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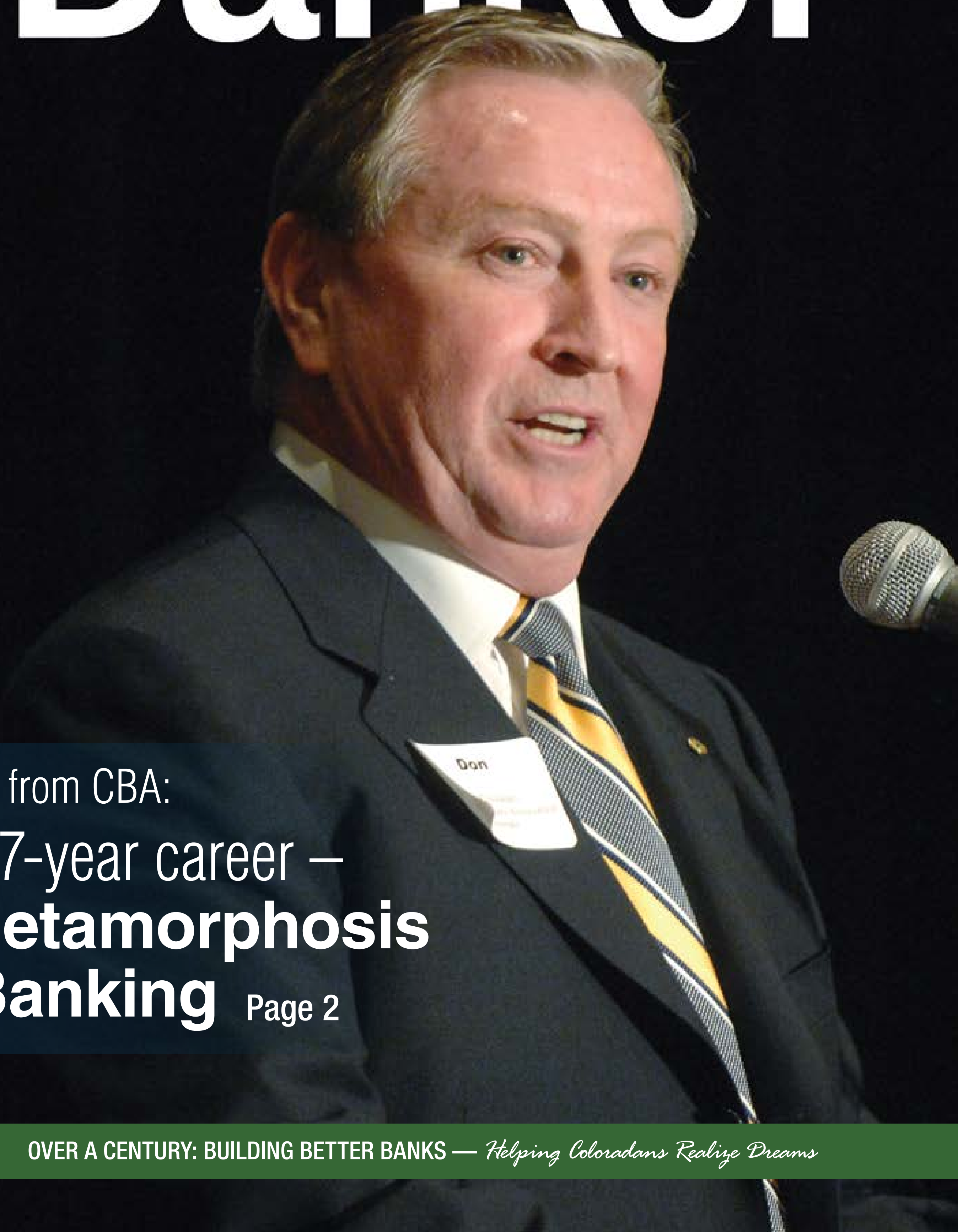

A Word from CBA:

My 47-year career – **A Metamorphosis of Banking**

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Over a Century

BUILDING BETTER BANKS—
Helping Coloradans Realize Dreams

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A Word From CBA

By Don Childears, CEO
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My 47-year Career: A Metamorphosis of Banking

MY CAREER

When asked to reflect on nearly 50 years of changes in banking and a few personal anecdotes, my first observation is that I've enjoyed a very good career: representing a great industry and terrific bankers in a turbulent political world. Most of you would hate that world; I loved it.

Bankers are special. They build communities and our state and country and exemplify CBA's motto: *Helping Coloradans Realize Dreams.*

Starting at CBA in 1975 and then as CEO in 1979, I've spent 47 of my 71 years (2/3 of my life) at CBA, advocating for banking. I often joke about having the three most reviled professions: lawyer, lobbyist, banker. My heart is in advocating for banking.

Banking has seen a phenomenal change of pace over my 47 years. Most of it was as unpredictable as the COVID shutdown. Change will continue – at a rapid pace.

OVERVIEW

Banking is a cautious industry advocating in a public policy world dominated by change advocates; we get little sympathy and significant distrust since banking is pervasive.

I've seen Colorado change politically and economically; banking has had its ups and downs and endured and survived crises. The industry is now in good shape with goodwill, capital, and talent. But we've dealt with the good, the bad and the plain ugly. Political shifts in an increasingly caustic climate – driven by public attitudes about banks – have dealt with issues like ballot initiatives, Colorado's in-migration, marijuana, and many other forces. Economically we've endured the miserable 1980s with multiple financial calamities, a residential mortgage fueled breakdown, technology's impact, COVID's effects, and more.

Banking's internal changes include adopting branching and interstate banking, seeing bank numbers rise and fall and their sizes increase, watching bank management shift significantly from owner/operators to hired management – decreasing the industry's local voice with the public and public officials – and continual shifts in technology.

PERSPECTIVE

When I started, there were NO ATMs off bank premises. No branch banks, interstate banking, price competition for deposits (government rate restrictions prompted banks to give toasters, blenders, and electric blankets as premiums). We had no telephone banking, internet banking, mobile banking, large IT and compliance departments, funds transfers by Zelle …

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National economic malaise from the 1970s energy crisis produced the energy boom seeking the world's richest oil shale deposits in northwestern Colorado (>1.5 trillion barrels of oil). That boom pulled thousands of workers to Colorado; Denver was called the "energy capital of the world." Colorado and banking prospered, much of Denver's skyline was built, and the Dynasty TV show documented that prosperity.

In 1975, Colorado had 277 banks; that swelled by 195 (70%) in 10 years to our peak of 472 in 1986. In 1984 alone, 46 banks were chartered in Colorado.

Year	Banks	Change
1975	277	NA
1986	472	+70%
1995	231	-51%
2020	67	-71% + 55 out-of-state banks

The disasters in 1985-1995 of the ag crisis, energy bust, real estate collapse, and S&L implosion (following deregulation of S&Ls and bank rates) and the onset of branch banking saw 241 Colorado banks disappear to 231 (-51%). Then, from 1995 to the present, further consolidation from branching, interstate banking and M&A reduced bank numbers another 164 (-71%) to today's 67 Colorado-domiciled banks – plus the 55 out-of-state banks both large and small that do business here. Those 122 banks operate close to 1,400 branches. Over 400 banks were gone, marking a transition from hundreds of banks with dedicated markets decades ago to today's highly competitive and consolidated industry.

Denver-based Silverado Savings became a poster child of the S&L scandal. Black Sunday, May 1982: low oil prices caused Exon to pull the plug on massive oil shale development in Western Colorado. Denver was teased nationally about "see-through" buildings. Federal Deposit Insurance Corp. Chair Bill Seidman (frequent CBA guest and speaker) also ran RTC managing huge assets from failed S&Ls and banks.

CBA held a special convention in 1985 on branching; both proponents and opponents saw branching as a key factor in their survival; both thought they would win the CBA vote. Proponents won. Starting in 1991, Colorado phased in branch banking: limited branching initially, unlimited by 1997.

In 1995 Colorado permitted interstate banking, except First Bank System (MN, now US Bank) was allowed to pay fees earlier to Colorado to partially reimburse depositors after the industrial banks, and their state guarantee fund collapsed.

A housing bubble produced the 2008 meltdown, and Congress authorized $700 billion (a huge amount then) to purchase distressed assets. Coincidentally, the Democratic National Convention was held in Denver that year.

In 2010, the Dodd/Frank Act adoption saw intense lobbying: two weeks on the floor of the Senate, 400-plus amendments, 2,319 pages. Most big congressional bills are debated for a couple of days and contain a few dozen amendments. It was a fight to anticipate, analyze, and lobby that volume.

