Colorado Banker
July/August 2021
The Pandemic and the Continuing Supervisory Guidelines Page 6
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Over a Century

BUILDING BETTER BANKS— *Helping Coloradans Realize Dreams*

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A Word From CBA

Industry Advocacy Starts with 'People-People'

By Jenifer Waller, President
Colorado Bankers Association

Bankers are "people-people." What I mean by that is bankers select this line of work because they genuinely care about the people they work with and serve every day. They choose to become – and stay – bankers because they enjoy taking an active role in helping customers meet their goals and achieve their dreams.

While the circumstances were unprecedented, the past 18 months have been a textbook case of bankers' customer- and community-focused sweat equity. Without hesitation, bankers reiterated and reinforced their dedication to their customers in cities and towns across the country by rolling up their sleeves to facilitate the Paycheck Protection Program and other economic stimulus programs to help Americans financially navigate and survive the COVID-19 pandemic.

Bankers pivoted quickly to meet the changing needs of their customers as the pandemic raged on – even signing documents on hoods of cars – to keep the economy moving, and people took notice. After more than a decade of bearing the brunt of misguided and misdirected blame following the 2008 economic crash, our industry is enjoying some hard-earned and well-deserved support.

It is important that we capitalize on this positive public sentiment to build solid and lasting relationships with public officials essential to our industry's viability. One opportunity to do so is participating in our Center for Bank Advocacy program, which will be relaunching in August – including the return of in-person visits to the state capitol and to Washington D.C. to meet with lawmakers, regulators and Colorado's Members of Congress.

Now entering its ninth year, the first-of-its-kind program has become a model for others across the country in developing an advocacy model, not

unlike the "relationship banking" with which you are already familiar. Just like you have more comfort lending to someone you know, public officials and media also rely more on people they know and trust. That earned trust is the single most powerful tool our industry has to effect positive change. Serving as a go-to resource on finance-related matters can help us to drive conversations and decisions to endpoints that are better for our banks and, most importantly, our customers.

CBA's Center for Bank Advocacy immerses participants in a selective leadership experience, and CBA's highly accomplished advocacy professionals oversee the duration of the program. Attendees enjoy a program that includes monthly sessions with accomplished and notable presenters, covering a series of topics relevant to banking advocacy, including analysis of election results; priority issues for banking; how legislative and regulatory processes and the media operate; where and how to influence others and activate your colleagues and community; and PR problems and solutions. Upon completion, participants will join the highly enthusiastic alumni to continue advocacy of your bank, the banking industry, and their future.

I am gratified that many members of CBA's Government Affairs Committee and Board of Directors – including CBA board officers – are program alumni. Leading bankers see and have experienced the value of this program, and it is helping them amplify their voices for their industry while growing their individual careers.

I encourage you to learn more about the program and to share the information with other colleagues who might be interested in participating. You can find all of the information you will need on our website: coloradobankers.org or by contacting Lindsay Muniz at Lindsay@coloradobankers.org or 303-825-1575.

Chairman's Message

Banks and Trust

By Mike Brown
Regional President, Alpine Bank
2021-2022 CBA Chairman

It goes without saying that our customers know the safest place for their money is in a bank. But they also know that the safest place for their personal information is under the watchful eye of their banker.

More than any other industry or entity – even health care – Americans trust their banks and bankers to safeguard their personal information. A survey conducted late last year by Morning Consult in collaboration with the American Bankers Association, found for the seventh consecutive time that banks topped the trustworthy list of entities with access to, and expected protection of, Americans' information.

The financial services industry is the gold standard of cybersecurity, not just because we have the highest level of security among critical U.S. industries – including energy and telecommunications – and the most stringent regulatory requirements. We are the gold standard because we have a track record of staying one step ahead of would-be fraudsters and criminals, consistently innovating and advancing on behalf of our customers. Bankers across the country are dedicated to shielding their customers from fraud or risk. The most recent Deposit Account Fraud Survey shows that banks stopped $22.8 billion in fraud in 2018 alone.

Our customers and clients are our families, our friends and our neighbors. They know that we have a personal interest in seeing them succeed and succeed safely.

This spring, I was heartened by an anecdote The Colorado Bankers Association shared on its social media pages, in which the City of Brighton was protected from $348,000 in potential fraud, thanks to its banker.

In late August, bankers across Colorado will convene for CBA's 2021 cybersecurity conference, during which they will gather the most up-to-date information and resources to reinforce their already strong cybersecurity systems. It is imperative we remain hyper-vigilant, as criminals are always developing new ways to attempt fraud.

In addition, we can help our customers protect themselves. A number of resources are available to arm and educate consumers about identity theft and fraud and I encourage you to share them. Visit CBA's consumer information website: Financialinfo.org;

ABA's "Banks never ask that" campaign at banksneveraskthat.com; or the Colorado Attorney General's anti-fraud page: stopfraudcolorado.gov.

Protecting consumers' money is a joint effort because customers are their own best first line of defense for cybersecurity and fraud. Customers should monitor their accounts often and alert their bank right away if they believe they have been victimized.

That said, bank customers can always rest assured that their bank is in their corner and will cover the loss and take measures to protect accounts should their information be compromised by unauthorized activity.

> *"The financial services industry is the gold standard of cybersecurity, not just because we have the highest level of security among critical U.S. industries – including energy and telecommunications – and the most stringent regulatory requirements.*

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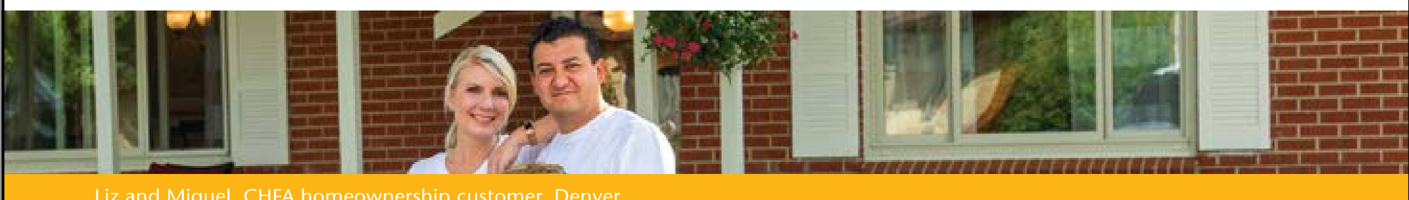

Liz and Miguel, CHFA homeownership customer, Denver

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Feature

The Pandemic and the Continuing Supervisory Guidelines

By Kevin Kim
Compliance Alliance

On March 9, 2020, the Federal Deposit Insurance Corporation (FDIC) issued guidance encouraging financial institutions to assist customers and communities affected by COVID-19. With the Coronavirus Aid, Relief, and Economic Security (CARES) Act, many banks were faced with their own set of challenges. During this time, many banks took steps to assist consumers, including allowing loan modifications with no fees, waiving fees on accounts and offering in-home banking services. Many were also participating in providing Paycheck Protection Program (PPP) loans to small businesses. Because of these accommodations, many banks struggled with high volumes of COVID-related mortgage requests, questions from customers and PPP loans. Banks were overcoming these overwhelming volumes while also maintaining their efforts to keep the physical locations of the banks safe for both customers and employees. Through these difficult times, financial institutions created and revised policies and procedures to adjust and provide excellent service to customers.

Throughout the pandemic, the FDIC shifted to conduct all consumer compliance examinations and industry meetings virtually. At the beginning of the pandemic, the FDIC paused examination activities to allow financial institutions to focus on meeting the needs of their customers. As the examinations resumed, the FDIC allowed flexibility in scheduling to accommodate the institution's needs. Some hurdles occurred in the earlier stages due to operational and staffing challenges limiting the ability of management to respond to supervisory requests because of the shift to

> Throughout the pandemic, the FDIC shifted to conduct all consumer compliance examinations and industry meetings virtually. At the beginning of the pandemic, the FDIC paused examination activities to allow financial institutions to focus on meeting the needs of their customers.

virtual examinations. However, the FDIC was still able to conduct all consumer compliance and Community Reinvestment Act (CRA) examinations within the timeframes established by the FDIC policies.

