COLORADO Banker

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

3 Tips for Bank Leaders in Today's Environment

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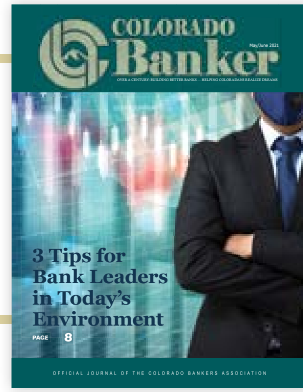

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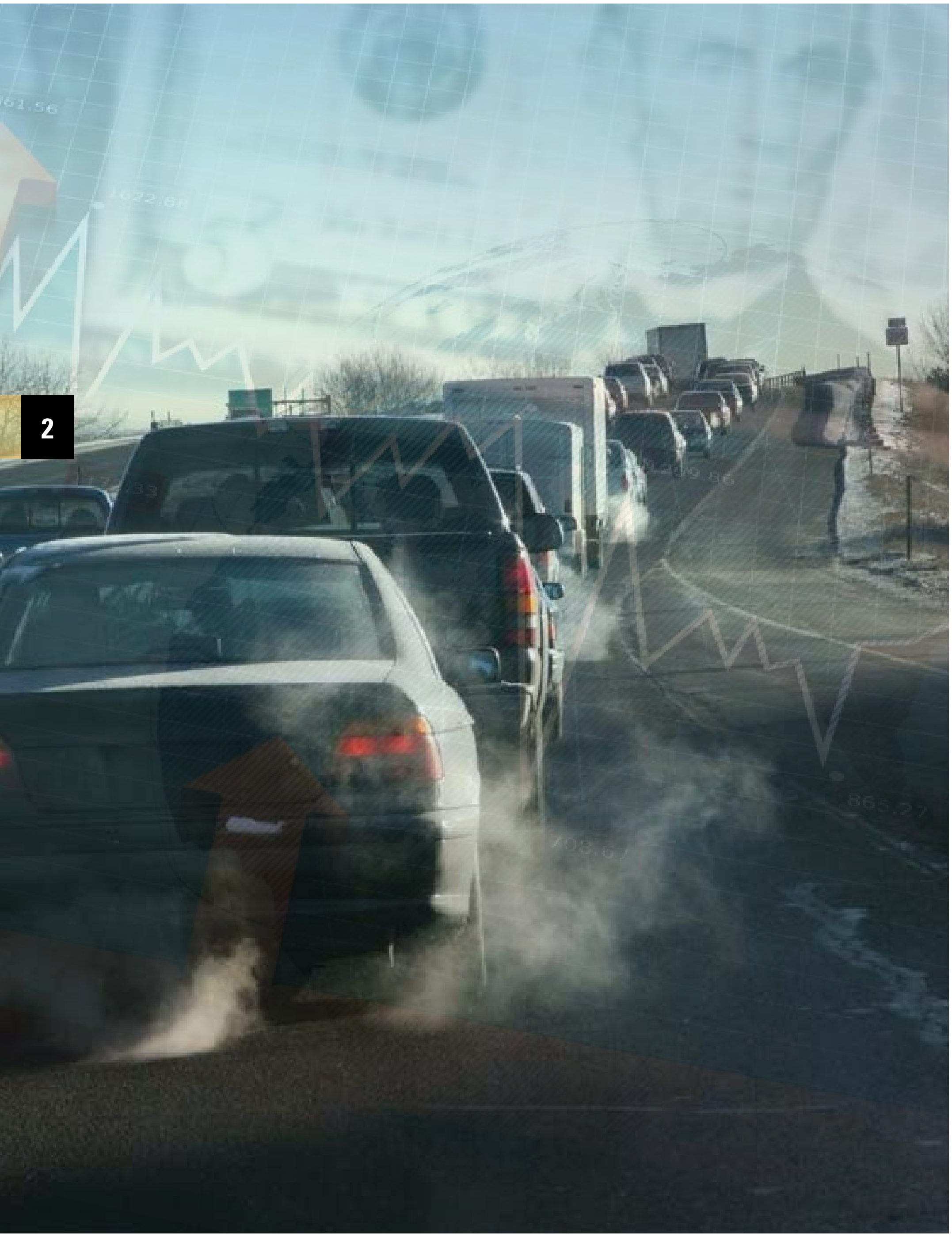
A WORD FROM CBA

Proposed Air Pollution Rules Could Detour Economic Recovery

BY JENIFER WALLER, PRESIDENT, COLORADO BANKERS ASSOCIATION



If your bank or your customer's business is in a high-ozone area and employs 100 people or more, you soon might have to find a new way to get to work, other than commuting alone in your car.

A new rule proposed by the state's air pollution control division is seeking to force larger employers to reduce the number of employees commuting solo to 75% by 2022 and 60% by 2024.

Those employers would also be required to hire an "official transportation coordinator." Additionally, they must do away with parking subsidies and begin charging for parking (if they do not currently charge a fee.) Commuters who can afford electric vehicles would be exempt from the rules.

The new suggested rule, while well intended, is fraught with problems. Business decisions (such as remote working, how an employee gets to and from work, whether employee benefits include parking subsidies, or if the company has resources to hire an employees' transportation coordinator) should be determined by individual companies. The new rule is nothing short of the government seeking to mandate employers' policies.

Furthermore, it is imperative that any undertaking is not punitive or unfairly burdensome for one group of people over another.

Under the rule, employees who work for larger companies – where public transit is not feasible or for whom work-from-home options are not available – would be forced to alone shoulder the burden of reducing greenhouse gasses in high-ozone areas. Employees who work for companies with fewer workers would not share the same responsibility.

It is important to note that while the rule targets larger employers, more than 90% of Colorado's businesses are small, employing fewer than 50 employees.

Economic analysis that accompanied the proposed rule shows there are 2,800 employers in the 10-county area identified as having ozone problems that meet the criteria of employing 100 or more employees. In all, nearly 877,000 people work for those companies. By way of comparison, U.S. Census data shows there are 42,610 businesses in Metro Denver alone.

Possibly most important is the timing of the proposal. It is irresponsible to increase costs for workers and companies already working to overcome pandemic-related financial impacts. According to reports, staff analysis of meeting the goal in a broad range puts the annual cost per employer from $7,200 to $811,643. Many business groups also question the legal authority of the air pollution control division to issue such a rule.

The Air Pollution Control Division has asked the state's Air Quality Control Commission to set hearings and take a vote on the rule before the end of summer.

Colorado leadership should be focused on economic recovery – not drawing up new rules that unfairly punish a select group of people. The proposal should be tabled until Colorado's economy has recovered from the pandemic-caused economic downturn. Further, the proposed rule should be amended to ensure responsibility is shared more equally and that no group of people or the financial sector be unfairly burdened.

The Air Pollution Control Division has asked the state's Air Quality Control Commission to set hearings and take a vote on the rule before the end of summer. On behalf of Colorado banks and their large employer customers, CBA will be advocating to ensure any impact of new regulations will not be overly costly or burdensome. ■

CHAIRMAN'S MESSAGE

Meet CBA's New Chairman, Mike Brown, Regional President of Alpine Bank

Through the CBA's leadership, we will continue collaborating – and, where needed, opposing – legislation that hampers or inefficiently attempts to duplicate services banks are already providing. Recent examples include proposals for state- or city-owned banks that rely on taxpayers to cover poor lending decisions and losses.

