COLORADO Banker

November/December 2020

OVER A CENTURY: BUILDING BETTER BANKS — HELPING COLORADANS REALIZE DREAMS

A Different Way to Win

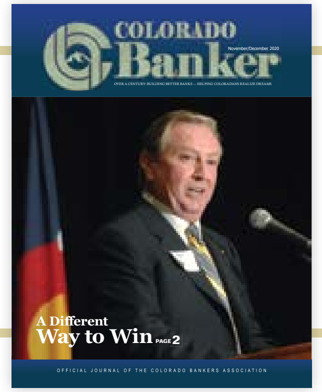
PAGE 2

OFFICIAL JOURNAL OF THE COLORADO BANKERS ASSOCIATION

Together, let's make it happen.
Tracy Peterson
Call me at 480.259.8280
Based in Phoenix, Ariz., serving Arizona and Colorado
Why choose Bell as your bank's lending partner?
Leverage our large lending capacity, up to $20 million on correspondent loans. Our lending limits are high enough to accommodate what you need, when you need it.
Commercial & ag participation loans
Bank stock & ownership loans
Bank building financing
Business & personal loans for bankers
We do not reparticipate any loans.
Bell Bank
bell.bank
Member FDIC
EQUAL HOUSING LENDER
24844

Need a regulations interpreter?
We speak compliance.
CSI
WWW.CSIWEB.COM/COMPLY

Contents



Don Childears
CEO

Jenifer Waller
President

Amanda Averch
Director of Communications

Brandon Knudtson
Director of Membership

Lindsay Muniz
Director of Education

Margie Mellenbruch
Bookkeeper*

Craig A. Umbaugh
Counsel*

Jim Cole
Lobbyist*

Melanie Layton
Lobbyist*

Garin Vorthmann
Lobbyist*

* outsourced

Amanda Averch, CBA Director of Communications,
Averch@coloradobankers.org
140 East 19th Avenue, Suite 400
Denver, Colorado 80203
voice: 303.825.1575 — fax: 303.825.1585

Websites:
www.coloradobankers.org
www.smallbizlending.org
www.financialinfo.org
https://colorado-banker.thenewslinkgroup.org/

A WORD FROM CBA

A Different Way to Win

BY JENIFER WALLER, PRESIDENT, COLORADO BANKERS ASSOCIATION

I recall that not long after I joined CBA, we were engaged in a battle at the state Legislature and prospects looked grim.

When I approached Don to bear the bad news, he replied, "We're not going to lose. We'll find a different way to win."

And we did.

It is that kind of attitude that has catapulted Don Childears to his rightful place as a leader in Colorado's business community — and as the recipient of the Denver Business Journal's 2020 Pinnacle Award as part of its annual Most Admired CEOs recognition.

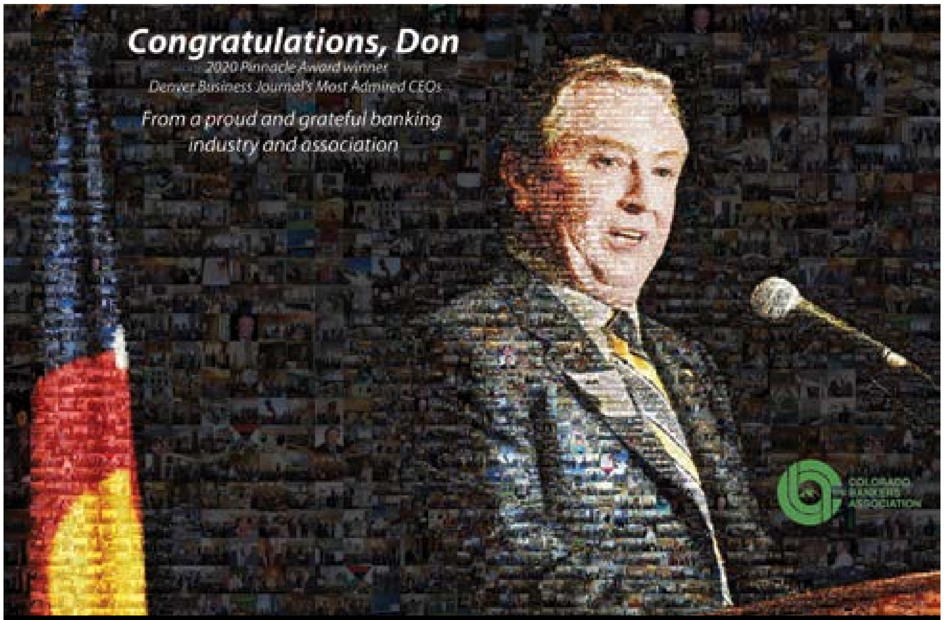
The award celebrates the impact of Dons' 45 years at the helm of CBA and his stewardship of the state's banking industry at that time.

When he was advised of the award, Don remarked, "I never imagined being named a Most Admired CEO by the Denver Business Journal — much less the Pinnacle Award winner among them. Bank CEOs have had my admiration for decades. This major surprise is very humbling when I know so many deserving CEOs. I am gratified and I thank those responsible for this recognition."

Don may have been surprised by the award, but I wasn't — and few people around him were either. Don is a consummate leader — so much more than a CEO to those of us who work with and for him: he is a friend, an advisor, a mentor and a true inspiration.

We — this organization, the institutions and the industry it serves — know how fortunate we are to have Don in our corner.

Don is the longest serving bank association CEO in the country and has played a role in countless defenses and promotions of the industry and its customers, including co-authoring the TAILOR Act, legislation to right-size regulations based on banks' asset size, helping to craft the SAFE Act to assist cannabis-related businesses in accessing financial services and very recently, blocking a credit union's attempted purchase of a bank, which would have stripped the state of tax revenue.



HTTPS://WWW.BIZJOURNALS.COM/DENVER/NEWS/2020/11/12/DBJ-MOST-ADMIRED-CEO-PINNACLE-AWARD-DON-CHILDEARS.HTML

HTTPS://YOUTU.BE/J_T1GFPWJJ8

It goes without saying that we are incredibly proud of Don's work on behalf of Colorado banks and their customers. But what we are most proud of is working for someone who takes so personally our mission of helping Coloradans realize their dreams by building better banks.

We feted Don earlier this month with a virtual reception, during which our members and staff and Don's family and friends could join in the celebration. I would encourage those who weren't able to join us to view the presentation we put together, as well as an image of the small gift we put together for him: a photograph from one of his many successful addresses, composed of hundreds of photos spanning his career at https://youtu.be/j_T1GfPWjJ8.

I have to say, during a year that has been challenging on an unprecedented level, it was a real treat for us to pause and celebrate. Thank you, Don, for giving us a reason! ■

CHAIRMAN'S MESSAGE

2020-2021 CBA Chairman

BY NATHAN EWERT, REGIONAL VICE PRESIDENT OF FNBO (FIRST NATIONAL BANK OF OMAHA) FOR COLORADO AND WESTERN NEBRASKA 2020-2021 CBA CHAIRMAN

As 2020 draws to a close, many of us — me included — are breathing a sigh of relief.

The past 12 months proved more challenging than any in the past decade. Banks and our customers faced adversity and hardship together, working in tandem to navigate a pandemic-fueled economic crisis, and we will emerge from it stronger. We have much to be proud of and much work still to be done.

Banks thrived on the opportunity to serve as economic first responders when we swooped in to rescue thousands of small businesses and tens of thousands of jobs, disbursing Paycheck Protection Program funds on behalf of the government. In a matter of two weeks, borrowers banked $10.4 billion via 100,000 loans, keeping their employees paid and their doors open.

Now, we're advocating that those funds be treated as they were intended — grants. If those "loans" aren't forgiven, our customers will be on the hook to pay back loans in a small amount of time when they count on them to be forgiven. We are working to ensure those funds won't be treated as taxable income, adding further stress to already financially constricted customers.

We have seen some success in our efforts — ensuring loans under $50,000 will be forgiven — but we remain focused on securing the same relief for loans under $150,000, with more streamlined processing for loans bigger than those.

We will be redoubling our efforts around many points reiterated during CBA's 10-part webinar series focused on COVID-19's impacts on Colorado's economy — because we know the shockwave of this pandemic is far from over. Some customers will continue to experience financial stress, while others haven't yet begun to feel the impact, but it is coming.

Experts told us Colorado's residential real estate market heated up during the first several months of the pandemic, with an influx of people moving to our state because they see it as friendly to the remote working environment, driving prices up and inventory down. Existing Coloradans took advantage of low-interest rates by refinancing their mortgages. Still, others have been offered forbearance and relief from collection actions.

Banks are readying themselves to help those borrowers should challenge arise. Commercial real estate borrowers — particularly those in the retail sector — will continue to experience severe constriction. Tourism and hospitality industry experts don't expect to see a real recovery any time soon.

We must keep a watchful eye on our customers to help them mitigate hardship and ensure they are aware of workout options they can employ.

Meanwhile, we must not lose sight of ongoing industry challenges not directly related to the COVID-19 pandemic. Banks remain entangled in the conflict of federal and state laws regarding cannabis banking, anti-money laundering reform is still pending. We will be carefully monitoring the Federal Reserve's work to create FedNow, its own faster payments system. Work continues against the ill-advised move by the GSEs (Fannie Mae and Freddie Mac) to increase refinancing costs by 50 basis points. While the increase was initially slated to become effective in September, it was delayed until December.

