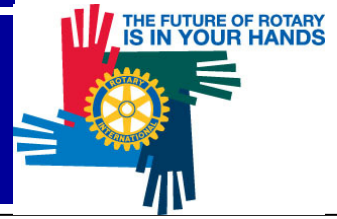


# The Spirit of U'Hills

## 22 January 2010



### PROGRAMS AND ACTIVITIES

- 1/29/10 ... **Craig Barnes, 2nd Base, Colorado Rockies.**  
Subject: **Back to the World Series**
- 2/5/10 ..... **Justice Gregory Hobbs** ..... Subject:  
**Abraham Lincoln and Equal Access to Justice**
- 2/12/10 ... **Bill Roth, CAO Mt. St. Vincent Home.**  
Subject: **The Amazing Story of Mt. St Vincent Home**
- 2/13/10 ... **Sweetheart Dance, Columbine Country Club**

### INSPIRATIONAL MESSAGE



Red Holland

**Red Holland** brought us our Inspirational Message today. And, in his own words, it went like this:

"I had a difficult time deciding what to do with the inspiration today, and then, checking my email this week my daughter sent me something on the 'Lessons in Life.' and I thought that would be a good thing to talk about today:

#### The Lessons in Life

1. *Life is too short to waste time hating anyone.*
2. *Pay off credit cards every month.*
3. *It's OK to get angry at God. He can take it.*
4. *When it comes to chocolate, resistance is futile.*
5. *Make peace with the past so it won't screw up the present.*
6. *If a relationship has to be kept secret, you shouldn't be in it.*
7. *Everything can change in the blink of an eye. But, don't worry, God never blinks.*
8. *Get rid of anything that isn't useful, beautiful, or joyful.*
9. *The most important sex organ is the brain.*
10. *No one is in charge of your happiness but you.*
11. *Forgive everyone everything.*
12. *Time heals almost everything. Give time, time.*
13. *However good or bad a situation is, it will change.*
14. *Don't take yourself too seriously. No one else does.*
15. *Believe in miracles.*
16. *God loves you because of who God is, not because of anything you did or didn't do.*
17. *If you threw all your problems in a pile, and saw every-one else's, you'd grab yours back. (prolonged laughter)*

### VISITING ROTARIANS AND GUESTS

**Sean Smiddy** was in charge of the introduction of visiting Rotarians and guests today. It went like this:

"The visiting Rotarian today was **Earl Wright**. He's with the Downtown Denver Rotary Club. He is also our speaker today so we will be hearing more from him later in the program."

**Todd Laurie** introduced his two guests for today: First was a colleague with AMG, **Emily Musser**. He also had **Joshua Peterson**. "I met him at a business meeting and we just seemed to click. He wanted to find out about Rotary and I invited him to join us today."

**Fred Cron** brought a guest with him today. "**David Jasper** lives in my cul-de-sac so I invited him over to our meeting today." Welcome, David.

**Dave McKinley** introduced his guest, **Herb White**. "Stand up Herb." So, Herb stood up while Dave told us that Herb is his guest today and that he's with the Public Service Credit Union.

Then, to close out the guest list, **Martha Diss Sundby** introduced **Peter Hynes** as her guest today. He's in the architecture and real estate development business.

**Rich Sattizahn** had a report on the planned microcredit-related trip to San Salvador. There hasn't been sufficient interest in the trip so it's cancelled. **John Lawton** is probably still going down there and check on the microcredit program implementation. He spearheaded to project and will be meeting with the host club.

**Todd Laurie** informed us that the Interquest Rotary Club in Colorado Springs is conducting their fund raiser, a Texas Hold 'Em Poker Tournament. "It will be on Saturday, 20 February 2010 at the Pro Rodeo Hall of Fame and will have between 150 and 180 participants. Whizzy is going and we would like to put together a group or two to go down and participate in the tournament. They raise between \$15 and \$18 thousand dollars for their Club's project of third grader dictionaries. If interested, please see me after the meeting and send me an email. Teams of six are \$59 per person. Individuals are \$75. The beer and wine is free. And, there's a really nice Marriott Hotel, really nice, just a block away from the Hall of Fame. Whizzy and I already have rooms—separate rooms—so come on and join us."

