



Eagle Net

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LOOKING AHEAD IN THE REARVIEW MIRROR

On the surface 2009 has demonstrated recovery signs in various ways and to varying degrees in the international landscape and at home. The unprecedented equity rally helped many recover the previous year's paper losses. Still the hangover of the ABCP crash has not improved and millions of people have seen their life investments evaporate.

The financial industry, where the economic turmoil started, seems to be stronger although we at WESI remain skeptical about the health of the USA industry and perhaps some European quarters. Countries such as Australia and Canada fared well in their banking sectors and there are common lessons to be learned from these experiences. Our major concern rests in the United States where we believe more financial institutions will fail or finally announce significantly more reserves for bad debts. Will the USA see a double depression? Although the restructuring programs will continue to help, will more people finally get back to work? Will foreclosures (see following article) drop to more normal rates and the housing inventory finally decline? Except for China and India, countries' bottom lines are bleeding deficits and debts, which will be tax burdens for years to come.

Generally, 2010 should continue to show more positive signals for consumers, businesses and governments if all the financial ghosts are out of their closets and the hemorrhaging financial industry bad debts and losses decline. Perhaps the equity markets have come back too much, too fast and corrections will be in order as we turn the page on 2009. Undoubtedly, market dynamics will never be the same as the past with its credit fed conspicuous consumption and cancerous greed amongst corporate leaders. For certain, traditional consumer behaviours and business practices will be replaced with more balanced, controlled approaches.

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When we talk to family and friends there are countless stories of financial hardships from the recessionary fallout such as job losses, pension eliminations, wealth deterioration, bankruptcies, health issues, social break-ups and prolonged debt restructuring. Some financial costs are more obvious than others but at this point it is difficult to understand all the ongoing impacts on consumer and business behaviours. Going into 2010, we do see dramatic shifts in institutional trust, credit perspectives, investing relationships and wealth management plans i.e. creation, preservation and transfer.

Leadership and management errors, and yes greed, amongst local and global financial institutions have permanently damaged the trust differentiator for the industry and invited more regulatory interventions and scrutiny. The public is and will pay more attention to corporate performances, attitudes (especially around ecological issues) and customer practices. People have already lobbied politicians in some countries to regulate basic fees and interest rate methodologies, which were previous complaints but the irritants were not dealt with by management.

Since the beginning bell, the recession quickly brought to light poor credit judgement and extremely loose or non-existent credit standards or controls at granting institutions. Credit was important and still is for consumers to purchase real estate and critical durables such as automobiles. On the other hand granting 130% financing over 35 years for houses, or using a car purchase/financing as a debt consolidation of credit cards demonstrates how good credit standards broke down. Additionally, there may have been fraudulent practices involved in brokering transactions or informing unsuspecting borrowers of the true conditions in agreements.

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In the past few months with historically low interest rates, pent up demand by first time home buyers and the future threat of additional taxes on asset purchases, there has been an up tick in house sales in some countries. The home acquisitions are an important wealth acquisition/creation signal as are increased savings and market investments. Since mortgage rates are bound to be different at reset dates in the future, consumers need to be shown the rate/payment escalation possibilities up front.

Consumers will be shopping for their purchases and their supporting credit more than in the past. Information and proper sales techniques will be under scrutiny for the best deals. These are treated as commodities by consumers but they want honest comparisons and personalized solutions. People will take longer to make a purchase decision and less credit will be used than in the past. In fact, financial institutions will quickly learn that contingency savings will increase for a more balanced personal security position. These more focused behaviours on cost and credit should also increase interest in the "one account mortgages" where all deposit accounts and borrowings via loans and credit cards are netted daily to optimize the consumers' cash positions. Plus financial institutions will need to get a proper fix on the evolving credit preferences and behaviours of different customer segments moving forward.

