416-347-2469, 905-873-7733
Pat Palmer – Principal & CEO
E-Journal Newsletter – September 2009
E-Vol. No. 36

CANADA'S MORTGAGE LANDSCAPE

Looking back over the past two years provides insight into why Canada's mortgage industry performed better than other countries especially the U.S.A., which got mired in the sub-prime swamp. On the other hand, Canadian financial institutions did get burnt on investments in ABCP representing packaged sub-prime mortgages. For a few extra basis points, risk assessments were made at superficial levels when AAA & AA ratings were given through insurance guarantees where capital underpinnings were weak.

Back to the Canadian mortgage landscape where regulations on financial institutions and affiliated channels such as brokers are well structured. The broker channel may represent 25% of organizations but the accreditation and education processes as well as disclosure rules are standardized and monitored. In the two largest provinces, Ontario and Quebec, Errors and Omissions insurance is a requirement. Actually, most large FI's such as the banks operate captive, mobile mortgage representatives who have the added controls of the organizations they work for and in most cases graduated from. The banks generally exceed capital requirements for mortgages which is 7% and their finance departments are well respected in capital management standards and practices. The funding for mortgages comes from the balance sheets of well capitalized FI's unlike the U.S.A. where Fannie Mae and Freddie Mac provide the majority of funding and are backed by the U.S.A. government.

Without a doubt, the Adjustable Rate Mortgage products were at the centre of the U.S.A. mortgage crisis together with some questionable practices in the origination channels. Although there was an attempt to stretch amortizations to 40 years in Canada that was quickly retrenched to the 30 year maximum. Additionally, there have been substantiated stories of practices outside Canada where mortgagees financed well in excess of 100% of the property value perhaps as high as 130% or more!

Everyone was climbing a continuous mountain of capital appreciation, which turned into a landslide of falling property value.

I have seen various professionals compliment Canada on its "conservative financial services industry" but I prefer to think that it is a system based on prudent corporate and personal risk management as well as proven operating and regulatory controls. Canadian FI's do take calculated risks but the financial foundations are not widely compromised to gain artificial windfalls of inflated income.

GLOBAL FUTURES FORUM (GFF)

The GFF operated by David Smith, Chief Executive, regularly consolidates experienced input from hundreds of industry professionals globally and publishes the results and interpretations to help guide CEO's strategic thinking. Fortunately, I have been a member of this Forum for a number of years and want to pass on to our readers some of the bullet thoughts emerging from the recent findings. Although the majority of conclusions are U.K. and European oriented, international endorsements are evident.

- Financial service customers in 2009 continue to experience real wealth erosion and have started to increase their savings rates.
- Consumers' views of value have shifted and they are searching for value proposition improvements i.e. new experiences.
  Note: FI's have to find ways to reconnect with customers and rebuild trust.
- Service differentiation needs real innovation in (a) understanding "fair treatment, (b) measuring service performance, (c) ensuring fair outcomes and (d) eliminating any service failings.
  Note: Actionable feedback continuously is a prerequisite.
- Growth should focus on referral management excellence versus prospect development.

- More costs should be switched from fixed overheads to variable operating elements.
- Governments' financial flexibility going forward in some countries is severely curtailed by "bail out" investments.
  Note: British consumers feel more secure now with government backed banks.
- Consumers' Internet use accelerates especially sites for retail price comparison, ethical/eco-friendly products and money saving concepts.
- 7/24 has replaced the 9 to 5 culture.

In the U.K. there is a real perceptual dichotomy in that customers place value for money (43%) and customer service (41%) at the top of their bank wish list. The providers on the other hand believe that the range and number of products have the biggest impact on loyalty!

DIRECT RESPONSE MARKETING MOVES TO THE WEB

For years, companies including financial institutions have purchased "lists" from various retail or media organizations to target prospecting offers to segments and individuals. We all know this is not completely new but they are becoming more effective. Take HSBC who in affiliation with the Canadian Business e-publication have sent offers entitled "What makes an HSBC Premier Relationship Manager Stand Out!" The message starts off "Dear P.A. Palmer" and emphasizes all-inclusive financial solutions.

MICHAEL LEE-CHIN'S VANISHING EMPIRE

The last private mutual funds company in Canada, AIC, has been acquired by Manulife, for a fraction of its value three years ago. The $15 billion dollar company shrunk to less than $4 billion in 2009. News reports also indicate Michael Lee-Chin is trying to sell Caribbean investments.

BANK CHARGES GRAB CONSUMER ATTENTION

With consumers still reeling from recessionary conditions banks are increasing fees on a number of existing and new criteria. Some increases have been material, others small but all are irritants raising consumers' and businesses' attention. Most of the fee increases are clinically announced with traditional message rationale and lack of market empathy. Many consumers are starting to shop around more than ever and eventually there will be business shifts of partial relationships as people attempt to optimize value.