Colorado legalized marijuana in 2012, effective 2014. A Feb. 14, 2014 international media feeding frenzy occurred at CBA when we said FinCEN's "green light" was yellow at best, actually red for most.

Under one-party control in Colorado (for the Democrats), CBA was able to protect banking generally, but business has been beaten up badly.

Jan. 16, 2020, at the urging of the CBA, the Colorado banking board blocked a credit union purchase of a bank (the first one stopped in the U.S.). The COVID shutdown started two months later, and banks scrambled to make PPP loans. A mess at first, banks became heroes making 90% of loans, 95% of dollars for the 200,000 Colorado loans ($15B), the most completed during the first couple of weeks of the shutdown.

HIGHLIGHTS

Your CBA, I'm proud to say, has been able to deliver robust results to member banks. Our perseverance and proactivity generated an incredibly strong state government relations record with significant impact federally. Our member education and information efforts have been strong and dynamic for our changing industry.

Government relations – CBA's reputation on state-level government relations reflects our nearly 100% success rate and stems from both successful defensive work, and instigating and advocating a long list of innovative pro-bank legislation on dozens of topics (often "first in the U.S."). During the 40 years between 1975 and 2015, we worked on approximately 5,000 bills, and while we agreed to reasonable compromises, CBA lost only two bills in 40 years. Nationally, CBA has a reputation as an aggressive and effective lobbying force and is prominent among state bankers associations leading the fight for banking's agenda.

We owe much of that to **one** attitude: CBA perseveres. We out-work and out-think the opposition; we never give up. It reflects a slogan from my childhood, "If it doesn't fit, get a bigger hammer."

Our industry has had many major legislative fights on foreclosure, marijuana, unclaimed property, lender liability, data privacy, fraudulent transfers, appraisals, construction defects, compliance documentation, unclaimed property, public deposits, credit unions, and more.

We also fought several ballot initiatives that plague our state. We prevailed on many, but not all. Out of dozens of expensive ballot fights, the big ones were:

- Repeated efforts to increase Colorado income taxes – always rebuffed, CBA always vigorously opposed
- Marijuana – adopted in 2012, effective 2014
- Foreclosures – against all odds, CBA prevailed on a measure to restrict foreclosures after the 2008 meltdown
- Among several dozen others, CBA killed proposals for a state-owned bank eight times (four in the Colorado Supreme Court)

Our advocacy in Washington, D.C. has involved hundreds of meetings with members of Congress, dozens in the fall of 2008 alone. CBA has made approximately 40 annual Washington visits with hundreds of bankers. I've made about 200 total trips to D.C., had dozens of meetings with regulators including Ben Bernanke and Janet Yellen, and members of Congress like Barney Frank and John McCain regarding hundreds of issues. I also conducted dozens of night tours of Washington, D.C. for Colorado bankers.

CBA established the Center for Bank Advocacy (beginning in 2013 and continuing today): a training practicum with 100-plus bankers completing the yearlong program to become polished banking advocates.

Public image – Through the years, we've reacted on media topics like failed banks, ag foreclosures, 2008 meltdown causes, home foreclosures, bank bailouts. We worked proactively to build confidence in banks; we emphasized small business lending, financial literacy, Y2K. Major media – Al Jazeera, BBC and every U.S. news network, *American Banker, Wall Street Journal, Forbes, and Washington Post* – have reached out to CBA.

Banker education – CBA hosted many big conferences in the 1980s when we had hundreds of banks. For years we sponsored annual conferences at the Broadmoor on commercial lending, consumer banking, mortgage lending, ag banking, trust, investment, public funds, senior management. The contrast with today's efficient and focused meetings and Zoom calls demonstrates the industry's transformation as today's competitive industry emerged from prosperous banking with dedicated markets in previous times.

For example, at the big annual conventions (with approximately 1,500 attendees) in the 1980s, we had big-name entertainment and national speakers like Tom Brokaw, cabinet members, senators, governors, business leaders, and political analysts. Many correspondent bankers across the U.S. attended, as did the entire boards of directors of some member banks. We hosted sports activities and huge cookouts; annually, in the most prosperous years, the concluding dinner required two huge simultaneous receptions followed by three giant concurrent dinners.

Outreach – Until the late 1990s, we annually conducted the "Caravan" to nine Colorado towns accompanied by correspondent bankers; we provided education and social interaction with several hundred in attendance at many locations. In fact, I met CBA at a Grand Junction Caravan meeting when my boss, Congressman Jim Johnson, was to speak to the Colorado Bakers Association only to find out it was the Colorado Bankers Association. We had a good laugh at the typo, and I got a great job.

Information – CBA transitioned from hard copy bulletins mailed to recipients to electronic newsletters and websites. CBA led the way nationally in 1994 (pre-internet), with an amazing site that provided the nation's only online access to the daily American Banker newspaper and an incredible database of all public data on individuals/companies – liens, crimes, real estate, cars, boats, planes, stocks, property tax assessment. That site later morphed into coloradobankers.org. And CBA utilized Zoom five years prior to 2020s COVID surge.

Administration – As consolidation reduced the need for education and other services, CBA staff shrunk concurrently. CBA operates with about a quarter of the staff of similarly sized states.

Today our I.T. is typical of a small business, but I recall our first computers in the late 1970s, recorded on cassette tapes, predating the now ancient 4.5" floppy disks.

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We had hundreds of profitable community banks, bank CEOs who were owners (versus hired management), frequent meetings at the Broadmoor, and social CBA board and committee meetings over liquid lunches.

Regarding CBA staff, you already know Jenifer will do a great job. She's skilled and prepared – plus, she makes the best Key lime pie. Over the decades, CBA has been blessed by other current and former great staff.

Our membership went from 100% in the 1980s to 70% after the ugly fight over branch banking and then back to over 95%.

BANKERS

Regretfully many are deceased, including good friends, but I'm grateful to have known them. Dozens of very accomplished bankers have been CBA chairs; I learned a different management lesson from each one. There are too many to mention: 47 years' worth. I do want to thank Bob Young (Alpine Bank) & Jim O'Dell (Valley Bank, Brighton) for believing a "kid in his 20s" could handle being CBA CEO.

BANKERS ASSOCIATIONS

Other bankers associations are a big part of this job. I've worked with five ABA CEOs and many professional staff there. The Alliance, a powerful political entity, consists of all 50 state bankers' associations and the ABA, working cooperatively. I had the honor of chairing that group in 1992 (good grief, 30 years ago!), which became a momentous year.

The 1992 annual meeting of those 51 organizations focused on the disastrous adoption of FDICIA in 1991 (risk-based FDIC premiums, PCAs, capital requirements). Prompted by FDICIA's dreadful results, spring 1992 criticism of bank lobbying in the American Banker triggered a needed self-examination by ABA and the state associations. In Oct. of that year, I was the first and only state executive to address an ABA convention (5,000 bankers) and join the ABA board as the first state exec. In Nov., Bill Clinton was elected.

The 51 associations had an intense, contentious, confrontational self-critique. That infamous meeting produced a restructuring of bank advocacy, realignment of ABA and state cooperation, and improvements in mutual technology and communication. It has worked well since.

State execs collectively are motivated, dedicated, assertive professionals; they are great advocates. These colleagues (I've known approximately 100 during my career) are among my best friends.

OTHER PARTNERS

In 1951, CBA started the Graduate School of Banking at Colorado at CU/Boulder (one of 6 grad banking schools in the U.S.). It is banker-driven and community bank-focused and is in great shape. CBA also sponsors the Graduate School of Banking at UW-Madison.

In the early 1980s, due to government restrictions on interest rates that banks could pay depositors (Reg Q), the advent of money market funds sucked billions out of U.S. banks. CBA and several other state associations partnered with Fidelity in Boston to do nightly deposit sweeps in and out of accounts so banks effectively could pay market rates and retain deposits. Several years later, I spoke with Fed Chairman Paul Volcker at the Broadmoor; he said that the very service created by state associations was why the Fed abandoned rate regulation.

In the 1980s, insurance companies ended bond and D&O coverage for banks, and that crisis prompted a few state associations to create BancInsure. We built it, operated it for 16 years and wisely sold it in 2003. It served banks well, disbursed major dividends to CBA, insured 25% of all U.S. banks when sold, and paid CBA 39 times our investment on its sale. CBA bought a new space (debt-free) that year and remodeled it with proceeds from BancInsure.

I'm also proud of the Friends of Traditional Banking launched by colleagues in OK and UT and me after Dodd/Frank. This banking super-PAC was created in the CBA office, and to date, 27,000 bankers contributed $3.3 million in nine key races (average $367,000). We helped flip the U.S. Senate our first year.