The most common violations during the 2020 examinations involved: the Truth in Lending Act (TILA), Truth in Savings Act (TISA), Flood Disaster Protection Act (FDPA), Electronic Funds Transfer Act (EFTA), and the Real Estate Settlement Procedures Act (RESPA). The FDIC uses a risk-focused methodology in conducting compliance examinations, and the most frequently cited violations typically involve regulations that represent the greatest potential harm to consumers. The FDIC initiated eight formal enforcement actions and 16 informal enforcement actions to address consumer compliance examination findings. The total voluntary payments to consumers totaled approximately $7.4 million to more than 67,000 consumers.

RESPA Section 8(a) prohibits giving or accepting a thing of value for the referral of settlement service business involving a federally-related mortgage loan. The FDIC continued to find RESPA Section 8(a) violations involving illegal kickbacks, disguised as above-market payments for lead generation, marketing services, office space or desk rentals. Paying for leads is acceptable, but paying for a referral is prohibited. To distinguish between the two, examiners look to whether the person providing the lead/referral was merely giving information about a potential borrower to a settlement service provider or if the person was “affirmatively influencing” a consumer to select a particular provider.

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"Affirmative influence" means recommending, directing or steering a consumer to a certain provider. Often, true leads are lists of customer contacts that are not conditioned on the number of closed transactions resulting from the leads or any other considerations, including the endorsement of a settlement service.

To mitigate the risks associated with RESPA violations, banks could provide training to executives, senior management, and staff responsible for and involved in mortgage lending operations. Banks can also perform due diligence when considering new third-party relationships — the bank or any individuals employed at or under contract to the bank enters — that generate leads or identify prospective mortgage borrowers. Lastly, the bank could develop a monitoring process for identifying, assessing, documenting and reporting risks to executive and senior management.

The Truth in Lending/Real Estate Settlement Procedures Integrated Disclosure (TRID) Rule also led to many violations. The Loan Estimate helps consumers understand the key features, estimated costs, and risk of the mortgage loan for which they are applying. The Closing Disclosure helps consumers understand all of the actual costs of the transaction and provide them with the opportunity to review cost and resolve any problems before closing. Under the TRID rule, the Loan Estimate is based on the "best information reasonably available" at the time the disclosures are provided to the consumer, and the bank must exercise due diligence in obtaining this information. The Closing Disclosure is based on an accurate disclosure standard. The FDIC found multiple instances involving Veteran Administration loans where banks failed to comply with the "best information reasonably available" and due diligence standards under TRID by issuing loan estimates based on unavailable interest rates and loan terms. Additionally, examiners found potentially deceptive practices when banks represented specific terms for loans that were not generally available.

Mitigating risks for TRID violations also include providing training to executives, senior management, and staff responsible for or are involved in mortgage lending operations. Additionally, the bank should establish policies and procedures to help staff comply with regulatory requirements when preparing disclosures. Finally, the bank should also consider implementing a centralized process to complete or review disclosures to ensure accuracy.

Fair lending was also a big concern when evaluating bank compliance. During the 2020 examinations, the FDIC found a bank that would automatically deny the application if the applicant was under 30 years of age. Furthermore, the source of income was provided using a drop-down menu, and any applicant who did not choose employment was denied. Another case where a credit-scoring model scored younger applicants more favorably than it scored elderly applicants. It also negatively considered applicants on maternity leave. Additionally, there was a bank policy that provided that the loan officer should use the highest credit score of the two applicants when the applicants were married, but the primary applicant's credit score would be used when the joint applicants were unmarried.

To address the fair lending risks, banks could consider regularly reviewing credit policies to ensure the Equal Credit Opportunity Act and Regulation permitted such considerations. The FDIC finds that a strong compliance management system helps ensure financial institutions treat consumers more fairly. Moreover, the bank should review any filers or other criteria used for online leads, website applications, and/or credit scoring models.

With such an unprecedented pandemic sweeping across the nation, many areas needed adjustments to adapt to the changing environment. Regardless of the impact of COVID-19, banks should continue to set up and monitor compliance programs to ensure that the banks are complying with the appropriate regulations for their business activities.

Kevin Kim, Associate General Counsel

Kevin Kim joined Compliance Alliance after graduating from the Benjamin N. Cardozo School of Law in 2019. He currently serves our members as one of our hotline advisers, where he spends his days guiding our members and writing articles for our weekly and monthly publications.

Before CA, he worked at Galaxy Digital and Refinitiv (formerly Thomson Reuters Financial and Risk) as a law clerk. He also opened a cryptocurrency mining farm and founded an after-school program business in his native New York City. His unique experience and outlook have brought an invaluable new dimension to our group.

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Time's Up: Congress Must Stop Credit Union Purchases of Taxpaying Banks

By Rob Nichols, President and CEO
American Bankers Association
Washington Update

After tapering off during the pandemic, the trend of credit unions buying taxpaying community banks is back – and credit unions are becoming more aggressive than ever in their pursuit of acquisition targets. The first half of 2021 has already seen two precedent-shattering deals: Jacksonville, Florida-based VyStar Credit Union's acquisition of a $1.6 billion Georgia bank is by far the largest purchase of a bank purchase by a credit union to date. And more recently, the announcement by Iowa-based Green State Credit Union that it would simultaneously acquire not one but two community banks in the Midwest.

Acquisitions like these are bad for taxpayers, a bad deal for communities, and a bad deal for consumers.

They erode state and federal tax bases at a fundamental level, diverting funds away from essential infrastructure projects and other government initiatives. Perhaps even more egregiously, in the case of VyStar – which paid an 80% premium on its acquisition transaction – is the fact that the firm's tax-exempt status means American taxpayers effectively subsidized the purchase.
Analysis by the Government Accountability Office shows that credit unions are now serving more middle- and upper-income customers rather than customers of "small means" – the congressional mandate behind the credit union tax exemption. Rather than focusing on low-to-moderate-income communities sharing a common bond, credit unions increasingly target a wealthier client base, market wealth management services, luxury goods

financing and commercial banking services. This is not what credit unions were created to do.

Consumers also lose out when credit unions gobble up community banks, given that credit unions are not held to the same rigorous regulatory standards as banks when it comes to consumer protection or community reinvestment. These deals are also bad for the credit union industry itself, as small credit unions are increasingly forced to compete with an expanding cadre of large, growth-oriented firms. Yet despite all this, credit unions continue to persist in their pursuit of community bank acquisitions, aided and abetted by the National Credit Union Administration, which went so far as to attempt to formally codify this process with a proposed rulemaking last year – a step ABA vigorously opposed.

These efforts represent yet another assault on the statutory definition of "credit unions" enshrined in the Federal Credit Union Act that has been going on for years. It's even been acknowledged at the highest levels of the leadership of the NCUA's. One need look no further than former NCUA Chairman Mark McWatters' warning that the agency he once led has become "inappropriately emboldened" and has allowed the institutions it is charged with supervising to creep far beyond their statutory boundaries.

It's time for Congress to step in.

Lawmakers must determine whether these types of acquisitions – and the negative consequences that follow – align with the public policy goals Congress intended when it created the credit union tax exemption in the first place.

Until they do, the banking industry must continue to push back – as it has in states like Iowa and Colorado, where state regulators have determined that local statutes do not allow credit unions to acquire state-chartered banks. ABA will continue its advocacy against these types of mergers – as we did in a recent letter to the OCC, highlighting the particular threat they pose to the mutual bank business model.

We will continue to make these arguments loudly and often because we know that when tax-exempt credit unions overtake taxpaying banks, everyone loses.

Email Rob at nichols@aba.com.