### VOCATIONAL TALK

**President David** next announced that we haven't had a vocational talk in some time. "It's an interesting feature of our meetings and we'll be having more of them in the future. **Eric**



Eric Budreau

**Budreau** will now tell us about himself and his business ventures.”

“I haven’t seen one these talks here yet so I called Sean and asked him, ‘What do they expect?’ The last time anyone even asked me for something even close to a vocational, Sean and I were at a bar. We sat next to two cute girls and one of them looked over and said, ‘Tell me what you do and tell me a little about yourself.’ And, being a tax accountant, I thought that

I’d better lie. So, I looked at her and said ‘I work for the FBI and the only way you’re going to get any out of me is either you’re going to marry me and I’m going to waste you.’ At that point, Sean looked over and said, ‘The only way you’re getting married is if you go out and buy a nice bottle of Kendall Jackson.’

“Anyway, I grew up in Aspen, CO with Sean. Sean and I probably met in the principal’s office more than once and when we graduated we were still in the principal’s office. Our families were very similar. I was raised by a single mom with two brothers, both of whom were in high school classes with Sean’s younger brother Colin and his younger sister Erin.

“I also have two older brothers and an older sister. That’s what I refer to as the dysfunctional Brady Bunch that is the rest of my family. I would explain it to you but Dave told me to keep it under five minutes and I don’t have a PowerPoint presentation.

“I left Aspen to go to Ft. Lewis College to try to play football...wasn’t successful. I was also a hockey player in high school back in Des Moines.

“After graduation from Ft. Lewis, I moved back to Aspen, tried to practice there for awhile as a tax CPA. Then, I realized that generating that 1.5 mil for my condo wasn’t going to happen right away. So, I moved to Denver. I’ve been in Denver since 1998. Worked for a big accounting firm, PricewaterhouseCooper, left there to start my own firm, did that for about four years and merged with another firm that at this point is about the 22nd largest in the country.

“I have a wife, Heidi. I met her on eHarmony and if you watch TV, during the bowl season we’re on TV in the commercial so I’ve been catching a lot of heck for that. We have two kids, daughters, and that’s a funny story. When I called Sean with my first child, I said, ‘Hey, Heidi and I are going to have a baby.’ He said, ‘Boy or girl?’ I said, ‘I know, but what do you think it is?’ He looked at me and said, ‘If God has any sense of humor, it’s a girl.’ So, I laughed. Then, when number two came along, we had the same discussion and I got another girl. Two girls. One is going to be three in April and then I had my second one in November.’ Question from audience: ‘And what was your wife doing while you were having your second one?’ ‘She was having the baby

with me and they look like me. They both have blue eyes.’

“We live in Highlands Ranch. My wife is the Director, Marketing Communications for a health care company here in town, Baxa Corporation. She’s cute and smart. Love Colorado. Interests are professional sports, Sean and I go to a lot of Broncos games, Avalanche games, Rockies games. I like to golf, workout, fish, hunt.

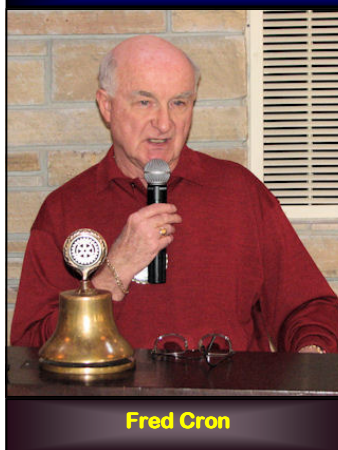
“And some of the things I’m involved with, obviously Rotary is something that Sean introduced me to and I’m very happy to be part of that. I volunteer at Children’s Hospital. I volunteer through the firm and head up our firm’s participation with Children’s. And, I do things like NAOP, Jefferson Economic Council, KC. I’ve also been in politics a bit with the Pitkin County Republican Party.

