PRIVATE TRUST GROUP OF AMERICA

A Strategic Resourcing Partner for Wealth Management Professionals

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Sharing Ideas ~ Building Relationships℠

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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.

Topics of Discussion

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THANK YOU

To all who have contributed to our success over this past year, we express our sincere thanks. Without you we could not have passed the all-important milestone of celebrating our second anniversary of being in business.

As we approach 2006 and prepare for another successful year, we look forward to strengthening existing relationships and building new ones. Obviously, we share a special bond with those who have had the courage to work with our young company over the past 2½ years; 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.

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 & General Manager

The Changing Role of Trust Officers

The term "Trust Officer" is quickly and irreversibly being eliminated from the lexicon of official bank directories, and is being replaced with more client-centric sounding titles - such as "Client Relationship Manager" or "Wealth Management Advisor", to name a couple.

Unfortunately for many traditionalists, the trend does not represent a change in title only; it represents the new realities of a rapidly changing marketplace and a fundamental shift in the way trust services are marketed to wealthy individuals.

Deregulation of the financial services industry has opened up many new opportunities for banks but, as is often the case, new opportunities create new challenges. Not only did deregulation remove the barriers prohibiting banks from entering certain markets, it opened the door for other financial service

(Continued on Page 2)

Turnkey Asset Management Providers (TAMPs)

Turnkey Asset Management Providers (TAMPs) are quickly becoming an attractive investment option for bank trust departments and other financial service providers whose main focus is on managing overall client relationships.

"Investment management will become completely commoditized during the next five years, according to a vast majority of TAMP-affiliated advisors (96.5%) and wealth managers (89.9%)." - *Source: CEG Worldwide, LLC.*

This is not a surprising prediction if one considers the enormous amount of wealth being invested in a finite number of investment vehicles. The sheer volume of money entering the system virtually guarantees that all investment managers are making similar investments and, therefore, have similar performance results.

What does this mean for bank trust departments? It

(Continued on Page 2)

The Changing Role of Trust Officers (Continued from page 1)

organizations to offer traditional banking services. (See Regulatory Issues on page 4.)

The effects of deregulation, coupled with changing estate and trust tax laws, have created a new paradigm for bank trust departments and the people who run them. If trust departments are to survive and make a meaningful contribution to the bank's bottom line, management has to recognize the changing landscape and adapt to the challenges of providing more than traditional trust administration, bill paying and investment management services.

Historically, the traditional role of a trust officer has been a passive one in which he/she focused primarily on interpreting trust documents and responding to beneficiary requests.

"... bank trust officers must shed the image of being passive caretakers of the past by becoming pro-active advisors that help clients prepare for the future."

Competition for gathering assets under management has become so intense that virtually everyone with a bank account has become painfully aware of the vast array of financial products and services available to them. Technology has also made it much easier to gather information and compare the benefits of similar products and services.

As a result of these and other factors, bank trust departments are no longer the exclusive sanctuary for the privileged few who need sophisticated estate plans to reduce taxes and preserve their riches for future generations. And bank trust officers must shed the image of being passive caretakers of the past by becoming pro-active advisors that help clients prepare for the future.

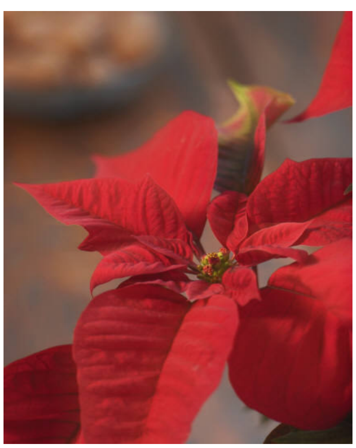
"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

- Winston Churchill -

Turnkey Asset Management Providers (TAMPs) (Continued from page 1)

means that trying to sell wealth management services on the basis of the bank's internal investment returns is probably not a good idea.

Based on most banks' own historical data, investment returns will probably be average, at best, so why try to make a sale based on the industry average? Why not take the approach that the bank can design an overall investment program based on the unique criteria and circumstances of each client, but rely on the expertise of several highly regarded national and international money managers to select the underlying investments?



"Investment management will become completely commoditized during the next five years, according to a vast majority of TAMP-affiliated advisors (96.5%) and wealth managers (89.9%).

- Source: CEG Worldwide, LLC.

TAMPs are especially attractive to small banks and trust departments that cannot afford to staff their own internal investment group. However, they could also prove to be attractive alternatives for larger organizations.

For example, a trust department with, say, $200 million of trust assets may want to utilize a TAMP for smaller accounts (under $50,000, for example) so their investment managers can spend more time with larger clients.

Having a mix of internal and TAMP investment options can also serve the purpose of setting the performance results of the TAMP as a benchmark against which to measure the bank's internal investment managers.

Ultimately, bank trust departments must offer more creative options that distinguish them from the growing forces of competition. TAMPs are a good way to show that the bank is interested more in helping clients manage the vast options available to them than just selling internal products and services that are no different than those offered by the bank down the street.

Private Trust Group of America specializes in providing administrative and operational support to trust departments and wealth management offices nation wide. 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 for an overview of our services.

Redirecting Financial Resources From the Back Office to the Front Office

Most community banks that offer trust and wealth management services accept the idea that such services are provided at a loss or, at best, a razor thin profit margin that is well below that of normal bank activities.

The reasons are not difficult to understand, and can be summed up with the answer to one very simple question. How can a department that generates gross revenue of less than one percent of the assets it manages compete with other bank divisions that provide net earnings of 3 – 5 times as much?

