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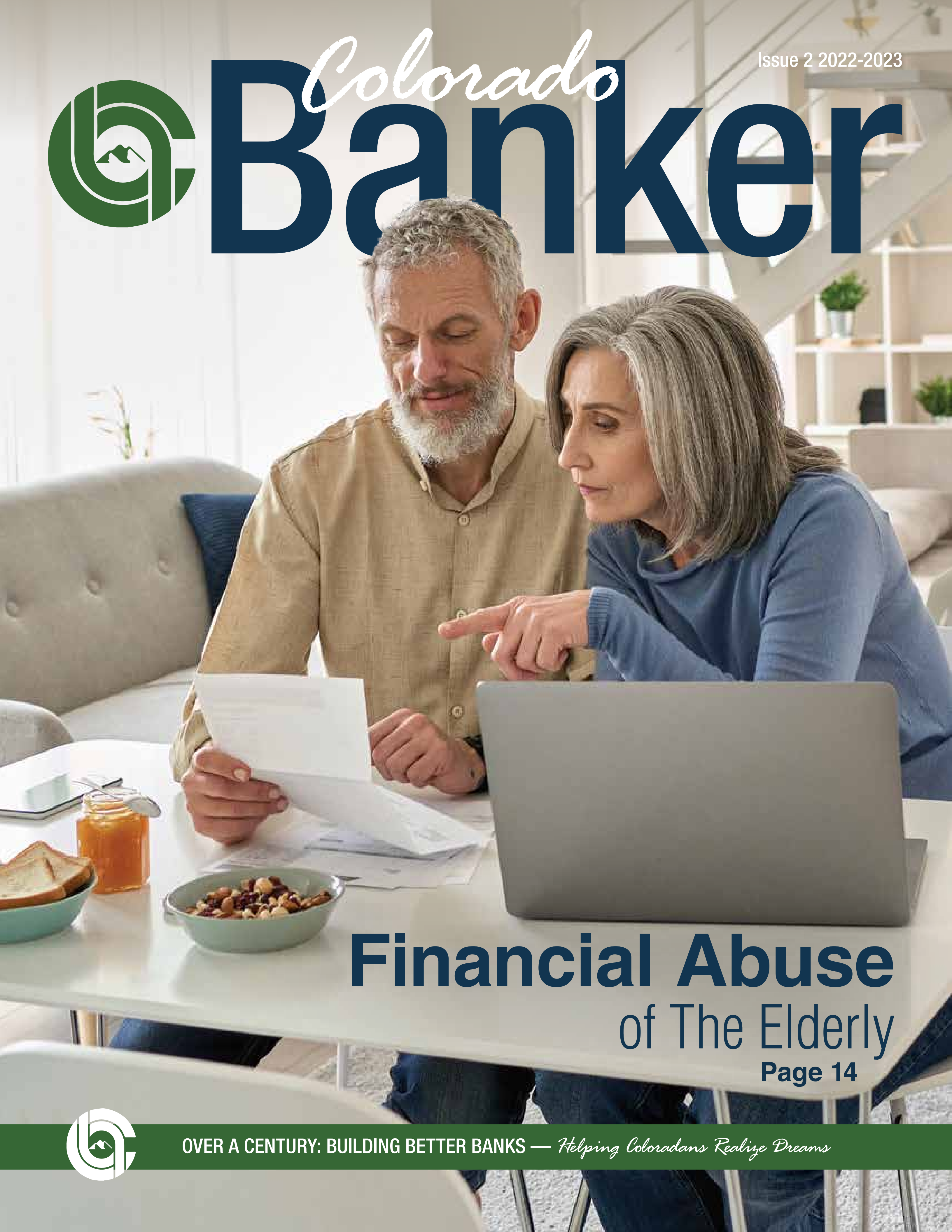
Colorado Banker



Financial Abuse
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OVER A CENTURY: BUILDING BETTER BANKS — *Helping Coloradans Realize Dreams*

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Over a Century

BUILDING BETTER BANKS—
Helping Coloradans Realize Dreams

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A Word From CBA's Chairman

By Mark Hall, SVP, Sr. Community Bank Division Leader, Vectra Bank, 2022-2023 CBA Chairman

The Value of Membership

Colorado Bankers Association focuses on the needs and goals of its members, resulting in high membership satisfaction. Another benefit is the team at CBA produces exceptional results on behalf of its membership. There is a sustaining value to the CBA membership.

Colorado Bankers Association advocates for economic opportunities for the financial services industry through a sound and competitive banking environment by advocating supportive public policy and enhancing banking skills, image, and unity. In our current political environment of one-party rule, it is challenging to defeat legislation that stifles business and hampers economic development. The CBA staff understands the political realities of collaborating with business coalitions to reach compromises for the best outcome possible. When others are ready to throw in the towel and agree, CBA remains on the front line advocating for the membership.