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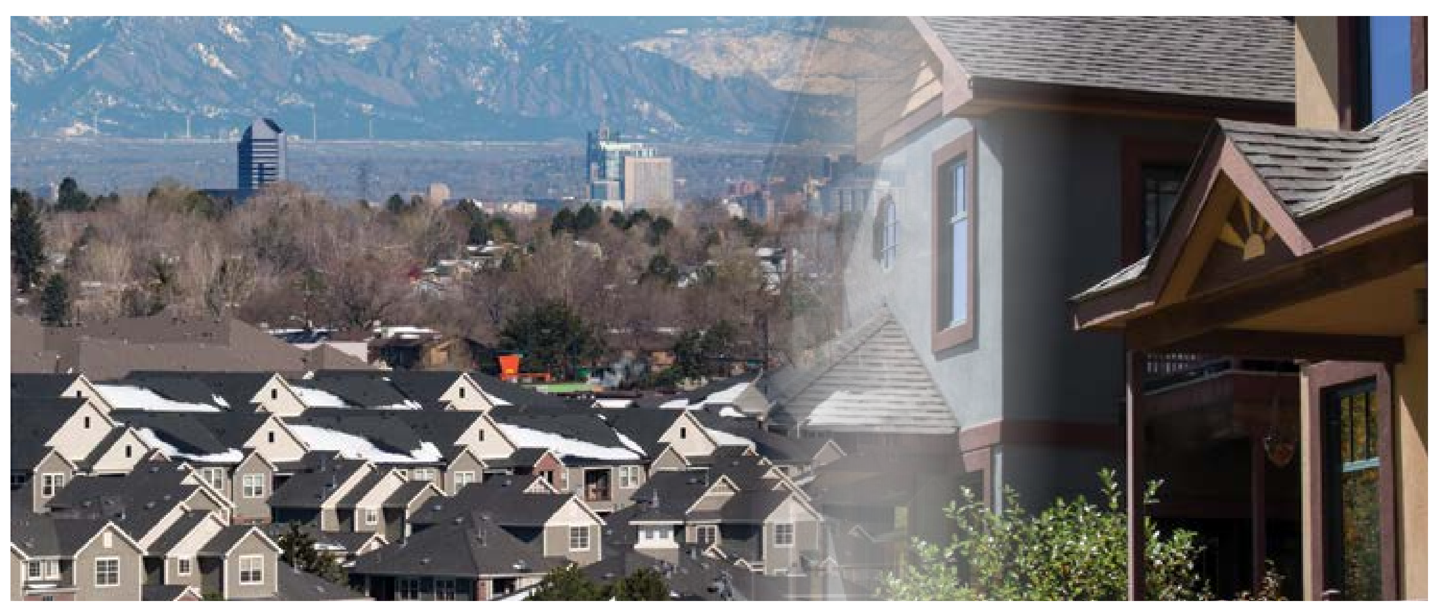

Mortgage Borrowers

Amid the COVID-19 Pandemic 2021 and Onward

By Tim Dominguez
Compliance Alliance

At the beginning of the year, Acting Director Dave Ujieo of the Consumer Financial Protection Bureau (CFPB) stated the agency would shift its focus to a more assertive role regarding enforcing regulations protecting consumers. Because of this shift, one of the chief enforcement priorities would be to emphasize protection and compliance with regulations for borrowers impacted by the COVID-19 pandemic. In addition, now that we are in the middle of 2021, the CFPB has published a report analyzing data on mortgage borrowers most affected by the pandemic and proposed a collection of rules extending protections at least until the middle of next year. Because of these publications, banks should prepare for a more significant regulatory emphasis on COVID-19 protections and fair lending practices.

According to the CFPB's Special Issue brief titled Characteristics of Mortgage Borrowers, released May of this year, the COVID-19 pandemic's financial impact on banks and mortgage customers has not been this vast and deep since the Great Recession of 2010.

Because of the pandemic's economic reach, we have seen an increase in the availability of forbearance programs that temporarily allow borrowers to stop making payments even when delinquent. The CFPB analyzed the data and discovered that Black and Hispanic borrowers make up a significant percentage of all mortgage borrowers at 18%. However, this same group of borrowers makes up an even more substantial percentage of forbearance at 33% or delinquent at 27%. The CFPB also found that loans with a loan-to-value (LTV) ratio above 60% were more common for borrowers in forbearance or delinquent than those current with their mortgages. Additionally, the CFPB established those with an LTV ratio above 95% were most susceptible to defaulting on their mortgage.

The data shows that loans in forbearance or delinquent were more likely to be single-borrower loans with a sizable amount being delinquent for at least 30 to 60 days. In crystallizing

> If they have not already done so, banks should now take steps in preparing to provide customers impacted by COVID-19 more protections as well as comply with any regulations requiring them to do so.

these findings, forbearance and delinquency are more common for Black or Hispanic borrowers, have a higher LTV, or have difficulty paying other obligations. Acting Director Uejio stated, "Communities of color have been hit hard by the pandemic, and the latest data show that many borrowers are still hurting. The CFPB will continue to seek and actively respond to developments in the market, doing everything in our power to help families stay in their homes."

This runs true with the CFPB's priorities earlier this year in taking a more assertive role in enforcing consumer protections due to COVID-19 and taking steps to ensure racial equality in financial services.

In response to the hardships mortgage borrowers are experiencing due to the financial implications of this pandemic, the CFPB has issued several proposed amendments to the Mortgage Servicing Rules and provided a tentative effective date of Aug. 31, 2021. The notice of proposed rulemaking (NPRM) adds a general definition for "COVID-19-related hardship" that matches the CARES Act. The proposition in the context of early intervention requires servicers to ask whether a borrower not in forbearance at the time of live contact is experiencing a COVID-19 related hardship. If the borrower indicates in the affirmative, the servicer would be required to list and describe available forbearance programs and explain how the borrower can apply for them.

Loss Mitigation

The NPRM also contains amendments to the loss mitigation procedures. Current rules require servicers to take reasonable due diligence in obtaining a complete application for loss mitigation. This rule specifically focuses on what would constitute due diligence for borrowers in short-term forbearance due to a COVID-19-related hardship. For example, suppose the program was offered in an applicable circumstance and was based on an incomplete application. In that case, the servicer must contact and determine if the borrower wants to complete their application and proceed with a total loss mitigation evaluation at least 30 days before the short-term program ends. When evaluating an application, the proposed rule would now allow servicers to offer certain modifications based on an incomplete application if specific criteria are met. This criterion includes the loan modification extending the loan length by no more than 40 years, and the borrower's preexisting delinquency would be resolved by accepting the loan modification.

Foreclosure Implications

Another facet of the loss mitigation procedures impacted by the CFPB's NPRM is foreclosures. While certain agencies and Government-Sponsored Enterprises (GSEs) have all placed their moratoria on foreclosure, the NPRM's effect on foreclosures is not limited only to the secondary market or federally backed loans. The NPRM adds a temporary COVID-19 pre-foreclosure review period in which a servicer cannot make the first notice or filing for foreclosure. The current rule states a servicer is prohibited from making this notice or filing unless the borrower is more than 120 days delinquent. This new rule proposes to add an overarching prohibition against making the notice or filing for foreclosure because of any delinquency until after Dec. 31, 2021. Meaning, if this rule becomes final, foreclosures may not occur until after the year is over, providing extra protection for borrowers impacted by the pandemic.

If they have not already done so, banks should now take steps in preparing to provide customers impacted by COVID-19 more protections as well as comply with any regulations requiring them to do so. Further, true to the CFPB's direction, banks should also be prepared from an examination scrutiny standpoint during the pandemic to emphasize fair lending. The year is already over halfway over, and it is readily apparent that the financial impact and consumer relief may carry on to the next.

Tim Dominguez serves as Associate General Counsel for Compliance Alliance, joining C/A after graduating from the University of Houston Law Center. During law school, he worked as an intern within the legal department of Frost Bank in San Antonio, TX. He also holds a Bachelor of Science in Communication Studies from The University of Texas at Austin. Before law school, Tim worked various jobs within the Texas state government, including the Texas Senate and the Texas Legislative Council. As one of our hotline advisors, Tim provides guidance to C/A members on a wide variety of regulatory and compliance issues, in addition to writing articles for our publications.

New CFPB Rule
Offers Flexibility with Foreclosures

By Sarah J. Auchterlonie
Brownstein Hyatt Farber Schreck

Today, just over two million homeowners are in COVID-19 hardship foreclosure forbearance. The Consumer Financial Protection Bureau (CFPB) recently stated that over 3% of all borrowers are now four months or more behind on their mortgages, which is the usual point when a foreclosure may be initiated. Not even during the worst of the 2009 financial crisis have so many borrowers been so far behind. In response, the CFPB issued a temporary rule under the Real Estate Settlement Procedures Act and Regulation X (RESPA), effective that offers opportunities for investors and servicers to avoid foreclosures and provide better outcomes for themselves and the communities they serve by allowing evaluations of loss mitigation options based on incomplete applications.