“I’m a CPA, tax accountant, very exciting stuff. When people ask me what I do, I say I’m a sleep therapist. If I get up here and talk a bit, you all would be asleep. I’m a tax partner with a firm called Eide Bailly, home office in Fargo, ND. I manage about 200 clients in a bunch of different industries. Some of my specialties are health care, banking, high tech, and a lot of service related companies. That’s about it, folks.”

**P**resident David reminded us of **Roberta Greengard’s** diaper drive for her *Babies Now Foundation*.

“Remember that two weeks from today, 5 February, we will be collecting diapers at our regular meeting here at Glenmoor, diapers for her foundation. Please keep that in mind.” [And, the wipes. Roberta said not to forget the wipes.]

**ROTARY AND U'HILLS FOUNDATIONS**



Fred Cron

**Fred Cron** reminded us that, “Last week, I brought you up to speed as to what we did regarding the Paul Harris Foundation (PHF), an international endeavor. A bit more on that: the District Governor will make a formal presentation recognizing our 100% participation in Rotary’s PHF. We’re attempting to schedule that. It might be a couple of months out. But, I spoke to him yesterday and

he very much wants to be involved in that endeavor.

“Our goal this year was contributions of \$8,500. Right now, we’re 300% over that goal. Not diminishing that activity, we’ve been contemplating moving on to a new endeavor, having succeeding very well with the PHF one.

“To reiterate, there’s only one other club in the entire District, 65 clubs, that is 100% participatory. And, throughout the world, there’s only 4% of the clubs that have made that achievement. In turn, we will receive that recognition.

“But, at this point, we’re going to pivot into the E.



Brent Hobson Fellowship (EBHF) endowment, our internal endowment. Of course, the PHF is international in scope and those moneys flow outside the state and even outside the United States. But, the EBHF is internal. We award a series of scholarships funded by the EBHF.

"In our last meeting, I showed you a number on a card.

9750

Its significance? That was the amount of money, \$9,750, that we distributed last year from the EBHF, so that becomes our goal for the RY 2010. Actually, we can probably achieve it in a couple of months, maybe even sooner. I wanted to review the history of the EBHF because it's been somewhat neglected although we've been working on it since October 1996.

"It was founded at a special meeting on 24 October 1996. It was the goal of the then President of our club, **Bill Rector**. He was the one who actually formalized the goal and the name of the endowment itself. The name came from a former, earlier club president. We collected funds over a period of years and then we've only relatively recently started to distribute them. We've made 19 awards of full EBHF fellowships to the members who made contributions of \$1,000 or more. And, we have 13 other individuals who have been subscribing to those scholarships. Today, we're going to acknowledge the ongoing program as well as the award of another EBHF. So, **Bill**, could you and **Don Goe** join me at the lectern?" And, that's what they did.

**Bill Rector**: "This award of the E. Brent Hobson Fellowship takes one of the 13 sustaining members to the full E. Brent Hobson Fellowship. That person had donated \$900 and then an anonymous contributor took it over the \$1,000 top.



Bill Rector and Don Goe

And, that person is **Don Goe**. We are awarding this EBHF in memory of **Fran Goe**, who everyone in the club knows passed away recently. And, this is consistent with the recent change we made in the scholarship program. This year's scholar was **David Schultz**, who was a guest here two weeks

ago. You couldn't miss him. He's about 6'6", a very good looking young man who is majoring in civil engineering at CU Boulder. He is the **George Ensign** memorial scholar. The next scholarship we award this year will be the **Fran Goe** memorial scholarship. One of the changes we're making right now, as Fred indicated, is to actually set a target for contributions. We would like to raise \$9,750 this year. The reason for the odd number is that is the amount we awarded on scholarships in the last year, RY 2009. That's the target. I encourage everyone to become a sustaining or full EBHF. Is there anything you'd like to add, Don?"