Michael Brown moved to Colorado in late 1990 from his native state of Oklahoma. In early 1991, Michael began working for Alpine Bank, Aspen, as a customer service representative and later as a lending officer.

In 1996, Michael relocated to the Vail Valley, helping Alpine Bank open locations in Avon and Edwards. Since then, he has been part of the Vail Valley and currently serves as Regional President for Alpine's Vail Valley and Steamboat locations. Michael lives in Gypsum with his wife, Stacy and his two beautiful daughters, Emma and Ava.

Following his May 11 unanimous election to the post by the Colorado Bankers Association membership, he sat down with Colorado Banker to discuss his plans for his year at the helm of CBA's board of directors and the organization for the coming year.

CB: What are your top priorities as CBA chairman?

MB: As Chair of the CBA, priorities would include maintaining the organization's fiscal health. This is the foundation of everything we do to represent, educate and inform Colorado's banking industry.

Another obvious goal is to continue engaging with and educating our elected officials about the critical role banks play across our state and our country. The recent Payroll Protection Program was one example of the critical economic role our banks play across Colorado. Through the CBA's leadership, we will continue collaborating – and, where needed, opposing – legislation that hampers or inefficiently attempts to duplicate services banks are already providing. Recent examples include proposals for state- or city-owned banks that rely on taxpayers to cover poor lending decisions and losses.

Banks also have a role to play concerning diversity and inclusion, both within our industry and as members of our communities. Earlier in 2021, the CBA began a discussion of how banks might actively hire and develop a more diverse workforce throughout our state. At the same time, the CBA is actively engaged – along with many of its member banks – in product and financial literacy programs for underserved and underbanked segments of our communities. These important initiatives will continue through the coming year and beyond.

And finally, I look forward to seeing the CBA return to in-person gatherings to allow our members to learn and collaborate in more personalized settings.

CB: How do you foresee the banking industry navigating the exit of the COVID pandemic?

MB: As our industry moves beyond the COVID-19 pandemic, banks will continue to play a lead role in key areas of our state economy. Businesses across the state are now coping with the transition from a severely restrained business environment to one of rapid growth based upon pent-up demand. As they have always been, banks will be there to provide solutions to their customers.

Housing continues to be a critical socioeconomic driver – and a key challenge – for our state. Across Colorado, our communities are experiencing a high demand for housing even as inventories shrink and construction costs escalate. Colorado's banks will play a critical role in this area but must do so in prudent, managed ways that benefit all Coloradans.

Internally, banks' relationships with regulators must continue to be engaging and flexible as we continue to work with business and individual customers trying to recover from the pandemic. And like most other industries, banks will also have to navigate an ever-tightening labor market to find and develop the expertise our clients need and require.

CB: What do you expect will be the main focus issues for the organization under your tenure?

MB: Over the coming months, I think one of the primary issues for the Colorado Bankers Association will be to continue to stay abreast of legislative issues that directly and indirectly affect our industry and our customers. I believe private-public initiatives, such as the Payroll Protection Program, created knowledge and goodwill with our industry. At the same time, we continue to be challenged by state and federal legislation that could very well hamper banks, and often the general business community, with burdensome and duplicative regulations.

The CBA leadership and staff have taken the lead role in working with its members and our government leaders with collaboration and excellence. Continuing this fine role remains a critical function of the CBA. ■

Q&A: Meet Michael Stevens, GSBC's President-Elect

In Nov. 2020, the Graduate School of Banking at Colorado (GSBC) board of trustees announced the school's incoming president, Michael Stevens. In Jan. 2021, Stevens began collaborating with the school's board, staff and faculty to design its 70th Annual School Session.

On May 1, Stevens joined the GSBC staff full time and is working in tandem with longtime GSBC President Tim Koch. Stevens will take the lead as president August 1 after the Annual School Session, the first virtual and in-person combined session in the school's history. Learn a little more about Stevens and his vision for the school's future and community banking:

Q: Can you provide a little bit of background on yourself?

A: I just finished a 21-year career with the Conference of State Bank Supervisors (CSBS) in Washington, D.C. CSBS advocates for state bank regulators with the federal government and provides training for examiners. While I live in the D.C.-metro area, I am a Midwesterner at heart, born in Iowa and raised in Nebraska. Out of college, I started my career as an examiner in Iowa. I've been around community banking for my entire career and feel very fortunate to have progressively built on my experience.

Q: Beyond your involvement as a faculty member since 2004, what drew you to GSBC?

A: When I first joined CSBS in late 1999, there was an existing relationship between the two organizations. They jointly developed content and had a common board member. The first concept that struck me about GSBC was the strong, loyal alumni network. I have traveled all over the country with CSBS and GSBC alumni are everywhere, showing me there is a legitimate excitement and passion for GSBC. Second, GSBC has a long history of serving the industry. Founded 70 years ago by the Colorado Bankers Association and the Board of Regents, the school has a clarity of purpose. GSBC provides education and a network of support for community bank leaders. Why? Because of what these bankers do in the markets they serve. Community banking, at its core, is about agriculture, small business and home ownership. It is about economic development, jobs and civic leadership. Banking is as central to the economy as it is the founding of this country and GSBC knows that.

Q: What do you think are the most critical issues facing community banks?

A: Most banks in this country serve a defined marketplace yet operate in a very complicated, messy world. For example, community banks have no choice but to learn how to defend against cyber-attacks. International events that are interesting on the news have a downstream impact, from the blockage of the Suez Canal to a cyber-attack on the Colonial Pipeline; we are all impacted even if we don't realize it. Community bankers have a broad array of risks they must manage beyond traditional banking. But here is the upside: the more complicated and riskier the world gets, the more important "local" becomes. Where do people go when the world doesn't make sense? They turn locally. We saw it with the dot-com bust, 9/11, the mortgage and financial crises and the pandemic: local matters. Local is where you turn when you want stability and sensibility, and that's what community banks provide. An academic friend of mine groups farmers' markets, craft breweries and community banks together. And, when you think about that, what's not to love about any of them?

Q: What do you see as GSBC's role in addressing these issues?

A: I think the critical issues show it is more important to teach bankers how to think through complicated questions instead of "how to do." There will undoubtedly be different challenges in 10 years. While I have little certainty about what they will be, GSBC can offer the experience and the network to work through them. GSBC has an afternoon session this year for second-and third-year students titled "Hard Questions." The premise of this class is that as a leader, you won't get any of the easy stuff. Instead, you get the questions others don't want to answer, but that need answered, nonetheless. These questions require leadership, and what GSBC does is educate the next generation of community bank leaders. Today, those questions center around climate risk management, diversity and inclusion, cryptocurrency, and the workplace of the future. Next year, the questions may be entirely different, and GSBC's curriculum will again be designed to address them.

Q: What are you most looking forward to as GSBC's president?

A: I have referred to this as "Phase Three" of my career. People seem to increasingly view staying in the same profession for your entire career as wasteful or shortsighted, but I value it tremendously. I am very excited about this opportunity. GSBC and all the banking schools have had an impact on the industry and communities for generations. I work with a talented, experienced staff that knows it is making a difference. Becoming GSBC's president is an honor and a privilege.

A record-setting number of virtual and in-person students will attend classes from July 18-30. GSBC has instated numerous changes to its sessions to accommodate both virtual and in-person audiences, including a new peer group program to facilitate building relationships among new students, and enhanced health and safety measures for on-campus students.

