



PRIVATE TRUST GROUP OF AMERICA

A Strategic Resourcing Partner for Wealth Management Professionals

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Sharing Ideas ~ Building Relationships<sup>SM</sup>

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Change is the incubator for success. We can embrace change and be energized by the opportunity, or we can shy away from it and become paralyzed by inaction.

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THANK YOU

To all who have contributed to our success over this past year, we express our sincere thanks and appreciation. The support and encouragement we receive from clients, friends and business associates continues to be a tremendous source of energy and inspiration -- not only to me, personally, but to our entire staff.

Obviously, we share a special bond with those who have entrusted their important business matters to our care; but we also appreciate those who have given us the opportunity to be considered as an alternative resource. Regardless of the outcome of any potential business relationship, we always feel that we have learned something from the experience and that we will be an even better business partner as a result.

As we approach 2007 and prepare for another successful year, we look forward to strengthening existing relationships and building new ones. It is in that spirit that we welcome your comments, suggestions and ideas so we can better serve our clients and the greater trust services community.

All of us at PTG extend our sincere best wishes to you and your loved ones for a pleasant holiday season and a happy, healthy and prosperous New Year!

Sincerely,

Sandi Lotito  
Founder

New Hampshire's New Trust Statute Creates National Interest

New Hampshire's "Trust Modernization and Competition Act of 2006" (TMCA or "the Act") has created a lot of buzz on the national scene.

According to one partner specializing in banking regulations and advising de novo trust companies for a Washington, DC law firm, "I am encouraging all of my clients to take a close look at New Hampshire. It is now without question the most favorable state in the nation in which to

establish a non-depository trust company or family trust office."

Some of the key provisions of the Act include:

- Reducing the regulatory burden of certain low risk, limited purpose, non-depository trust companies.
- Provides favored status to family trust fiduciaries and beneficiaries by creating Family Fiduciary Service Companies (single family

private trust companies).

- Customized the Uniform Principal and Income Act to provide more flexibility to fiduciaries when making adjustments between principal and income.
- A privacy shield that reduces the risk of trust company owners and management from having their identity stolen or from being exposed to other criminal activities such as kidnappings and extortion.

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## Justifying a Fair and Competitive Fee Schedule

One of the most difficult decisions faced by trustees is determining what to charge for their services.

As with most service-based professions, trustee fees are very much dependent upon the competitive marketplace. There are, however, subtle differences in the amount that can be charged, depending on whether the trustee is viewed as an institutional trustee (banks and trust companies) or as a private trustee, such as an attorney, accountant or other close family advisor.

One of the reasons for a divergence in fee schedules for these two groups (institutional trustees and private trustees) is based on perception. Institutional trustees are perceived as being cold and impersonal (bricks and mortar), while private trustees are perceived as being warm, sensitive and caring (flesh and blood).

### Institutional Trustees

Banks and trust companies are at a slight disadvantage when it comes to setting fees

for trust services because they are more dependent on the fee schedules of other institutional trustees in their area.

This is due, in part, to the theory that “institutional trustees” provide more or less the same services so their fees should be nearly indistinguishable from their competitors.

Absent a compelling reason to choose one institution over another, a client will often select the least expensive option. This usually leaves an institutional trustee with the choice of discounting its fees or seeing the business go to the bank next door.

Another more subtle reason institutional trustees find it difficult to charge reasonable fees is that clients do not usually make the financial connection between the trust officer and the institution. In other words, clients are

much more likely to negotiate fees paid to a corporate entity than to an individual.

### Private Trustees

Private trustees usually enjoy a much different relationship with their clients, which gives them a little more flexibility to charge higher fees or offer smaller discounts.

tees because of their unique relationship to the client.

Another advantage enjoyed by private trustees is one of loyalty. Most clients do not relate to institutional loyalty to the same degree they do to personal loyalty and friendship. Even when institutional loyalty is involved, it is usually the result of a long-term relationship with certain individuals within the institution and not the institution itself.

### Closing the Fee Gap

The main challenge facing institutional trustees is to develop a fair fee schedule with the knowledge that the competitive value of its core services is not going to be any different than its major competitors. Once that is done, make a list of premium services that will set the institution apart from its competitors.