Don inquired, "Are you through?" Receiving an affirmative answer, Don told us what was on his mind. "I was invited here under false pretenses—I think <chuckle>. I was not

aware of the move to award the next scholarship in Fran's name. I know that would really make her proud and pleased, as I am proud and pleased."

"I was asked to speak about the scholarship fund and I'm in the process of mentally adjusting my thoughts as a result of the somewhat surprising events of the last few minutes. The fund and the scholarship situation is indicative of what this club has become over the years. When **Cliff Dochterman** organized the club in 1971, he had been a district governor out in California and he asked, 'Why would I want to start a new Rotary club?' Denver proceeded to encourage him to do so. So, he agreed and his stated goal was to make this club as nearly the ideal Rotary club as it could be. He wanted to emphasize the four areas of service<sup>1</sup> and we've done that over a period of years. Don then reviewed with us the club's service activities, past and present:

- **INTERNATIONAL SERVICE:**
  - > You know what **Fred Cron** has done internationally, resulting in our club's 100% PHF participation.
  - > Then, last year there was **Carl Gardner's** leadership on the wheel chair project in Costa Rica.
  - > **John Lawton** has been leading our microcredit projects for years. The current project is in San Salvador with a Rotary \$20,000 microcredit grant.
- **COMMUNITY SERVICE:**
  - > With **Bill Rector** leading the way, we decided to give a scholarship, not as a reward and a pat on the head but as an investment in promising students. These are four year scholarships and if the recipients continue to make acceptable grades, there is every reason to believe that they will be significant contributors to the community as a whole as they develop.
  - > **George Ensign** led the way in establishing our Outstanding Student Award project with the West Middle School.
  - > **Lowell Palmquist** is our head facilitator with the recently established Four Way Test project with West Middle School.

**VOCATIONAL SERVICE.** Our annual Les Bevans award goes to the Rotarian in District 5450 in recognition of a Rotarian involved, exemplifying, and contributing to the ideal of Vocational Service in his/her community.

**CLUB SERVICE:**

- > **Tom Benson** has led the way with the types of programs we've had for the past two years.
- > **Barry Dawson** has introduced the MOMS committee in a way that has been recognized nationally.
- > I need to suggest that last week's turnout at Fran's Memorial Service really hit home as an illustration of what this club's compassion can mean to a bereaved group of people.

"So, we're looking at two foundations and I would en-

<sup>1</sup> Club Service, Vocational Service, Community Service, and International Service.



courage you as best you can to split the kind of money you make, as Fran and I have tried to do, half to EBHF and half to the PHF. Lastly, Bill, thanks an awful lot for the recognition.”

Bill: “Congratulations, Don. We all love you.”

## EARL WRIGHT CEO, AMG NATIONAL TRUST BANK

Todd Laurie introduced our speaker today, saying: “It is a pleasure to have Earl Wright join us a second time to talk us today. He is the co-founder of the AMG National Trust Bank, started in 1972. Just to give you a couple of quick facts about AMG National Trust Bank. It is the fastest growing private bank in Colorado history. We are a very well diversified organization with trust services, private equity, investments...You can't find a place that has more tools to bring to bear in the economy than AMG.

“Earl is a graduate of the University of Nebraska, Lincoln, and has an MBA from the Wharton School at the University of Pennsylvania. He's a fellow Rotarian. I love working for a company run by a Rotarian. But, instead of continuing, I'd like to let him get started with his talk.”