Moratoriums are lifting, but when?

When precisely foreclosures may resume remains uncertain, but the general consensus is "end of summer." The Coronavirus Aid, Relief and Economic Security Act (CARES Act), Section 4022, allows borrowers with federally backed single-family mortgage loans (HUD/FHA, VA, USDA, Fannie Mae and Freddie Mac loans) to seek forbearance for up to 180 days, which "shall be extended for an additional period of up to 180 days at the request of the borrower." Loans backed by HUD/FHA, USDA, or VA set the deadline for requesting an initial forbearance to Sept. 30, 2021.

Fannie Mae and Freddie Mac are extending the moratoriums on single-family foreclosures and real estate-owned evictions until July 31, 2021. These

moratoriums are a moving mark, as they have been extended for one month, about one week before the prior moratorium ends. Thus, this July 31 deadline could potentially be revised.

Private loans are not subject to the federal moratoria but may be subject to state protections, such as in California. Criteria for Foreclosure under the CFPB's Temporary

Foreclosure Rule

Once moratoria lift, the CFPB's newly issued foreclosure rule will apply from Aug. 31, 2021, through Dec. 31, 2021. The rule covers all primary residences subject to RESPA that are delinquent due to the pandemic, i.e., where "the borrower's mortgage loan obligation became more than 120 days delinquent on or after March 1, 2020." To protect investors, however, the rule carves out delinquent loans where the statute of limitations applicable to a foreclosure action expires before Jan. 1, 2022. Accordingly, once the moratoriums lift, initial foreclosure notices may issue for properties that were more than 120 days behind on their mortgage before March 1, 2020, or if the statute of limitations expires before Jan. 1, 2022.

For loans covered by the CFPB's rule, foreclosures may begin if the borrower:

- Has abandoned the property;
- Is more than 120 days behind on their mortgage payments and has not responded to specifically required outreach from the mortgage servicer for 90 days; or
- Has been evaluated for all options after submitting a completed loss mitigation application and there are no available options to avoid foreclosure.

The CFPB's Rule Adds Flexibility for Investors and Servicers

For the population that engages with their servicer, the rule "permits servicers to offer certain streamlined loan modification options made available to borrowers with COVID-19-related hardships based on the evaluation of an incomplete loss mitigation application." If the borrower accepts an offer made pursuant to this new exception for incomplete applications, the rule temporarily relieves servicers of specific timing and notice obligations so they can more quickly move to a resolution.

Documentation Requirements for Short Sales and Deeds in Lieu

Unlike 2009, our economy has a field of ready buyers waiting to acquire newly available properties. Prices for new and existing homes are at record levels, and increases

Unlike 2009, our economy has a field of ready buyers waiting to acquire newly available properties. Prices for new and existing homes are at record levels, and increases are accelerating at the fastest clip in over 15 years. With teleworking on the rise, distressed homeowners are less tied to expensive markets.

are accelerating at the fastest clip in over 15 years. With teleworking on the rise, distressed homeowners are less tied to expensive markets. In 2021, short sales and deeds in lieu of foreclosure could be an equitable solution for homeowners and investors alike.

To comply with the temporary rule when offering non-retention foreclosure relief options, the borrower must first indicate a preference not to retain the property. Second, the servicer must collect documents and information from the borrower about available home retention options until the servicer confirms that the borrower has an applicable hardship that qualifies for a non-retention solution under requirements established by the loan's owner or assignee.

The CFPB's foreclosure rule requires servicers to rely on investor guidelines when offering loss mitigation options, of which short sales and deeds in lieu are two. Particularly for recently purchased homes, hardship criteria for non-retention loss mitigation have centered on employer-mandated relocations. But now that workers can telework from less-expensive locations, mandatory employment transfers may be outdated criteria.

Accordingly, to take advantage of increased flexibility in determining optimal loss mitigation outcomes, including short sales and deeds in lieu of foreclosure, private investors with significant delinquency exposure who can manage short sales or owned real estate may wish to reexamine their home retention loss mitigation options to include voluntary relocation. Adjusting guidelines to allow more short sales and deeds in lieu may be a win-win for investors and homeowners alike.

Avoid Negative HSA Balances and their **Negative Tax Consequences**

By Dennis Zuehlke, CISP
Ascensus

There's a humorous saying, "I can't be overdrawn; I still have checks." There's nothing funny, however, about overdrawing your health savings account (HSA) and the negative tax consequences that follow.

HSAs are subject to the same prohibited transaction rules as IRAs, which means that an HSA owner may not enter into a prohibited transaction involving his HSA and/or the financial organization that administers it. The prohibited transaction rules broadly include activities between an account and another party that may include selling, exchanging or leasing assets or property, furnishing goods, or the extension of credit. However, the transactional nature of HSAs makes an extension of credit more likely to occur than might be the case with an IRA.

If your financial organization allows HSA owners to use checks or debit cards to withdraw HSA assets, it risks extending credit to the HSA owner and, thereby, creating a prohibited transaction. For example, if an HSA owner uses an HSA debit card to pay an amount that exceeds the HSA balance, the HSA ends up with a negative balance. A prohibited transaction has occurred if your financial organization covers the transaction, which is an extension of credit to the HSA. The same outcome may result if it does not cover the transaction but imposes an overdraft fee that causes the HSA balance to go negative.

When a prohibited transaction occurs, the account ceases to be an HSA as of the first day of the year in which the prohibited transaction occurred. The financial organization must report the Jan. 1 account balance on IRS Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA, using code 5, Prohibited transaction. Any contributions to – or distributions from – the account after the account ceases to be an HSA are not reported. And amounts treated as distributed due to a prohibited transaction cannot be treated as a distribution used to pay qualified medical expenses.

When an HSA does have a negative balance, your financial organization should contact the HSA owner and inform him that the account has ceased to be an HSA and that it may no longer accept HSA contributions. To make HSA contributions going forward, potentially for the same tax year, the individual would need to open a new HSA.

If the HSA was receiving employer contributions, your organization should also inform the employer that, unless a new HSA is opened, future employer contributions for this employee will not be accepted.

Certain Policies May Help

Consider taking the following steps to help your HSA clients avoid HSA negative balances:

- Use custom-designed HSA checks and debit cards to distinguish them from checks and debit cards used for checking accounts. When the same debit card stock is used for HSAs as for checking accounts, HSAs owners tend to use the wrong card to pay for a nonmedical expense.
- Refuse to honor any checks and do not authorize any debit card transactions that would overdraw the HSA.
- Do not impose transaction or overdraft fees if the imposition of the fee would cause the account to go negative. Many financial organizations refuse to honor checks and debit card transactions that exceed the balance of the account but then assess an overdraft fee, which causes the account to go negative. In other cases, monthly maintenance fees may cause the account to go negative. Many HSA owners use their HSAs to pay medical bills immediately, and the account balance remains low until the next HSA contribution is made. Consider collecting any fees directly from the HSA owner or another account at your organization if there is an agreement in place that would allow it.

Prevention Is Key

Also, consider taking steps to prevent an extension of credit to an HSA (and the prohibited transaction it creates). While the IRS has not published guidance on how to do that, the Department of the Treasury has commented that financial organizations can prevent an extension of credit by automatically withdrawing assets from another account (such as a savings account) if a transaction would cause the HSA to go negative. But the HSA owner must have a written agreement with the financial organization to automatically withdraw assets from another account.

EXAMPLE: Sarah, an HSA owner, has entered into a written agreement that allows her financial organization to withdraw assets from her savings account to cover any transactions that would exceed her HSA balance. Sarah uses her debit card to pay a $500 medical bill. The transaction is authorized, but because Sarah only has $250 in her HSA, her financial organization withdraws $250 from her HSA and $250 from her savings account, thereby covering the debit card transaction fully while avoiding a negative balance in her HSA.