For more information on GSBC's Annual School Session and its other program offerings, visit GSBColorado.org. ■

FEATURE ARTICLE

3 Tips for Bank Leaders in Today's Environment

BY STEVE KINNER, SENIOR MANAGING DIRECTOR, INTRAFI NETWORK

With the pandemic ebbing and the economic situation still uncertain, banks are trying to figure out how to position their institutions for the future.

In a recent webinar, I spoke with Darling Consulting Group President, Matt Pieniazek and Abrigo Managing Director, Dave Koch about how bank leaders can capitalize on the current environment. While we discussed an array of topics – from the need to reimagine what asset-liability committees can and should be to the importance of thinking differently about pricing – my top three takeaways were:

1. Focus on developing relationships with new customers

At the start of the pandemic, deposits at some banks swelled by as much as 20%. Today, excess liquidity remains a concern. However, just over a year ago, many banks had high loan-to-deposit ratios and were wondering from where their next dollar would arrive.

Bank leaders can think of their balance sheets as two separate financial statements: a traditional balance sheet and a COVID balance sheet composed of assets and liabilities from new customers. Hidden in those latter financial statements, one layer below the numbers is a huge opportunity. Given the correlation between core deposits and franchise value, bank leaders can bolster their institutions for years to come by taking steps to develop strong, lasting relationships with new customers today. Sure, those customers could withdraw their funds as soon as the economy improves. But even if they do, banks will be closer to winning their loyalty than they were before an economic downturn. During periods of financial or

economic hardship, people have a way of remembering who was in their corner.

It is also important to remember that, in an average year, bank leaders would have to spend marketing dollars to attract these same individuals and businesses to their institutions. The fact that new customers are already customers (not prospects) represents an opportunity in and of itself. However, if banks do not act now to cultivate loyal relationships, they risk losing their new customers when the economy turns.

2. Derivatives deserve a closer look

Many bank leaders are reluctant to embrace swaps. Some think them too complex, others don't want to deal with the associated regulatory burdens, and others are concerned about exposure to credit risk or risks unseen. At the same time, more bankers are using them and finding them beneficial.

Swaps offer pricing flexibility and can free up capacity for fixed-rate lending. They enable banks to hedge against rising rates and give customers what they want. For instance, while banks may prefer variable-rate positions, particularly in a low-rate environment, customers tend to demand long-term, fixed-rate loans. With an interest-rate swap, both outcomes are effectively possible.

Now is a good time for bank leaders to reevaluate the use of swaps at their institutions. By modeling different scenarios with swaps on their balance sheets, they can start to understand when it makes sense to use them. If they aren't using swaps, they should explain why and the conditions under which they would.

3. Review sources of wholesale funding

In a healthy economy, loans outgrow deposits – the question is when and by how much. If banks suddenly find themselves in a situation where money is going out the door, they may need to replace deposits with funds that offer a spread. Many will not want to exit certain asset positions.

Of course, wholesale funding is also an excellent tool for managing interest-rate risk – much more so than retail deposits. Given that we are in a once-in-a-century funding environment, now is the time for bank leaders to take a harder look at their sources of funds and funding strategies. They could find ample opportunities to lock in low rates, refinance higher-cost funding and diversify their funding sources.

Now is the time to prepare. The current environment poses many challenges. However, with COVID-19 vaccinations growing throughout the population and new case numbers falling by the day, bank leaders should be taking steps to prepare for a potential rebound. They should be mindful that often the most significant risk to an institution is the risk of doing nothing. This axiom holds particularly during times of economic uncertainty, which can cause business disruptions and also have a paralyzing effect on decision-making.

About IntraFi Network

IntraFi Network is the number one provider of deposit products to U.S. financial institutions, a leading provider of overnight and term funding solutions and one of the nation's best places to work. The company's network of nearly 3,000 banks – the largest of its kind – brings scale, stability, and the confidence of working with a category leader. Its members include most of the nation's community banks, minority depository institutions, and community development financial institutions. ■

What is the American Jobs Infrastructure Proposal & What Taxes Would It Raise?

BY EIDE BAILLY, LLP

The White House recently released a fact sheet on President Joe Biden's American Jobs Plan that includes several proposals affecting infrastructure, housing, workforce development and eldercare. It also suggests methods to pay for the $2.5 trillion costs of implementing the plan.

The Made In America Tax Plan, the tax proposal portion of the American Jobs Plan, proposes an increase in corporate taxes, changes to international taxation regimes, elimination of particular preferences in the fossil fuel industry, and a minimum tax for very large corporations computed on book income. The plan does not include tax increases for individuals; however, the closing sentence of the fact sheet indicates additional ideas will be forthcoming that "makes sure the highest income individuals pay their fair share."

Has the American Jobs Plan passed Congress?

Please note this proposed plan is simply a general outline with very little detail that Congress must pass before becoming law. Without Republican support, Democrats will need to rely on the budget reconciliation process to pass this plan.

First, this legislation must be introduced in the U.S. House of Representatives. House Speaker Nancy Pelosi (D-Calif.) wants to pass a version of this infrastructure and tax plan through the House by July 4, 2021. The U.S. Senate is expected to act on the plan upon passage by the House, meaning it could pass the Senate as early as late July. Currently, the Senate is split evenly with 50 Democratic votes and 50 Republican votes. Passing the plan will require all 50 Senate Democrats voting to support the plan with Vice-President Kamala Harris then casting the tie-breaking vote to attain the required 51 vote simple majority under reconciliation.

Based on currently available information, specific House committees expect to modify the plan. For instance, the current proposal does not repeal the $10,000 limit on the state and local tax (SALT) deduction. Several House Democrats have already indicated

Several House Democrats have already indicated they will not support the plan unless it repeals the SALT cap. Expecting that no House Republicans vote to support the plan, House Democrats can only lose four votes and still pass the legislation.

they will not support the plan unless it repeals the SALT cap. Expecting that no House Republicans vote to support the plan, House Democrats can only lose four votes and still pass the legislation. Some moderate House Democrats are concerned about increasing taxes as the U.S. economy struggles to recover from the COVID-19 pandemic. However, this may not stop the ultimate passage of the plan but could result in either phased-in or delayed effective dates for several of the proposals.

How will the American Jobs Plan be funded?

The White House projects the plan will cost $2.5 trillion over eight years and funded over the next 15 years by increasing corporate taxes and various other proposed tax changes.

The plan, as proposed:

- Increases the corporate income tax rate from 21% to 28%.
- Imposes a 21% global minimum tax on U.S. corporations, calculated on a country-by-country basis.
- Eliminates the rule allowing U.S. companies to pay zero taxes on the first 10% of profit when they locate investments in foreign countries.
- Repeals the Foreign Derived Intangible Income (FDII) deduction.
- Creates a 15% minimum tax on book income applicable to only the largest corporations (not yet defined).
- Denies company expense deductions for moving jobs offshore.
- Imposes more restrictions on corporate inversions.
- Eliminates special tax preferences for fossil fuels (presumably, the expensing of drilling costs, accelerated asset expensing and percentage depletion deductions).

The fact sheet also states these proposals "will be paired with a broader enforcement initiative to be announced in the coming weeks that will address tax evasion among corporations and high-income Americans" and may include additional tax code modifications. Additionally, President Biden "will be putting forward additional ideas in the coming weeks for reforming our tax code so that it rewards work and not wealth and makes sure the highest income individuals pay their fair share."

Are Tax Credits Part of the American Jobs Plan?