CBA also initiated the Regulatory Feedback Initiative, now known as the Bank Exam Prep Center, to provide guidance for upcoming bank exams, especially bankers' survey responses about issues stressed in recent exams. It started in 2006-07 as a CBA service that went nationwide in 2011. To date, 4,600 respondents have answered surveys, providing valuable insight to other bankers.

We've also had great fun hosting many political fundraisers featuring guests such as Speaker of the U.S. House John Boehner, U.S. House Minority Leader Kevin McCarthy, and many others. We've raised a lot of money and had a lot of fun.

FRIENDS AND POLITICAL BATTLES

Public officials in both parties have been CBA friends and partners over my 47 years. There are countless stories, many of which can't be repeated. No, I will not write a colorful book.

I've had the pleasure of working with several wonderful people: five Colorado governors, 10 U.S. senators, 28 U.S. representatives from our state, six good friends who chaired the FDIC, numerous comrades at the Fed in Kansas City and Washington, D.C., several comptrollers, eight Colorado state bank commissioners, several dozen other statewide officials, approximately 65 bank-supportive Colorado senators, about 80 good out of perhaps 250 state representatives, and roughly 100 fellow lobbyists and political associates.

Our state government relations successes started with the first bill I lobbied into law in 1976, permitting off-premises ATMs, considered branches and therefore illegal prior to that. I take pride in ending wine and dine lobbying, but admit I got my own unofficial desk and phone when other lobbyists in pre-cellphone days had to use phone booths in the Capitol halls. That demonstrates the value of relationships.

I remember that one future governor said I saved his political life when I quietly, behind-the-scenes, facilitated crisis resolution involving illegal state funds in a failing bank. Close to $11 million in deposits were not collateralized, so the state would have lost the funds in an FDIC payoff; not good news for a state treasurer and future governor. But the FDIC was able to sell the bank to a buyer who assumed the deposits.

State treasurer Roy Romer and I flew all over the entire state with Roy piloting his plane and me navigating (with zero experience).

I'm proud that CBA often has been a ringleader at the national level in aggressive advocacy and has been recognized particularly for organizing and leading several issues:

- After being told by practically everyone that we didn't stand a chance, a successful 1999 Y2K U.S. Senate amendment was adopted. We met with Sen. McCain, the sponsor, who said no. The U.S. Chamber opposed it, but we prevailed. I'm told that was the first reverse preemption in U.S. law where state law preempts U.S. law. That was great fun.

- For our work leading the 1992-93 bank regulatory burden relief campaign, the American Banker called CBA the catalyst and strategist of this successful nationwide effort.
- I chaired the 2014 ABA/Alliance Regulatory Relief Task Force, which resulted in significant regulatory rollback for banks.
- When the Farm Credit System sought expanded lending, CBA's research and resulting brochure highlighted existing unauthorized FCS commercial lending. Also, it sparked a highly unusual, visible, and successful alliance on the U.S. House floor: Barney Frank from the left and Marilyn Musgrave from the right – both enemies on same-sex marriage – helped stop the expansion. That's a good reason why you should never make enemies in politics.

OBSERVATIONS

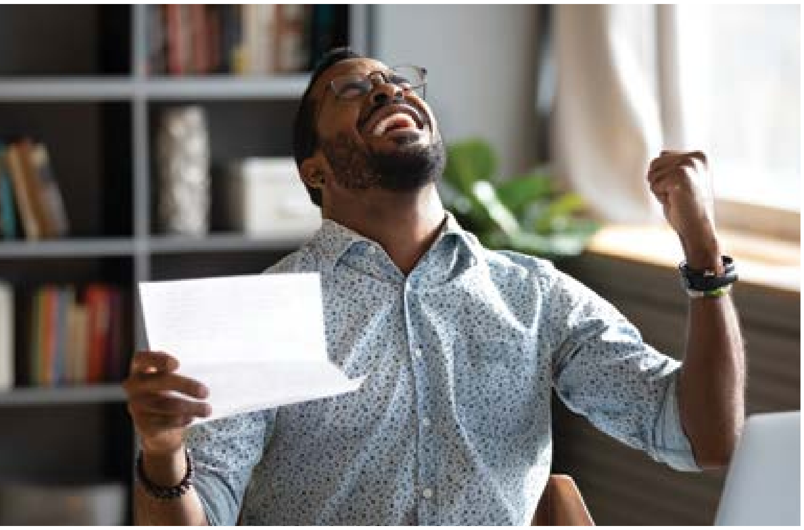
- Colorado banking's consolidation was painful from failures, needed when it consumed S&Ls, and pragmatic from branching, interstate, and M&A.
- One-party control has led to enormous spending, major political clashes, and a divided country.
- Ballot initiatives are a plague.
- Being proactively defensive is a CBA hallmark; that requires anticipating the future.
- I foresee continued banking challenges: Expanded regulation, reporting to government, technology and data, DE&I, environmental risk management, and pandemic and workplace.
- Colorado doesn't need two banking associations. Banks are better served by ***one unified association***.

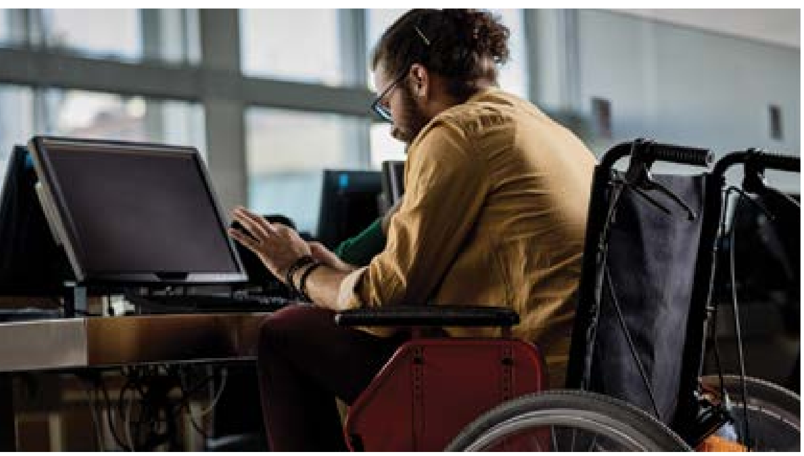
Persevere, never give up; out-think and out-work opponents.

It's been great fun. I owe a lot to many of you. Best wishes in all you do.

Direct Lending

By Congressman Blaine Luetkemeyer





In the 1970s, the Farmers Home Administration, a former U.S. Department of Agriculture agency, made thousands of direct loans to purchase farmland. Farmers and nonfarmers alike were taking on the government-issued debt to purchase more and more land they believed would only increase in value. As is always the case with easy money and no due diligence, the value of farmland skyrocketed. Soon many farmers could not grow enough crops and livestock to cover the cost of their debt and tax assessments based on the inflated land value. According to the GAO, by the 1990s, $14 billion in direct loans went unpaid, and the agency was forced to seize over 3,000 farms. Countless family farms were lost, and many of the would-be next generation of farmers chose a new, more stable future path.

In the late 1990s, the Small Business Administration also learned a hard lesson about the government's inability to responsibly lend money. Until then, the SBA had operated various direct lending programs and its loan guarantee programs, guaranteeing loans issued by private lenders such as banks and credit unions. Unlike the government, financial institutions have established due diligence processes and must follow Know Your Customer standards. The 7(a) Loan Program is the most notable loan guarantee program. In 1998, the agency stopped issuing direct business loans because the subsidy rate – essentially, the failure rate – was 10 to 15 times higher than the subsidy rate for its loan guarantee programs.

Not to be deterred by a history of failure or a complete lack of expertise, the SBA is back in the business of direct lending with the Economic Injury Disaster Loan (EIDL) program. And to the shock of absolutely no one, the program has been fraught with fraud. As the top Republican on the Small Business Committee, I have kept a close eye on EIDL and have continuously called for investigations into this flawed program. Recently the SBA Inspector General found that there had been $78.1 billion in potentially fraudulent EIDL activity. As of Aug. 19, 2021, the SBA had disbursed approximately $280 billion in COVID EIDL loans and grants, equating to a fraud rate of nearly 30%. In other words, 30% of taxpayers' dollars are being misused and mishandled by the SBA. It is absolutely unacceptable and further proves that the federal government is incapable of running a direct lending program with any level of competency.