Prior to the recessionary collapse, many consumers trusted their investing relationship advisors without many questions and in some cases they did not request risk tolerance objectives be set. On the other side some financial planners expanded their portfolio options to instruments that did not attract the required due diligence but offered attractive commissions. Consequently scrutinized relationship building, reinforcement or renewal is a priority with the new consumer behaviour. Interest searches and "second opinions" will continue to increase as consumers sharpen their knowledge and face to face questions/interrogations.

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Wealth management plans of millions of people have been destroyed or impaired to some degree over the past couple years. Perhaps there are other securities yet to fall as true conditions have been disguised in the short term. Whether the consumer is in the creation, preservation or transfer stage, the demands have changed and will continue to evolve. Value propositions have to be rebuilt on peoples' preferences and ethical relationship principles, which consider all aspects of the financial institution, its leadership, products, people and consumer centric attitude. Transformation is required to meet the new consumer behaviours.

CANADIAN BANKS BOOST ONLINE SELLING

American financial institutions have been quick off the mark to sell products online. Now the Canadian banks are starting to build up Internet capabilities and promotions to acquire financial services. Since Canadians are the highest Internet users per capita in the world, this should be well received if complimented with education and other efforts to overcome security concerns. In the past, the extensive branch networks have been the marketing machines but new technology and the telephony have made online applications more in demand. For example, TD Canada Trust has announced that it is making its website more of a retailing channel and it is also testing ATM's as a sales channel for credit cards.

CANADIANS: BANKS BEFORE FAMILY

TNS Canadian Facts, the Canadian arm of the UK based TNS, a social research firm, says that Canadians would rather acquire another credit card, line of credit or a second mortgage than ask family or friends for support in a financial emergency. Canadians do have more savings than people in other nations i.e. 4th out of 15 but are almost twice as likely to exhaust other options for emergency funds before asking family and friends. Academics and industry executives say that Canadians are socialized to be self-reliant and independent of others and don't want to burden relatives with their financial problems.

CCUC SIGNS MULTI-YEAR DEAL

Credit Union Central of Canada has signed a multi-year, multi-million dollar master service agreement with Everlink Payment Services Inc. to provide services to Canadian credit unions e.g. transaction processing, gateway access, chip card services, settlement and reconciliation, reports and data management, client support, disaster recovery, ATM driving and monitoring, ATM management, data warehousing and fraud management

LOSS PREVENTION & SECURITY EDUCATION FOR BUSINESSES

RBC Royal Bank is offering a free download of a "loss Prevention and Security Self Assessment Guide" to help retailers identify key areas of potential loss and to plan appropriately.

INDIA: CENTRAL BANK DEBUTS GIFT & VIRTUAL CARDS

Central Bank of India and REV now offer a new gift card and first of its kind virtual card for holiday shoppers. The Central Bank of India MasterCard® Gift Card plus the Rev® Gift Card allows Indian consumers to shop in stores or online even if they don't have a bank account or credit card.

STILL MORE USA HOUSING WEAKNESSES

With higher unemployment, foreclosure rates are higher in the United States as we end 2009. The next two years could be worse as millions of conventional mortgages are due for renewal by Americans who originally did not have to give proof of employment. Plus alternative mortgages were advanced against de-emphasized credit ratings and incomes. Starting in January 2010, these mortgages begin the reset cycle. In the most recent quarter one-third of the foreclosures included Americans with solid credit ratings at the origination time. The United States is experiencing the highest jobless rate in three decades and the projected increase in foreclosures will add to the seven-month inventory of homes that currently exists. Consequently, house prices will go lower and an already stagnant economy could be destabilized again.

U.S.A. CREDIT CARD PROVISIONS START TO ROLLOUT

The provisions in the U.S.A. Credit Card Accountability, Responsibility and Disclosure Act have commenced with the introduction of the 45-day notice period for any rate increases. Most provisions take effect in February 2010. In the meantime, some credit card issuers are raising rates, cutting limits and changing practices quickly. For example, JP Morgan Chase has increased its minimum monthly payment percentage to 5% from 2%.