Premium services should focus on doing whatever it takes (within legal and

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**“Absent a compelling reason to choose one institution over another, a client will often select the least expensive option.”**

Unlike institutional trustees, private trustees have little or no direct competition. If an attorney, accountant or other close family advisor is asked to serve as a trustee, it is almost certainly because that individual has known the client for many years and is already providing services in some other capacity.

While private trustees must charge within acceptable limits if they want the business, they are under less pressure to match fee schedules of similar private trus-

## New Census Data Shows Significant Increase in Women-Owned Businesses

According to the latest U.S. Bureau of Census statistics and the Center for Women’s Business Research, there are now an estimated 10.4 million U. S. privately-held businesses that are 50% or more women owned, accounting for two of five (40.2%) of all businesses in the country. These firms generate \$1.9 trillion in annual sales and employ 12.8 million people nationwide.

There are an estimated 7.7

million majority (51% or more) women-owned businesses, accounting for 29.7% of all businesses in the U. S. These firms generate \$1.1 trillion in annual sales and employ 7.2 million people nationwide.

Between 1997 and 2006, the percent growth in the number of 51% or more women-owned firms was nearly twice that of all U. S. firms (42.3% vs. 23.3%).

The largest share of 51% or more women-owned firms is in the service sector. More than two-thirds (69%) of these firms (5.3 million) are in services, including 2.6% in financial services.

The number of 51% or more women-owned firms in the financial services area grew by 67,663 (from 129,471 to 197,134) between 1997 and 2006, representing a 52.3% increase.

*Source: Center for Women’s Business Research -- “Women-Owned Businesses in the United States -- 2006.”*

**“Two things a man should never be angry at: what he can help, and what he cannot help.”**  
— Thomas Fuller

**New Hampshire's New Trust Statute Creates National Interest** *(Continued from page 1)*

- Enhanced the Uniform Prudent Investor Act and Uniform Trust Code to create clarity and flexibility in both of those statutes.
- Enables trust beneficiaries to modify or terminate irrevocable trusts without prior court approval.
- Holds excluded fiduciaries (i.e., those fiduciaries whose duties have been expressly limited by the trust instrument) harmless for actions taken by a fiduciary to whom the duties or actions were assigned.
- Limited liability for those fiduciaries making a “good faith” determination not to diversify trust investments.

The principal author of the Act is John P. C. Duncan, a Chicago-based attorney who has assisted in forming more than 30 trust companies in 15 states, and wrote the

CSBS Trust Company and Trust Modernization Act.

For more information about the “Trust Modernization and Competition Act of 2006”, or to contact Mr. Duncan directly, please visit his website at [www.duncancounsel.com](http://www.duncancounsel.com).

**Recent Article Causes a Stir**

PTG recently published an article entitled “Community Banks Have Lost the Battle for Trust Services.” Some readers have taken issue with the idea that trust services cannot be provided competitively for a profit, or that they have become a “commoditized” service to be exploited by large financial institutions and wealth management organizations.

Ironically, many of those who took issue with the article are already doing some of the things that local trust departments must do to become profitable and competitive, such as outsourcing trust operations and, at least to some degree, using an open architecture environment to access outside investment managers.

**The Self-Preservation Rule**

Some took care to point out that local trust clients expect investment and other decisions to be made at the local level. We refer to this as “The Self-Preservation Rule.” The thinking here goes, “If I don’t have an in-house trust accounting system and a large operations staff, or if I include outside investment

managers to help manage clients’ assets, how can I justify my position and compensation package to the bank’s BOD and executive committee?”

We would argue that outsourcing trust operations and having some form of open architecture capabilities for accessing outside investment managers will actually make the position more valuable, not less.

“Add 50% in soft dollar costs to each employee’s hard dollar costs to approximate the true cost of staffing the operations department.”

**Operations**

Outsourcing trust operations can benefit the “self-preservationist” in three critical ways, thus making him/her even more valuable to the institution:

**Staff Utilization** - Most managers only look at staffing in terms of the hard dollar costs of salary and benefits. Soft dollar costs attributable to normal employee turnover, personality conflicts, training and related matters that prevent the institution from maximizing operational

efficiencies do not get reflected in the bottom line and, therefore, do not receive proper attention. Add 50% in soft dollar costs to each employee’s hard dollar costs to approximate the true cost of staffing the operations department.

Outsourcing trust operations will not necessarily result in immediate staff reductions. In some cases, staff reductions can come thru attrition,

or qualified staff may be moved to more responsible positions within the department or in another area of the organization.