Much like congressional Democrats and the current administration answering inflation with more reckless spending, their reaction to decades of failed direct lending programs is to create more. The $4.3 trillion reconciliation bill moving through the House calls for

$4.5 billion for direct loans through the 7(a) program. Using EIDL's fraud numbers, we can expect $1.35 billion of that to be handed over to bad actors. On top of that, Democrats are now putting the government in direct competition with the smallest financial institutions in Colorado and nationwide.

When the COVID pandemic shut down the country, Congress created the Paycheck Protection Program and turned to financial institutions and bankers like you to help save the economy in Colorado and across the country. As you know, banks, community development financial institutions, minority deposit institutions, and credit unions worked day and night to assist millions of small-business owners fighting with every ounce of their energy to survive and keep their workers employed. Now, these very institutions have a new, very powerful competitor: the federal government.

As the Ranking Member of the Small Business Committee, I am doing everything in my power to put an end to government direct lending. My Republican colleagues on the committee and I are drafting legislation to reform the SBA, a key aspect of which is stripping their direct lending authority. Many loan guarantee programs have been successful, particularly for small and disadvantaged businesses. That is where the government authority should end. I feel confident that private sector and industry experts like you are more than equipped to handle the rest. History has shown too many times that the government's shortcomings end with American citizens paying the price.

It needs to stop.

"Many loan guarantee programs have been successful, particularly for small and disadvantaged businesses. That is where the government authority should end.

Amending IRA Documents:
Why, When and How

By Lisa Walker, CISP, CHSP, Ascensus

Part of maintaining a compliant IRA program is to amend your IRA documents when required. And with new IRA model documents promised "soon" by the IRS, you likely will have to amend in the near future. In fact, IRS Notice 2020-68, issued in Sept. 2020, states that IRA trustees, custodians, and issuers must amend their IRA plan agreements for the Setting Every Community Up for Retirement Enhancement (SECURE) Act by Dec. 31, 2022, or a later date as prescribed by the Treasury Secretary.

But what does it mean to amend? Why do you have to amend your IRA documents, and when? How do you do it? Knowing the answers to those questions is helpful, but taking on the task may seem overwhelming. Fortunately, document providers, like Ascensus, can help you through the amendment process.

WHY AMEND

An amendment to your IRA documents is often necessary when a significant tax law is enacted that affects IRAs. It may be needed for both a plan agreement and a disclosure statement, or just the disclosure statement. The IRS often releases guidance, usually in the form of a revenue procedure, specifying that an amendment is required and when the amendment must be completed. If the IRS does not release guidance, but changes to the IRA rules affect your documents, amending the disclosure statement is often required.

New legislation and rule changes aren't the only reasons for amending IRAs. Changes in ownership of your organization may trigger some form of an amendment to the plan documents. Another reason is if your financial organization decides to use a different IRA document. In this situation, your financial organization should review the IRA documents it currently uses and the new documents. In some cases, your organization may simply start using the new documents. In others, it may need to notify IRA owners of specific document changes.

If your organization fails to amend or does not amend timely, it faces potential penalties from the IRS. Not providing a required plan agreement or disclosure statement amendment to an IRA owner could cost your organization $50 per failure (as much as $100 per IRA if both the plan agreement and disclosure statement are required to be amended). In addition, not amending puts your organization and clients at risk for errors and negative tax consequences because of noncompliant documents and outdated information.

WHEN TO AMEND

Plan Agreement

Amending an IRA plan agreement for law changes depends on whether it's a model document or a prototype. Treasury regulations require amendments to be completed no later than 30 days after the plan agreement amendment is adopted, or 30 days after the date the amendment becomes effective, whichever is later.

IRS model plan agreements (e.g., Form 5305 series documents) satisfy the basic statutory requirements for IRAs and need only be amended after the IRS releases a new version of these forms and specifically requires amendments. Sometimes the IRS issues new forms but does not require amendments. If the IRS does require amendments, it will usually specify a deadline to amend, which often is later than the 30-day deadline prescribed by regulations.

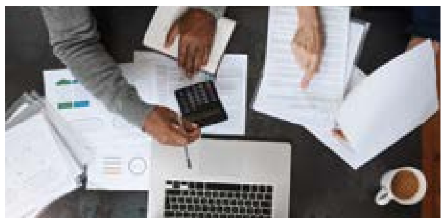
Prototype plan agreements generally must be amended after each major law change that affects IRAs. IR annuity endorsements generally require amending as indicated for IRA prototype plans. Prototype documents primarily are based on sample language provided by the IRS through its listing of required modifications (LRMs). The IRS periodically updates its LRMs, often accompanied with amendment guidance, for major law changes or after a series of changes has occurred.

Disclosure Statement

Your organization is required to provide a current disclosure statement – the nontechnical explanation of the rules set forth in the plan agreement – to individuals when they open an IRA. Treasury regulations state that disclosure statements cannot contain language that creates a false or misleading understanding of the rules governing IRAs. Thus, disclosure statements generally must contain current IRA rules.

Further, a disclosure statement amendment is required when a

> Regulations are unclear when to amend disclosure statements for law changes if a plan agreement amendment is not required.



plan agreement is amended if the changes to the plan agreement affect the disclosure statement information. If the IRS requires that plan agreements be amended, then disclosure statements generally must be amended at the same time. Unless the IRS provides guidance for a specific amendment event, disclosure statement amendments must be completed 30 days after the plan agreement amendment is adopted or the date it becomes effective, whichever is later.

Regulations are unclear when to amend disclosure statements for law changes if a plan agreement amendment is not required. The safest course of action is to amend disclosure statements as soon as administratively feasible after significant changes become effective.

HOW TO AMEND

Most document providers, like Ascensus, offer amendments. When both the plan agreement and disclosure statement are being amended, document providers usually combine both into one amendment event. Once your organization has the amendments, it should follow these steps:

1. Mail each IRA owner a copy of the amendment to the individual's last known address. It's a good idea to enclose a cover letter explaining the amendment. If any are undeliverable and are returned, keep the undelivered amendment in the IRA owner's file.

2. Document that the amendment was sent by placing a copy in each IRA owner's file or creating a master file. A master file should contain a copy of each amendment, a dated cover letter, and a list of mailing recipients.

Amendments for tax law changes often do not require a signature or consent from the IRA owner. But some amendments may require the IRA owner's consent (i.e., a fully signed amendment by both parties), depending on the type of document, amendment, and state laws. For example, a change in the trustee or custodian often requires affirmative consent. If your organization is unsure whether a signature is required for an amendment, it should check with its legal counsel.

TRUST THE EXPERTS

A document provider, like Ascensus, can offer a plan document and disclosure statement amendment, either separately or together. Ascensus offers multiple options to help you amend your IRAs, including an amendment mailing service.

With new IRS model documents on their way, and required amendments likely, trust the experts at Ascensus to help. We'd be happy to provide a complimentary document review and discuss amendment options for your organization. Schedule a call with your Ascensus sales representative today or contact us at 800-346-3860.

Year-of-Death RMDs and Unresponsive Beneficiaries:

A Case Study in Bad Options

By Jonathan Yahn, JD, CPC

> If an IRA owner or plan participant dies before fully satisfying an RMD for the year, the beneficiaries are responsible for distributing that portion of the RMD not yet taken. But sometimes, beneficiaries don't make it easy.

As we approach the end of 2021, many questions remain about beneficiary payout options under the new rules brought about by the Setting Every Community Up for Retirement Enhancement (SECURE) Act. IRS guidance to address some of these questions is expected. Other questions will likely persist – questions that come up fairly regularly but are not necessarily covered in detail by the IRS. To address some of these questions, we will occasionally pose a scenario about a beneficiary issue with no clear authoritative guidance. This month, we tackle the problem of how to satisfy the year-of-death required minimum distribution (RMD) when beneficiaries are missing or unresponsive. While there may be no satisfactory answer, it's worth considering the options.

Case Study: Lots of Unsatisfactory Options

If an IRA owner or plan participant dies before fully satisfying an RMD for the year, the beneficiaries are responsible for distributing that portion of the RMD not yet taken. But sometimes, beneficiaries don't make it easy. Consider the scenario of three sisters – Alice, Blanche and Claire – who are equal beneficiaries of their mother's only IRA. Mom died in 2021 without taking any part of her 2021 $15,000 RMD.

Alice and Blanche have provided all necessary documentation, including the death certificate and their own information, to take their respective portions of the RMD ($5,000 each).

Claire has been trekking in the Himalayas for the past several months. She left no contact information and has not provided a power of attorney authorization in her absence. This does not surprise Alice and Blanche, who refer to their sister as "Carefree Claire."