Your CBA membership protects your business interests and saves you money. CBA provides legislative and regulatory advocacy at the state and national levels. Jen Waller's successes through the years, in Colorado and nationally, are well known. Today, the government relations team, directed by Ms. Waller, is well respected, and their successes continue in her footsteps.

This last year, CBA successfully defeated legislation to authorize a credit union to accept public deposits. If banks were forced to compete with credit unions, not only are the state funds less protected, but the cost of funds would be increased. Defeating this bill continues the protection of tax dollars and ensures bank competition for tax deposits is fair. This is the third time in 20 years the CBA thwarted efforts by credit unions to gain a greater foothold in Colorado's financial interests.

This distinguished record of stopping the expansion of credit unions is unique among state associations. At the same time, the CBA team blocked the credit unions' efforts to introduce legislation to buy a bank. Banks stand little chance of outbidding a credit union when wanting to acquire another bank. Credit unions use their subsidy (tax exemption) to offer a higher price than banks can afford. Blocking this measure ensures banks are not competing with tax-exempt entities when wanting to acquire another bank. This is an incalculable value of membership.

> Your CBA membership protects your business interests and saves you money. CBA provides legislative and regulatory advocacy at the state and national levels.

On the national level, CBA lobbied the Colorado congressional delegation to oppose the nomination of Professor Saule Omorova as Comptroller of the Currency. Professor Omorova expressed a lack of trust in the banking industry and desired to drastically change it. Stopping her nomination saved banks numerous regulatory headaches. Even banks not nationally chartered would have felt the negative impact of her nomination. (Note: the Comptroller of the Currency also serves on the FDIC Board.)

And CBA was at the forefront — with an aggressive grassroots campaign — in the fight against the IRS reporting requirement for all deposits over $600. Ms. Waller worked the phones speaking to the Colorado delegation and educating them on the realities of the recklessness of this plan.

Recently, member banks contacted CBA about unsafe conditions on light rail trains in the Denver metro area. Ms. Waller facilitated a meeting with RTD officials to listen to our members' concerns for staff who ride light rail to work, and to press for additional safety measures for all light rail riders. This is just a small value add-on that CBA provides.

Members should be planning for the September fall trip to Washington, D.C. Ms. Waller has secured a private meeting with CFPB Director Rohit Chopra. This is a one-of-a-kind opportunity not available to bankers without CBA membership.

Our staff wants opportunities to grow and develop. CBA has a convenient and cost-effective professional development program. CBA members receive the privilege of membership pricing to all conferences and training. The Center for Banking Advocacy — the tenth year begins next month — provides a hands-on curriculum for bankers to gain the needed tools to positively influence colleagues, legislators, and regulators. As I have mentioned previously, I am a graduate of the Banking Advocacy Program and a supporter of its work and value.

In our fast-paced environment, issues arise at a moment's notice. CBA provides timely and valuable information regarding emerging issues and news of the day through Actions Alerts, CBA News of the Week, and the Colorado Banker.

This coming year, members will have more opportunities to meet with policymakers and regulators, network with other members, and attend professional development seminars on relevant issues of the day.

CBA strives to preserve your trust and respect and enhance the value and benefit of your membership.

Navigating the Turbulence of Rising Rates, Inflation and Volatility

Hedging tools allow banks to prepare before next quarter's volatility — and potential rate change.

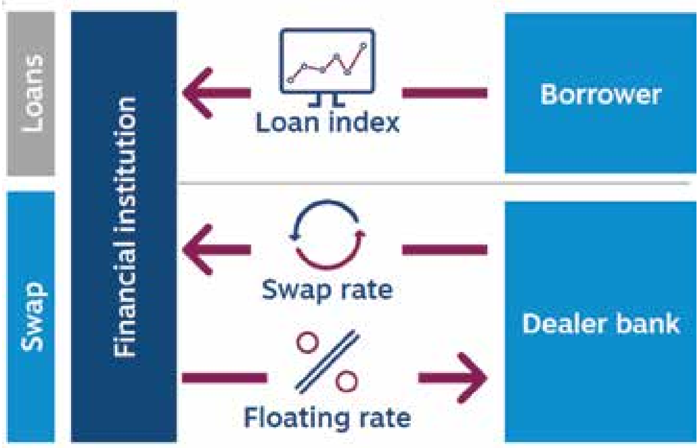
By Ben Lewis, Managing Director and Head of Sales
Chatham Financial

Financial markets have been rocked by significant volatility in 2022.

