

CAPSTONE Quarterly

A news publication for the clients and shareholders of CapStone Bank

FEATURED PRODUCT

Free Business Checking

At CapStone Bank, our products and services are designed to make reaching your businesses' financial goals as simple as possible. Our Free Business Checking is an ideal checking account for handling basic, day-to-day operations and other general needs. Its features include:



- No minimum balance requirements
- No monthly maintenance fee
- Up to 500 combined debits, items deposited and credits each month at no charge; \$0.50 each thereafter
- \$1,000 minimum to open

We also offer Online Banking, bill pay, night deposit service free of charge, and a \$50 credit toward your first order of checks.

For more information on Free Business Checking, call us at (919) 256-6800.

Receive Our Newsletter Via eMail

As we all look for more ways to “go green,” we would like to offer you the option of receiving the Capstone Quarterly via email beginning with our next issue. If you would like to receive your newsletter through email, simply email us at service@capstonebank.com. Thank you for doing your part to “go green”.



Have you applied for a loan recently? Did you notice the lending environment has changed? So what in the world is happening with banks and mortgage companies?

I started in this business in January 1982, so I'm concluding my 28th year in banking. I began my career with one of the bigger North Carolina banks but have spent more than 20 years with community banks in the Triangle. During my career, we have witnessed four economic recessions in the US. Those are identified as: July 1981 – November 1982; July 1990 – March 1991; March 2001 – November 2001; and December 2007 – today (continuing). The first three lasted 14 months, 8 months, and 8 months, respectively. The current recession, now in its 21st month, is the most severe in my career. Also getting lots of press today is the number of bank failures. During the last 10 years, there were 70 bank failures in the US. Through late September, there have been 95 failures this year alone, and the Wall Street Journal reported that the FDIC had 416 banks on its problem list as of June 30. There are more than 8,000 banks in the US today, so the problem list comprises about 5% of all banks. Banks fail for several reasons, but the most significant of which is problem loans. These are loans that the borrower can no longer repay and, if the bank has collateral for the loan, it is not worth what the bank is owed. Fortunately, CapStone Bank is not on any government watch list. We did not take the government's Troubled Asset Relief Program (TARP) bailout money and we remain in solid financial shape.



Bob Branch
Chief Credit Officer

I give you the data above not to scare you but to help you understand what is happening in banks today. So does that mean banks are no longer lending money? No it does not. However, it does mean banks are scrutinizing their loans more closely. During the last 15 years or so, the “best” bankers were considered those that closed the most loans. Practically speaking, very few loans ever became problems, so banks became complacent and placed less emphasis on underwriting their borrowers and more on growing their banks. Bankers got lazy. Effectively, we were just writing orders. You told us what you wanted, and we made it happen. You were happy and banks were happy. Well, several months ago, that all began to change. And change it has.

– continued inside –

Money Market and other Savings Deposit Account Changes



In June, the Federal Reserve Board made amendments to Regulation D (Reserve Requirements of Depository Institutions), which are intended to free up the types of transfers customers can make from their savings accounts. In the past, an account holder could only make three transfers or withdrawals using check or debit card with a total of six such actions using other types of pre-authorized transfers. Technological advancements have eliminated any rational basis for the distinction between transfers by these means and other types of pre-authorized or automatic transfers subject to the six-per-month limitation. Customers can now make up to six transfers or withdrawals per month from their savings accounts, whether a statement savings account or a money market deposit account. These transactions can be six of the following: checks, point-of-sale transactions, overdraft protection, transfers, telephone transfers, ACH transactions, or online bill payments – or any combination.

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Historically, bankers were often quasi financial advisors for their clients. We analyzed customers' financial conditions via tax returns and financial statements. We tracked trends. We learned about customers' businesses. We knew where their strengths and weaknesses were. We conferred with their accountants on major financial transactions. We advised on asset purchases. We helped structure debts on the balance sheets. Well, as is often the case, history seems to be repeating itself. Bankers are now back in this position again. So how will this affect you?