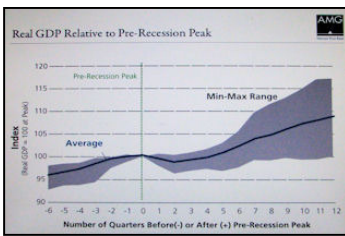
Earl Wright

Said Earl Wright: “It's nice to be here again. Thank you for the invitation. As Todd mentioned I'm the CEO of AMG National Trust Bank. I've come here today to talk to you about the current economic environment. But also to give you a better sense as to what we see happening with regards to a particularly important part of the economy: the real estate side and what that is going to do to the banking

environment. One of the things that we see happening coming up is that we have some very significant issues with regards to the commercial real estate and Colorado is going to be impacted by it. So, I'll talk to you about that today.

“The good news that we have for you is that the economic recovery is on its way. The bad news is that it's not going to be a very strong recovery. We, in effect, see a reasonably strong—maybe 2-4% at best—growth in the next 24 months even though we think it's going to be 2-3% in 2010. It might be a little higher than that in 2011 but in normal economic recovery, that's really weak. Normally, you'd have a 7% strengthening of the economy

“So what we see is a sub-par recovery. I have here for you a chart of the normal recovery and the normal economic cycles that we've had after WWii. Note down at the bottom, the horizontal axis is in quarters. Zero, with the vertical line, is when the recession starts. The worst we've had is that we normally get back to previous levels of GDP in



about four quarters. That's the worst we've had. The shaded areas are the minimum and maximum recovery experience. Well, this time it's a tad different. We are still just at the bottom of a recovery and we don't see ourselves getting back to the previous high for over 12 quarters. That is a post WWii record. When was the last time we had three years of either flat or negative GDP?" Answer from crowd: “The great depression.” “That's correct, the great depression. So, what we have here, if 2010 turns out as we anticipate, to be about 2.3%, we'll avoid another record after in the post WWii time.

“So this is a slow recovery we have in front of us.

And, what are we watching in that slow recovery? There are certain areas we want to watch and watch closely:

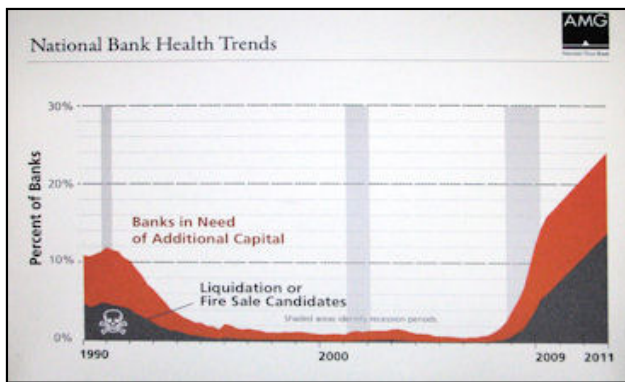
- **BANKING, CREDIT MARKETS AND INTEREST RATES.** Our banking system just about had an international meltdown which, thank God for TARP and the stimulus package, particularly TARP in the fourth quarter of 2008, was avoided internationally. The Fed Reserve and Bernanke were absolutely brilliant, and continue to be, with regard to trying to handle this situation.
- **BUSINESS AND RESIDENTIAL INVESTMENT.** We think that the residential investment has seen its bottom, particularly at the low end of the market. The high end is going to take quite some time to recover. But, at the low end, we see a recovery starting to occur. Interest rates are supporting it and mortgages are starting to become available. It's not as easy as it was and we aren't nearly back to where we were before. Businesses still are rather timid with regard to what they're doing.
- **IMPORTS, EXPORTS, AND THE DOLLAR.** We see the imports growing and as you know when you see the imports grow that works against your GDP. We think the dollar is in the process of bottoming out but it still has another 5-7% loss that we think will occur over the next five years.
- **ENERGY.** Energy (oil), from our perspective, is going up to about \$100 over the next five years. A lot of people don't realize that we have 2.5 million Bbl per day that comes out of western Iraq. If they start getting it into production in the next 2½-3 years, that's going to help the energy production significantly and will, hopefully, keep the price at no more than \$100/Bbl over the next five years. There are, obviously, things that could happen. If we had an Israeli attack on Iran, the Straits of Hormuz could suddenly be shut down and we would see \$200/Bbl oil.
- **INFLATION.** Inflation seems to be an area that a lot of people have significant concern about. In the inflation arena, we think the Fed is going to respond and respond well with regards to taking care of the excess assets they have on their balance sheet. The Fed has never, in its history, had the challenge it has today. But, I can tell you that based on conversations we've had with the Fed, they are absolutely convinced they can control the situation. They can take the excess money that's out there presently that in volatility



terms is about half the volatility they've had in the past. But, remember, the money supply is only inflationary if the volatility goes up with the money supply. And, right now, the volatility is very low.