Yes, the fact sheet mentions several tax credit additions and changes. Currently, proposed tax credits in the plan include:

- A tax credit for transferring foreign jobs to the U.S.
- A tax credit for low- and middle-income families and small businesses "to invest in disaster resilience."
- A tax credit for building electric transmission systems.
- Modification of the Section 45Q tax credit (credit for carbon dioxide sequestration).
- Tax credits for affordable housing, improving home energy efficiency, and for employers providing child care facilities.

What Comes Next?

Stay tuned. The Biden Administration intends to unveil a second proposal – the American Families Plan – to address child tax credits and paid leave provisions. Also anticipated are additional recommendations for increasing income taxes within the upcoming American Families Plan. ■

For more information on this article and more, please visit EideBailly.com or reach out to us at one of our Colorado offices:

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BankWork$ Helps Build Lasting Careers

BY GOODWILL OF COLORADO

Growing up in an environment of financial struggle and a lack of role models, Dynasty felt destined to duplicate these same struggles in her own life. Working many low-wage, labor-intense jobs, she moved from position to position, seeking something that sparked her mentally and emotionally, wanting to move beyond the economic challenges her family had always faced. While searching for yet another job, she found the post for the BankWork$ program on the jobsite Indeed.

Goodwill's long-established partnership with BankWork$ offers free, eight-week training to adults seeking a rewarding career in the banking industry. Opportunities range from tellers to customer service positions to personal bankers. The BankWork$ broad curriculum includes mock interviews, job placement assistance and mentoring to foster job satisfaction and career advancement opportunities. The Colorado Bankers Association has been a partner and has endorsed the program in the state since day one.

Dynasty was a model student, committed to learning and growing. She shared that she had always felt isolated from the financial system, being just another face in a sea of customers, and wants to ensure that no customer feels the same isolation. She has made it her goal to help those disenfranchised from the banking system by race, gender, or financial hardship and allow them the opportunity to participate and learn about how the financial system works and find their own financial success.

"Before participating in the BankWork$ program I was going from one dead-end job to another. I had no idea how beneficial and life-changing this experience would be," said Dynasty. "The confidence and knowledge I gained through participating in BankWork$ is truly invaluable. I will forever be grateful to not only BankWork$ but, more importantly, BJ and Candace as well for their guidance, support and encouragement. With absolutely no experience in banking, BankWork$ provided me with the opportunity to build a lasting career in a thriving work environment when I thought all hope was lost."

Before she graduated from the BankWork$ program, Dynasty interviewed for a Client Relationship Consultant position with U.S. Bank. She exemplified the skills and strengths needed for the job, and U.S. Bank offered it to her before graduating from the program!

Dynasty started her full-time banking career with U.S. Bank on April 5, 2021. She loves the environment and the team. She is proud of her accomplishments and the opportunities this career will bring her to change her life and the lives of her family.

Here at Goodwill, we believe in the power of work. If you're interested in learning more about the programs and services Goodwill of Colorado offers, visit our website today (goodwillcolorado.org/services/bankworks) to learn about career development initiatives we provide that will help you take your career to the next level. ■

IRA Plan Agreement: Model vs. Prototype

BY LISA WALKER, CISP, CHSP – ASCENSUS

When your organization first began offering IRAs, you decided to use either the IRS model document or a prototype document as your required IRA plan agreement. Now – with the IRS expected to release new IRA model documents soon – you may want to revisit that decision to make sure it is still the best one for your organization. Knowing the difference between the model and prototype, and the pros and cons of both, may help.

A Plan Agreement Is Required

Why must an IRA have a plan agreement in the first place? The "A" in "IRA" stands for "arrangement." An IRA is a legal arrangement that allows individuals to take advantage of certain tax benefits while saving for retirement. The Internal Revenue Code requires a written agreement – the IRA plan agreement – between the IRA owner and the IRA trustee, custodian or issuer (the financial organization) holding the assets. Once both parties sign the plan agreement, the IRA is created. An IRA does not exist without a signed agreement.

The IRA plan agreement also sets forth the terms and conditions specific to the type of IRA (i.e., Traditional, Roth or SIMPLE). It contains the responsibilities of both the IRA owner and the financial organization. Although IRA plan agreements may differ based on whether the financial organization acts as a trustee, custodian or issuer, they are quite similar because the IRS requires specific language in the documents.

IRS Model Document

The IRS provides IRA model forms that satisfy the basic statutory requirements for IRAs. Each IRS model form contains specific language based on the requirements for that type of IRA. The IRS currently offers the following model forms:

- Form 5305, *Traditional Individual Retirement Trust Account*
- Form 5305-A, *Traditional Individual Retirement Custodial Account*
- Form 5305-R, *Roth Individual Retirement Trust Account*
- Form 5305-RA, *Roth Individual Retirement Custodial Account*
- Form 5305-RB, R*oth Individual Retirement Annuity Endorsement*
- Form 5305-S, *SIMPLE Individual Retirement Trust Account*
- Form 5305-SA, *SIMPLE Individual Retirement Custodial Account*

(Note that there is both a trust and custodial account-model document for each type of IRA – and that an annuity version is available only for the Roth IRA.)

The language in the IRS model documents generally cannot be altered: the text in Articles I–VII for a Traditional IRA and I–VIII for a Roth IRA must stay the same. Only the last article – where the IRS allows for unlimited additional language – can be customized. Your financial organization or document

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provider can address items not covered in the previous articles, such as definitions, responsibilities, distributions, beneficiary options, excess contributions, and IRA termination procedures. However, the customized language cannot conflict with Internal Revenue Code requirements.

Because of its preapproved content and flexibility, the IRS model form is an inexpensive plan agreement option, which is a primary reason many financial organizations choose to use the model form – or a document based on the model form.

Prototype Document

Some trustees and custodians may find that the IRS model form is too restrictive and may decide to use a prototype IRA document – a specially drafted IRA plan agreement. (Or if your organization issues Traditional or SIMPLE IR annuities, it must use a prototype.)

Using a prototype document allows your financial organization to do something not possible with an IRS model form: use one document to establish either a Roth or Traditional IRA. The IRS does not offer such a combined model document. But just as there are benefits to using a prototype for an all-inclusive IRA document, there may be some drawbacks. These days, more documents are generated and delivered electronically, reducing the potential of human error (e.g., providing clients with the wrong type of IRA plan agreement). Therefore, your organization may find less need for a combined document. Receiving a plan agreement that covers the rules for both Traditional and Roth IRAs may confuse clients.

Regardless of the reason, choosing a prototype document does allow your organization to customize its general plan agreement. It can be outlined differently from the model document – there are no set articles – as long as the language in the prototype is consistent with federal laws. The IRS provides a listing of required modifications, or LRMs, containing all topics covered in the prototype document.

It is recommended that a prototype document be submitted to the IRS for approval after it is drafted; this requires paying an IRS submission fee. If the IRS approves, it will be in the form of an opinion letter, which allows your financial organization and its clients to rely on the document's contents. IRS approval means that the language of the prototype document conforms with the tax laws and qualifies as an IRA plan agreement.

The IRS approval process typically takes three to six months, with longer wait times becoming common. Each time IRA laws change or any of the information contained in the prototype document needs to change, the document may need to be amended and, thus, a new opinion letter may be necessary. Keep in mind the IRS only identifies when its LRM language updates. If the language in a prototype document is highly customized, your financial organization should monitor for law changes and determine when a document needs amending.

Trust the Experts

Your organization should carefully consider which type of IRA document is best for your business. Some forms providers or document experts, such as Ascensus, offer model and prototype document versions of IRA plan agreements.