Another option is for the HSA owner to authorize the financial organization to move assets from another account (such as a savings account) into the HSA to cover the amount needed to prevent the HSA from going negative.

EXAMPLE: David, an HSA owner, has entered into a written agreement that allows his financial organization to transfer assets from his savings account to his HSA to cover any transactions that would exceed his HSA balance. David uses his debit card to pay a $1,000 medical bill. The transaction is authorized, but because David only has $250 in his HSA, his financial organization transfers $750 from David's savings account to his HSA, covering the debit card transaction in full while avoiding a negative balance in his HSA.

Similarly, overdraft protection features many financial organizations offer customers automatically transfer assets from a savings account or credit card account to the customer's checking account to avoid overdrafts. But, unlike when assets are transferred to a checking account to cover an overdraft, using this method to transfer assets to an HSA creates a reportable HSA contribution. As such, the HSA owner needs to be aware that an excess contribution will occur if assets are moved into the HSA after the HSA has received the maximum contribution amount for the year.

A third option is to use a non-HSA checking account exclusively for medical expenses tied to an HSA. With this option, all payments to cover medical expenses ("distributions") are taken from the non-HSA checking account, with assets transferred from the HSA to cover payments from the non-HSA checking account.

EXAMPLE: Peter, an HSA owner, has a non-HSA checking account used exclusively for medical expenses. Peter uses his debit card (linked to his non-HSA checking account) to pay a $100 medical bill. The transaction is authorized, and when it posts to his non-HSA checking account, Peter's financial organization transfers $100 from Peter's HSA to his non-HSA checking account to cover the transaction. Thus, if there's an insufficient balance in the HSA to cover the expense, the checking account – not the HS – has a negative balance.

This is similar to the "sweep" feature that many brokerage firms use to settle debit card and securities transactions, where assets are "swept" from a money market account daily to settle transactions that have been posted to the cash account. These options may allow your financial organization to help its HSA owners avoid negative HSA balances and the resulting prohibited transaction tax consequences.

Replacing LIBOR:
Pros and Cons of Alternative Rates

By Daniel Bray
Husch Blackwell LLP

With LIBOR's impending cessation, the search for alternative benchmark rates is in full swing. Most banks are weighing the benefits of one or more replacement benchmark rates. However, there are economical and operational trade-offs with each choice. This article explains the current contenders to replace LIBOR, comparing the pros and cons of such rate replacements. Broadly speaking, these replacement rates fall into two categories: (1) Secured Overnight Financing Rate (SOFR) based rates, and (2) Credit Sensitive Rates (CSRs), which are discussed below.

What is the Secured Overnight Finance Rate (SOFR)?

The Alternative Reference Rates Committee (ARRC) – a working group established by the Federal Reserve and the New York Fed to guide the search for and transition to a new benchmark rate for US dollar-denominated loans – has recommended that lenders transition from LIBOR to the Secured Overnight Financing Rate (SOFR). SOFR is published each day by the Federal Reserve Bank of New York and measures the actual cost of institutions borrowing cash overnight, collateralized by Treasury Securities. The New York Fed collects data on these overnight secured transactions and calculates the volume-weighted median rate charged, then published as the daily SOFR. Because Treasury Securities collateralize these transactions, SOFR is a nearly risk-free rate. Due to the volume and liquidity of the SOFR market, with over $1 trillion in transactions each day, SOFR is believed to be a stable benchmark rate that cannot be manipulated. However, because SOFR is only published as an overnight rate, any benchmark must be an average SOFR to smooth the volatility of the daily rate.

Further, the Financial Stability Oversight Council (FSOC) offered its support for SOFR over any currently contemplated Credit Sensitive Rate, especially in light of Term SOFR being offered as soon as the end of the summer. The weight of the FSOC's support, in addition to the backing from other established institutions like the New York Fed, points to significant movement toward SOFR as LIBOR's replacement. In addition, the spread adjustment between LIBOR and Term SOFR has now been set by ARRC (i.e., 0.11448% for one-month Term SOFR). However, the adoption of the ARRC's proposed spread adjustment remains mixed.

What Credit Sensitive Rates are being offered?

Credit-Sensitive Rates (CSR) are the other primary type of benchmark vying to capture the market upon the cessation of LIBOR. Similar to LIBOR, CSRs are rates that are forward-looking term rates sensitive to creditworthiness. CSRs are often calculated based on primary/secondary market yields and data on instruments such as CDs, commercial paper, bank deposits and/or bank bonds. In this way, a CSR is responsive to credit conditions, market conditions, and term length in calculating the published rate used as the benchmark.

A variety of CSRs is published each day, with each one calculated from a different set of financial data and including different term-lengths in the published rates. AMERIBOR is published by the American Financial Exchange LLC (AFX) and is calculated daily as an average rate AFX users charge one another for unsecured overnight loans. As such, AMERIBOR reflects the actual credit-sensitive cost of unsecured borrowing by banks and financial institutions. BSBY is published by Bloomberg Index Services Ltd. and is calculated daily based on wholesale primary market funding transactions, such as interbank deposits and CD data and commercial paper rates. BSBY is published with tenors of one, three, six, and 12 months. In addition to these two primary CSRs, the Bank Yield Index and the IHS Markit Credit Rate have been proposed as other CSR benchmarks, calculated from the cost of international banks borrowing U.S. dollars and Markit's proprietary credit data, respectively.

How do these potential alternative benchmark rates compare?

While credit-sensitive rates respond to changes in market conditions, for example, raising in times of economic stress, risk-free rates such as SOFR are less responsive to the market. They may even decrease in times of economic stress. Because a component of cost for financial institutions is tied to credit-sensitive rates, the use of SOFR as the benchmark could leave lenders with higher costs and lower SOFR-benchmarked returns in times of economic crisis. However, if Term SOFR does arrive as soon as recent developments indicate, lenders may become more comfortable with SOFR and its perceived stability, given the current market support from institutional market players. Further, the concept of Term SOFR offers lenders comfort with familiarity due to its similar nature in concept to LIBOR. The similarities and differences of each leading replacements rate are summarized in the below table.

Is the Prime Rate a viable replacement to LIBOR?

Many existing loan documents currently include a fallback to the Prime Rate if LIBOR ceases to be available. Prime Rate is the rate banks give to their "most favored customers." The Prime Rate is a consumer interest rate based on creditworthiness. In contrast, LIBOR is a rate calculated based on transactions between banks. As a result, any conversion to the Prime Rate will increase the interest rate paid under loan agreements unless a negative spread adjustment is made. The Prime Rate and LIBOR are both CSRs. However, the Prime Rate includes a much larger implicit spread, so the Prime Rate does not easily substitute for LIBOR.

Is a Multi-Rate Environment in Our Future?

As noted above, most banks are weighing the benefits of one or more benchmark rates to replace LIBOR. At the moment, SOFR based rates are in the lead, but CSRs are in contention. ACH replacement rate choice has pros and cons, and the decision depends on economic and operational considerations, which are specific to each bank. As a result, a multi-rate lending environment seems likely in the foreseeable future.

Daniel Bray is a Denver-based partner with the law firm Husch Blackwell LLP and leads the firm's Banking & Finance group.

Replacement Rate	Rate known in advance of interest period?	Requires Robust Calculating?	Is the Rate Credit Sensitive?	Strengths & Weaknesses
Term SOFR	Y	N	N	Supported by industry leaders; allows for simple replacement; SOFR already being used widely in loan documentation amendments; questions about hedging.
SOFR Compounded in Advance	Y	N	N	Easy to implement into current LIBOR facilities; difficult to match credit sensitivity in markets; questions about arbitrage.
Daily Simple SOFR	N	N	N	Not similar to current LIBOR loans; fails to offer flexibility for more credit-sensitive borrowers; provides ease of calculation.
Credit Sensitive Rates	Y	N	Y	Easily substituted for LIBOR; Lacks support from institutional lenders; less robust than SOFR.

Cyber Resilience:
Adapting to a Changing Cyberattack Environment

By Jennifer Fiebelkorn, Ben LeClaire, Matt Babicz
Plante Moran

Perpetrators of cyberattacks threaten daily to infiltrate your systems with malicious intent. A cyber resilience strategy can help you withstand attacks and minimize business disruption to protect your data – and your profits.