Here in Colorado, the industry is poised to combat renewed attempts to create a state or municipal-owned bank to restrict consumer-friendly arbitration clauses in contracts and potential new moratoriums or restrictions on foreclosures, evictions and debt collection.

While none of us knows for sure what 2021 will bring our customers or us — or when we may see the end of the worldwide COVID-19 pandemic — I do know for sure that our industry will do what it has done so many times before: adapt and lead.

Our work will be bolstered by CBA, which will remain a reliable source of information, resources and support as we navigate those crowded waters — and help our customers in doing so, too. ■

Nathan serves as Regional Vice President, responsible for leading teams that work with businesses in eastern Colorado and western Nebraska. His primary role is to fulfill client needs quickly and efficiently. He focuses on building relationships that last. In his experience, this is the best way to understand customer needs and to proactively help them meet their financial and life goals.

FEATURE ARTICLE

Banking on Success

A new degree program and innovative pathways jump-start college careers while upgrading a workforce for the in-demand financial-services industry

BY MATT WATSON, STRATEGY, MARKETING AND COMMUNICATIONS, METROPOLITAN STATE UNIVERSITY OF DENVER

If you've deposited a check by taking a photo on your phone, transferred money to a friend's bank account using a mobile app or been greeted at a brick-and-mortar bank by a person pointing you to a row of ATMs, you might wonder what the job outlook is for someone in the banking industry.

But behind all that technology is a growing labor force of financial advisors, compliance officers, risk analysts and, of course, information technology professionals. Thanks to a new banking program and innovative community partnerships, Metropolitan State University of Denver is preparing a new generation of bankers for all of these roles. And the University's College of Business is doing it with the help of the banking industry itself, said Rey Hernández-Julián, professor of finance at MSU Denver.

"We invited representatives from banks to campus and they said, 'This is what we're looking for in a banking degree. If you gave someone this skill set, we would want to hire them,'" Hernández-Julián said.

So MSU Denver developed a new bachelor's degree in banking — the first of its kind in the state and one of few nationally — to provide the in-demand skills the banking industry needs in a big way.

Rey Hernández-Julián, professor of finance at MSU Denver, worked with banking industry leaders and community organizations to shape a flexible degree pathway that teaches in-demand skills to the growing banking workforce. Photo by Alyson McClaran

A brief from the Metro Denver Economic Development Corp. shows more than 100,000 employees at nearly 15,000 companies in metro Denver's financial-services industry. Some 40,000 of those jobs are in banking and finance — almost enough people to fill every Coors Field seat.

The same report revealed that machines aren't replacing humans — financial-services jobs grew by 7.5% nationally between 2012 and 2017 and more than 10% in metro Denver in the same period. But technology is displacing entry-level jobs in favor of more advanced positions, says Andrea Stiles Pullas, director of strategic initiatives at Mi Casa Resource Center. This community organization promotes economic mobility through job training and other resources.

"This industry is growing jobs that require a college degree by 57% in the next few years, while the jobs that don't require a degree are shrinking," Stiles Pullas said.

Enter the Community College of Aurora and MSU Denver. Together with Mi Casa, the schools have crafted new education tracks that include job training, certificates and a specialized degree for those who want to join or move up in the financial sector.

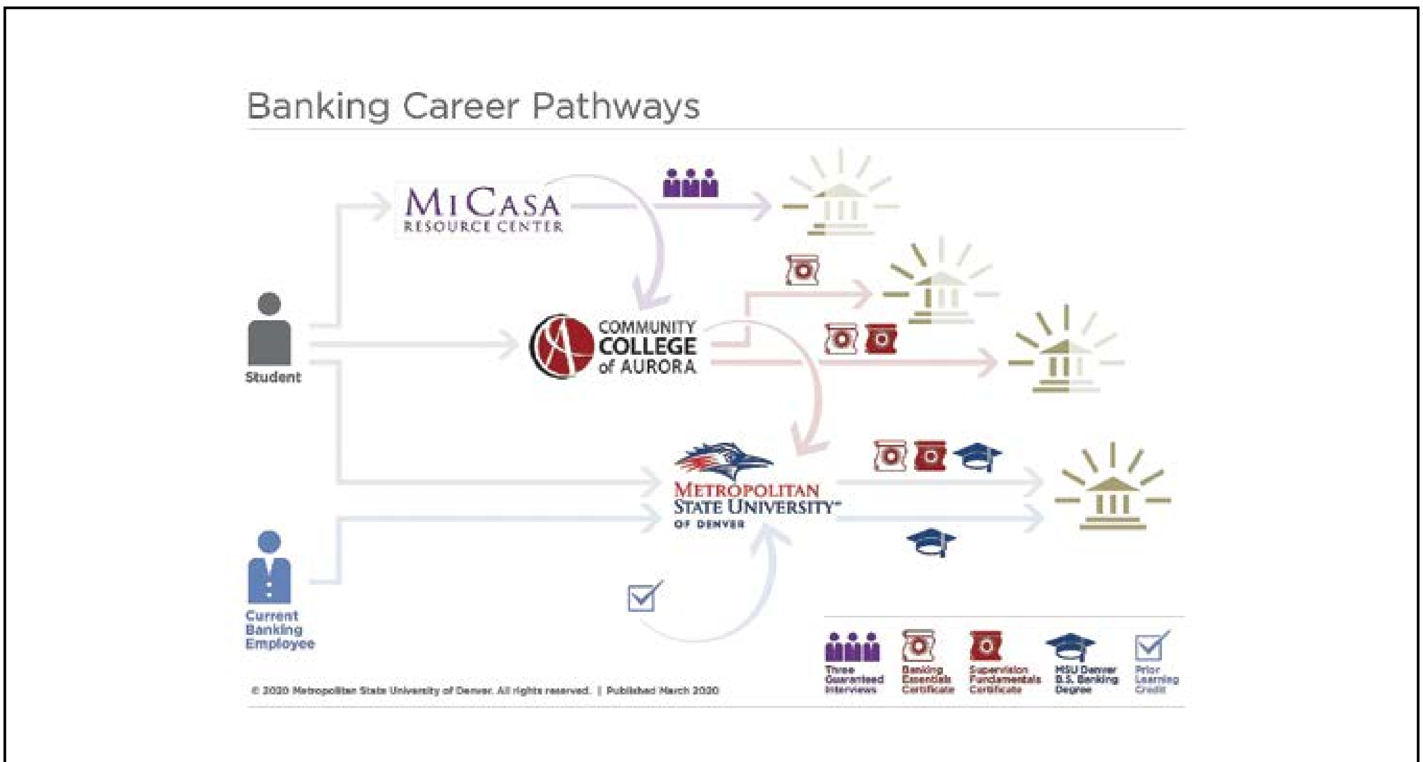
"We're looking for ways to help job-seekers — both students and incumbent workers already in the industry — to earn credentials in a modular fashion, at their own pace so that they can balance work and life and study in a more manageable way," Stiles Pullas said.

Illuminating the path

Nationally, four of every five jobs lost during the 2007-09 recession required a high school diploma or less, according to the Lumina Foundation, and those have been replaced by jobs requiring more education. Only about 40% of American adults have postsecondary credentials, and Lumina's goal is for 60% of adults to have a postsecondary certificate, degree or other credentials by 2025.

That's why Lumina invested a $450,000 grant into the partnership among Mi Casa, CCA and MSU Denver to build a first-of-its-kind pathway for adult learners in the financial services industry.

continued on the next page



The credential pathway developed by MSU Denver, Mi Casa Resource Center and the Community College of Aurora provides multiple places to start or finish education in banking for community members, traditional students or current banking employees. Illustration by Scott Surine

continued from the previous page

Mi Casa operates a four-week training program to help connect people to staff roles in banks and credit unions. Participants earn up to nine college credits at CCA in the process and are guaranteed three job interviews after completion.

Those who complete the Mi Casa program can complete seven more credits at CCA to earn a banking-essentials certificate, designed to provide all the skills someone would need in their first two years of retail banking employment. CCA offers another 16-credit certificate called supervision fundamentals, which people can complete as they're climbing the ladder at work.

All 32 credits gained through the Mi Casa and CCA programs can be applied toward MSU Denver's new banking degree, designed in collaboration with representatives from the banking and credit-union communities to develop an industry-responsive curriculum.

Those already working in the field who don't have a degree can enter the pathway at CCA or MSU Denver and take exams to earn prior learning credit — earning college credit for what they already know before taking a class.

MSU Denver student Jade Gomez takes notes during one of the first Intro to Banking courses offered at the University. Photo by Alyson McClaran

MSU Denver President Janine Davidson said, "We're eager to engage with industry partners to develop workforce pipelines that benefit our students and guarantee employers can find the talent they need, right here in Colorado. Companies know they're getting quality employees when they hire MSU Denver graduates, most of whom work while in school and can hit the ground running after graduation."

Jenifer Waller, president of the Colorado Bankers Association, said MSU Denver's new program is an excellent step toward assisting financial institutions in growing the talent pool it needs to pull from.

"We are thrilled about this new development for Colorado's banking workforce," Waller said. Those of us in the industry know-how rewarding a career in banking can be — not just with rates of income and good benefits but also with the impact bankers make in their customers' lives. We are excited for new ranks of bankers to find that out for themselves."

Waller added that bankers' opportunities are more varied and multifaceted today than ever before – not just for new bankers but for experienced bankers, too.