- **FINANCIAL MARKETS.** We think corporate profits are going to come back to their pre October 2007 with S&P 500 around 92. And, by 2012-13, we'll see the financial market's earnings back to where they were.

“OK. What are the problems ahead of us? Answer: The U. S. Banking system. They still have some very significant issues in front of them. One of the things that we've done at AMG is to go to the FDIC and, under the Freedom of Information Act, collect information regarding the U. S. banking system that according to the OCC (Office of the Comptroller of the Currency) nobody else has. So, I'm going to share some of that with you today.

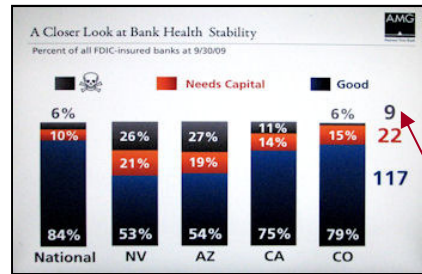


“Note that the period is from 1990 to 2011 with benchmarks at the 2000 and 2009 time period. The gray columns indicate recession periods. Note the recession period in 1990 (the S&L crisis), and 2009 where we are today. What we cover are the banks that may need additional capital or likely to go out of business. In 1990, approximately 5% of the banks either went out of business or were sold. And, another 7% of the banks needed additional capital during the S&L crisis. We all remember that: Silverado et al.

“At the beginning of 2009, as you can see, we're approaching the same levels again...as in 1990: 5% out of business, another 7% need additional capital. You probably know some of the banks that required additional capital, particularly some of the private ones.

“But, that doesn't tell us the whole story. The story is where do we think the banking system is going with regards to its ability to manage the capital it has in place and the real estate issues they have in front of them. Well, as you can see, based upon the analysis and information we have, we're saying that 14% of the banks aren't going to exist by the end of 2011. And, the additional capital that's going to be needed is something like 10%, total of 24% in trouble.

“We're going to talk about that because all of you are impacted. If you own real estate or are a real estate developer you're even more impacted. So let's move on a little bit. As you can see on the next slide, nationally, one out of eight banks is going to disappear. Gone. The situation in some of our neighbors is worse. Nevada, Arizona, and Cali-



fornia are going to lose 11% to 27% of their banks and from 14% to 21% will need more capital. Colorado is in a bit better shape: about 6% of the banks in Colorado

will go out of business or be sold and something like 15% will need additional capital. So, what does that mean in numbers? It means that in Colorado, nine banks will be out of business or sold. Another 22 will be out looking for capital. And, of the nine going out of business, some of those guys are in pretty big real estate loans.

“All right. That's the broad picture. Let's dig a little bit deeper into what's going on with commercial banking in Colorado and the U. S.

“What's going on in the nation now is that we have \$650 billion—out of a \$3.4 trillion commercial real estate (CRE) market—that have to be refinanced over the next four years and \$150 billion will mature in 2010 and will have to be refinanced.

“We've got a problem. It's called 'Bank Regulations'. The asset quality regulations say that you can't have more than 300% of your real estate relative to your Tier 1 capital. So, there are bank regulatory and asset quality issues that are challenges for CRE and construction financing.

“The 2006 loan portfolio concentration guidelines said that if I had a dollar of capital, I can have three dollars of real estate loans on my books: a 3:1 ratio. That was a guideline in 2006. But, guess what? It's no longer a guideline. It's a requirement. Now, if you don't have that 3:1 ratio, you'd better figure how to get it because you're in trouble with the regulators.