If you're like many of our clients, the notion of a "cybercriminal" and the term "cybercrime" conjure up the image of a rogue teenager hiding out in their parent's basement, hacking on a computer for hours on end. Most cybercrimes are considered threatening rather than devastating, primarily causing headaches and inconvenience but not overly disruptive to an organization's ability to operate.

Unfortunately, that impression is not reality. The cybercriminal and cybercrime landscape has vastly changed. We're dealing with organized cybercrime groups that function with business plans, operating protocols, organizational structures, and strategies that mirror the formats of some of today's most successful and ethically run organizations. Their resources, expertise, attack sophistication, and hacking toolkits continue to grow, as does the volume and severity of cyberattacks against organizations. History has shown that cybercriminals pose significant threats, and their mechanisms can and have resulted in devastating impacts to organizations. Here are just a few notable examples that impacted the financial institution industry in 2020:

- **Ransomware:** Cybercriminals repurposed the traditionally known ransomware attack by replacing some typically automated processes with targeted manual processes. Rather than releasing a virus that auto-encrypted (locked) all of the financial institution's files, the hackers found a foothold on the network, sat quietly, and worked to identify the most critical, sensitive, and business proprietary information and systems before initiating the attack. Once identified, the hackers deleted all backup files then quickly encrypted the sensitive files and systems previously identified. The ransom requested was two bitcoin or around $65,000 at the time of execution.
- **Wire fraud:** Cybercriminals identified the protocol that the financial institution's customers were required to follow to initiate a Customer Information File (CIF) change. This was done by calling the institution periodically over a few weeks and inquiring about the wire transfer and CIF change processes. The attackers then changed customer email addresses on file, leveraged the newly added email addresses, and initiated multiple wire transfers, successfully stealing more than $500,000.
- **Payroll system compromise:** Cybercriminals strategically compromised a user account from the financial institution's cloud-based payroll system with privileged access, giving the new user account creation capabilities. When leveraging the account at its authority level, the attacker created several new accounts that emulated standard new hire employees with typical job titles, appropriately tailored salaries, personal information, etc., all done without detection. Payroll jobs were created, and paychecks were scheduled in alignment with the institution's normal payroll cycle. Although the institution detected the incident shortly after the first payroll cycle, losses incurred totaled roughly $250,000.
- **Business email compromise:** The cybercriminal's goal was to hijack the targeted financial institution's process for requesting, authorizing, and administering wire transfers. Over a short period of time through reconnaissance, the bad actor gathered information identifying the institution's email-naming convention, their personnel with capabilities to request and authorize wire transfers, and then compromised and

leveraged a customer's account to request a $1,000,000 wire transfer. With the compromised institution's email address and understanding of the approval process, the attacker successfully circumnavigated the process and wired the amount requested.

While traditional tactics of phishing and malware are still the most common cyberattack methods, the next wave of cybercriminals can quickly pivot to other, more technical methods to exploit vulnerabilities and disarm defenses. The result can be total business disruption. So, what's the best defense? An evolving cyber resilience strategy allows you to mitigate the threats of a cyberattack and enhance your ability to respond and recover from an attack.

Cyber resilience allows you to adapt to a changing cyber threat environment

Cyber resilience goes beyond preventing or responding to a breach – it's your ability to operate during, adapt to, and recover from a cyberattack (the word "resilience" is the key here). If your organization has a high level of cyber resilience, a cyberattack is much less likely to hamper your business operations – you'll be able to protect your data, reduce the impact of business disruption, and prevent devastating revenue loss.

We've entered a new digital era – institutional leaders and regulatory agencies need to continue to evolve their idea of effective cybersecurity beyond defense and reaction. By continuing to evolve, these organizations will be able to anticipate attacks and have stronger mechanisms in place to identify attacks and not only recover technologies more effectively and efficiently but continue business during an incident or disaster.

Step 1: Identify your most critical information and assets.

The evolution of cloud-based solutions, including the Internet of Things (IoT), remote workforces, and vendor integration into organizations' processes and systems, means that organizations must be smarter and more diligent about securing customer information as well as how critical data assets are shared and consumed. A critical data asset is data that would cause significant damage to your revenue, reputation, and ability to run day-to-day operations if lost, stolen, or threatened.

There's a misconception that all data needs to be protected equally, but consider this: What data would be most valuable to a cybercriminal? You can identify critical assets using cyber risk assessments and IT audits. Once your critical data assets are identified, and their value is measured, you can partner with an external expert to create a process that appropriately protects against fraud and breaches.

Examples of critical data assets include:

- Client confidential information
- Corporate financial data
- Sensitive/proprietary information
- Sensitive staff information & data
- Key business systems (in-house, outsourced, & hosted)
- Data custodians (internal & external)

Step 2: Align your cyber response and preparedness strategy to the current threat environment.

If you're not keeping up with the latest methods to identify and prevent cybersecurity breaches, prepare to be attacked. Many organizations still rely on out-of-date security measures, like policies, procedures, and passwords that address decades-old threats. While it can seem like a difficult task to keep track of all possible cybersecurity threats, you should at least update your threat intelligence and vulnerability management strategies to address and stay current with today's most common threats – ransomware, malware, unauthorized access to your email system, weak users, and loss of data or hardware.

Key actions to take to mitigate risk and respond to current cybersecurity threats:

- Identify current threats and act on intelligence.
- Prioritize cyber risks – you cannot defend against all possible risks, order risks in terms of probability and impact.
- Focus less on specific technologies since they are continually evolving and more on security goals related to your overall strategic plan and mission.
- Ensure your people, processes, and technologies are all protected – cybersecurity is an organization-wide responsibility, not just through an IT department's efforts and processes.

Step 3: Develop and simulate cyber incident response strategies.

Next, your organization should have a tested program in place to respond to a cybersecurity incident. Without a formal plan, your customers, employees, IT systems, and even brand can be negatively impacted. Identify a cybersecurity incident response team that will activate when security breaches occur to mitigate their impact on your organization. Your incident response team should include representatives from all major

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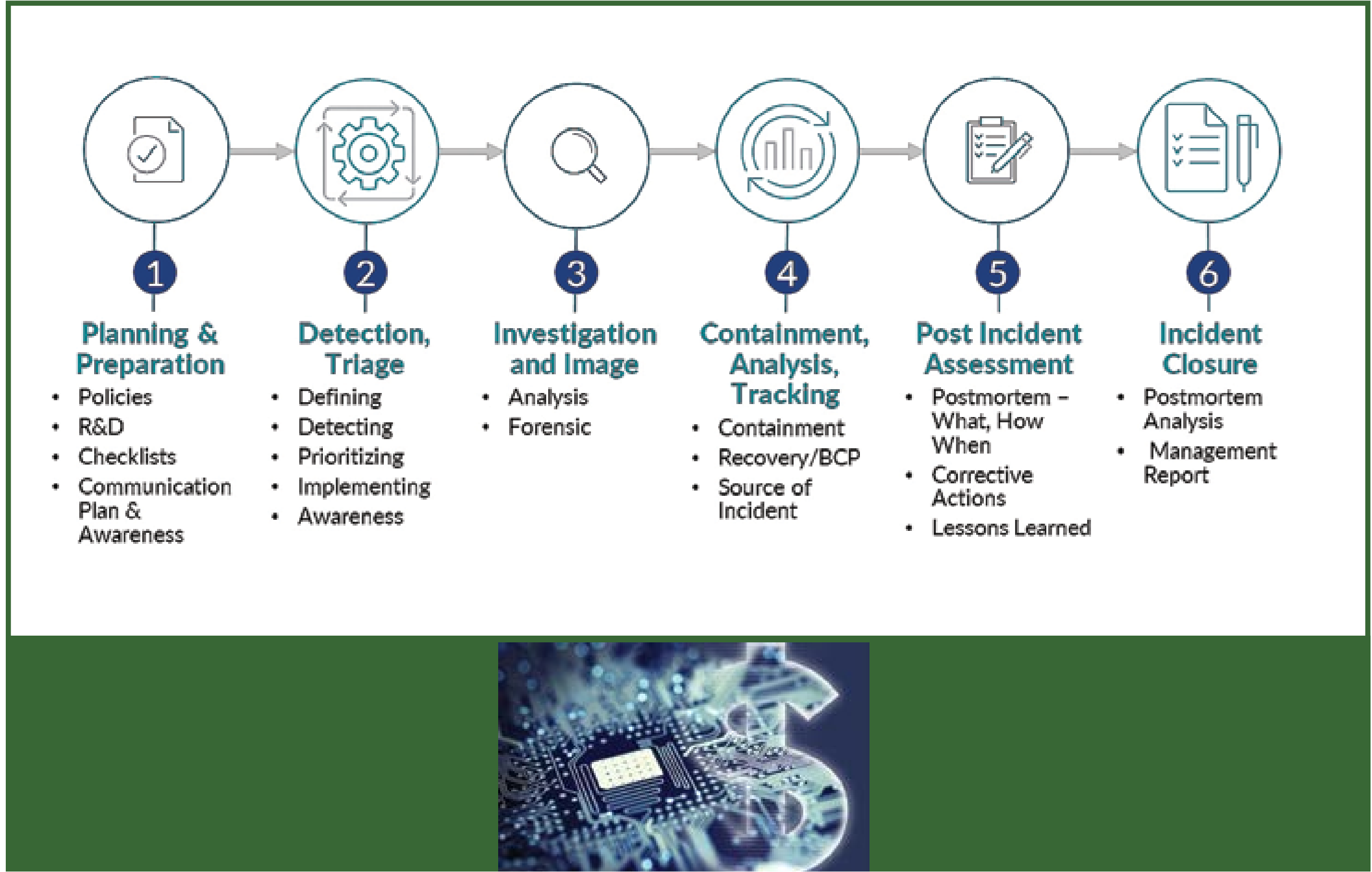