"Many banks offer continuing education benefits and help employees with schooling expenses," Waller said. "This new program is going to open a lot of doors for a lot of people."

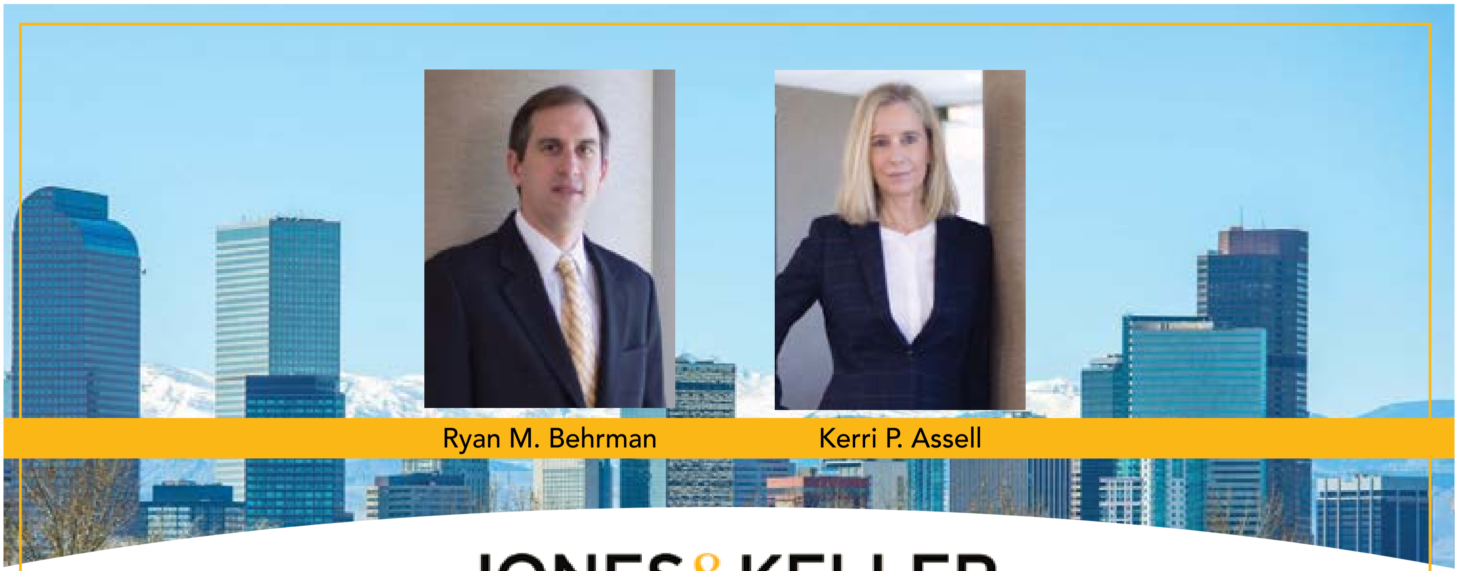
Concentrating on the future

MSU Denver's banking degree includes courses on banking operations, risk analysis, financial markets and personal selling. Hernández-Julián, who taught the first Intro to Banking course at the University last fall, said the students in the first cohort were eager to help shape the class.

"It isn't a course that's commonly available, where you can grab a textbook off the shelf and teach the course. It's a pretty new set of concepts and ideas, so there was a lot of learning by doing," he said.

Alec Sheeder is on track to be MSU Denver's first banking graduate in spring 2021 after switching his major from finance. He is interested in underwriting and has a concentration in financial analysis, one of two optional concentrations within the banking degree, along with compliance.

"I wanted to go into banking because banks populate our lives — they're everywhere," Sheeder said. "I felt like it was a practical area that will always be in demand, and if there's something I can do to make banking easier or better for everyone, that will be a great thing." ■


Ryan M. Behrman
Kerri P. Assell


Banking is evolving.
So are we.
In-Person & Virtual Options in 2021
Graduate School of Banking at Colorado

2020
The Year of Increased Risk and Inefficiencies A Possible Solution for Both?

BY JIM PERRY, VICE PRESIDENT, REGIONAL BUSINESS DEVELOPMENT, GOLDEN EAGLE INSURANCE

Community Banks have been the backbone of Colorado lending space for many years, and 2020 has created an environment for relationship-style banking to grow at even more remarkable rates. The COVID-19 pandemic revealed that the U.S.'s largest banks could not effectively serve their clientele, leading to an influx of new business for community lenders. While new business is a welcome sight for many lenders, PPP lending and an upsurge in mortgage lending (and all lending) due to low-interest rates have exposed several lender inefficiencies. I have spoken to many lenders in the past few months that are frantically looking to hire new staff to keep up with their increased workload, and in the meantime, are pulling current staff to help with the increased lending pressure. I often hear that one of the first things to get "pushed to the side" during extremely busy times is collateral insurance tracking. When Colorado's record wildfires were added into the mix, 2020 led to large increases in risk for community banks across the state. With bogged down loan operations and increased risk, could now be the time to look at alternative solutions to traditional collateral insurance tracking?

Due to the COVID-19 Pandemic relationship banking has become more challenging as limited lobby hours, staff working from home, and increased workloads have put a strain on operational efficiencies. More and more lenders are considering Blanket Insurance Coverages that significantly improve operational efficiencies by allowing community banks to reallocate staff time to serve their customers better, which is what Community Banking is all about. There are no more calls to borrowers under a Blanket policy, no prodding letters, no loan officer involvement with insurance after closing, and the headache of placing and removing force-placed policies is eliminated. Furthermore, are annoying insurance contacts and expensive force-placed insurance premiums in line with your relationship and service goals?

On September 17th, 2020, the Colorado Division of Insurance re-issued Bulletin No. B-5.38, which directed "all insurance companies issuing coverage to personal and commercial policyholders to make reasonable accommodations to prevent individuals and businesses from losing coverage due to cancellation for the non-payment of a premium during this unprecedented time." This order came during seasons of elevated unemployment and the worst year of wildfires that the state has ever endured. While this order provides some relief to borrowers, there remains an increased risk of uninsured collateral to community lenders in the state. The Division of Insurance does not explicitly prohibit the cancellation of policies due to non-payment. Many Colorado counties have become prohibitively expensive for borrowers to find property insurance (due to year over year fire risk). With three of the four largest fires in Colorado history happening during 2020, community lenders cannot take the risk of uninsured collateral moving forward.

On days where staff time comes at a premium and the risk of uncovered collateral is high, Blanket insurance coverages can simultaneously alleviate multiple problems. Many lenders I meet think that Blanket protection is expensive. Still, Blanket's costs have been coming down due to increased use and underwriting innovations by companies specializing in Blanket protection. Blanket coverages can be fully customizable to a portfolio and are often much more affordable than hiring and training new staff as your portfolio grows. Blanket coverage has now been developed for all portfolios: Residential and Commercial real estate, Consumer loans and Business/Commercial and Ag equipment.

The hectic year of 2020 has led many Community Banks to relook at Blanket protection for their portfolios. When all risk factors, customer relationships, and savings from higher efficiencies are considered, Blanket coverages can be a valuable tool to reduce risk and create a far more customer-friendly lending and loan servicing environment for the staff and borrowers of a growing community bank. To continue to be the leader in banking in your community, efficiency and high customer service levels will be key. If your staff has become stretched as your portfolios have grown, consider Blanket protection as a powerful option as 2020 ends and you look forward to 2021. ■

The hectic year of 2020 has led many Community Banks to relook at Blanket protection for their portfolios. When all risk factors, customer relationships, and savings from higher efficiencies are considered, Blanket coverages can be a valuable tool to reduce risk and create a far more customer-friendly lending and loan servicing environment for the staff and borrowers of a growing community bank.

FEATURE ARTICLE

Changes to Eligible Retained Income

BY JOHN S. BERTEAU SERVES AS ASSOCIATE GENERAL COUNSEL FOR COMPLIANCE ALLIANCE, WHERE HE IS ONE OF OUR HOTLINE ADVISORS AND FEATURED CONTRIBUTORS.

In response to the coronavirus's potential economic effects, the OCC, FRB and FDIC ("the agencies") published an interim final rule on March 20, 2020, proposing to revise the definition of eligible retained income. On March 26, 2020, the FRB published an interim final rule which revised the definition of eligible retained income for institutions subject to the FRB's total loss-absorbing (TLAC) rule. The agencies recently published a final rule which made final both of these interim final rules without changes. This final rule aims to help strengthen the ability of banks and TLAC institutions to continue lending and conducting other financial intermediation activities during stress periods by making distribution limitations more gradual, as intended by the agencies.

Banks must maintain a buffer of regulatory capital above their required minimum risk-based capital and leverage ratio requirements to avoid restrictions on capital distributions under the capital rule. The agencies established the capital buffer requirements to encourage better capital conservation and enhance the banking system's resilience during stress periods. As initially implemented, capital buffer requirements were intended to gradually limit banks' ability to distribute capital if their capital ratios fell below certain levels.

Banks under the capital rule were generally subject to a fixed capital conservation buffer requirement, composed solely of common equity tier 1 capital, of greater than 2.5% of risk-weighted assets. On March 4, 2020, the FRB introduced a stress capital buffer requirement, which provides that a covered holding company will receive a new stress capital buffer requirement on an annual basis, which replaced the existing greater than 2.5% capital conservation buffer requirement.