“Well, what does that mean to borrowers? It means the underwriting standards are going to increase even though you may have been paying on principal regularly. If you're above that 300%, the regulators are going to write you up and put you under stronger restrictions on what you can do at your bank.

“Let's take a look at the nation compared to Colorado regarding concentrations. In Colorado, about 150% of our capital base is in construction loans. In CRE, we have 250% of capital. And, if I add 150 and 250, for 400%, that's a formula for trouble. Then, if we throw in multi-unit housing, non-residential non-farm, commercial and industrial real estate, Colorado has a problem.

“One of the problems we had at the beginning of this recession was the quality of the assets. A measure of this feature of assets is the amount of charge offs. Colorado is relatively well off compared to the rest of the U. S. The national ratio of charge offs to total loans, for construction loans, is at about 6%. Colorado is less than half that, less than 3%. National rate for commercial and industrial is similar: 2.5% for the nation, 1.5% for Colorado. CRE: 0.9% for the U. S., 0.5% for Colorado. Multi-family: nationally, it's 1.3%. In Colorado: something like 0.01%. We just don't have many charge offs on multi-family loans.



“When all this is put together, what is the Commercial Banking Environment in Colorado?”

- Colorado bank loan portfolios have high exposures to CRE and Construction loans.
- Our current allowances for lease and loan loss may not cover potential charge offs, they may not be as high as they should be.
- And, this tells us that bank underwriting standards are getting more restrictive. You’re going to have a tougher time getting loans.
- You’ll find that fewer banks have the desire or the ability to underwrite CRE, Commercial Real Estate. This is the environment you’ll see over the next 48 months.
- Higher down payments mean less favorable cash-on-cash returns.
- But, there are opportunities here. The banks are going to have to sell some of their loans. The opportunity is to take advantage of the forthcoming charge offs, next 12 to 18 months, by purchasing distressed properties.

“All right, we now understand the problems pretty well. How do we react to them:

- For those involved in real estate and who depend on commercial real estate, etc., sometimes just surviving is success. I remember people saying that back in the 1970s. Let’s solve today’s problem, keep what we have, try to avoid having to start all over again.
- Remember...Cash Is King. Those that have cash will absolutely make a killing.
- Communicate with your banker. We want to know if there is an issue. Tell us ahead of time so we can work with you. Let the banker be your advocate.
- Be prepared for increased due diligence. Larger payments, and stronger debt service ratios are going to be required.

“Let me summarize. We see a recovery, but a slow recovery. We see interest rates increasing over the 24-48 months. We think the Fed will control inflation but we’re going to have some real bumps in the road, the commercial real estate road. That is going to impact the community banks in Colorado in a rather significant way. I’d be glad to answer your questions.”

**Question (Benson):** “I’ve heard that most of the real estate loans, the 3 to 7 year loans, have a balloon payment at the end of the loan and that these loans that are now coming due will be given the option of refinancing. One of the prognosticators has said that ½ of all the real estate loans coming due will not be able to refinance.”

**Answer:** “Tom, I don’t know the answer to your question but I can tell you that every one of them will be refinanced if they come up with more cash or collateral and they can make interest and principal payments. I can tell you that. I can *assure* you of that. But, if they can’t come up with more cash or collateral and can’t prove that they can pay the principal and interest or have a history of default, I can *assure* you that they *won’t* get the refinancing.”

**Benson followup:** “What’s going to happen to all those buildings?”

**Answer:** “Distressed sale, for 40 cents, 50 cents, 60 cents on the dollar. It’s happening right now. We just had a situation where we helped someone buy some assets at 65 cents on the dollar. There are going to be all sorts of transactions like that. And, George Soros or Warren Buffet or Anschutz or someone else with cash is going to take advantage of it.”