Revenue from trust and wealth management services is capped by standard fee schedules that have no relationship to the costs of delivering the services, and many smaller organizations are under pressure to discount their fees even further in order to add assets under management.

"It is estimated that roughly $2 billion in managed account assets is the threshold for profitability for a [wealth management operation], and much of the cost is in setting up the technology and operational infrastructure."

The shortfall on the revenue side is further exacerbated by the additional regulatory requirements associated with a trust charter, both in terms of routine annual hard-dollar audit costs and the ongoing soft-dollar costs of understanding and complying with those regulations.

The costs of recruiting, training and retaining qualified investment and other skilled professionals, coupled with standalone trust computer systems incompatible with the bank's IT structure present additional challenges to an already strained bottom line.

Regulators, Boards of Directors and Management are becoming more focused on the inner operations of bank trust departments and are beginning to question some of the previously held assumptions that these departments cannot be managed profitably.

For many community banks, so-called "wealth management services" have changed the dynamics of the traditional trust department from that of an insular group not well understood by other bank officers to one of the bank's leading sources for new business relationships. Changing the name on the door from "Trust Department" to "Wealth Management Services" will not, however, solve the profitability problem.

A successful transition from providing 19th Century "trust services" to 21st Century "wealth management services" cannot be made without breaking the mold of how the traditional trust department is managed.

To be successful in the new world of wealth management, costs must be aggressively managed and financial resources must be redirected from the back

(Continued on Page 4)

Trust Assets Top One Trillion Dollars for First Time

According to FDIC statistics, assets held in personal trust accounts exceeded $1 trillion for the first time in 2004.

The average size personal trust account was about $1 million, essentially unchanged from the prior three years. Personal trusts represented about seven percent of trust assets in 2004, down slightly from about 8.5 percent in 2001, but virtually unchanged from 7.5 percent in 2003. Almost 75 percent of personal trust assets were managed in 2004.

"The average size personal trust account was about $1 million, essentially unchanged from the prior three years."

Source: FDIC

As of December 2004, 1,658 institutions held personal trust assets.

The FDIC statistics also revealed that the number of all individual and institutional investment management agency accounts administered and managed by fiduciary institutions was down last year, from 3.3 million to 3.0 million. Investment management accounts represent about nine percent of trust assets, unchanged from the previous three years.

The average investment management account held about $425,000 in assets.

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Redirecting Financial Resources From the Back Office to the Front Office (Continued from page 3)

office to the front office.

According to a recent article in the June 2005 issue of *Bank Investment Consultant*, "It is estimated that roughly $2 billion in managed account assets is the threshold for profitability for a [wealth management operation], and much of the cost is in setting up the technology and operational infrastructure."

Community banks have a slight advantage over many of these organizations because much of the infrastructure is already in place and community banks do not offer many of the more sophisticated products and services available at high-end wealth management organizations.

Nevertheless, it is not uncommon for banks with less than $150 million in assets under management to struggle mightily to break even, and it is not unusual to see profit margins of departments managing assets in the range of $150 million to $1 billion suffer greatly from the mistaken belief that they can manage technology and operations more efficiently than third party providers specializing in those areas.

If community banks are to take advantage of the changes taking place in the wealth management area, they must allocate more resources to the front office positions that interact directly with clients on a daily basis. Given the artificial revenue cap mandated by standard fee schedules, this will require management to aggressively manage costs on the technology and operational support side of the business.

Competition and shrinking profit margins are convincing more and more banks to consider the advantages of working with a third party partner that understands the operational complexities of delivering timely and accurate information, and can relieve the bank of the heavy financial burden of operating the back office.

Estate & Gift Tax Rates for 2006

A reminder that the following estate and gift tax changes take effect in 2006:

Applicable Exclusion Amount: $2 Million
Lowest Estate Tax Rate: 46%
Highest Estate Tax Rate: 46%
Lifetime Gifts Market Value Exemption: $1 Million
Lowest Gift Tax Rate: 41%
Highest Gift Tax Rate: 46%
GST Exemption Amount: $2 Million
GST Transfer Tax Rate: 46%

"The avoidance of taxes is the only intellectual pursuit that carries any reward."
John Maynard Keynes

Regulatory Issues

Red Tape, n.
The collection or sequence of forms and procedures required to gain bureaucratic approval for something, especially when oppressively complex and time-consuming. The origins of the term are obscure, but it alludes to the former practice of the British government tradition of binding documents in red cloth tape.

Is Regulatory Relief on the Way?

The House Financial Services Committee has finished its work on the Financial Services Regulatory Relief Act of 2005 (H.R. 3505) and has sent it to the House where it has strong bipartisan support.

The purpose of the bill is to bring much needed relief to the regulatory burden that threatens the very existence of some community banks. According to Committee testimony, "...one out of every four dollars spent for bank operations goes to pay the costs of government regulations."

In addition to removing outdated regulations that have no current useful purpose, the legislation is designed to make it easier to open branches across state lines and would allow regulators to adjust exam cycles of healthy institutions so those institutions would be examined less frequently.

> "...one out of every four dollars spent for bank operations goes to pay the costs of government regulations."

The bill also contains some measures that may not please community bankers. For example, there are several provisions that would ease some of the regulatory burdens faced by credit unions, including an expansion of credit unions' commercial lending powers at the expense of banks.

Although House Finance Services Chairman Michael G. Oxley is not a cosponsor of the bill, he has indicated his strong support and said he hopes the legislation will move "on a fast track."

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