Under the capital rule, if a banking organization's capital ratios fall within its applicable minimum-plus-buffer requirements, the maximum amount of capital distributions it can make is a function of its eligible retained income. Before the issuance of the March 20, 2020, interim final rule, the capital rule generally defined eligible retained income as four quarters of net income, net of distributions and associated tax effects not already reflected in net income. The interim final rule revised the definition to be:

"(i) The eligible retained income of a national bank or Federal savings association is the greater of:

(A) The national bank's or Federal savings association's net income, calculated following the instructions to the Call Report, for the four calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income; and
(B) The average of the national bank's or Federal savings association's net income, calculated following the instructions to the Call Report, for the four calendar quarters preceding the current calendar quarter."

The revised definition of "eligible retained income" under this final rule applies to all of an organization's buffer requirements, including the fixed greater than 2.5% capital conservation buffer and the countercyclical capital buffer. Once the stress capital buffer requirements apply on Oct. 1, 2020, the revised definition would also apply to all parts of a covered holding company's buffer requirements. Having one definition of "eligible retained income" for all organizations under the capital rule should simplify the regulatory capital framework and ensures fairness across organizations of all sizes.

The requirements in the total loss-absorbing capacity (TLAC) rule build on and complement the capital rule. In 2016, the FRB issued the TLAC rule to require the largest and most important bank holding companies (U.S. based) and foreign banking organizations (U.S. operations) to maintain a minimum TLAC amount, consisting of minimum amounts of long-term debt and tier 1 capital. The TLAC rule prescribed buffer requirements above the minimum TLAC amount that institutions must maintain to avoid restrictions on capital distributions.

As with the capital rule, the TLAC buffer requirements were established to encourage better capital conservation and enhance the resilience of the banking system during stress periods. TLAC buffer requirements were implemented to gradually limit institutions' ability to make capital distributions under certain circumstances, thereby strengthening these institutions' ability to continue lending and conducting other financial intermediation activities during stress periods.

Institutions with a TLAC level that falls below the applicable minimum plus-buffer requirements face limitations on capital distributions in a manner designed to parallel the restrictions on capital distributions under the capital rule. The maximum amount of capital distributions that a TLAC covered company can make is limited as a percentage of its eligible retained income, as defined in the TLAC rule.

Before the issuance of the March 26, 2020, interim final rule, the TLAC rule generally defined eligible retained income as net income for the four calendar quarters preceding the current calendar quarter, based on the globally systematic important U.S. bank holding companies' FR Y-9C, net of any distributions and associated tax effects not already reflected in net income. This final rule revised the definition to be:

"(i) The eligible retained income of a global systemically important BHC is the greater of:

(A) The global systemically important BHC's net income, calculated per the instructions to the FR Y-9C, for the four calendar quarters preceding the current calendar quarter, net of any distributions and associated tax effects not already reflected in net income; and

(B) The average of the global systemically important BHC's net income, calculated per the instructions to the FR Y-9C, for the four calendar quarters preceding."

These revised definitions of eligible retained income should allow institutions to gradually reduce distributions as they enter periods of stress and provide institutions with more substantial incentives to continue to lend and carry on other business functions. Although both interim final rules were effective as of the date they were published, the new final rule will be effective Jan. 1, 2021. ■

John S. Berteau serves as Associate General Counsel for Compliance Alliance. He has nearly fifteen years of combined experience in the financial services industry. At Hancock Whitney Bank, he worked in the field of environmental risk management and compliance (CERCLA/RCRA/Wetlands). At Alorica, the nation's fastest-growing BPO, John worked in tandem with some of the largest banks in the U.S., helping to evaluate financial risks. He holds Bachelor's and Master's Degrees in History from the University of New Orleans, a Juris Doctorate from Loyola University New Orleans and is a licensed attorney in the State of Louisiana. In addition to being one of our featured authors, John has recently taken over the editor role for C/A's Access magazine. As a hotline advisor, John helps C/A members with a wide range of regulatory and compliance.

FEATURE ARTICLE

Cherrywood Enterprises Presents Debt Selling 101

BY CRAIG M. GEISLER
CEO OF CHERRYWOOD ENTERPRISES, LLC

Debt selling has been done by thousands of banks, credit unions, auto lenders, and commercial lenders over the years. The concept is simple: take your charged-off loans from the last four years (you know; the accounts that don't pay or respond to your calls anymore), put them in an Excel Spreadsheet, and get funds back into your bank within 3-5 business days. Sounds easy enough, right?

Well, that's up to you. What I can tell you is; the process works!

I have been in the charged-off debt sales space for over 13 years. I have seen almost every kind of file out there, and what I can tell you is, every file is complex. The first question I always get asked, "how much will you pay me for my charged-off loans"? My answer is always the same, "I don't know, I need more info." This isn't a ploy to sidestep the question. It is a legitimate response. I always liken it to saying, "I have a Mercedes for sale. How much will you give me for it"? Surely you would need to know more info like the year, make, model, mileage, and want to take it for a test drive. It's the same for reviewing a portfolio. We look at many factors like the age, the number of times it has been worked, geography, balances, and the backup docs to see if we are facing any arbitration language, or language that allows for court fees and attorneys fees. It takes us roughly 3-5 business days to review all of that info, and THEN we can come back with what we feel is an aggressive offer for your file. When accepted, we draw up a Purchase and Sale Agreement that includes a Bill of Sale (just like when you sell a car). Once you get the Purchase and Sale Agreement to review, it's a matter of signing, getting the funds, and sending out all backup docs. That's it.

Now, you want to know what do you do with the accounts after you have sold them? Most financial institutions cease reporting the accounts to the bureaus and list them as sold and mark them the same within your system. You will NEVER have to speak with that debtor again. It is a freeing feeling to be able to wash your hands of years of frustration and chasing these debtors with phone calls and letters! Trust me, your cardiologist will notice a large drop in your blood pressure!

Once you have done it, selling your charged-off loans becomes an addiction that you will want to do repeatedly! We will graciously accept your files on a monthly, quarterly, bi-annually, or annual basis!

Want to know more? Well, Cherrywood Enterprises is here to help you with your questions and give you the answers you will need to make an educated decision on whether or not selling your charged-off loans is right for your bank.

Feel free to call us at (561) 508-7650 or email Craig at cgeisler@cherrywood-enterprises.com. You can visit our website at www.cherrywoodenterprises.com as well!

We look forward to working with all members of the Colorado Bankers Association. ■

Cherrywood ENTERPRISES

How Customer Journey Mapping for Banks Leads to New Accounts

BY STEVE KENT

Digital banking is rapidly becoming the main channel through which many customers interact with their financial institutions. While this shift to an online presence creates unique outreach opportunities for banks, success requires both innovation and a strategic mindset. After all, with more customer touchpoints and an increase of competitors and industry disruptors, customer satisfaction at every stage of onboarding is essential.

For many financial institutions, digital transformation and data analytics to improve their digital experience remain uncharted waters. They wonder where to begin to generate data-driven strategies to deliver positive customer experiences and, thereby facilitate seamless account opening.

That's where customer journey mapping for banks comes into play.

The Benefits of Customer Journey Mapping for Banks

Customer journey maps are business intelligence tools that help you visualize each interaction between your institution and your prospects or customers. The digital onboarding journey is broader than merely applying for and funding an account through a mobile app. It begins with the prospect's initial interest and new account research. The journey continues until that customer has funded an account and enrolled in value-added services such as direct deposit, eStatements and bill pay.

With customer goals in mind, each step of the journey is tracked. From ad campaigns and website access to account funding, you can better quantify how frequently customers successfully advance to the next step of the journey. From there, your institution can identify points that drive the highest traffic and leaks — steps in the journey that are causing customers to abandon the process.

In practice, this translates to measured results that guide institutions to repair or replace interactions that cause potential customers to diverge from their goal or look elsewhere. Applying small changes in the customer journey can improve customer satisfaction and significantly impact account opening success. Here's how you can use customer journey maps to benefit your institution:

Gain Insight into Customer Needs

First and foremost, customer journey mapping helps your bank better understand customer pain points and improve overall satisfaction. Optimizing a new account opening is not just a point-in-time exercise. Instead, it requires constant improvement and monitoring to show gaps between the desired customer experience and the one received.

To understand that desired experience, it's helpful to identify what the prospect in question needs to complete a purchase. Customer journey mapping makes that insight available by quantifying, which steps in the process cause customer friction and which ones drive higher traffic.

Pinpoint Development Opportunities

By illuminating several areas, including customers' initial awareness, the reason for looking, barriers considered, options available, sales interactions and overall satisfaction, your institution can more confidently determine development priorities. Specifically, you can pinpoint bottlenecks in the journey and modify them accordingly. For instance, if there's a trend in potential customers abandoning an account application after accessing a webpage, you gain a better idea that the offering or page itself is not a compelling one.

Emphasize Successful Drivers to Account Opening

On the other hand, customer journey mapping also illustrates the most effective traffic drivers that ultimately lead to new account opening. As many banking channels have digitized, the number of access points with your institution has increased. A journey map illustrates where customers interact with your institution and how they access those touchpoints. In other words, you can see what has been successful, whether customers have sought you out via search engine, accessed your institution through social media or clicked on an ad.