As 2021 draws to a close, Alice and Blanche have taken $5,000 RMDs from their inherited IRAs. They know that Claire will be stuck with a 50% penalty tax – $2,500 – if her $5,000 RMD is not removed by year-end, so they ask your advice.

> Knowing your clients may have to choose from a list of undesirable options may help you respond to their needs better and possibly turn a bleak situation into a more satisfactory resolution.

First, let's be clear: Claire should take her $5,000 RMD. The IRS' position is that the decedent could have taken the RMD before death; after death, the individual beneficiaries are responsible for distributing their proportionate shares based on their beneficial interest. But in this case study, Claire has made the proper response impracticable. So it may be helpful to consider several possible responses and why they are not suitable options.

- **Pay the remaining RMD to the decedent.** This may seem like an easy solution. After all, you may already have a savings or checking account associated with the deceased client. So it would be easy to transfer the RMD into such an account. But once the client dies, the beneficiaries have an unfettered right to the IRA assets. What's more, the IRS has made clear, in a variety of contexts, that payments to clients after their death is not appropriate. So even if, for example, the beneficiaries would receive the assets through the decedent's estate anyway, paying assets to a dead client is not recommended.

- **Pay the remaining RMD to the other beneficiaries.** While there's no official support for this option, this approach at least has a pretty solid foundation in common sense. After all, the rationale is that the entire RMD gets distributed, so the IRS obtains revenue on the entire taxable portion. But the IRS has not endorsed this method of satisfying the year-of-death RMD. The best thing that may happen from taking this action is that the nonresponsive party failing to take the RMD could argue there was a good faith attempt to satisfy the total RMD. And although it might be a good effort, ultimately, it should not be relied on to fulfill the IRS' rule that all beneficiaries must satisfy their respective portions of the total RMD amount.

- **Pay the remaining RMD to the missing beneficiary.** This approach also appeals to common sense. If the only proper way to satisfy the RMD is to pay each beneficiary, then why not do just that? The concern here is making a distribution without proper authorization. While it may be unlikely that the recipient will object to a financial organization trying to help a client avoid a substantial penalty, there are other practical concerns. For instance, unless the nonresponsive beneficiary already has an account with your organization, how can you properly establish an account? (Think "know your customer" and "customer identification programs.") And simply cutting a check and sending it to the last known address may merely kick the can down the road when the check ends up uncashed.

- **Do nothing and wait for the beneficiary to surface.** Sometimes the safest approach is to leave the responsibility with the person who is entitled to the RMD. Unless your IRA document gives you the authority to pay an RMD to a beneficiary without a specific distribution request, it may make good sense to take no action. Let's assume that you've made reasonable efforts to locate unresponsive or missing beneficiaries. It seems that such beneficiaries would be hard-pressed to object to your not taking extraordinary measures to fix a problem that they may have created. And if they were unavailable and thus unaware of their need to take an RMD, they then may have a reasonable-cause explanation to the IRS – one that could help them avoid the 50% penalty.

Why Mention Options When None Are Ideal?

This case study may be frustrating to consider. But it may give you some ideas for resolving this or other similar situations. For example, what if Alice insisted on taking an extra $5,000 from her inherited IRA to satisfy Claire's RMD? Of course, Alice can always take more than is required, up to the entire amount in her account. But if you can intelligently discuss the IRS' RMD rules, you may be able to persuade Alice – perhaps along with her competent tax or legal counsel – to draft a written request that does two things: acknowledges her objectives while at the same time recognizing that your financial organization is not giving her any advice.

Life is full of gray areas. Sometimes so is retirement plan administration. Sometimes taking no action is the best course of action. But knowing your clients may have to choose from a list of undesirable options may help you respond to their needs better and possibly turn a bleak situation into a more satisfactory resolution.

Should Institutions Build or Buy a CECL Solution?

By Kylee Wooten, Media Relations Manager, Abrigo

Regardless of whether financial institutions choose to stay in-house or outsource their CECL solution, they have four important considerations to make.

Takeaway 1
Institutions complying with CECL in 2023 must make their build or buy decision quickly.

Takeaway 2
Institutions will need to ensure their CECL solution has adequate data and can easily assess different methodologies.

Takeaway 3
CECL solutions should support "reasonable and supportable" forecasts with transparency and auditability.

Preparing for CECL

Time is Ticking for 2023 Adopters

Time is ticking for institutions that must comply with the current expected credit loss (CECL) by January 2023. SEC registrants that have already adopted CECL and other experts have repeatedly advised banks and credit unions to immediately begin their ***CECL implementation***. Despite the warnings and the impending deadline, many financial institutions are at a standing start. During Abrigo's recent ***CECL Kickstart***, an event aimed at those institutions who are only now getting to work on this major accounting change, attendees were polled on their current implementation status. Overwhelmingly, most respondents (42.1%) reported that they were at a standing start. Meanwhile, less than 3% of attendees reported being finished with implementation.

Some financial institutions may be at a standstill as they build their own CECL model using spreadsheets or buy a solution through a third-party vendor. CECL requires more inputs, assumptions, analysis, and documentation, and institutions must decide how to efficiently – and accurately – take each piece into account. This can require an extensive amount of resources that many financial institutions may not have, making the option to automate and modernize the process significantly more attractive for busy banks and credit unions. Regardless of whether financial institutions choose to stay in-house or outsource their CECL solution, they have four important considerations:

Making Key Decisions

Ensuring Adequate Data and Selecting the Right Methodology

1. Data

An institution's ability to calculate lifetime loss rates is predicated on the accuracy and availability of loan-level data. But having large amounts of data isn't always enough. Many institutions lack the material loss data needed under CECL. Because of the important role data plays in calculating CECL, some financial institutions will find that partnering with a vendor can significantly help streamline the data-gathering process and identify and fill gaps in their data. If an institution considers leveraging a third party to assist with data, understand what the vendor offers for data archive, data architecture, and data adequacy services and how that compares to in-house capabilities. Compare the degree of automation and flexibility available for each option.

2. Methodologies
The CECL model is not prescriptive, meaning banks and credit unions can determine the best methodology or methodologies to use based on their loan portfolio. With seven different methodologies to choose from, some financial institutions have "analysis paralysis" trying to determine the right approach for their institution.

Once an institution determines the methodology best suited for its portfolio, it should consider the costs for developing and maintaining the methodology in-house compared to a vendor's costs. How automated and flexible is the solution? Can the institution easily calculate, evaluate, and change methodologies? Finally, when weighing the pros and cons of building or buying a CECL solution, banks and credit unions should consider the advisory assistance and support they may need and what resources will be available to them as they work through their methodologies.

Transparency and Auditability

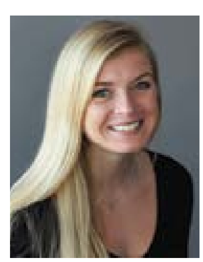
Forecasting and Documentation are Key to a Successful CECL Solution

3. Forecasting and Adjustments
Unlike the incurred loss model, the CECL model is forward-looking, estimating loans' lifetime losses using reasonable and supportable forecasts. For periods beyond an established forecast, reversion to average historical experience is required. The subjective factors of CECL can make the new standard more daunting – another reason institutions may be at a "standing

start." Qualitative adjustments have played an important role in calculating the allowance under the incurred loss method, and these adjustments will continue to be significant under the CECL model. Models should allow for quick inclusion and exclusion of all observable analysis periods and provide forecasting intelligence, support, and application. Ideally, management should be able to evaluate all observed loss rates, make any documented exclusion/inclusion decisions, including forecasted conditions, and see those decisions reflected in the estimated reserve level.

4. Model Risk and Auditability
Documentation and support are an area that is often the most time-consuming exercise in today's allowance process under the incurred loss model. CECL will require more inputs, assumptions, and analysis at the pool level. Tracking, consolidating, and displaying all information necessary to review, support, and recalculate will be a critical function of any in-house or third-party solution. Consider the level of transparency and **auditability** offered by any vendors under consideration and take into account costs associated with model risk or time spent preparing documentation and support.

There are financial and resources costs associated with building an in-house solution and purchasing a vendor's solution. Irrespective of the decision to build or buy, banks and credit unions should carefully consider the impact that these four points will make on their model to ensure a successful transition to the CECL standard. Remember, testing, discussing, and deciding does not happen overnight. Be sure to get your solution in place as quickly as possible to be ready for the 2023 effective date.



Kylee Wooten
Media Relations Manager, Abrigo

What are Consumers' Top Cybersecurity Concerns?

Find out how your bank can address key issues and build trust among your customers.