Over the first six months of 2022, the 10-year U.S. Treasury rate jumped from 1.52% to 3.2%. A confluence of events is driving that volatility: increased inflation expectations led to more significant and sooner-than-expected increases in the Federal Funds rate, the uncertainty of the first military conflict in Europe since World War II, and the economy. Financial institutions are finding themselves in very turbulent waters.

Banks prepared for this possibility are navigating these choppy waters with greater ease. They're using prudent risk management tools, like interest rate swaps, to smooth earnings and protect against continued increases in long-term rates. Swaps create more flexibility for banks: they can be quickly and easily implemented and allow institutions to bifurcate the rate risk from traditional assets and liabilities.

Most banks use hedging strategies that aim to smooth earnings. For example, banks use an interest rate swap to convert a portion of their floating-rate assets to fixed. They lock in the market's rate expectations and bring forward future expected income.



The benefits of this strategy:

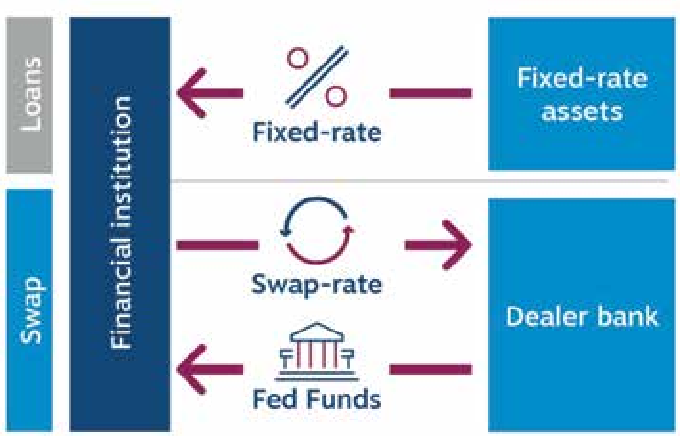
- Synthetically converting pools of floating-rate assets via a swap extends the duration of assets, reduces asset sensitivity and increases current earnings.
- This helps banks monetize the shape of the yield curve by bringing forward future interest income and producing smoother net income.

When it comes to hedging floating rate loans, we see a mix of Fed Funds (to hedge loans tied to Prime), SOFR, LIBOR, and a handful of banks using the Bloomberg Short-Term Bank Yield (BSBY) index. Additionally, hedging floating rate loans with floors requires special considerations.

On the other side of the spectrum, those banks hedging for rising rates primarily use swap and cap strategies to reduce duration risk in the loan and bond portfolio. Notably, the Financial Accounting Standards Board recently introduced the portfolio layer method, allowing banks to swap pools of fixed-rate assets like loans or securities to floating.

The benefits of this strategy:

- Synthetically converting fixed-rate assets via a swap shortens the duration of a bank's balance sheet and hedges rising rates.
- Creates more capacity for a bank to do more fixed-rate lending.
- Swaps can start today or in the future, allowing banks to customize the risk mitigation to their risk profile.



> Swaps create more flexibility for banks: they can be quickly and easily implemented and allow institutions to bifurcate the rate risk from traditional assets and liabilities.

In the turbulent seas of this current moment, banks prepared to use hedging strategies enjoy the benefits of smoother income and mitigated rate volatility. They also benefit from their flexibility: banks can quickly execute swaps, allowing them to bifurcate the rate risk from traditional assets and liabilities. Finally, derivatives have low capital requirements, resulting in minimal impact on capital ratios.

Adding hedging tools to the tool kit now allows your bank to get ready before next quarter's volatility — and potential rate change — is a best practice that can be accomplished quickly and efficiently.

Ben Lewis is a Managing Director and Global Head of Sales for Chatham's Financial Institutions practice. He currently leads our business development efforts in the Western U.S., and since joining Chatham has worked with depositories of all sizes helping them manage interest rate risk through the prudent use of hedging strategies. Prior to his work with financial institutions, Ben worked with private equity firms and REITs to hedge their interest rate and foreign currency risk. You can contact him at LinkedIn — https://www.linkedin.com/in/benlewis98.

BANKWORK$

Training Bank Employees of Tomorrow

In 2022, Goodwill of Colorado trained over 35 community members for banking positions across the front range. BankWork$, a job training program offered in partnership with CareerWork$ and introduced in 2016, is an eight-week course that prepares students for entry-level bank roles — including Teller, Banker, Relationship Manager, Customer Call Center Representative and Loan Administrator. Following graduation, BankWork$ staff works with students on job placement opportunities. Historically, 82% of students gain employment after completing the program. Now available in 10 states across the country, Goodwill of Colorado initially launched BankWork$ in Denver and Aurora but expanded to Colorado Springs this past July.