Expert, in-house ERISA staff – with decades of combined experience specializing in IRA forms – draft Ascensus' documents. These experts continually monitor federal government requirements and carefully design and revise paperwork as needed to meet these requirements. Whichever type of document you choose, all the work is done for you, saving your organization time and expense. ■

Trust the experts. Schedule a call with your Ascensus sales representative or contact Ascensus at 800-346-3860 to learn more or to discuss which option will be best for your organization.

Making the Right Decisions:

The Importance of Model Risk Management

BY STEVE SCHICK, PARTNER, AND BRYAN JOHNSON, PRINCIPAL, PLANTE MORAN

Over the past several years, financial institutions have embraced the increasing use and reliance on technology. Automated predictive, economic, and financial models have assisted them in making faster and better business decisions. Many institutions are also in the process of developing or implementing credit loss models to address the Financial Accounting Standards Board's new current expected credit loss (CECL) standard.

But how should organizations manage risks? A robust model risk management (MRM) framework is critical.

Increasing model use, increasing risks

The proliferation of data and the increasing complexity of financial analyses have caused many financial institutions to turn to models to increase performance, reduce mundane and repeatable tasks, and save time and resources. However, the use of models also presents significant risks if a strong MRM framework is not in place to govern usage.

The challenge is that few small and medium-sized financial institutions have robust model risk management processes to govern their models. While financial institutions above $10 billion are subject to model risk management regulatory guidance, smaller financial institutions do not have the same obligations — although MRM is encouraged. This has led many to approach model implementation on an ad hoc basis, with functional areas developing models to enhance their specific decision-making processes.

The issue with this provisional approach is that it opens an organization to a wide range of risks, including those associated with input accuracy, data completeness and alignment of bank-specific assumptions and strategic goals.

Making model risk management a priority

Smaller institutions might not be subject to the same regulations as their larger counterparts, but they should not ignore such requirements altogether as they may be subject to such MRM requirements in the future. Additionally, if they are going to spend the time and resources developing and implementing models, financial institutions should make sure those models work as intended. The last thing any financial institution wants to do is rely on inaccurate models for making critical business decisions.

Where to start?

Financial institutions using predictive, financial, or economic models should consider enhancing their approach to MRM. As a starting point, this could include undertaking the following key activities:

- **Create an inventory of existing models** — It is essential to generate a list of any current or in-development models. Be clear about the difference between a model and a tool so all stakeholders understand how to use and contribute to the inventory. In connection with documenting the inventory, include each model's purpose, owner, data sources, and significant assumptions.

- **Understand regulatory requirements related to model use and verification** — Financial institutions should take time to understand the regulatory requirements related to model development, implementation, and use, including validation, even if compliance is not currently required. This understanding will help the organization manage its entity-wide risk and help establish MRM processes aligned to comply with regulations they may be subject to in the future.

- **Test and validate models** — Institutions should test and validate any significant or complex models before and after implementation so management can be confident in model outputs. For example, before implementing a new model, running parallel with the existing process will ensure the new model is operating as intended and in line with expectations. Ongoing, the model should be tested for accuracy to determine if use is still appropriate given potential changes in facts and circumstances. As recommended in the regulatory guidance, individuals or a third party (independent from the models' users and developers) should conduct the testing and validation. Based on the testing process results, institutions can identify model errors, track corrective actions, and ensure appropriate use.

    o **Note:** Financial institutions should validate the usage of third-party models to determine whether a model is appropriate for its intended use and that any customizable model assumptions are accurate and relevant.

- **Involve the right stakeholders** — MRM should be an entity-wide activity. The board should be responsible for providing governance of the entire MRM process, while management should develop the MRM framework and related strategies. Leaders with insight across the organization should be engaged in the MRM process to ensure assumptions are appropriate, model documentation is robust, and data sources are valid and accurate.

Knowing you are making the right decisions

Models can be instrumental in driving better business decisions or your financial reporting process — but only if you are able to rely on the outputs. If you would like more information on our model validation services or how we can enhance your MRM framework, please contact your local Plante Moran business advisor. ■

Post-Pandemic Branch Strategy

BY JOE WOODS, SVP, DOLPHIN DEBIT ACCESS

If your bank is like most, you routinely review and update your short- and long-range planning. Perhaps you now have a Quick Response Team or Emergency Task Force. The pandemic forced some rapid responses that disrupted some mid and long-range plans. But maybe that's a good thing.

When planning, some of us may look at what larger banks do and use that as a barometer. It is easy to see what the big banks are doing. Daily, the news networks show C-level banking officers discussing reach, brand, digital, branches, markets, etc. If only they talked to community banks regularly to discuss their outlook and what they are doing for their communities and customers during this changing environment. But that's a subject for another article.

Did the pandemic show us what our customers did not need? Or did it show us what they absolutely had to have? Probably a little of both.

Consider your branch and transaction volumes. A 2020 MetaBank survey reported that transaction volume slipped more than 30% at some branches. By and large, it appears most branches are down in monthly transactions by at least 10%. Where is this traffic going? Well, everywhere else but inside the branch.

As a leading provider of ATMs across the U.S., Dolphin Debit saw unique data across its ATM fleet. The off-premises ATM locations (those ATMs not tied to a branch) saw transaction volumes decline consistent with the industry during the most severe lockdown periods, which makes perfect sense. These ATMs are in county and city buildings, hotels and commercial offices, the exact locations experiencing significantly less traffic due to the lockdowns.

However, branch ATMs were a completely different story. Some branch ATMs encountered a significant increase in year-over-year transaction volume. Overall, the branch ATMs we manage for our clients were barely under their 2019 volumes. While in-branch transactions slipped by more than 10%, ATM transactions were only slightly off.

What this tells us is that the branch location still matters to the customer. Knowing this can help shape your bank's branch and ATM networks for the future. We have heard about micro-branch strategies for several years, and have seen an increase in functionality at the ATM. These two concepts connect very well.

The other significant change we see is with ATM deposits. More and more, banks are adding deposit functionality at their branch ATMs, giving customers a fast and secure option to get money into their accounts. Many of our clients discuss upgrading from cash dispense-only ATMs to full function automated deposit ATMs as part of their ATM upgrade/replacement strategy.

The steadiness of cash withdrawals and rise in automated deposits confirm that ATMs are an essential piece in the branch evolution and eService landscape. Even as the acceptance of digital and online payments grows, people still want access to cash to use for payments. Not everyone has or will adopt digital payments. You can and should continue to provide customers with multiple channels for access and use of their money.

As part of your evolving strategy, consider outsourcing your ATMs. Outsourcing will help you keep operational costs and capital expenses to a minimum. It will also free staff to focus on the customer. Adding more functionality to the ATM increases your time and costs. Outsourcing helps mitigate this, and it can create mobility in your fleet to adapt to the rapidly changing environment. ■

Tactical Pillars for Quick Wins in Challenging Times

BY JESSE MCGANNON, SRM

The challenges of 2020 included a landslide of changes in financial services, and the sheer effort by banking professionals to keep operations running was nothing short of historic.

Although there will be some reversion to prior habits, consumers in 2021 have new expectations of their banks that will require more heavy lifting. Presently, many banks in the U.S. are engaging in highly complex projects to redesign their branches, operations and organizational charts. Fortunately, quick-win tactics can support these efforts. Consider the following "pillar" strategies that offer short-term cost savings and guidelines to set a foundation for operational excellence.