Customer Journey Mapping Enhances Your Bank's Marketing

With exact figures for customers who accessed ads and ultimately opened an account, your institution gains a clearer view of which ads attract more customers. Ultimately, the goal is to embrace those assets and sequences that best influence revenue and improve those that fall short. If a Facebook campaign drives movement, you know to emulate that strategy in the future. With marketing insight, you can concentrate your efforts and expenditures on what matters most, rather than on less effective campaigns.

On the Path to Customer Satisfaction

Customer journey mapping is an essential tool to provide customers the experience they expect and transform your bank digitally. Financial institutions have a lot to consider when providing for their customers, but a data-driven perspective can make the difference between a new account and a missed opportunity. Improving digital banking solutions is an ongoing process, so take a look at this informative webinar to learn more about customer journey mapping and optimizing the overall customer experience. ■

Steve Kent is senior director, Digital Strategy, at CSI.

Are You Ready for Workout Season?

BY JUDITH LAJOIE, SNELL AND WILMER

Commercial loan workouts seem like old news, but the COVID-19 crisis and its aftermath are likely to result in old news becoming news again.

The good news is that many lessons have been learned from the Great Recession of 2008 and those lessons have led, among other things, to enhance internal systems and controls.

Here are a few lessons that I've learned from a decade of legal work inside a community bank that started with being dedicated to special assets during the Great Recession.

- Review loan portfolios with internal and external resources to determine if any gaps that need to be filled. This includes having up-to-date and properly filed UCC-1 financing statements with complete collateral descriptions (which may have changed if, e.g., the borrower has an account on deposit that was not in place at loan origination, the borrower has gone through an entity conversion or has changed its principal place of business, or if the borrower is entitled to a loss carryback resulting in an assignable tax refund payment), financial covenant updates, whether there is a need for additional real or personal property collateral or guarantees, whether a loan requires modification or forbearance.
- Put together an internal, special assets team and have them ready to go if loans start to show weakness after payment deferrals burn off and PPP loans have been forgiven.
- Pull together a problem loan committee that can meet regularly to review graded credits, particularly the ones that are in danger of falling out of one classification and being downgraded.
- Ensure that the head of loan administration communicates well with their chief credit officer, internal legal and the line and special assets bankers so that loan grades are kept current and up to date. Institute monthly meetings comprise all the above, where all graded loans can be reviewed and analyzed as to proper grade.
- Ensure that loan review is properly staffed and able to work through loan collateral and documentation issues without a backlog.
- Consider sending confirmation letters to a borrower's account debtors to establish a liquidation value for the debt and determine collectability.
- Hire professionals — legal, accounting, engineering, environmental, asset search and entitlement experts, as applicable, help make sense of the collateral position if foreclosure becomes necessary. Do this before there is an actual crisis so that there is time to strategize and maximize recovery.

Loan workouts take many forms, from the simplest of loan modifications or loan extensions to a more complex forbearance if there is a basis for rehabilitating the credit. The borrower needs a little more time to get its house in order. Repeated extensions and forbearances may be "kicking the can down the road." While easier to swallow for a borrower, it could be potentially lethal to the bank and its capital position. A good, neutral special assets team can be an invaluable check on a relationship that may have been solid for a very long time but is weakening due to events unforeseen at loan origination, from which the credit and the borrower may be unable to recover. Consider the prospect of effecting a settlement with a borrower or a guarantor since the first loss may be the best, and "letting your money get mad" may feel good for a moment but may be disastrous in the long term.

Foreclosure of real or personal property or deed in lieu of foreclosure for real property may be a last resort. Other measures may work more effectively, such as having the borrower appoint a chief restructuring officer or agree to receivership or a sale of the underlying asset or business. There is a risk of being dead right by moving too quickly to enforce against the individuals or the collateral and possibly winding up with a marketing nightmare.

Try to be patient while being vigilant and proactive. As I often said in mediations, both sides will feel lost to come to a resolution. The loss tolerance for each party is unique and needs to be understood to reach an acceptable resolution.

To learn more, please consider registering for the upcoming CBA webinar, "Hindsight is 2020 — Looking Ahead to Loan Workouts, Financial Litigation Trends and More" to be presented by Snell and Wilmer on Wednesday, Dec. 16th from 9-10:00 a.m. MST. We will provide a variety of perspectives from a team of transactional and litigation attorneys, including myself. Among other topics, we will provide a bank examiner's bird's eye view of the banking industry in 2020, the ins and outs of SEC receiverships and spotting account fraud, and an update on eviction and foreclosure in the shadow of the FHFA moratorium. Information about the webinar will be available shortly from the CBA. ■

This article is for educational purposes and does not constitute legal advice. It represents the current, general opinions of the author and not of her law firm or colleagues.

Judith Lajoie is a transactional attorney at Snell and Wilmer with more than 30 years of commercial finance and real estate finance and acquisition experience. She previously served as general counsel to a large state-chartered bank and financial services company where she supervised complex commercial litigation, served as counsel to the line and special assets bankers, and provided oversight with respect to bank policies, procedures and account and loan operations.

Beyond PPP: SBA Lending Can Help Banks, Credit Unions Grow, Mitigate Risk

BY MARY ELLEN BIERY, ABRIGO

For many financial institutions scrambling to assist small businesses by participating in the Small Business Administration's (SBA) Paycheck Protection Program (PPP), implementing new technology has been the only possible way to handle the crush of PPP applicants and paperwork. Between the numbers of applicants, the strong demand for limited funds and the restrictions on face-to-face transactions, financial institutions without automation were quickly overwhelmed.

70% of bank executives and directors said their institutions had implemented or upgraded an application or technology specific to PPP loans, according to Bank Director's new 2020 Technology Survey.

Now, many of the nearly 5,500 SBA-approved lenders participating in the PPP are weighing the option of leveraging that technology to continue offering SBA loans beyond those tied to the PPP. For some community financial institutions, SBA lending represents a new product. Indeed, only about 1,700 lenders participated in the SBA's 7(a) program in fiscal 2019.

For institutions considering planning to continue SBA lending after PPP, it may also provide an opportunity to obtain new customers. A third potential benefit is that SBA loan programs may provide a way to restructure existing loans for some current clients while ensuring greater portfolio stability for the bank or credit union. The portion of any loan that the SBA guarantees does not count against the financial institution's lending limit. Banks and credit unions can sell the loans on the secondary market yet retain servicing rights and some fees.

"SBA lending provides liquidity, while you retain the relationship and you get paid for servicing," noted Michael Wear, owner of 39 Acres Corp., which specializes in banker training and bank consulting services in credit risk underwriting and loan portfolio risk. "A side benefit is when you help a business owner who's not having the best day financially, they're not only appreciative, they become great word-of-mouth advertising and references for prospects," he said during a recent Abrigo webinar on SBA 7(a) lending.

During the last recession, the SBA increased its maximum loan guarantee to 90% of the loan amount (from the current cap of 85% on loans of less than $150,000), and while it hasn't yet done so for this recession, it has increased loan sizes and streamlined processes, Wear noted.

Among the webinar participants surveyed during the session:

- 31% said they anticipate their institution will do more SBA refinancing of existing debt going forward
- 18% said their institution doesn't currently do SBA lending besides PPP but plans to
- 18% said their institution plans on using government guarantees to obtain new customers
- 34% said they anticipate no change at their institution in SBA lending volume or use.

Some commercial lenders might question why they should be talking about SBA lending now when they haven't even processed PPP loan forgiveness applications for all of their customers or members yet. Or, they might wonder whether it's too late to start 7(a) lending if they've never done it before the PPP. "It's not too late to start, but it's later than you think," Wear said.

Lenders doing standard 7(a) SBA lending, considered the "mothership" of SBA loans, Wear said, will likely need a learning curve, and even lenders that have worked on 7(a) loans in the past may find that a lot has changed in recent years. SBA 7(a) loans have a maximum loan amount of $5 million, but multiple loans are allowed.

continued on the next page

continued from the previous page

In addition, an institution cannot pass a known loss on to the government, so banks or credit unions considering refinancing existing debts on the books now will need to act quickly before financials demonstrate severe losses.

For existing loans to be eligible for SBA refinancing, they must be on what the SBA considers "unreasonable terms," which can include the following:

- Having an interest rate over maximums for the SBA program used
- Having a balloon payment — a short-term note
- Having an aggressive pay down schedule or being over-collateralized
- Using debt to finance a change of ownership (where the new owner will own 100%).

To be eligible for SBA refinancing, the application must also meet a requirement that it will result in a 10% improvement (for term loans) in cash flow for debt service, which Wear said is generally reasonably easy to meet, given the SBA's longer terms.

SBA 7(a) guaranty amounts and fees are graduated based on the loan term and dollar amount, and the SBA does take a "haircut" on the lender rate for servicing, Wear said. Nevertheless, in his experience as an SBA lender, he never had an issue with internal pricing models or return on investment goals related to SBA lending.

However, as noted earlier, Wear said lenders might have a learning curve. SBA is very oriented to its Standard Operating Procedures and it can be a very paperwork-heavy process. (By the way, the SBA recently announced updates to the SBA SOP for 7(a) programs that will be effective Oct. 1. The current SOP 50 10 5 (K) remains in effect until then.) Technology that automates the application, document-gathering, and submission to E-Tran, can help — as it did with the PPP.

Here are a few other tips Wear provided for SBA lending:

- Use your local SBA office and seek out private SBA experts (often former SBA lenders themselves).
- Have a dedicated SBA expert in-house.
- Practice makes perfect.
- Communicate with the borrower up front about what information is needed and why.
- Make use of in-house document monitoring to ensure proper monitoring of SBA loans. "Not doing on-site checks until it's too late or not updating financials are two popular reasons SBA reduces or even denies claims," Wear said.