departments, along with internal or external legal counsel.

Here's how to create and maintain an incident response plan:

1. Review and update policies, prepare checklists, communication strategies, and templates for internal and external parties.
2. Establish a process to detect and triage security events, including defining event types and actions to follow for each type of event, from nuisance to data breach.
3. Investigate and analyze a breach that includes assistance from forensic examiners, cyber professionals, and cyber insurance agents to determine the origin of when the attack occurred and the potential impact zone.
4. Contain the incident to prevent further damage and enact business continuity or disaster recovery plans as needed.
5. Complete a post-incident assessment to identify corrective actions and lessons learned.
6. Prepare a documented summary of events and report lessons learned, and update policies and plans as needed.

Step 4: Focus on a culture of awareness.

Finally, increase awareness and vigilance among your staff. An essential factor in data security is human behavior. Uninformed users can jeopardize an entire system. Therefore, cyber threat awareness training is imperative to help users identify threats to information security and take proper action in response. All users need to stay up to date on the latest types of attacks.

Security awareness training helps mitigate these top security breaches:

- Targeted ransomware
- Phishing attacks, beyond just email
- Mobile device attacks
- Cloud & wireless attacks

As cyberattacks grow more sophisticated, complex, and financially devastating, don't sit and wait for support from your examiners. Proactively work on preventing them! Cyber resilience allows you to embrace disruption safely and operate while under persistent threats and sophisticated attacks. You can't anticipate every possible cyber risk, but we can help protect your organization with forward-planning and improved cyber safeguards.

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Rates Don't Matter Much **If You Have A Plan**

By Scott Hildenbrand and Ryan J. Smith
Piper Sandler

> A balanced A/L profile, as opposed to one exposed to a rate scenario, allows a bank to make tweaks or adjustments as rates shift, rather than sweeping course changes or major corrections.

Rate volatility has been a common theme in the last 18 months – a global pandemic, unprecedented government spending, recession fears, recovery, a presidential election, and a vaccine, just to name a few. The 10-year Treasury yield saw a high of 1.77% and a low of 0.50% in those 18 months, with a 100+ bps drop in 13 business days from mid-Feb. to early March 2020. Financial institutions that live and die by their margins watched the fireworks while crossing their fingers that credit would hold out.

In the last month, that same 10-year Treasury yield has retreated from recent highs to settle near 1.25%, continuing the margin compression that so many felt throughout 2020. This has made the 1.60%+ average seen in April and May feel like a market opportunity in retrospect. However, some institutions didn't miss their chance because they had approved, implemented, and prepared strategies regardless of upcoming rate environments. That is to say, rather than looking externally at rates and predictions, the most thoughtful institutions looked internally at their own exposure and created a strategy that did not rely on a prediction of rates.

At Piper Sandler, we believe in custom solutions for each individual balance sheet, and thinking of your bank's exposure is more relevant than considering the past or future rate environment. For example, if your Asset/Liability report shows that you are heavily asset sensitive, you could react in two different ways: one, you could hope that rates go up; or two, you can reduce your asset sensitivity to balance your exposure up and down.

We, as an industry, focus on rates. However, we also make statements that we "never bet on rates," as banks know they cannot predict what rates will do. But each asset-sensitive or liability-sensitive balance sheet is making a bet on rates. A balanced A/L profile, as opposed to one exposed to a rate scenario, allows a bank to make tweaks or adjustments as rates shift, rather than sweeping course changes or major corrections. Bet on your bank, not rates; let your lenders and deposit gatherers create interest rate risk with the best products

they offer and make adjustments in other parts of your balance sheet to equalize. For example:

- Too much-floating rate loan exposure, creating an asset sensitive bank:
  - Consider buying longer-dated bonds
  - Swap the floating rate loans to fixed with an interest rate swap
- Too much cash is creating an asset sensitive position:
  - Deploy the cash into fixed-rate securities
  - Pay down wholesale funding or non-core deposits
- Mortgage origination is up, and these longer assets are making your bank liability sensitive:
  - Consider swapping the loans to floating with a last-of-layer interest rate swap
  - Consider swapping short borrowings out to fixed with an interest rate swap

Please note, none of these strategies make comments about rate predictions, but rates play a role; once a strategy is created, execute it when rates are accommodating. For example:

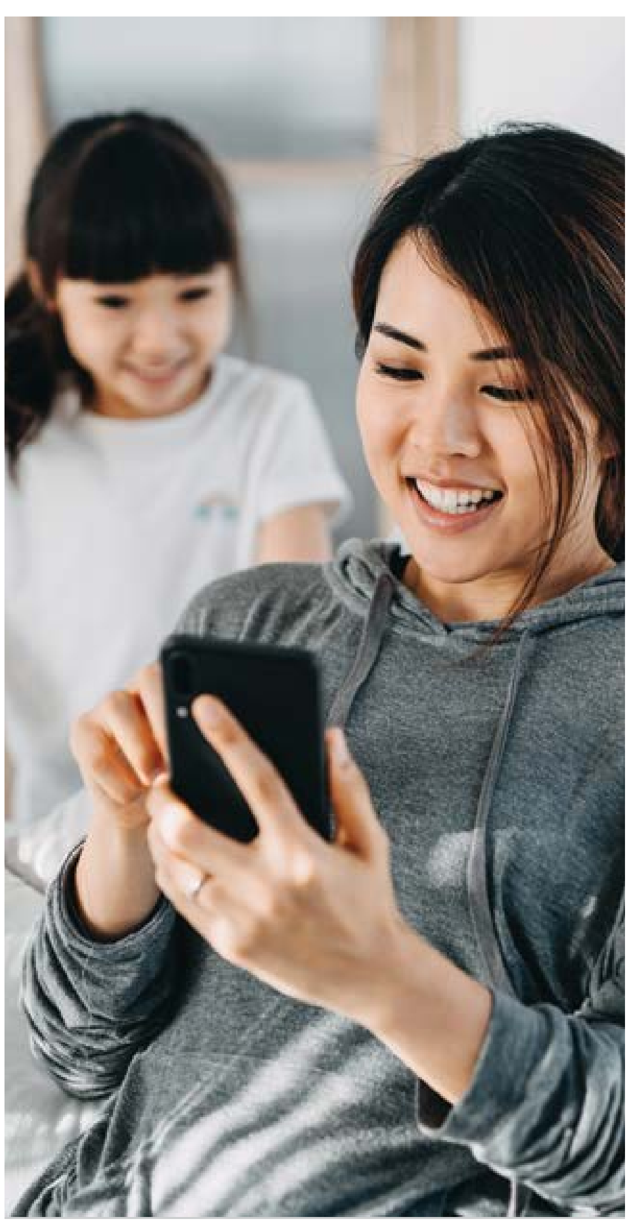
- If you know you need longer-dated bonds to balance a shorter loan book, be ready to buy when rates move up. Do not wait for the rate move to create and approve the strategy – it will be too late.
- If you know you are too asset sensitive and you want to swap floating rate loans to fixed with a received-fixed interest rate swap, take advantage once there is steepness to the curve. Do not try to add derivatives to your bank's policies and practices once steepness sets in – it will be too late.
- If you know you are liability sensitive, lock in longer rate protection with a pay-fixed swap on short borrowings once the curve flattens out. Do not wait for a flat curve, then try to get the idea on the agenda at the next board meeting – it will be too late.