Do not be surprised when bankers ask for more data. Today, they will likely want two or three years of your tax returns, including all schedules. They will want a copy of all your K-1s. They will want a list of all your contingent debt. They may wish to see tax returns on the various entities in which you invested. They will likely ask to confirm your liquidity via copies of bank statements and/or brokerage statements. And believe it or not, the good bankers will actually analyze this data and make recommendations to you on how you should structure debt.

A good banker can be a very valuable asset to you. I encourage you to leverage your relationship with your banker. Use his or her financial knowledge. Most bankers got into this business because they have a decent understanding of finance and they enjoy seeing and being a part of helping customers succeed.

We at CapStone pride ourselves in giving our customers the individual attention they deserve. We appreciate your business and look forward to watching you and your business grow and prosper – and with that, we will all be successful.

YOU'RE INVITED TO A FREE SEMINAR.

Nurture Marketing: Creating and Maintaining Solid Client Relationships

Interested in building and expanding the customer relationships that are so vital to your business? CapStone Bank invites you to attend a FREE seminar.

We are pleased to host Eric Rabinowitz, President of the Nurture Institute and co-author of the book, *Nurturing Customer Relationships*, with Jim Cecil. Mr. Rabinowitz will deliver a 60-minute primer on how to gain top-of-mind awareness with your clients and prospects to drive business to your company. He will speak about the pillars of Nurture Marketing: Persistence, Consistency, and Ethics, and you will learn how to create an action

plan to generate both sales and long-term relationships. In addition, he will share a step-by-step approach to nurturing your clients and prospects utilizing the Nurture Institute's award-winning methodology.

Mr. Rabinowitz' high-energy, interactive style will keep you actively engaged in the session and promises several pages of notes on things you can execute NOW!

The first 20 registered will receive an autographed copy of *Nurturing Customer Relationships*. To register, please contact Allison Ladd at (919) 256-6831 or by e-mail at aladd@capstonebank.com. Hurry, space is limited!

EVENT DETAILS

Date: Tuesday, October 27, 2009

Time: 3:30 – 5:00 pm

Location: North Ridge Country Club, 6612 Falls of Neuse Road Raleigh, NC

Cost: Free
(Reception to follow)

Guest Column: When Recession Fears Surface, Check Your Plan

When worldwide market worries surface, it's easy to get scared. It's particularly easy given the constant media coverage of recent market events such as the U.S. mortgage debacle and the lingering disarray in the banking and



Paul D Reynolds III
President and Founder
of Triangle Securities

investment industries. If you're worried, then it's time to check that your financial strategy matches your risk tolerance and long-term financial goals. There is no guarantee that you'll never lose money, but if a plan truly matches you, the noise shouldn't make a difference.

Sudden action is usually a mistake. In the late 1980s, Harvard psychologist Paul

Andreassen made news with a research project that found that people who listened to market news actually made lower returns. Why? Because those who sold – or bought – during a market swing probably found out a day later that the market was really running on hype, not fundamentals.

So the next time world markets spike or slide, ask yourself:

What's my plan? Remind yourself of the strategies that have been defined for achieving your long-term goals such as retirement or funding a college education. Avoid risky investing by sticking to your plan.

What's my risk tolerance? Remember when you discussed a number of questions about how you handle risk and what your expectations were about investment returns with your financial advisor.

Sometimes we might have had to do this more than once if your risk tolerance was low but your investment expectations were high – low-risk investors can't expect the highest returns. That's part of the educational process when working with Triangle Securities and helps us to define your diversified investment strategy.

Am I prepared to stay invested – no matter what?

In 2004, SEI Investments studied 12 bear markets since World War II. Investors who either stayed in the market through its bottom, or were fortunate to enter at the bottom, saw the S&P 500 gain an average of 32.5 percent (not counting dividends) during the first

year of recovery. Investors who missed even just the first week of recovery saw their gains that first year slide to 24.3 percent. Those who waited three months before getting back in gained only 14.8 percent.