Other, lesser-known SBA lending programs that financial institutions can explore to help businesses in their communities include SBAExpress, CapLines, and 504 loans.

SBAExpress has a maximum loan size of $350,000. However, that has been temporarily lifted to $1 million under the CARES Act and has a lower guaranty than regular 7(a) loans, so it has lower guaranty fees. But they typically are approved faster, and the institution can use their own closing documents.

Other, lesser-known SBA lending programs that financial institutions can explore to help businesses in their communities include SBAExpress, CapLines, and 504 loans.

CapLines provides revolving credit lines that can be used for contracts or working capital for inventory, for example. Loans can be up to $5 million, up to 10 years, and have a standard guaranty of 75% to 85%. "These are great for large contracts for your small contractors," Wear said. "They offer nice extended loan terms for builders and having this facility might even reduce bonding costs."

For borrowers looking for real estate or large equipment loans, certified development companies can offer SBA 504 loans, which provide long-term fixed-rate loans, typically $250,000 to $5 million.

According to Wear, a final option for lenders to consider as they look for government guarantees on loans is the U.S. Department of Agriculture. It offers loan guarantees of up to 90% through its Business and Industry Loan Program for borrowers in rural areas. ■

Protecting Your Bank in a Time of Uncertainty

BY RICH MCRAE AND JUDY FARMER,
EIDE BAILLY R

Keeping your financial institution safe is critical to your success. Without the right security measures and procedures in place, your financial institution can be at risk of cyberattacks, embezzlement and more.

In uncertain times when employees may be working remotely and processes and procedures have changed dramatically, your financial institution's security is even more important to ensure your business and employees are kept safe.

Cybersecurity is Key

Financial institutions and other businesses that hold people's sensitive information are prime targets for cybercriminals. Having a proactive approach to cybersecurity is a great way to ensure your customers' and employees' data remains safe.

"Technology has helped create enhancements for regulatory compliance and fraud prevention, although it seems as we get more sophisticated with fraud prevention, those trying to commit fraud get more sophisticated as well."

- Mark Daigle, President and CEO, First National Bank of Durango

Of course, creating a proactive approach can be a challenge. This is a team effort and everyone in your financial institution needs to play a vital role in keeping information safe. There are best practices in two areas that you can start with today to increase your organization's proactivity: email and internet, and physical devices.

Email and Internet Best Practices

Email and the internet are a key piece of how financial institutions operate and communicate.

Four ideas to help make these areas more secure from cybersecurity threats:

1. Think Before Clicking

Investigate email links before clicking it. Once a link has been clicked, there's no going back — malicious software can now be installed on your computer. Don't click links unless you know and trust the source and are certain of where links are sending you. If you are unsure about a link, contact the sender before clicking or send it to your financial institution's IT help desk to investigate.

continued on the next page

continued from the previous page

2. Secure Browsing

Pay attention to the letter "S." That simple letter makes all the difference when it comes to secure web browsing. "Http" stands for hypertext transfer protocol, while the "s" at the end stands for — you guessed it — secure. It's essential to ensure "https" is displayed in the URL you visit, as it shows the authenticity of the security certificate of that webpage. If you access a webpage without a certificate or with an expired one, there is a chance you are visiting a webpage that could contain viruses, malware and more.

3. Cautious Surfing

Don't surf the internet if you are using an account that has administrator privileges. If you pick up malware using a computer with these privileges, you have given the malware the same administrator rights you have on your user account. Also, consider the Wi-Fi network you are using. Make sure it is secured and password protected.

4. Strong Passwords

While having a password of "123456" or "password" may be easy to remember, having more complex passwords can make a huge difference in protecting your data and your financial institution. Strong passwords should:

- Contain at least 12 characters, including upper- and lowercase letters, numbers and special characters
- Be unique to the user — never share them
- Not be reused on multiple accounts
- Change every 60 to 90 days

Physical Device Best Practices

The actions of your everyday staff, whether they are on-site or working from home, are critical keys to a robust cybersecurity program. Here are some best practices related to your staff and their devices that can help prevent any attacks.

1. Lock It Up

Every time you step away from your computer, lock it up. While it may seem like a trivial practice, you would be surprised at how often it is not done. Computers contain sensitive information and processes and when left unlocked, there is a possibility that a hacker could have access to the system. To avoid possible information leaks, remember to always lock your computer when leaving your desk. A quick tip: Press the Windows Key + L to lock your screen quickly.

2. Protect Your Device

Patching and repairing operating systems and applications is another important security practice. Although these patches and updates are released regularly from Microsoft and Adobe, there are times when patches are sent out off schedule to defend against other threats. As time passes and new threats are discovered, system updating and patching will be a constant security measure. This is especially true as employees are working remotely and may require additional programs and security systems.

3. The Importance of Education

Ensuring all employees are trained in the basics of network, system and information security is a massive piece of your financial institution's cybersecurity plan. Having a basic understanding of security or identifying a potential threat can make an employee less likely to be a victim. Employees should be trained on security policies and their role in protecting information. They should also be aware of the expectations when it comes to personal use of company-provided equipment. This may include social media use and web browsing. You will also want to train your employees on social engineering and identifying these attacks, which come in the form of phishing emails, fake calls and more.

4. Back it Up

Disasters don't usually come with much warning. Businesses often aren't fully prepared for floods, fires, power outages or malicious programs. In these cases, it is possible for businesses to lose information and data stored on devices. The best way to ensure this data is safe is to automatically back up all data daily and store the backups in a secure, off-site location.

5. Be Smart with Your Smartphone

Smartphones are another avenue hackers may use to access sensitive data. In the financial institution world, bankers may often be traveling and communicating with clients while on the go using their smartphone. Remember to avoid connecting to unsecured Wi-Fi, use strong passwords, and turn off Bluetooth when you aren't using it.

Watch for Common IT Problems

Many banks rely on a third party for their IT services. However, financial institutions need to know how to check on that third party's work.

Common Scenarios

A financial institution that has gone through a replacement of its security systems, such as security cameras and access systems, may have a potential threat. Many times, those cameras or locks are easily accessed by unauthorized people. This happens when system vendors create user logins for the bank to use but leave the administrator accounts at default or leave the passwords blank.

Software patching continues to be a problem for financial institutions, especially when a third party is responsible for it. These problems may exist in Microsoft apps, Java, Adobe and many other applications. The vulnerabilities in these apps have been discovered in some substantial breaches, which have occurred worldwide.

Other systems at risk for security breaches include scanners, phone systems, storage systems, routers and network switches, among others. A person can access these using vendor default credentials, which gives them the power to delete the financial institution's data storage. Smart TVs and electronic signs are also easily hacked, and the hacker may display malicious content and lock the owner out.

Peace of mind begins with understanding the risk and how to make a strategic plan for prevention, detection and resolution. We've created a guide to give you tips to weather the cybersecurity storm.

Utilize HR to Prevent Fraud

Human resources are usually brought into the picture after the act has been discovered. However, having a solid HR plan from the start can minimize the chances of fraud occurring and less severe effects if fraud does occur.

Begin fraud prevention, starting with the hiring process. Background checks on new hires can help your institution avoid negligent hiring and verify information on a candidate.

Placement services can also be used by smaller organizations to find, vet and verify potential candidates, which helps lessen the business burden.

Items to consider when vetting potential candidates to avoid becoming the next victim of fraud or embezzlement include:

- Verifying education and professional credentials
- Performing background checks that include criminal and credit checks
- Investigating for any wage garnishments, liens or judgments that may be indicative of prior embezzlement history
- Researching for news articles online that may uncover any prior employment activities

You may also want to consider implementing a whistleblower hotline, which provides a confidential way for employees to report wrongful behavior. Not only do hotlines prevent illegal and fraudulent behavior, but they can also detect issues before they become severe and can help reduce losses. In some areas, a whistleblower hotline allows for tips to be submitted anonymously for all manners of wrongdoing, including:

- Financial: Mistakes and criminal activity can occur in many areas — accounting procedures, lending discrepancies, billing errors and more.
- Ethical: Issues considered to be ethical breaches include code of conduct violation, physical theft, intellectual property theft and more.
- Privacy and Security: can include identity theft, confidentiality breaches, customer database hacks and tampering with electronic door locks, to name a few.

"When it comes to where we are going in the future, it's about adapting to change. We don't do banking as we did 50 or 150 years ago. We don't even do banking as we did 15 years ago. Everything is going to change around us, and we have to continue to change along with it."

-Susan Whitson, EVP, First National

The safety of your financial institution's data and employees is critical to your success. As your organization navigates through the changes of operating during COVID-19 and beyond, it's more important than ever to make sure your financial institution is protected.

The Importance of Internal Audit No Matter Your Bank's Size

No financial institution is too big or small to be a fraud victim. Systems of internal controls allowing management to measure performance and an internal audit program to ensure controls are implemented to protect your institution.

The Federal Reserve System, OCC, FDIC and NCUA guide internal audits; all financial institutions must adhere to regulatory requirements regarding internal controls. Organizations' internal control system consists of management's environment and procedures, ensuring key business objectives risks are identified, evaluated and reduced. These include the reliability of financial reporting, operational effectiveness, regulatory compliance and safeguarding of the institution's assets.