IMMIGRANTS RECEIVE SCOTIABANK ATTENTION

Canada's international bank, Scotiabank, has introduced their "Start Right" program for new Canadians. The value proposition includes no fee chequing, money master savings account, special GIC's, no fee Moneyback Visa card, Western Union transfers, safety deposit box, hassle free mortgage and 24/7 banking card. The individual products maybe familiar but the complete value equation is uniquely attractive and holistic.

MOBILE BANKING ACCELERATED ADOPTION

Tower Group's new report predicts that by 2013 more than 53 million U.S.A. residents will be active users of the mobile banking services channel! Recent economic concerns have prompted more people to want instant access and control over financial information. These are the two key value drivers for the mobile channel. FI's have to harness the smart tech integration that enables segmentation and personalization.

OUTSOURCING SET TO GROW

Economic pressures impacting the retail industry will move more European and North American companies to assess outsourcing technology and business processes to cut costs and focus on core competencies. This is the theme of Datamonitors' new report entitled "Retailing in a Recession: The Opportunities for Outsourcing". Since capital is constrained at present, outsourcers are going to have to be innovative, flexible and robust.

WEB 2.0 → 3.0!

How fast does technology expand? Some of us say too fast. Others wonder what's holding up progress.

Over the past three years, the talk has been Web 2.0 and the social networking dynamics it has brought to Facebook , U-Tube and others.

Now, the hype has commenced over 3.0 and the age of digital media. Read and learn about the new state in our lives and how it will affect channel management moving forward.

CANADIAN BANKS IN THE MONEY

Third Quarter results of Canada's six major banks show strong recovery results. The Royal Bank Financial Group comes in with $1.56 billion for Q3 versus $1.26 billion a year ago. Everyone is producing hundreds of millions in quarterly profits but there are some small clouds still floating such as the credit card portfolio at CIBC.

There has been speculation that the FDIC would love to see strong international banks like those in Canada look at injured bank acquisitions in the U.S.A. The conservative Canadians will be looking carefully in every closet with no intention of diluting their shareholder value on market strength. Moral suasion may work within the U.S.A. financial services industry but over the 49th parallel represents different independence and vigilance.

VISA & MASTERCARD CONTACTLESS COMPETITION

Barclays is introducing VISA debit cards with the new built-in contactless technology to up to three million customers this year. Currently 8K retailers accept contactless payments.

In the U.S.A. MasterCard's PayPass for contactless payments is being introduced by the Compass Group North America which is a leading provider of contract food service and hospitality services.

CANADIAN DNCL HAS LOOPHOLES

Almost 6 million Canadians signed on to the National Do Not Call List (DNCL) but the service has not been as successful as some might believe. The regulator, the CRTC, is investigating hundreds of complaints and has levied a few insignificant fines. Thousands of people are complaining to the media.

From the outset, there were exemptions e.g. researchers, political parties and charities and scammers would not be stopped, neither would those calling from the U.S.A., offshore companies or those with robo-calling capabilities. So callers pretend to be a market researcher, or your supplier plus they use phone phishing ("spoofing") that hides their identity.

Plus, just about any one can access the DNCL! In fact, public reports indicate that the list has been sold to two U.S. companies and one in India. The unscrupulous are getting around the rules daily.

In Australia, the laws have more "teeth". There, they are able to prosecute not only the company perpetrators who do the calling but also anyone who helps them obtain the numbers.

Consumers are upset and legitimated businesses such as financial service suppliers, banks, credit unions etc. who need consumer feedback get negatively impacted. Business has to support CRTC efforts to close the loopholes and address the penalties for those circumventing or breaking the regulations.

GMAC IN SHEEP'S CLOTHING!

GMAC LLC (the car finance company) has launched the online brand name "Ally" for banking services. Originally launched in the U.S.A. this spring, Ally now comes to Canada with a high-interest rate savings account and guaranteed investment certificates through GMAC's Toronto-based ResMor Trust Co. which it wants to convert into bank status.

OMBUDSMAN CHANGE

The Canadian Ombudsman for Banking Services and Investments is now Douglas Melville. Earlier this year, RBC withdrew from the reformed dispute resolution process which led to the previous Ombudsman seeking alternative employment.

THE LAST WORD

One of my pleasurable pastimes is talking to managers of various financial service branches on customer concerns. On many occasions like my discussion last week in a small rural community on the issue of customers' investment knowledge and portfolio risk contradictions became the focal point of our informal exchange.

You don't have to know Bernie Madoff in the U.S.A. or Earl Jones in Canada to realize that there are other copycats in cities and small towns, many of whom avoid publicity when uncovered. Additionally, managers inform me of customers who bring in portfolio reports for objective opinions. Invariably, evidence shows many individuals with higher risk investments than their situations necessitate be it age, health or other reasons.

Outreach to the investing public with empathy and education is a necessity from every competent corner of our industry. We cannot right past wrongs, we cannot work portfolio magic but we can help rebuild lives with understanding, truth and appropriate advice. This is our responsibility to customers, communities and our careers.