Diversification is a portfolio strategy designed to reduce the risk in a portfolio by combining a variety of investment, such as stocks, bonds, and cash, which are unlikely to all move in the same direction. Volatility is limited by the fact that not all asset classes move up or down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

For over 25 years, my passion has been to help clients develop well thought out investment strategies with a corresponding asset allocation that helps them through the good as well as the bad economic cycles. Without such a plan it would be easy to succumb to the daily barrage of negative news that may cause you to make a short term emotional decision that could affect your long term investment performance. Here is one of my favorite quotes from renowned investor Sir John Templeton, "Ignore fluctuations. Do not try to outguess the stock market. Buy a quality portfolio, and invest for the long term."

In conclusion, whether the news of the day is negative or positive, take a long term approach, have a well thought out plan and diversify your assets! If you're worried or just want a second opinion, the team at Triangle Securities can calm your nerves and confirm if you're on the right track. Our mission is to help clients achieve the peace of mind that comes from placing their trust in the hands of caring, competent and experienced people.

Paul Reynolds has been a securities industry professional since 1980 and is an advocate for families, providing unbiased and objective advice on how to build, preserve, enjoy and transfer wealth. Paul founded Triangle Securities in 2000 to provide an alternative to large national financial institutions that often emphasize investment products rather than customized wealth management strategies. Visit www.trianglesecurities.com to learn more.

**Triangle Securities LLC member FINRA / SIPC.
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CapStone Celebrates 3 Years



1st row – Mia Haislip, Chrystal Noel **2nd row** – Allison Ladd, Lorae Barnett, Kelly Akers, Heather Hatley, Katie Gaston, Lakeisha Coffey, Susan Tannery **3rd row** – Steve Ogburn, Rex Scott, Bob Branch, Chris Dillon, Bryan Pennington, Rex Williams, Andy Scott, Jonas Silver
Not Pictured – Mike Patterson, Kelli Mason, Nicole Treadwell

On this our third anniversary, I would like to personally thank our customers, our Board of Directors, and our staff for our success. In these challenging economic times, CapStone Bank has experienced excellent growth and profitability due to the high quality of business from our customers, the guidance of our Directors and the hard work of our employees. I look forward to the future as we continually strive to be the recognized commercial bank of choice for small and medium size businesses and professionals in the Raleigh area.

Steven R. Ogburn
President and CEO

What CapStone Customers Are Saying About Us

The following is an excerpt from a letter received from customer James A. Cain, IV, of Center Management:

The keen interest demonstrated by CapStone in my project and willingness to help me evaluate the best way to approach not only from a banking perspective, but from an investment prospective is much appreciated... In today's world, financial transactions are focused too much on simply the 'processes' of getting the deal done. CapStone demonstrated a desire and competency to be a trusted advisor who I can count on. The 'human' touch should not be underestimated in terms of value.

International ACH

New rules regarding International ACH Transactions (IAT) went into effect September 18. The new rules changed classifications of some ACHs from domestic to international. This means an IAT will be classified by where the financial agency that moves the funds is located and not by any other party to the transaction. CapStone has taken the appropriate steps to prepare for these rules. These new rules did not impact international wires. If you have any questions about an IAT, please contact Kelly Akers at (919) 256-6804.

Fake Check Scam

A recent survey showed that nearly one-third of all Americans have been approached with some type of fake check scam, with more than 4 million people having become victims.



The most common scams involve sweepstakes/lotteries, grants and work-at-home opportunities. To help you avoid falling for these scams, never agree to pay to claim a prize or agree to pay for grants from the government or foundations. Also, never agree to cash checks and send the money to a different location as part of a stay-at-home job. Lastly, never agree to wire money to anyone you have not met in person and have known for a long time. For more information about fake check scams, go to www.fakechecks.org.

CAPSTONE BANK

Business Solutions. Personal Experiences.

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