Components of Internal Control

1. The control environment sets the tone of the organization, influencing the control consciousness of its people. Foundation for all other components of internal control, providing discipline and structure.
2. Risk Assessment — business's analysis and identification of relevant risks relating to the achievement of its objectives. This forms a basis for determining how the risks should be managed.
3. Control activities — procedures and policies which help ensure that management directives are carried out.
4. Information and communication are the identification, capture and exchange of information in a form and time frame that enable people to carry out their responsibilities.
5. Monitoring is a process that assesses the quality of the performance of internal control over time.

It is important to remember that independence is critical to the internal audit function. To accomplish the audit function's objectives, personnel must maintain total independence from your management or other employees.

Recovering Lost Data

Dealing with attacks on your financial institution is tough, and there are many aspects to consider in the recovery period. Recovery money is important, but another issue is data loss and your potential obligation to report it.

Forensic accountants help you recover data in many ways:

- Coordinating with legal services that are well versed in cybersecurity and reporting requirements.
- Investigating information from email accounts and preserving and analyzing workplace devices used by those with compromised credentials or used by those who may have internally committed fraud.
- Collaborate with your IT department (which could be third-party or internal) and obtain logs to investigate and put preventative steps to mitigate future risk.

The safety of your financial institution's data and employees is critical to your success. As your organization navigates through the changes of operating during COVID-19 and beyond, it's more important than ever to make sure your financial institution is protected. ■

The Importance of Diversity in Financial Services

BY ANDREW P. RUSSELL, MAJ (RET.)
PRESIDENT, SOUND PAYMENTS, INC.
BRIAN RHONEMUS, CEO OF SANFORD ROSE ASSOCIATES
RHONEMUS GROUP

With the recent chain of events across the country, there is a lot of talk about racial tension, the economy and immigration. We have work to do in each of these areas, and we can't afford to rely on political leaders to do the job for us — we all play a role. All three issues touch our industry, so we have to push forward to do our part in solving them.

The definition of diversity, according to Merriam-Webster, is "the state of having people who are different races or who have different cultures in a group or organization."

The lack of diversity has been a challenge for the banking industry. Attend an event or spend a few minutes considering this matter in the industry, and you, too, will find that the industry could benefit from additional diversity. Terry Gore, a correspondent banker covering the Midwest, said it very clearly: "I have been in banking since 2001, attending conferences across the country, and I have not seen any other African Americans at these events or in senior leadership roles." That matches what we've seen, too.

Diversity is about learning from others who are not the same. It is about dignity and respect for all. It is critical to create workplace environments and practices that encourage learning from others and help capture the advantage of diverse perspectives.

Corporate and organizational commitment to diversity is an important business initiative and contributor to increased employee engagement. By building a diverse workforce, you can better serve diverse customers and communities, helping you grow the company and create shareholder value.

Diversity is the key to your company's sustainable future growth and must be part of your company's core values. As a leader, it is imperative to value your employees' diverse backgrounds, experience and knowledge. They can provide perspective and develop innovative solutions to drive the growth and success of your company. Strive to offer a workplace reflective of your commitment to the broad cultural, ethnic and lifestyle diversity of the markets where your team members live, work and serve.

Why focus on diversity? Creating a stronger diversity culture will:

- Improve effectiveness in working with customers, communities and peers.
- Encourage different viewpoints.

Working together to foster innovation and increased employee engagement will help you sustain growth in our current economic and competitive environment.

Fostering an inclusive work environment will:

- Allow others to recognize our differences' critical value and our individual and collective strengths and skills.
- Leverage the broad cultural, ethnic and lifestyle diversity of employees against an increasingly more diverse marketplace.
- Create better-engaged employees who can assess issues, provide perspectives and develop innovative solutions.

Enhanced reputation as an employer and service provider will:

- Allow customers to see the commitment to diversity in actions as well as words.
- Harness the energy of diversity and put it to work.
- Create diversity efforts that will continue to strengthen the connection between values and business strategy.
- Reflect a commitment to employees by building a workplace that respects the multitude of differences they bring to the workplace.
- Respond to the changing demographics in all communities and customer base.

Companies that want to build a diversity strategy should consider creating and sponsoring Employee Resource Groups (ERGs) to provide input on recruitment that focuses on hiring a more diverse talent pool. One approach would be to assign each ERG a recruiting point of contact who could be a liaison between the ERG and diverse, underrepresented groups within the company during the referral process. The recruiting point of contact would attend monthly ERG meetings and develop relationships.

Companies should also consider creating an Office of Diversity and Inclusion with a chief diversity officer and a diversity liaison. Their responsibilities would include:

- Creating individual development plans. They could work with employees to develop these.
- Writing a succession plan. What career options are available within the company? Is it possible to rise to the very top?

Each organization should focus on increasing diversity when developing and retaining talent.

Developing Talent

To ensure that diversity is considered when developing talent:

- List key positions. Which positions could best be created or filled with more inclusive choices?
- Create a Strategic People Plan. How will the organization implement changes in hiring decisions and promotions?

Retaining Talent

There should be an exit interview to identify problems and unconscious bias anytime an employee resigns voluntarily. If done correctly, questions asked during the exit interview can identify areas of concern that cross both gender and race. Use the information to determine possible corrective measures. That process leverages weakness (bias) into strength.

- Have a line of business leaders who conduct the exit interview for the top three pay-grades. They should pay special attention to interviews with women and people of color.
- HR may conduct an exit interview for all other pay-grades.

Each exit interview has the following goals:

- To discover the root cause of turnover.
- To gain knowledge about pay, incentives, opportunities, management, workplace practices, relationship with supervisor, relationship with peers and workplace environment.

Conducting and learning from exit interviews will develop employee awareness beyond political correctness and truly make diversity a core value within the company's framework. To maximize the benefit from the exit interviews, create a multicultural program and training that does the following:

- Deliver facilitated coaching sessions for all senior managers. Sustainable change must start with the top of the house!
- Deliver diversity awareness training and coaching to all other managers, followed by all other employees.

Conclusion

Diversity should be a top priority, but success will only be achieved if we inspire people to operate in an environment based on mutual trust, respect, openness, candor, empowerment, teamwork, innovation, risk-taking and integrity.

Please encourage and value diversity. We can begin by banding together and talking collectively about diversity as banks, associations, and partners to the banking industry. ■

Andrew P. Russell is President of Sound Payments Inc. (https://www.soundpayments.com). Russell leads a team of innovators in offering the best in software development, state-of-the-art equipment, unparalleled technical and customer service delivery, advanced security and compliance and training. Russell retired with the rank of Major from the United States Army Reserves after 34 years of service and is a veteran leader in the financial services industry holding key senior positions of CEO, EVP, and Head of various banking divisions.

About Brian Rhonemus Brian Rhonemus is the CEO of Sanford Rose Associates® – Rhonemus Group. He has more than 30 years of service to the banking, financial services and recruiting industries, which allows him to bring genuine real-world experience to his clients. As a former banker, this experience allows him to develop progressive talent management solutions to his clients.

Home Equity Line of Credit (HELOC) Scams

Home Equity Line of Credit (HELOC) scams continue to be a costly and challenging issue for financial institutions. Wire transfer fraud can easily reach millions of dollars. With advancements in technology, such as online databases for county clerk records, online banking and online title searching, financial institutions commonly use data to verify that customer identity for wire transactions is routinely and easily comprised.

Several financial institutions have fallen victim to losses arising out of wire transfer and check forgery schemes targeting HELOC accounts and have taken action to mitigate future loss experience risk. Institutions that place a high value on their customer service and customer confidence in the institution's security against wire transfer fraud have implemented risk mitigation upgrades to their operations to solidify customer confidence. According to Travelers, the following steps are initiatives that can help to eliminate or at least significantly reduce, losses arising out of HELOC fraud scams:

- Place greater emphasis on getting full account numbers from callers;
- Phrase verification questions so that the caller is providing the information, rather than merely confirming what the financial institution has on file;
- Remove items from the list of authentication options (such as mother's maiden name and date of birth) that have become "public information" through social media websites and venues;
- Train employees who field calls to verify authentication items in a specific order and not skip to other items if the caller cannot verify the requested information;
- Train personnel with an updated full fraud-awareness module to help employees identify warning signs of fraud;
- Encourage customers to set up PINs if the automated phone system allows it;
- Update customer account files with driver's license numbers, if not copies of the entire driver's license (or other government-issued ID if there is no driver's license);
- Utilize a mandatory callback procedure for all customer-not-present wire transfer requests;
- Use a password to authenticate customers rather than commonly compromised information and only allow in-person modification of passwords and key account information;
- Consider requiring full balance transfers (or transfers up to a certain percentage of the available funds) to be made in person while placing a reasonable monetary limit (or percentage limit) on customer-not-present wire transfer requests;
- Establish a reporting procedure which refers all suspicious wire transfer requests to a higher level of authority for confirmation/processing;
- Require a dual telephone confirmation procedure where the financial institution calls the home phone of the customer as well as an alternate number, such as a mobile phone or work phone;
- Establish an automatic two-day holding pattern anytime a request is made to initiate a wire transfer from a HELOC account to a foreign bank account within which time the financial institution ensures accurate verification and deters fraudsters seeking immediate processing;
- Verify change of address or phone number requests with a call to the customer's phone number on file;
- Customize specific and unique verification questions and procedures with an account holder/customer that can only be modified in-person.