By Sean Martin, CSI Managed Services

To understand how U.S. consumers view cybersecurity risks, CSI – a leading provider of fintech, regtech and cybersecurity solutions – worked with The Harris Poll to survey more than 2,000 U.S. adults aged 18 and above.

Respondents were asked to identify their primary financial institution, providing a look into the perceptions of bank customers, credit union members and those without a primary institution. The data from this online survey was then analyzed and used to create an executive report to help financial institutions understand consumers' cybersecurity perceptions and expectations.

This executive report provides key insight into this year's survey results and offers a comparison to data from a similar survey conducted on behalf of CSI by The Harris Poll in 2019, exploring how cybersecurity concerns have shifted among Americans.

How is Consumer Perception of Cybersecurity Issues Changing?

Although a substantial number of consumers (85%) reported cybersecurity concerns pertaining to their personal confidential data, 15% are not particularly worried – a surprising number considering the surge in pandemic-related cyberattacks.

By comparison, in 2019, 92% of consumers reported cybersecurity concerns pertaining to their personal confidential data, so this year's decrease could signal that Americans are becoming desensitized to cybersecurity risks. It's likely that the size, scope and frequency of cybersecurity events have made breaches appear somewhat abstract and distant to the average consumer. And the constant barrage of media coverage on this topic could be contributing to greater risk tolerance among consumers – potentially leading to adverse effects for banks and making effective cybersecurity education even more important.

Key Takeaways from the Consumer Cybersecurity Poll

To gauge shifting perceptions, consumers were asked their thoughts regarding password habits, payments security, data breaches and more. Here are a few takeaways for banks:

- **Top Cybersecurity Concerns:** Identity theft and stolen credit or debit card information tied as the top cybersecurity concerns among consumers, at 60%. This is down significantly from 2019, when identity theft topped the list of concerns at 73%, followed closely by stolen card information (72%). These changing perceptions among Americans indicate that institutions should prioritize educating customers on these evolving risks.

- **Risks of a Data Breach:** Nearly half of respondents (48%) would leave their institution if it suffered a data breach, and 51% of community bank customers agreed that a breach would cause them to leave. To mitigate the risk of customer attrition, institutions should have an incident response plan in place to direct their actions in the event of a breach.

- **Strong Authentication:** 30% of Americans agree it is okay to use the same password for an online bank account that they use for other online accounts, representing an increase of six percentage points from 2019 (24%). To mitigate risks associated with lax security habits, banks should provide and promote multi-factor authentication and reinforce the importance of strong passwords.

- **What to do Post-Breach:** Most Americans (69%) believe they know what to do if their personal confidential data is compromised. While this result is encouraging, a clear opportunity exists for banks to continue educating customers on the necessary steps to take after their information is potentially compromised. A financial institution that prioritizes cybersecurity education for its customers could become the go-to institution for advice, which could help expand market reach.

- **Perceptions of Secure Payments:** Half of Americans (50%) believe a person's payment information (i.e., account number) is more likely to be compromised when using a physical card versus a digital payment such as a contactless card or digital wallet. Banks should embrace the latest payments technology and provide customers with resources on best practices for using secure digital payments.

- **Importance of Building Trust:** More than three in four consumers (76%) agree their financial institution can protect their personal and payment information from hackers. In fact, 78% of bank customers agree with this, indicating that institutions should continue building trust among consumers by explaining how to safeguard data and hosting cybersecurity awareness training.

Prioritizing Cybersecurity Awareness and Education

As Americans become increasingly desensitized to the risk of security breaches, it is critical for your bank to break through the noise and educate your customers on cybersecurity best practices. Providing valuable education and promoting good cyber hygiene will mitigate cybersecurity risk for both your institution and customers while increasing the potential for new business through knowledge sharing.

To really capitalize on this opportunity, your bank should be intentional and strategic in its planning:

- **Determine the Needs of Your Customers:** Avoid a one-size-fits-all approach; different customers have varying needs and concerns.

- **Tailor Your Approach:** Create campaigns to reach different groups, tailoring based on age, work schedules, etc.

- **Get Creative:** Think creatively about how best to communicate with your customers and deliver a compelling message.

- **Go Digital:** Leverage digital channels to reach a broader audience – don't limit the size and scope of events to physical locations.

- **Deliver Actionable Tips:** Inspire confidence in your bank and motivate customers through actionable tips, such as best practices for creating strong passwords, etc.

Gain Additional Insight from CSI's Consumer Cybersecurity Poll

To strengthen defenses against evolving cyber threats, institutions should embrace a layered approach to cybersecurity, a key component of which includes providing customers with continued education.

Sean Martin serves as a product manager for CSI Managed Services and has extensive knowledge on implementing effective systems security and network management practices. He speaks and writes frequently on security-related topics affecting the financial services industry and holds Cisco CCNA and CCIE written certifications.

Download the full executive report for a deep dive into consumers' perceptions surrounding cybersecurity.

(https://www.csiweb.com/cybersecurity-poll-2021/?utm_source=association&utm_medium=article&utm_campaign=wp_ms_cybersecuritypoll21)

Bank Board of Directors Pay, Policies, and Practices

By Jordan Gagnon and Rhonda Snyder, Pearl Meyer

In May of this year, Pearl Meyer published the 2021 Banking Board of Directors Compensation and Governance Practices Survey. With a more than double increase in participation, from 69 participating institutions in 2019 to 172 in 2021, it's clear that board of directors' compensation and the associated pay practices and governance issues are at the forefront. This year's survey provides data on current practices for compensating quality board of director leadership as institutions work to maintain profitability and support their customers' businesses during difficult and unprecedented times. The 172 institutions that participated are comprised of stock/public companies, stock/private companies, mutual savings banks, and credit unions. Below are a few highlights from the report.

Board Compensation

Most institutions establish director compensation programs by reviewing and benchmarking to peer market data. It has become a challenge to determine the proper compensation mix to attract board members and compensate them properly for their service (for the risks they take and the time commitment they make) while also aligning with shareholder interest.

In our survey, director compensation is broken down into the following components: annual retainer, board and committee meeting fees, equity, and benefits. Typically, a cash retainer and/or cash meeting fees are the core compensation elements for directors, although we are seeing an increasing prevalence of equity awards. More than half of all institutions pay the chairperson and/or members of the institution's board both a retainer and a per-meeting fee for service.

The survey offers additional detailed, in-depth data on board retainers, meeting fees, and committee compensation broken down by asset size, form of ownership, and board structure. In this year's report, the average cash compensation pay per director ranged from $21,263 to $50,833, and the average total board cash compensation ranged from $171,817 to $512,666, depending upon asset size.

Board Evaluation

In today's climate of increasingly complex compliance and regulatory guidelines, boards are under pressure to be effective and achieve a multitude of goals. Board evaluations are a tool designed to review corporate governance practices and the effectiveness of the board and its committees. When conducted properly, board evaluations benefit stakeholders, directors, and the institutions by developing a stronger board that is a strategic asset to the institution and its management. Forty-seven percent of participants conduct a formal evaluation of the board, and of these institutions, the majority (66%) conduct the evaluation themselves instead of using a third party (1.3%) or an evaluation tool developed by a third party (18%). Eleven percent opt for both self-evaluation and that of a third party. As might be expected, board evaluations occur on an annual basis at most of the institutions conducting evaluations (68%), and evaluations of individual directors occur at only 22% of the participating institutions.

Each board should have its own unique set of objectives and goals by which to be measured. Evaluations can be a full board activity or fall under the purview of the compensation committee as they increasingly cover leadership development, talent management and set board pay. An outside party can objectively assist the board in identifying its strengths and weaknesses and improving board performance. Pearl Meyer Managing Director Tim O'Rourke, who often conducts board evaluations, said, "We have seen a significant increase in compliance with governance policy since board evaluations have become more common."

Diversity in the Boardroom

With the increased spotlight on diversity, equity, and inclusion (or DE&I), institutions and boards are becoming more aware of the need to focus on creating a more diverse representation in the boardroom. "This is one of the many areas where bank boards increasingly focus when conducting board evaluations," according to O'Rourke. Our 2021 survey reports on board representation by gender and ethnic or racial minority. While there is much more to be accomplished, 97% of institutions that participated in our survey reported an average of two female board members, and 93% reported at least one board member of an ethnic or racial minority. Additionally, illustrating what a hot topic this is, there has been an increase in education surrounding DE&I (35%) and environmental, social, and governance (ESG) issues (23%).

> "The Pearl Meyer 2021 Banking Board of Directors Compensation and Governance Practices Survey is a valuable resource and provides the most comprehensive look at board data, trends, and practices.