Prepare your strategy based on your market, your balance sheet, and your bank. Do not base it on rates. Rates are for pricing and execution. There is no "one solution" based on a rate prediction, only the solution that fits your bank's needs, executed when the market gives you a window. The last 18 months were full of unpredictability, but the banks with strategies, policies and plans in place were able to execute when the timing made sense – rather than start planning when the timing made sense. A football team's defense doesn't predict where the offense will go and run there on the snap – they see what the offense presents, position themselves for various scenarios, then adjusts as the players start moving. Your bank should be the same: know what your bank needs, make a plan for a variety of scenarios, execute when the rate environment accommodates.

To learn more about Piper Sandler or the Financial Strategies Group, contact Scott Hildenbrand at scott.hildenbrand@psc.com or visit pipersandler.com.

Embracing Digital Statements to Enhance Customer Engagement

By Jimmie Paradee
CSI



Imagine accessing your monthly financial statement on a single responsive page. That page provides an intuitive view of your finances, segmented in a logical hierarchy. Perhaps an integrated video introduces the statement or walks you through the highlights, including spending categories and spikes.

Let's say you don't recall a transaction. So, you ask for clarification through your device's microphone or live chat. Once you master your statement, another piece of media catches your eye. It could be rewards, savings recommendations, investment opportunities or a service about which you were unaware.

This may seem like a pipe dream, but so did other digital changes that have happened over the past years. Digital demands have transformed every corner of the financial services industry. Statements are following suit, adding significant value to consumers.

Institutions that seize current opportunities and plan for upcoming technologies can transform the mandated process of sending bank statements into an effective engagement touchpoint.

A Look at the Current Statement Landscape

Before glimpsing into the future of financial statements, consider the following trends. Of the respondents to CSI's recent survey, over one-third of financial institutions primarily (36%) or solely (2%) deliver paper statements. That's almost double the number of customers who prefer to manage finances digitally.

It's true that many customers still rely on paper statements, and there are advantages to providing both. Yet, these numbers suggest an opportunity to shrink the gap between those who prefer digital and those who actually use digital statements. Market upheavals suggest that the time is ripe to advocate for conversion and showcase your digital services. Doing so cuts costs and meets digital expectations.

Strategies for Promoting Digital Statement Adoption

Interactive digital statements ensure cross-channel consistency and convenience. They update your statements' appearance to reflect your brand while simplifying marketing and eliminating the rigidity of paper statements.

Institutions have deployed a variety of strategies to encourage digital adoption. Some have taken a more direct approach by charging a fee for print or making e-statements

the default option. While these methods to digital statement adoption can be effective, consider a subtler approach that showcases the benefits of adoption.

With the ever-increasing preferences of digital, many customers who once held fast to paper statements are persuadable. Continue to use every tool at your disposal to inform and reassure customers about digital statements. Highlight the benefits of digital statement adoption – including immediate delivery, enhanced security, automatic storage for convenient review, search functionality and positive environmental impact – to help eliminate skepticism from your customers.

What's the Next Big Thing in Digital Financial Statements?

Interactive digital statements are the critical first step toward a better user experience. But tech leaders see an opportunity to innovate further and transform statements into a unique customer resource.

Institutions can either expect minimal interaction or make that statement worth customers' time and attention. The following are some of the highlights for upcoming media-rich documents that customers won't overlook.

Two-Way Interactive Engagement Tools

Financial statements provide a quantifiable benefit to your institution and customers. But that value diminishes if they're only skimmed or lost in the shuffle of inboxes and stacks of mail. Even if a customer only refers to their statement for a few moments, make those moments count with:

- **Live chat and voice features** enable your customers to interact with you more directly. These elements of a holistic digital communication strategy ensure that customers understand their statements without needing outside sources.
- **Graphic displays and more intuitive designs** make the information more digestible. The brain processes visual data incredibly fast. So, spending breakdowns and graphs optimize the digital format and make it easier to understand financial statement highlights.
- **Personal Financial Management (PFM)** tools simplify making budgets, tracking expenses and monitoring financial health. While maintaining consistency with digital banking, users will adjust PFM category assignments without leaving their statements.
- **Embedded videos** provide product overviews or showcase a relevant offer. Embedded, pre-made external videos are an easy win.

Modernized digital statements will more widely process and collate data for useful reporting. Updated analytics dashboards better illustrate recipient engagement, tracking usage and delivery failures.

- **Recommendations** help customers make wiser financial decisions, investments and more. This is also an opportunity to expand your marketing ability and highlight reward systems or different products.

Actionable Digital Statement Data and Analytics

Effective digital transformation is impossible without a clear view of customer data. Consider what you learn from your current statements. Does it offer genuine insight and value?

For forward-thinking financial institutions, it's time to revise those expectations. Modernized digital statements will more widely process and collate data for useful reporting. Updated analytics dashboards better illustrate recipient engagement, tracking usage and delivery failures. With these tools, your institution can gain insight into when and how your customers use (or don't use) your documents. This data can supplement and draw from your CRM and other existing analytics tools.

Differentiate Your Institution Through Customer Experience

As the market drives consumer expectations, the right investments spur customer engagement. As such, digital statements will continue to evolve, empowering customers to better understand their finances. For a broader view of a unified customer experience and tips to get there today, refer to our Banking Priorities 2021 Executive Report at https://www.csiweb.com/2021-banking-priorities-executive-report/?utm_source=association&utm_medium=article&utm_campaign=wp_csi_bankingpriorities21.

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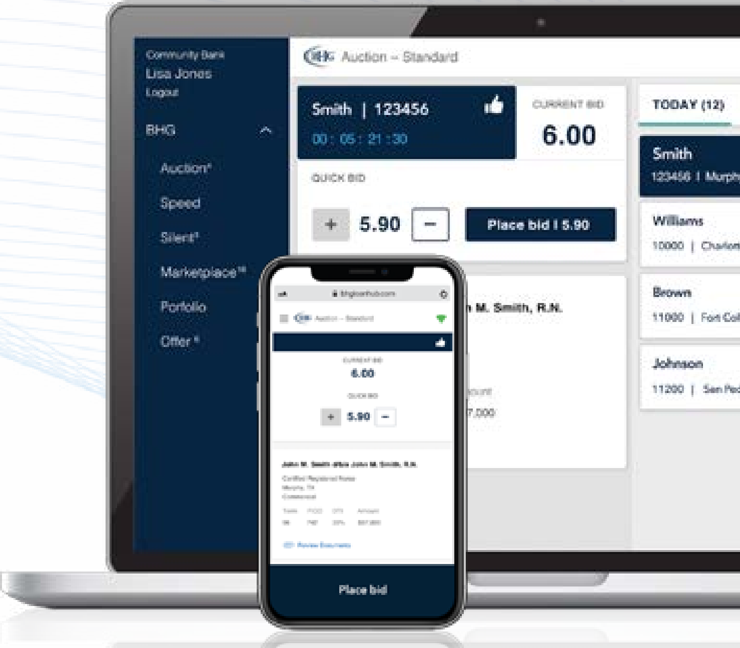

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