Technology has made it easier than ever for bad actors to obtain data that financial institutions commonly use to verify their customers' identities. That's why financial institutions must utilize robust authentication procedures to protect their customers — and themselves — from wire transfer fraud. This includes greater awareness, updated and vigilant policies, procedures and training, and implementing imaginative and unique verification procedures to reduce the risk of sustaining losses arising out of wire transfer fraud targeting HELOC accounts.

Travelers is committed to managing and mitigating risks and exposures and does so backed by financial stability and a dedicated team — from underwriters to claim professionals — whose mission is to ensure and protect a company's assets. For more information, visit www.travelers.com. ■

CECL: Building the Right Treehouse

BY RYAN ABDOO, PARTNER, PLANTE MORAN

For community institutions yet to adopt CECL, complexity is not necessarily the better choice. Here are two factors to consider when selecting a method.

As we approach the end of 2020, institutions that were required to adopt the current expected credit loss (CECL) accounting standard are wrapping up their adoption year. Many of these institutions elected to use more complex methodologies than what the Financial Accounting Standards Board requires for community institutions. For community institutions yet to adopt CECL, bear in mind that complexity is not necessarily the better or right choice.

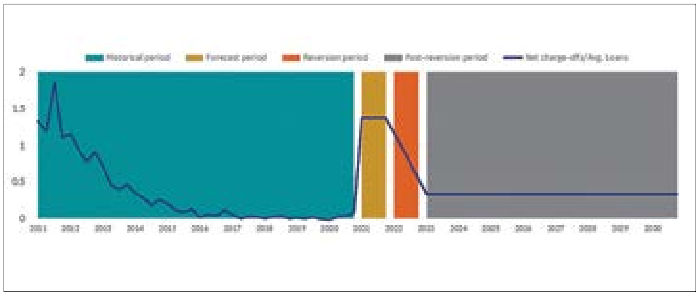
Factors to weigh when selecting the best CECL accounting method

The handful of available methods range from very complex (and costly) to simple and economical. Remember that the standard is scalable to all institutions, so while more is expected from regulators and auditors for the first wave of adopters, institutions yet to adopt the opportunity to select a scalable method to the institution's complexity. In other words, choose your methodology carefully since added complexity inherently leads to increased cost and greater potential for error and scrutiny.

When considering your options, the first thing to ask is whether the added complexity provides enough value to justify the financial and operational burden. For example, the cost of a more sophisticated probability of default, loss given default (PD/LGD) method could prove valuable if the model was also used to perform stress testing. Since stress testing can provide insights on how a portfolio might behave under various economic scenarios, an institution could leverage the model for more strategic planning. The downside? The added cost and operational burden associated with the accumulation of accurate and complete data.

Additionally, a migration analysis could also prove valuable should your institution look to better understand how the overall portfolio behaves under certain economic scenarios. On the other hand, if you're looking for a method that solely calculates the allowance for credit losses, the use of a simple process that can leverage your spreadsheet software and the readily available historical data from call reporting (for example, the weighted average remaining maturity method) is probably the best option.

The second factor to consider is the availability of the historical data needed to calculate the allowance for credit losses under each method. As a general rule, the more complex the method, the more pieces of historical loan-level data required. For example, the migration method often asks for historical monthly loan trials with risk grades. When considering historical data, it's also important to understand that the CECL standard requires an institution to measure losses over the life of a loan. However, this life-of-loan measurement comprises three pieces: the forecast period, the reversion to the long-term average and the long-term average. The graph below illustrates this with a common scenario — a one-year forecast followed by a one-year reversion to the long-term average.



The forecast period has been the most noteworthy in breaking down the three pieces of the life-of-loan calculation. When looking deeper into this part of the estimate, the institution will need to obtain loss information from different parts of an economic cycle to support the forecast period's quantitative reserve amount. A challenge for many institutions that have already adopted has been the availability of the data required for a full economic cycle — specifically, historical loss data going into a recession. As a result, judgmental factors continue to be as prevalent among institutions as the incurred loss methodology used before CECL adoption. The solution to the lack of data is straightforward: Select a method with less complexity.

Let's say your institution currently uses a loss rate methodology by looking back three to five years and calculating an average annual loss rate with additional adjustments for qualitative factors. You can continue to use this method with a few simple adjustments to leverage information readily available to you from call reports, information from the Federal Reserve and your asset/liability modeling system.

A simple approach: Measure twice, cut once

Many institutions yet to adopt CECL have decided to start with a less complex method because they have the historical data over a full economic cycle at their fingertips, which keeps the added cost and administrative effort low. Their approach reminds me of building a treehouse years ago with my dad — his favorite saying, "Measure twice, cut once," comes to mind. Selecting a methodology and a model for CECL will come with varying levels of financial and operational burden, but don't take on more than necessary. We encourage you to ensure well-informed decisions are being made and build your treehouse in a way that best fits your institution. ■

8 Ways to Enhance Security for Your Remote Workforce

BY STEVEN WARD

As a result of the COVID-19 pandemic, there has been a marked shift in how we work and use technology to stay connected and execute business. Many institutions are managing remote workforces while navigating the pandemic's ongoing effects, leading to various challenges, including addressing cybersecurity threats.

Understanding the Risks

There is a variety of cybersecurity risks for financial institutions to combat, including:

- **Phishing:** As many employees transitioned to remote work in early 2020, phishing scams skyrocketed, with attackers targeting personal email accounts in an attempt to compromise home networks.

- **Malware:** Cyber attackers are leveraging malware to obtain usernames, passwords and payment card information stored in a user's browser. According to security vendor Carbon Black, attacks targeting the financial sector have increased by 238% from February to April 2020.

- **IT Falling Behind:** A recent Aite report noted that IT departments are often short-handed and are now responding to remote work environments' challenges, leading to increased maintenance backlogs and slow response times.

- **Business Email Compromise (BEC):** The FBI issued a warning in early 2020 regarding a spike in BEC scams, which involve a criminal sending an email and imitating the owner's identity, such as a company executive or recognized vendor.

How to Enhance Security for Your Remote Workforce

To defend against the ever-present threat of cyberattacks, consider the following tips to secure your institution's workforce.

1. Provide Secure Internet Access

While providing employees with virtual private network (VPN) access will help mitigate cyber threats, there are risks associated with employees using their home networks for business when not connected to VPN. Security solutions that protect your network and users but do not interfere with business activities are priorities. Encourage employees to address the following questions to reduce the penetrability of home networks:

- What is the quality of your home network?
- Does your home network still have the default password?
- How old is the router?
- What protocols is it running?
- Do your personal devices have up-to-date malware and virus protection, the latest security patches and updated third-party software installed?

The way we work has been transformed as a result of COVID-19. As the financial services industry's landscape continues adapting, your institution should prioritize security to serve your customers better.

2. Create an Acceptable Use Policy

In this new hybrid reality, employees may be more likely to use corporate-owned devices for personal business. Create and communicate a clear Acceptable Use Policy and outline your specific policies for business devices. Your institution's Acceptable Use Policy should also explicitly address work-from-home environments to educate employees on expectations and risks of remote work.

3. Use Mobile Device Management

If your institution issues business-owned devices to employees or if employees use personal devices for business, consider implementing Mobile Device Management and Encryption to safeguard all devices with access to your institution's data. This technology will also allow your IT support staff to fix issues remotely or install updates.

4. Implement Web Content Filtering

Web content filtering can extend beyond a VPN connection, offering additional layers of security. By providing web content filtering capabilities, your institution can protect off-network devices while preventing employees from accessing malicious or inappropriate sites and mitigating threats like malware.

5. Enable Multi-Factor Authentication (MFA)

Multi-factor authentication is one of the best ways to protect your workforce from the two largest threat vectors: social engineering and phishing. Through MFA, multiple credentials are required to verify a user's identity. According to Microsoft, MFA can help prevent over 99% of account compromise attacks since a fraudster cannot gain account access solely by obtaining or cracking a password.

6. Strategically Invest in Technology

The number of available technology solutions designed to support your institution can be overwhelming but remember that you should not invest in technology that does not align with a business objective or support revenue generation. As you consider technology options, think holistically about your institution's IT strategy, goals and environment.

7. Develop Well-Documented Processes

Revisit key processes and determine how to integrate them in the new reality of remote work and if current technology accommodates existing processes or requires updates to enhance security. Auditing processes for efficiency will also benefit your institution as you determine whether processes are scalable, have the appropriate number of steps and if they will meet your needs in the future.

8. Promote a Security-Minded Culture

As employees work remotely, your institution should prioritize employee cybersecurity education to create and maintain a security-minded culture. By creating a culture focused on security, you can educate employees on proper online conduct and reinforce the importance of asking for assistance after engaging in potentially risky behavior.

Future of Remote Workforces

The way we work has been transformed as a result of COVID-19. As the financial services industry's landscape continues adapting, your institution should prioritize security to serve your customers better.

Check out our remote workforce security infographic to learn more about how CSI can help you manage your remote workforce. ■

Steven Ward has over 29 years' experience in technology with 14 years in community banking technology and currently serves as CSI's vCIO manager.

COLORADO Banker
140 East 19th Avenue
Suite 400
Denver, Colorado 80203

PRSRT STD
U.S. POSTAGE
PAID
SALT LAKE CITY, UT
PERMIT NO. 508

This magazine is designed and published by The newsLINK Group, LLC | 1.855.747.4003