Portfolio Rationalization

Portfolio rationalization need not involve product introductions or retirements. But, given the changing consumer landscape, consider taking a fresh look at product portfolios. Due to the many changes in accountholder behavior, specific cost/benefit dynamics have also changed since pre-pandemic times. This fact alone makes re-evaluating and recalibrating existing portfolio strategies a matter of proper due diligence.

Rationalizing the portfolio should include revising priorities, adding new features, and reassessing risk profiles and existing project scopes.

Process Re-Engineering

Banking executives have been under tremendous pressure recently to quickly implement nonstandard procedures, all in the name of uninterrupted service during socially distanced times.

Though many working models will see permanent change, optimizing these processes early for long-term efficiency, security and customer experience is critical. As the digital curve steepens, banks will need to map out the customer journey across all digital channels to remain competitive. Some process re-engineering methods include eliminating workarounds, streamlining procedures, and updating legacy policies that are no longer relevant.

Intelligent Automation

Banks are increasingly leveraging technologies classified under the umbrella of intelligent automation. These include machine learning, robotic process automation and artificial intelligence – all of which have become especially relevant when dealing with multiple types of high-volume, low-value transactions. Automated workflows remove the clerical aspects of the process from the experts' plates, allowing them to focus time and energy on more high-value activities. When executed well, intelligent automation works alongside humans, supplementing their expertise rather than replacing it. Increasingly, areas like fraud and underwriting become automated in repetitive and known scenarios, while more complicated cases escalate to personnel for further analysis.

Supplier Contracts

Auditing invoices for errors and evaluating vendor contracts might be the last place a banker would look to establish a quick win. However, our benchmarks suggest they can be a critical steppingstone to bottom-line opportunities. Existing vendor contracts often include inconsistent clauses and undetected errors (such as applications of new pricing tiers missed, etc.). Eventually, minor errors creep into the run rate, adding up over the years to significant dollar discrepancies. With extensive due diligence, it is possible to find a six to seven-figure lift simply by collecting intelligence on the prevailing market rates, the available range of functionality, and reasonable expectations for performance levels.

The Bottom Line

While the financial services industry has been keeping operations running uninterrupted, there is no time like the present to optimize operating processes. Accomplishing a few results early on can free up resources and support long-term gains. Executives should take the time now to optimize operating model structures to brace for what comes next. Looking into the increasingly digital future, consumers will continue to expect banks to reinvent and build up their operational models to greater heights. ■

About the Author:

Jesse McGannon is Vice President at Strategic Resource Management (SRM), providing advisory services for operational process improvements and technology strategy guidance for financial services products. His technical experience in cross-border payments, faster payments, digital banking, and intelligent automation has been applied in all stages of project delivery – from initial strategy to target-state design and on through implementation.

Throughout his 13+ years of experience in financial services and payments consulting, Jesse has developed an expansive range of programs and infrastructural plans across the U.S. and beyond. Before coming to SRM, Jesse was employed at Accenture and advised large U.S. & Canadian banks, FinTech companies, credit card networks, issuer processors, and community banks.

Is your Blanket Mortgage Impairment the Best Way to Protect your Assets?

BY JIM PERRY, UNITAS FINANCIAL SERVICES

As I meet with lenders across the Western United States, there is a strong aversion to talking about insurance in general. Insurance is a product that nobody wants to think about until it is needed, and everybody wants to pay as little as possible for their lender coverage. There is a particular aversion to talking about insurance for lending institutions, and I often joke that we are mixing two of the most boring industries in the world. Due to the dry nature of insurance, I spend nearly all my time talking at a high level about insurance coverages. Those conversations typically reference the benefits of Unitas Financial Services' innovative approach to blanket insurance coverages for lending institutions. On the rare occasion that I do get to dive into the intricacies of insurance coverages, I often run into a lender that uses a blanket mortgage impairment policy. Blanket mortgage impairment policies provide a similar benefit at a high level (eliminate the need to track and force-place insurance while still protecting collateral). However, they do not compare to a full Unitas Blanket Mortgage policy, especially when it comes to flexibility, getting claims paid fast, and the overall coverage.

It is essential to understand why blanket insurance policies exist in the first place. Financial institutions struggle with remaining properly insured for an affordable price. Uninsured losses for a lender are sporadic, and the cost of manually tracking insurance is relatively high. Instead of spending staff time and lender resources on tracking and force-placing insurance, blanket policies (including Blanket Mortgage, Blanket VSI, and Blanket Equipment) eliminate the need to track and force-place insurance. While this is the main selling point of a blanket insurance policy, a lender carries insurance to protect their collateral via risk transfer to a third party. Even though losses are rare, they can be significant and costly.

Now that we have identified why blanket insurance exists, let's discuss the two types of policies out there.

Blanket Mortgage Impairment:

Mortgage Impairment Policies began as E&O policies to cover a lending institution in case of a lapse in an insurance tracking program. Initially, these policies began as a "backup" if a borrower with lapsed private insurance and no force-placed policy suffered a loss to their collateral. As frustrations of tracking and force-placing mounted throughout lending institutions, Mortgage Impairment policies were endorsed (an insurance term for "changed") to remove tracking and force-placing. While this seemed like a great idea at a high level, Mortgage Impairment policies initially were not written to remove tracking and force-placing. When it comes time for settlement on a mortgage impairment policy, it is significantly more problematic to get a claim paid. In fact, to file a claim on a property, several items need to happen for the lender to be made whole:

- The borrower needs to lapse on their insurance
- There needs to be an uninsured loss
- The lender must repossess the property
- The loss must be greater than the loan amount, less the land value for the property, less the deductible of the policy

With these provisions, the claims process in a mortgage impairment policy can be lengthy and frustrating for a lender. The valid reason for insurance is to transfer the risk of uninsured loss to a third party, and it is frustrating when the settlement of a claim lowers the payout significantly. If the only goal is to remove tracking and force-placing (while providing high-level coverage), this policy will provide a high level of “sleep easy” protection for a lender and appease regulators.

Blanket Mortgage Hazard:

In contrast to Mortgage Impairment policies, Blanket Mortgage Hazard policies specifically eliminate tracking and force-placing insurance. A Blanket Mortgage Hazard policy is much simpler. Whenever an uninsured loss happens, the Blanket Mortgage Hazard policy acts as if the lender had force-placed that property from the date of lapse while allowing the lender to cease tracking and force-placing insurance. These policies are dual-interest: the lender does not need to foreclose on the property to get a claim paid, and land values do not reduce claim amounts on Blanket Mortgage Hazard policies.

The Take-Away

When comparing these policies, the main difference is that one policy requires foreclosure, while the other policy covers the lender without foreclosure. When a lender looks to transfer their risk of uninsured collateral loss to a third party, the speed of claims payment and settlement options are typically the last items discussed. Both policies protect against the uninsured loss, but the difference in the efficiency of payments is significant. Whenever I hear that a lender “already has a blanket policy,” often it is because they have a Blanket Mortgage Impairment policy. If no claims have been filed, that policy can be of great value. However, while claims are rare, community lenders protect their assets efficiently and effectively, and the specifically crafted Unitas Blanket Mortgage policy does just that. ■

Topic: Is a Relationship with Real Estate Capital Markets Advisors an Arrow in a Banker’s Quiver?

There may be a misnomer about the value of having a relationship with a solid real estate capital markets advisor. Some bankers view them as competitors. Knowing their role can make all the difference.