Pearl Meyer's 2020 Equity, Diversity, and Inclusion – Management and Pay Practices Survey Report further highlights the board's role in organizational diversity, as it reveals that many are taking ownership for improving diversity. Fifty-four percent of banking institutions responded that the full board has oversight of DE&I. Additional insights into not only organizational diversity and inclusion practices but also gender and minority representation approach to pay equity and closing the pay gap are available in this informative report.

Summary

All institutions are unique, and banking is an ever-evolving business. Successful banks require quality directors with a varied range of knowledge, skills, and abilities to navigate the most unpredictable circumstances. Developing a compensation program that fits your board's needs and attracts knowledgeable directors is a challenge. The Pearl Meyer 2021 Banking Board of Directors Compensation and Governance Practices Survey is a valuable resource and provides the most comprehensive look at board data, trends, and practices.

For information on purchasing the 2021 Banking Board of Directors Compensation and Governance Practices Survey, please email survey@pearlmeyer.com.

About the Authors
Jordan Gagnon *is a Survey Account Manager in the Boston Office. He manages Pearl Meyer's portfolio of Banking Compensation and Benefits Surveys in addition to assisting with other compensation surveys and client accounts.*

Rhonda Snyder i*s a Survey Account Manager based out of the Boston Office. She joined Pearl Meyer in August of 2019, and she works as a liaison to the Southeast banking associations on banking salary surveys while also assisting many other state and national survey clients.*

Who Weighed in on the Fed's Proposed Changes to Durbin? What Did they Say?

By Keith Ash of SRM (Strategic Resource Management)

You may recall in an earlier article, we noted that the Federal Reserve began seeking comments on proposed changes to Regulation II of the Durbin Amendment in May. At that time, the Fed said that it felt the changes would be non-substantial and would not include more compliance obligations.

Currently, the Fed bars issuers from restricting the number of unaffiliated networks for debit card transactions to fewer than two, including one signature network and one PIN network. The new proposal would make issuers responsible for ensuring that all transactions with U.S. merchants can be routed across two unaffiliated networks.

SRM took some time to sort through the comments posted on the Fed's website and various government sites to summarize the key points – not just from financial institutions but also merchants so we could evaluate both sides of the conversation.

It was clear that issuers and merchants were concerned about the various financial and operational implications of any changes to Reg II.

Here are the highlights:

Issuer Concerns

Issuer Compliance: One of the most significant areas of concern is how the proposal would significantly change the compliance obligation by replacing the word "enable" with "ensuring." This means that issuers must ensure their unaffiliated networks can support all transaction types across all U.S. merchants, but there is still uncertainty around how far this goes. What if a merchant does not accept the alternative network? What if a merchant intentionally limits the routing options of its transactions due to valid business purposes? What if a mobile wallet only has one routing option? Issuers and networks clearly stated the compliance burden of this is significant and not feasible from an operations perspective. Visa warned that issuers could be held accountable for the actions of third parties such as merchants, merchant acquirers, merchant processors, and networks.

Unintended Consequences: Associations and networks noted that, while there are PIN solutions merchants could use in the card-not-present (CNP) environment, merchants have mostly chosen not to adopt them for economic reasons. Instead, they're seeking support for riskier PIN-less transactions. There is uncertainty about whether issuers will be forced to accept certain transaction types to be compliant, such as high dollar amount transactions from less dependable merchants. Issuers selectively evaluate such transactions per their risk tolerances.

Innovation Impacts: The Fed recommended definitional changes, including exchanging the words "means of access" for "form factor," but it provided no definition. It is unclear if new forms of authentication and innovation could fall under the "means of access" definition and would be blocked unless two networks could support the service. This could put a significant damper on industry innovation and reduce competition.

Smaller Issuer Exception/Fintech: The Clearing House Association and others expressed concern that larger fintechs have leveraged unregulated issuers in a way that has created an unfair interchange advantage. They are advocating for closing this loophole.

Diverted Resources: There are concerns that these clarifications would impact smaller issuers, specifically regarding financials, fraud, and back-office challenges. These issues would divert resources from other projects and enhancements, thus negatively impacting consumers.

Timing Concerns: Issuers, especially smaller financial institutions, said they would need time to enable changes, citing technology contingencies and back-office challenges. Some issuers want at least three to four years to comply.

Merchant Concerns

Change Needed: When Durbin was enacted, CNP transactions made up less than 10% of all transactions (though exponential growth had occurred and was projected to increase). Now that CNP transactions are 20% of the mix, merchants believe they only have one network available due to issuer configurations. Merchants argue that clarifications should be implemented before the holiday season of 2021.

Routing/Share Incentives: The Federal Trade Commission said financial incentives from networks like Visa and Mastercard created a pattern of issuer behavior that includes turning off competitive features like PIN-less. The FTC wants those incentives to be disallowed. As such arrangements often take the form of quantity discounts, it would be difficult to argue that networks should be prohibited from engaging in such financial arrangements.

Means of Access/Authentication: Merchants raised concerns that networks could use authentication methods to limit access. They asked that issuers be barred from turning off authentication methods for the alternative network if the primary network has them turned on, and the merchant wants to accept them, even if the unaffiliated network lacks the controls, sophistication, or capabilities of the primary network.

Regulated Interchange: While they believe issuers costs have gone down by nearly 50%, merchants noted that interchange stayed the same. While the Fed's data refutes the latter claim, the merchant community encourages the Fed to review regulated interchange.

What to Expect Next?

This continues to be a top priority for issuers and merchants. We noted that the Federal Trade Commission and Justice Department weighed in on behalf of merchants and in support of the Fed's recommendations. While the Fed has not said when it plans to act, the consensus is that the industry will hear something by mid-2022.

Reg II's clarification outcome could have significant impacts for financial institutions with very troubling elements. With all the comments and the stated intent of not increasing issuers' compliance obligations, we hope the outcome could be less problematic with more clarifications.

Many believe, at a minimum, the Fed is likely to bar issuers from opting out of PIN-less or CNP transactions with their unaffiliated networks. That said, issuers should actively engage their government relations areas and prioritize this issue at the local and national levels while working with their associations. Be sure to monitor this closely and highlight this item during strategic planning for the year ahead. And take inventory of existing relationships and evaluate this potential change's technological, operational, and financial implications for your institution.

Keith Ash, Senior Vice President at SRM, has 25 years of payments expertise across issuer, network, and process roles. Keith can be reached via email at kash@srmcorp.com.

“Help Wanted”:

Why ATM Management Might Be Stealing Valuable Time From Staff

By Joe Woods, SVP, Director Sales & Marketing
Dolphin Debit Access

Many of our banks (along with other businesses across America) are seriously short-staffed at the moment. There are various reasons for this. Many people are leaving their current jobs for other opportunities. Others have elected to stay home and receive unemployment and stimulus checks equal to or close to their former income. And then you have some people forced to stay home temporarily due to a COVID infection or close contact with someone who has been infected.

Whatever the reason, banks are facing a lot of issues as a result. Being short-staffed seems to make everything worse. As always, the focus should be on the customer, right? Well, what happens when you have facility problems or technology issues? These situations can pull your staff down a rabbit hole and divert hours of important customer-facing time to background noise that can take hours or even days to resolve.

Consider your ATMs, for instance. When a bank has an ATM problem, they go straight to the rabbit hole. Is it a communications issue? The processor? Maybe it’s the ATM network? Your staff has to manage four or five vendors for just one ATM. There’s finger-pointing by the vendors and sometimes even a reluctance to respond to an issue. It’s no wonder it takes so long to get the situation fixed.

One client of ours recently explained that their ATM issues required their AVP to focus efforts on the fleet nonstop. More than 40 hours a week were spent trying to keep 13 ATMs active and functioning. And the AVP’s time didn’t include the daily balancing and settlement issues that the accounting department was managing.

No matter how many ATMs you have in operation, your staff is far too valuable to be spending time corralling vendors into fixing a broken machine. At Dolphin, our outsourcing program takes the ATM burden off your staff. Our experienced team operates thousands of ATMs across the country. Working with Dolphin eliminates finger-pointing, all the vendor management and due diligence, even the accounting nuisance. Don’t waste any more time. Talk to your league representative today about scheduling a meeting. Your customers will thank you with their continued business.

Joe Woods is SVP of Marketing & Partnerships and a 20-year payments veteran. He can be reached at (281) 516-4754.

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

By Craig Geisler, Cherrywood Enterprises

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 offering this service for over nine years. Their CEO Craig Geisler 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 three to five 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 will 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 monthly, bi-monthly, quarterly, or annually. 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.