U.S.A. FIRST GLOBAL, MULTICURRENCY VIRTUAL CARD PLATFORM

Citi has launched Citi Virtual Cards Accounts, which generates unique virtual card numbers for transactions, allowing administrators to dynamically set spending and reconciliation controls on each virtual card account.

U.S.A. WALMART OFFERS CHECKFREEPAY

Walmart has implemented the CheckFreePay Fiserv service to enable customers to pay bills of more than 2,500 companies in person at any one of 3,755 domestic locations.

U.S.A. CLAIRMAIL KEEPS GROWING

ClairMail continues to capitalize on its best-of-breed mobile banking solution with more than 45 FI's including six of the top ten U.S. banks. ClairMail now enables over 161 million banking customers.

U.S.A. BANK OF AMERICA MERRILL LYNCH CASHPRO LAUNCH

CashPro has been launched to provide commercial and corporate customers a single point of access to global treasury, debt, cash management, investments, trade finance, foreign exchange services and other financial capabilities.

U.S.A. WESTERN UNION ACQUIRES CUSTOM HOUSE

Western Union's acquisition of Custom House opens up payment processing of business-to-business transactions originating in seven countries for payout in 120 countries.

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CASH BACK FRAUD: EDUCATE YOUR CONSUMERS

Consumer experiences in the USA at major retailers have raised a caution around unauthorized "cash back" entries. Basically, unsuspecting customers will have a \$20 or \$40 cash back added to their sales registers slip and a friend of the cashier next in line is given the cash. When challenged, cashiers will say that the electronic pad is defective or a similar reason. All of our customers should be alerted to review their sales slips before leaving cashiers at any retail point of sale.

U.S.A. CITIES FOCUS ON UNBANKED

Millions of Americans don't have bank accounts, perhaps as high as 20%. Cheque-cashing stores and payday lenders have targeted the unbanked successfully, charging high fees estimated to be over \$1,000 a year for the average unbanked person. Now almost five-dozen cities in multiple states have introduced "Bank On" programs, which encourage people to open no cost or low cost chequing accounts. In the past, lower income people have been concerned about bank fees and there was a lack of trust in the institutions. Congressional legislation to regulate fees has been introduced as it has been in Australia. Banks and credit unions that participate in "Bank On" programs must agree to consistent concessions. Some states such as New York, that don't like account features of the programs, offer chequeless accounts complimented with loaded debit cards and overdraft privileges. Will the unbanked gain enough trust to participate? Early numbers don't show a tidal wave of acceptance e.g. Bank On San Francisco had 41,000 accounts opened since 2006.

NEW TECHNOLOGY: REVERSE ATM FOR UNBANKED

An Oregon company is trying to reach the millions of unbanked or under-banked consumers, many of whom are paid in cash. Point of Wealth Systems hopes their touch screen kiosk, POWR, will attract people who can put their cash in and pay bills, fund debit cards and contribute to IRA's! POWR has to make processing arrangements with financial institutions and convince retailers frequented by the unbanked segment to accept the kiosks. Transactions fees would support the units.

PEACE ON EARTH

Here we are bringing 2009 to a close and celebrating the Christmas season. Everyone at WESI extends their best wishes to you, your teams and families – peace on earth and a merry Christmas. No doubt you have seen financial struggles within your families, amongst friends or your customer base. Some communities are showing better recovery signs but unfortunately the suffering continues in our communities and countries to different degrees. Hopefully we can share our blessings at this time of year and work to build a better tomorrow for all.

The WESI leadership has for years been involved with child abuse prevention and protecting youth or CAPPY. So many innocent children suffer physical, mental and social abuse, around the world even in the best democracies such as Canada. Please join us in our continuous personal mission, in whichever way you can, to prevent child abuse where you live, work and play.

God bless our children and may they all know the love of Christmas.