Competent capital markets advisors map the lending landscape to build a database of all public and private lenders in the debt universe. These lenders include banks, credit unions, lifecos, government options, CMBS, private debt funds, family offices, pension funds, and hard money lenders. Lender product offerings constantly change, as do the operatives representing them. Having this up-to-date data from a trusted source is an invaluable resource for bankers and their clients.

As the readers of this article are fully aware, banks cannot always make a loan. Over-exposure to a borrower, asset class, locale, or loan size are just a few of the reasons. Also, there are instances when a customer has a time or leverage issue that the bank cannot accommodate. If the banker can direct customers with these issues to a capital markets advisor who can provide options while keeping the client's accounts and treasury at the bank and refinancing the property at the end of the loan term, everyone wins.

Here is an example of a win-win-win scenario. A banker sent us one of their clients who had been with their bank for over 30 years. The client had broken an obscure covenant, so the bank could not provide them with an $8.5 million loan they needed to acquire an office building. When we were introduced to them, per their purchase agreement, they had only nine days to close, or they would lose the property and a significant deposit. We have a relationship with a family office that provided the $8.5 million bridge loan at 80% loan-to-value, an 8.5% rate, a nine-month term, and non-recourse within the nine-day timeframe. The client was ecstatic. The bank looked like a hero and refinanced the bridge loan.

This is a simple example of how bankers can provide financing options for their clients when they cannot provide a loan. Conversely, capital markets brokers have clients that become "bankable" and are happy to introduce them to bankers. There's so much real estate lending activity at this stage in the economic cycle that it makes good sense for bankers and capital markets advisors to collaborate. ■

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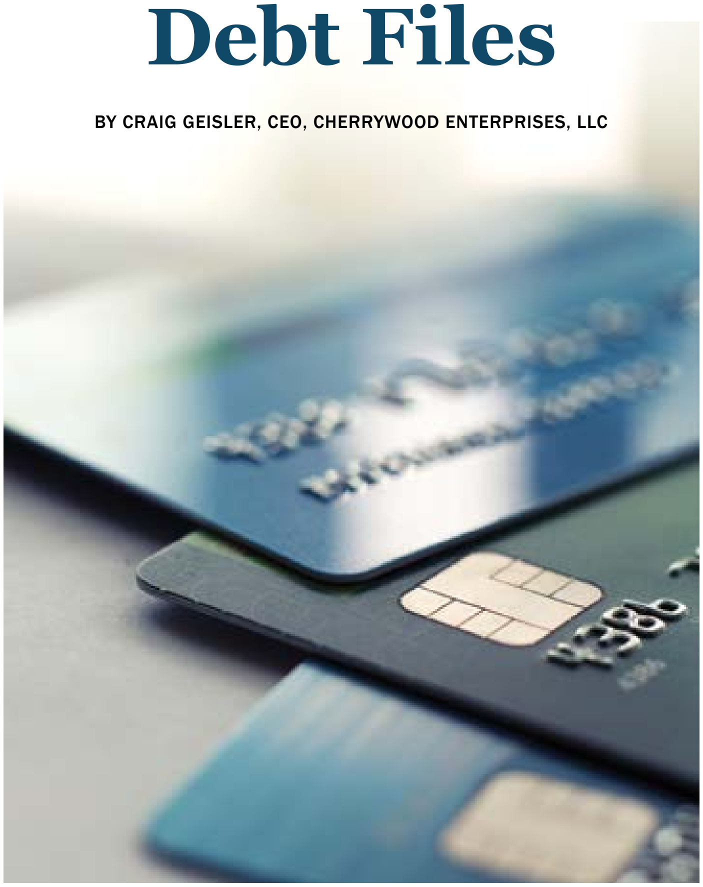
Why Your Bank Should Consider Selling Their Charged-Off Debt Files

BY CRAIG GEISLER, CEO, CHERRYWOOD ENTERPRISES, LLC



Like many banks nationwide, you probably have a considerable amount of charged-off loans from the last four years. Also, like many banks, you might not know your charged-off loans have value to a debt-buying company.

Charged-off loans are the dirty words in modern banking. You lent funds to a bank customer who defaulted on the loan, an event most likely due to a job loss, divorce, injury, or in modern times, COVID. When this happens on a large scale, you experience considerable loss. We share a great secret in the charged-off world that you may not know about: selling your charged-off loan portfolios.

Cherrywood Enterprises is a debt buying entity that has offered this service for over nine years. Their CEO has spent over 14 years in the debt buying arena. Cherrywood Enterprises has worked with banks, credit unions, auto lenders, and commercial lenders nationwide, helping these entities understand the value of their charged-off portfolios and infusing capital back to these financial sectors.

What are the benefits of selling your charged-off loan portfolios?

- Create much-needed liquidity through a cash infusion from the sale of the distressed debt.
- Bolster the bottom line now versus waiting months or years for collection efforts to take effect.
- Reduce ongoing costs associated with internal collections as well as management of third-party agencies.
- Lessen or eliminate reliance on third-party collection agencies.
- Eliminate months or years of waiting without a guarantee of a return — a significant benefit when factoring in the time value of money.
- Protect your brand — this is typically the effect of a debt buyer owning the purchased accounts outright, having a longer time horizon, and, therefore, a solid incentive to work professionally with debtors and obtain repeat business from you.

The process of selling your charged-off debt portfolios is simple: we first send you a mutual NDA to protect both parties' proprietary information. We also send you a blank Excel spreadsheet with the headers of information needed to review your portfolio, and we request sample documents from one account. It takes us approximately 3-5 business days to review these documents, and we will come back with an offer for your portfolio. Once we agree on the price, we send you a Purchase and Sale Agreement for both parties to sign, and within 24 hours of receiving that signed agreement, funds are wired directly into your account. When you have the funds, we would need the backup documents for all accounts sold, and we are on our way.

It's that simple!

Further action is unnecessary on accounts your bank has sold. Plus, this is a program you can do on a monthly, bi-monthly, quarterly, or annual basis. It is just a matter of changing dates and numbers. ■

To get started, feel free to call us at (561) 508-7650 or email our CEO, Craig Geisler, directly at cgeisler@cherrywoodenterprises.com.

See how easy and beneficial selling your charged-off loan portfolios can be.

How Will Digital Lending Benefit Your Bank?

BY SIMON M. FISHER, PRODUCT MANAGER, CSI

Digital banking trends have accelerated due to the pandemic, and many institutions have pivoted toward digital transformation. But in the digital lending space, slow-moving institutions still face a disadvantage.

The economic slowdown and obstacles to in-person channels have changed lending demands. These trends, along with intensified competition and high borrower expectations, make loan origination an essential component of your digital banking strategy.

Before the COVID-19 pandemic, CSI conducted a digital lending trends survey of 107 banks. Of the respondents, around 58% prioritized digital lending to increase market share. Further, CSI's 2021 Banking Priorities Executive Report revealed 43% of bankers surveyed planned to prioritize digital lending when asked which technologies they would use to expand their geographic footprint and customer relationships. Though many banks have expedited their digital strategy over the past year, the adoption of digital lending has yet to meet the increased rate of demand.

The pandemic has driven customers to rely on digital channels instead of visiting branches, leveling the playing field between banks and non-bank lenders. As customers weigh their lending options, a seamless experience is a determining factor in their decision. Many banks have traditionally cultivated customer relationships in a branch, but with the prevalence of digital, your bank must now ensure a superior digital lending experience to acquire and retain customers.

Recent events aside, it is wise to broaden lending capabilities. Outdated technology and inefficient processes hamstring your institution against a shifting economy. And a lackluster or incomplete digital experience may drive customers elsewhere.