Navigating Cyber Insurance in 2021 and Beyond

By Chris Tuzeneu, VP-Information Security
CivITas Bank Solutions, a Bankers' Bank of the West Bancorp Company

If you're anything like the number of banks I polled at a recent cybersecurity conference, your cyber insurance policy is up for renewal in the next few months, if you haven't already been through the cycle. For those of you nearing a renewal period, you should be aware that there are some pretty substantial changes coming your way, as this will most likely not be a simple "rinse and repeat" extension. If you have access to a legal team, now will be the time to use some of those hours to ensure you don't miss some important and costly details of the contract.

Here is a high-level overview of some new and slightly shifting requirements you can expect to see:

Multifactor Authentication (MFA) requirement on all endpoints. This includes any external connections such as a VPN. Cyber insurance providers are now requiring MFA as a condition of insurance or at the very least an implementation plan with a concrete and short deadline. The security novelty of five years ago has now moved from a tool to get you brownie points with your regulator to a tool to get you insured. If you don't already have something in place today, it's a good idea to start the vetting process now.

Questionnaire about security controls in renewal paperwork. It's not quite an audit request list, but you can expect IT to be more involved in filling out the re-up packet than they have in the past. This may include questions about your backup methods and scope, Incident Response procedures and testing, and details about your Disaster Recovery Plan.

Coverage amounts may decrease, or your premiums may be higher. In at least one instance, we heard from a bank that coverage specific to ransomware payment was broken out into its own category and was reduced from a maximum of $10 million to $2 million. Increases of 5-15% are generally being reported in this renewal cycle.

Restrictive lists of authorized third-party providers. This isn't necessarily new, but it's worth looking at when you do renew just to ensure there haven't been any changes. Vendors in the arena of incident response, forensics, disaster recovery and continuity, and even ransomware negotiation must be approved by your cyber insurance carrier before they will pay out for services rendered in a crisis. It's good to have that list well in advance of an incident (preferably printed out somewhere in your IRP or DRP with your other contacts) so that you can quickly reach the right people, even if your systems are offline.

Cyber insurance, as with many things in the information security realm, is growing more complex. But with a bit of planning, you can stay ahead of the curve and keep your risk management strategy aligned with your business goals.

> "For those of you nearing a renewal period, you should be aware that there are some pretty substantial changes coming your way, as this will most likely not be a simple "rinse and repeat" extension. If you have access to a legal team, now will be the time to use some of those hours to ensure you don't miss some important and costly details of the contract.

Uncovering Fee-Income and Yield Opportunities in a Challenging Market

By Meaghan Kincaid, Bankers Healthcare Group

The pandemic has brought a lot of change to financial institutions, including how to engage with your borrowers, serve their needs, and drive additional revenue into your bank. For many, this includes looking at partnering with alternative lenders.

Banks can strengthen and diversify their loan portfolios through new income opportunities with the right lending partner. A strategic partnership can provide you with access to quality loans that align with your business goals and enable you to work toward your growth plans – without additional time or cost. These five questions can help you quickly uncover a potential partner's credibility and commitment so you can focus on increasing your revenue while mitigating your risk:

1. What is your track record of success?

Gauge how the lender has endured market changes. The economy is still recovering, and this won't be the last downturn – seek to understand how they navigate uncertainty. You want a resilient partner that can originate quality loans for your portfolio at any time, has a track record of success and can adjust its business model to meet your needs.

2. How do you make lending decisions?

Quantitative analytics and historical borrower data are key, as they

uncover variables that predict risk. Utilizing data is commonplace today, but a partner that dives deep into the analytics can make better predictions when originating loans, resulting in a stronger return on the portfolio you purchase.

3. How do you attract borrowers?

You want access to expertise and experience. The best way to attract the highest quality borrowers is through selective targeting and investing in marketing. Partners that execute innovative, highly targeted campaigns across every marketing channel are precise in who they lend to offer a unique advantage in the marketplace. This ultimately creates a better loan offering for your bank.

4. How does your underwriting process create efficiencies for our bank?

Evaluating credit files is time-consuming. Your partner should offer a simplified underwriting process with consistent loan packages, so you can quickly and easily analyze files to make informed purchasing decisions.

5.What is your commitment to service?

Borrowers seek out their local bank because of the personalized level of service they provide. Your partner should also place a high value on service to ensure a positive borrower experience every step of the way.

The pandemic has been challenging for banks across the country, but it has also posed a new opportunity for banks to partner with alternative lenders to drive fee income and new revenue streams into their business. Adding high-performing assets and maximizing yields can help boost your profitability, for those willing to seek out new partners this year.

For questions and information, contact Meaghan Kincaid, BHG representative, VP, Institutional Relationships, at 315-509-2635, bhgloanhub.com/MeaghanKincaid or mkincaid@bhgbanks.com.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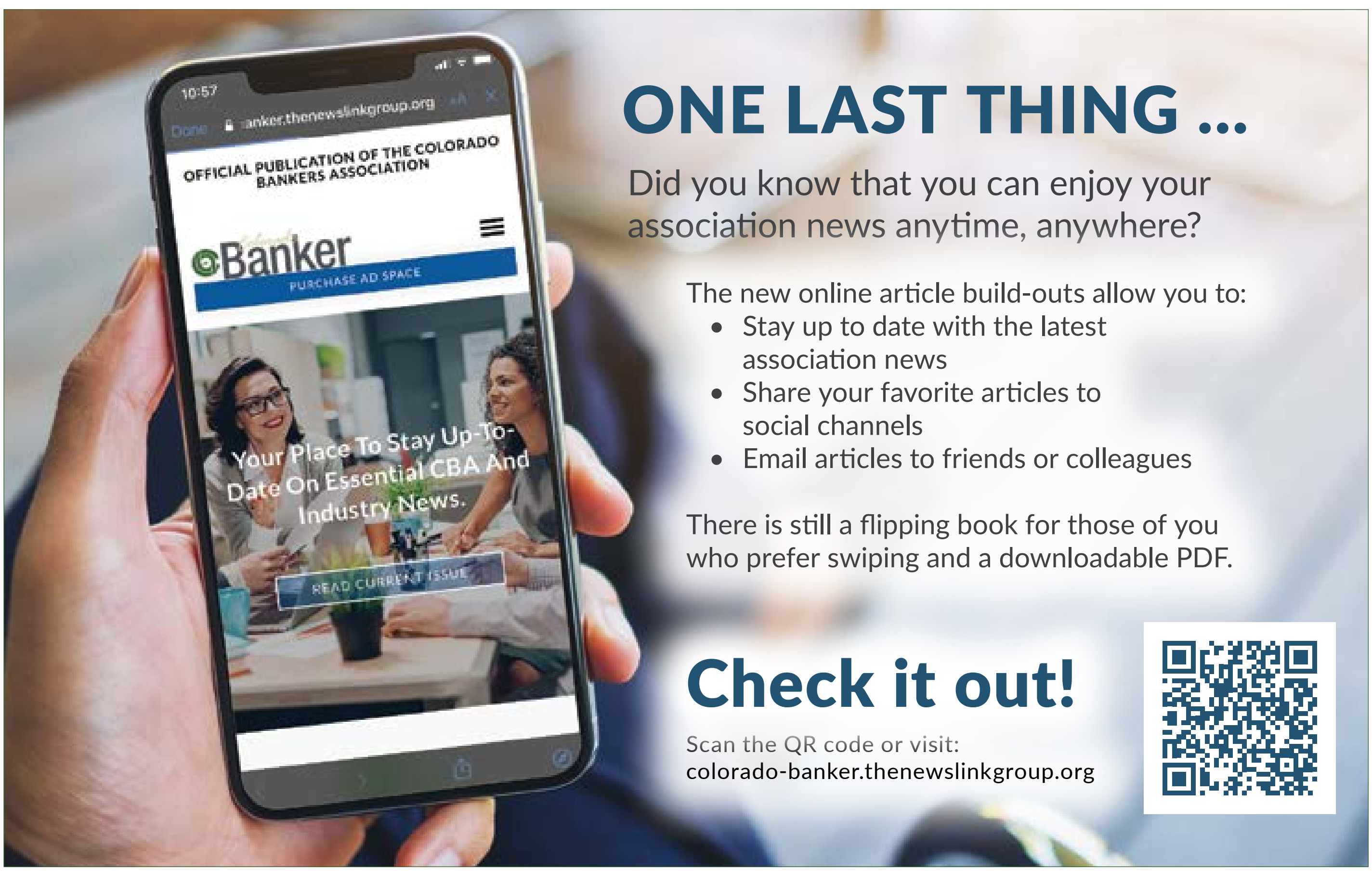
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