**Increased Oversight and Control** - Outsourcing trust operations also provides greater management oversight and control of the operational and regulatory process. A good outsourcing partner will allow good managers to spend less time trying to stem the flood of day-to-day operational crises and more time on important oversight and control issues, which

will have a positive affect on the overall success of the department.

**Overall Efficiency** - Most of us focus on outsourcing’s direct benefits of staff reduction (or redeployment) and the resulting cost savings. Of equal significance are the benefits that a good outsourcing partner can offer by being aware of advances in technology, and even being the bank’s voice in gaining greater efficiencies by pushing technology to its limits.

A third party provider of outsourcing services depends on pushing the technological envelope to keep clients happy and to come up with a better “mouse trap” to gain market share. An in-house trust operations staff has no such incentive. In fact, they are usually so busy keeping up with daily time-sensitive schedules that no time is left to explore new technologies or learn to use alternative ones.

**Investment Management**

Some responded to the PTG article by pointing out that clients expect

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**Recent Article Causes a Stir** *(Continued from Page 3)*

their financial assets to be managed locally. These arguments are not without merit considering the many options directly available to clients outside their local communities. After all, if clients were really looking for diversified asset management beyond their local trust officers there is no shortage of places to go.

The point of the article,

however, was to suggest that banks do not have to choose one at the exclusion of the other. In other words, some local clients may very well prefer that their investment decisions are made locally - but that should not prevent the local bank from expanding its investment management options to include top level managers from outside the bank. Failure to do so only prevents the bank from

expanding its service offerings to those seeking broader alternatives, and with today's open architecture there is no reason to impose such limits.

By continuing to live in the past and not taking advantage of the changes taking place around them, the self-preservationists may one day be in danger of extinction.



“Behold the turtle. He makes progress only when he sticks his neck out.”

— James Bryant Conant

**Justifying a Fair and Competitive Fee Schedule** *(Continued from Page 2)*

moral boundaries) to make your clients happy. As one of PTG's private trustee clients put it, “If you want to have a successful and profitable trust practice, you must be on call 24/7 and, in addition to attending the usual rituals such as weddings, funerals and birthday parties, you must be willing to do everything from admitting a beneficiary to drug rehab to cleaning out the attic -- and everything in between.”

Accessibility is the key that opens the door to premium rates. If an institutional trustee cannot put a face on the institution by making its trust officers available 24/7, it will be unable to separate itself from its competitors or charge a premium for its services.

Anyone in the department with direct client relationship responsibilities must get to know as much as possible about each of their assigned client relationships -- even to

the point of sharing their personal contact information so clients can contact them anytime, anywhere.

Again, according to one of PTG's private trustee clients, “Being a trustee is not easy. You can expect calls during dinner, in the middle of the night, on weekends, during

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vacations or whenever your client gets the urge to reach out to you for any reason. It may be as insignificant as finding a new gardener or as important as a death bed request, but you had better take the call and respond appropriately or you are not doing your job.”

And never say “No” to a

client's request for anything legally acceptable or morally responsible. Clients do not expect their trustees to have all the answers or solve all their problems, but they do expect them to know where to get answers and find ways to solve their problems -- even if it means bringing in outside experts.

By making the institution's trust officers available 24/7, the bank or trust company replaces the institutional feel of bricks and mortar with the human qualities that make individuals successful as private trustees.

When a bank allows its trust officers to act more like private trustees and less like

institutional employees, the bank will enjoy the best of both worlds. It will provide its clients with the human touch of a private trustee -- but with the generational stability of the institution, which is something that most private trustees cannot provide.

An additional benefit will come in the form of justification for higher fees. It is not unusual for private trustees to begin their fee schedules at 125 bps for basic trustee services (i.e., administration, operations and shouldering their legal responsibilities), excluding the cost of outside investment management advice.

Surely, community banks and local trust companies can justify charging similar fees if they are willing to provide similar services. It may require a strong commitment to educating staff and clients, but it is worth the effort.

**Private Trust Group of America** specializes in providing administrative and operational support to trust departments and wealth management offices nationwide. Our executive staff has over 100 years of combined trust and related technology experience, and our professional staff's average experience exceeds 22 years. Please take a moment to review our website at [www.privatetrustgroup.com](http://www.privatetrustgroup.com) for an overview of our services.