Exploring the Benefits of Digital Lending

Lending digitalization does more than aid loan processing. According to a recent AITE Matrix Report, digital loan management software supports your bank's growth by providing the following benefits:

- **Improved User Experience:** A variety of companies – including non-bank lenders – vie for your customers, and brick and mortar banking isn't for everyone. A configurable lending platform integrated into your existing digital solution empowers customers to apply for needed funds without visiting a branch or turning to another provider.

  In addition, omnichannel delivery synchronizes online and offline channels, allowing customers to receive

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lending services from whichever device they choose. Digital lending also enhances the back-end experience, improving lender responsivity. Creating and distributing a loan or transferring information to the core system no longer requires navigating disparate programs.

- **Efficiency Gains:** Digital lending streamlines the lending process and lending compliance while also providing quick resolutions to requests. And like many aspects of digital banking, automating the process saves time and money.

- **Business Intelligence and Analytics:** While big banks have leveraged data to gain market share, many community banks have fallen behind. As customer acquisition costs continue to rise, your institution must drive traffic via digital channels. A robust solution with exceptional intelligence and analytics opens opportunities to increase market share and cross-sell to current customers.

  Besides marketing and strategic planning, you can use dynamic intelligence dashboards to reverse engineer the digital lending process. In doing so, you can quickly determine whether you can refinance a loan to save a customer money.

- **Credit Risk Management:** With digital lending, you can immediately feed data from a credit report into the loan origination system and assess the five Cs of credit for your customers. This feature facilitates quicker turnaround and more confident decision-making.

  While matrix-based lending scores may cause concern about overlooking loans or denying important customers, most digital lending solutions allow institutions to set the decision parameters. Immediately, obvious approvals or denials are processed, while others route to you for review.

- **Regulatory Compliance:** Digital lending makes data accessible, rendering manual searches for documentation unnecessary and decreasing the risk of human error. Digital lending platforms provide a complete audit trail for regulatory review, and automation creates a more consistent, strengthened compliance environment.

Automation Does Not Have to Mean Automated Decision Making

Your bank sets itself apart through personal connections with customers. And because you value those relationships, digital lending may seem like you're sacrificing that human connection. But you can strike a balance by embracing the right level of automation for your institution and using these tools to inform decision making.

Digital lending automates once manual tasks but should not be mistaken for automating the decision-making process. However, in some circumstances, automating decisions can yield favorable results. For instance, if your institution has a conservative lending policy, an adequately configured digital lending system maintains tight controls and ensures nothing slips through the cracks. Similarly, if your institution is an early adopter or highly specialized in a particular type of credit, automation will drastically streamline the process.

Reinventing the Loan Origination Process

Institutions that wish to stay relevant must embrace digital technologies. Digital lending adoption does present some challenges, including upfront costs and vendor management. But you can offset these concerns by embracing automated loan origination tools along with the right digital lending strategy for your bank, allowing you to provide your customers with the service they need while improving your processes. ■

Learn more about simplifying digital lending for your bank by watching CSI's on-demand webinar at csiweb.com/what-to-know.

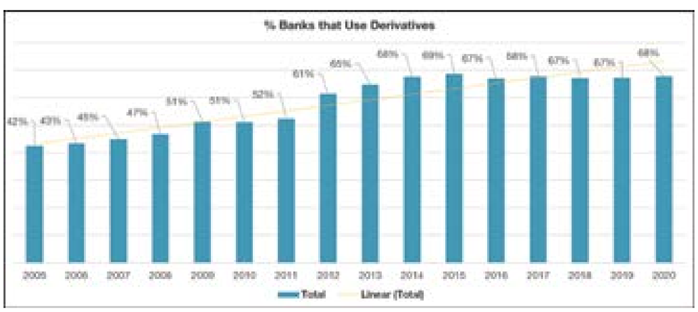
Simon Fisher is Product Manager, CSI Banking Solutions.

Take an Interest in Interest Rate Swaps

BY PIPER SANDLER

Interest derivatives can play an essential role for banks – large and small – that would like to manage their interest rate risk position. All banks must report their A/L results and all banks observe these numbers to monitor their strengths, weaknesses and capital/earnings at risk. Many management teams take a reactive approach to ALCO – stay the course unless we get out-of-bounds, or let market demand and our customers drive our asset/liability profile and hope rates don't hurt us. Interest rate swaps can put management teams back in the driver's seat and help protect or build NIM, preserve capital, drive fee-income and shore-up exposures. Let your lenders and deposit gatherers create interest rate risk – it is the job of management to control it. A considerable number of banks have been forced to confront their balance sheet volatility because of market unpredictability. Interest rate swaps can help management teams proactively and efficiently support future growth.

Derivatives usage has risen meaningfully over the past decade among community and regional banks. The below chart shows banks $1 billion-$20 billion in assets that use interest rate derivatives. Note the steady increase over time, with 68% of community and regional banks involved in derivatives versus 42% in 2005.



Source: S&P Global

Why has derivative use increased among banks? Some would point to education, increased information and increased competition, but some very tangible factors have changed. If your most recent derivatives experience was more than 10 years ago, there have been some significant developments. The entire marketplace has become more straightforward and more transparent, driven by streamlined accounting and regulation. The next table highlights some major shifts impacting the interest rate swaps market.

Transparent Regulatory Roadmap	• Dodd-Frank derivatives regulations created a transparent roadmap for derivatives use
Eligible Contract Participant (ECP) Compliance	• New Dodd-Frank regulations for the derivatives business actually created greater clarity on how a bank can and should offer these products safely to clients
Simplified Accounting	• ASC 815 issued in August 2017 simplifies derivatives accounting allowing more hedging strategies to qualify and reducing the burden of effectiveness testing versus the former FAS 133 rules
Examiner Acceptance	• Bank examiners are staying abreast of hedging trends and have invited Piper Sandler to present on the derivatives market at FFIEC forums

The swaps market is also liquid and highly customizable, giving the bank an ability to quickly source the right instrument and unwind the hedge early, in part or whole, at a low cost (if needed). There is also a variety of items hedged on a balance sheet: borrowings, deposits, loans, and securities are all commonly hedged items depending on which asset or liability needs to change from floating to fixed or fixed to floating.

Which swap instrument is suitable for my institution? The proper transaction and customizing swaps to your bank's needs often depend on your concerns and your desired balance sheet position. Some common transactions and examples are:

- Asset sensitive? Consider a receive-fixed interest rate swap (exchanging floating rate asset terms for fixed-rate terms) to "earn the curve" and add to current income.
- Concerned about TCE and the impact of a steepening yield curve on AFS securities? Pay-fixed on a swap of fixed assets to floating to reduce asset duration, or extend liability duration by swapping variable liabilities to fixed.
- Concerned about rising deposit costs? Consider a cap purchase (adding a ceiling to a floating rate liability) on public fund deposits or other deposit types that show a correlation to market rates.
- Trying to meet borrower demands for long-term fixed-rate loans while managing interest rate risk? Consider a back-to-back program or swapping fixed-rate loans to floating.

Take an interest in interest rate swaps and consider how this simple financial tool can help protect your institution, drive income and preserve capital. The first step is education, and finding a partner who will teach your team and understand your institution is critical. The opportunity is now. ■

If any of our observations pique your interest, please contact your Piper Sandler representative or email us at PSFS@psc.com. For derivatives, please email our affiliate, Piper Sandler Hedging Services, LLC, at FSG-Derivatives@psc.com.

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