**Question (Whizzy):** “Go back over community banks, their balance sheets, and that Tier 1 capital business and how it comes into the computations.”

**Answer:** “Tier 1 capital is in effect...let’s you and I start a bank. We come up with the investment capital and start a bank. Now, let’s loan Pat some money. (Pat: “Please do”) Tier 1 is the capital we had to start the bank. It’s primarily common stock and disclosed reserves (or retained earnings).”

**Question (Hitchcock):** “With the banking real estate problems, it implies a rocky road ahead. But, you’re saying the financial markets are going to level off. Those two things seem dichotomous.”

**Answer:** “No, there are three things to keep in mind. (1) Don’t confuse politics with the economy. (2) In those large public companies, 40 to 60% of their earnings came from overseas. (3) Coca Cola is not going to be any worse off if the shopping center down the street is 20% vacant because the Chinese are buying a lot of Cokes. IBM isn’t going to suffer because they’re selling a lot of products in Europe, or Australia. So, what you have is a lot of large and mid-size companies that will do OK because of their international business.”

**Question (Gardner):** “Say a little more about residential real estate.”

**Answer:** “Residential real estate is kind of an interesting subject. The mortgage markets are reasonably steady. Not rock solid, but you can still get traditional financing. How much financing was done for unconventional or shadow markets before the current recession? “30%” “Too much” The answer: 72%. So, the shadow marketing, the shadow banking system allowed very high end houses to be sold. Well, that’s gone. There is no shadow banking system now.

“But there is Fannie Mae and Freddy Mac thanks to...who??? Right. The Federal Reserve. So, thanks of the Federal Reserve, Fannie and Freddy are still there. Those three are supporting the low end starter homes and maybe second level houses that are out there. So, the low end and midlevel will have some growth and are starting to turn. It’s not there yet but it’s turning.”

**Question (Laurie):** “One of the things we hear in banking quite a bit from people outside of banking is the difference between community and private banks. Can you talk about that?”

**Answer:** “First, I want to challenge everybody. What percent of the U. S. population is employed by smaller sized companies?” Answer: “A lot” “A lot. But what is a lot? It’s 68 to 70%. OK. How many of those 68 to 70% got their start in Goldman Sachs? Right. Not very many. That’s exactly right. And, that’s the answer to Todd’s question. They got started in a community bank. You want to talk about the cornerstone of the U. S. economy? You talk about community banks. No offense to Wells. No offense to U.S. Bank.



No offense to the guys who took TARP money that have been the top 10 banks and financial institutions. They are not the cornerstone of employment in the U. S. It's the community bank.

“So, when we see one out of eight banks going out of business, what you're talking about is the very cornerstone of starting a small business in the U. S. from which the growth of this country has come since WWII.

“That's why I say, it's a huge issue that we need to follow. So, when we talk about the big bankers I can tell you that the Goldman Sachs guys had a huge advantage because they're at the trading desks with a ton of money, as anyone else on Wall Street has made it in the last 12 months.

“Your community banker doesn't go out and take his capital and risk it by trading internationally. That community banker, what does his capital consist of? Profits and what we put together. That community banker takes the money out of the community and everything he or she earns goes right back to the community. That's the difference.

At this point, 01:04:55 into the recording, there ensued an

extended colloquy between **Eric Budreau** and **Earl Wright** concerning an arcane subject relevant to four vs. nine percent tax credits, funding, credit default swaps, shadow markets, energy, affordable housing, and a few other interesting and marginally relevant concepts. When the discussion tapered off, Earl said, with a smile, “Nice technical question, Eric. Thanks a lot!” (extended laughter and longer applause)”

**P**resident **David** then told Earl that “Rather than thank you, we're going to give you a certificate that we've bought into one of Rotary's clean water projects in your name.”

**DAVID'S THOUGHT FOR THE DAY**

And then, to close things out, here is David's Thought for the Day.

**Blessed are the young,  
for they shall inherit the national debt.**

— **Herbert Hoover**