Goodwill of Colorado is proud to manage a variety of community programs across the state focused on our mission to help individuals achieve greater independence and our overarching vision to ensure every Coloradan has the opportunity to reach their full potential. The communities we serve are better, stronger and more sustainable because of Goodwill's diverse, strategic and targeted programs and services. Goodwill chose to invest in bank training services because of the good wages, benefits, steady hours and opportunities for growth available to workers in this industry. CareerWork$ is a national workforce development organization that facilitates free training for under-resourced communities to help individuals achieve lasting careers and economic

stability; they also provide extensive curriculum materials ensuring all BankWork$ graduates receive consistent, high-quality training.

The BankWork$ curriculum is divided into four modules: Professionalism, Banking 101, Deepening the Customer Relationship and Employment Preparation. Classes run three days a week in five-hour sessions and are taught by BankWork$ Program Manager/Instructor **Kelly Hargrove** and Bankwork$ Instructor **Patrick Becker.** Both Hargrove and Becker have established careers in banking and infuse real-life experiences into the course curriculum. “Applying my five years of industry experience in the classroom is one of my favorite aspects of teaching,” said Becker. “Sharing real-world information, best practices and lessons learned with students based on my personal experiences is both enlightening and gratifying.”

Upon completing the BankWork$ course, students attend a graduation ceremony where they receive their Colorado Bankers Associate certification and actively participate in a job fair with hiring managers and recruiters from partner banks. Goodwill has developed a Bank Advisory Council for the BankWork$ program

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Goodwill of Colorado is proud to manage a variety of community programs across the state focused on our mission to help individuals achieve greater independence and our overarching vision to ensure every Coloradan has the opportunity to reach their full potential. The communities we serve are better, stronger and more sustainable because of Goodwill’s diverse, strategic and targeted programs and services.

consisting of representatives from 14 banks across the state who attend the graduation job fair, participate in “Banker Day” to share information about their companies and assist with mock employment interviews.

“Patrick [Becker] and I work closely with the Bank Advisory Council to ensure the presence of hiring managers at the job fair and their participation in exit surveys providing valuable feedback about our students,” said Hargrove. “Many of our students receive job offers the same day, and some even have banks competing for employment.”

Banking institutions wanting to join the Bank Advisory Council are encouraged to contact Hargrove at **khargrove@goodwillcolorado.org.** The next two BankWork$ cohorts offered in Denver and Aurora will begin in September 2022. Individuals who want to learn more about this program and begin the application process also can contact Hargrove. Prospective students will be assessed for basic eligibility and aptitudes and scheduled for attendance if qualified.

BANKWORK$

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The Impact of Delaying an Overdraft Evaluation

Overcome Obstacles With Proven Resources

By John Cohron, Chief Executive Officer
JMFA

Is your overdraft program taking a backseat?

Like many Americans, community banks continue to face challenges related to a lack of time, money and/or the personnel to get things done. One thing that can get overlooked along the way — but shouldn't — is your overdraft program. While you may not notice any issues on the surface, all aspects must be periodically evaluated to ensure it's adhering to regulatory guidelines, industry best practices and consumer expectations. If your program has been stuck on the back burner, you not only risk lackluster service and results but also leave your bank open to regulatory scrutiny, litigation, and more.

So much to do, so little time — and resources

Your staff members have a lot vying for their attention these days. Your team may be facing:

- **Too many projects**
  A lengthy list of exciting strategic initiatives, including the rush to the digital transformation brought on by the pandemic, can take up valuable time, pushing important but less-exciting tasks — like your overdraft program — to the side. Is evaluating your overdraft strategy more complicated given recent market shifts and regulatory uncertainty?

- **Inadvertent neglect**
  Evaluating your overdraft strategy may have fallen off the radar completely amid time and budget constraints. Regardless of how much revenue your program currently provides, it's critical to take the time to understand how your account holders use it. There are too many risks associated with maintaining the status quo. Do you need help with deciphering the value of your program to preserve needed revenue?

- **Shortage of workers**
  During the Great Resignation of 2021, droves of workers quit their jobs for a variety of reasons. Community banks were not immune, with human resource officers frustrated at candidates missing scheduled interviews or, even worse, the first day on the job. Is your team overworked and thus unable to get to every task on their plate?

- **Knowledge gap due to workforce turnover**
  The impact of the workforce changes brought on by the pandemic continues to strain the delivery of services in all business sectors. The latest statistics from the U.S. Labor Department Job Openings and Labor Turnover Report indicated a record 11.5 million job openings in March. As turnover rates remain historically high, workers may be especially hard to retain, leaving gaps in knowledge of how to communicate program details properly and consistently to your account holders. Has your staff fallen behind on new-hire and refresher training to ensure your account holders know how your overdraft program works?

If you answered "yes" to any of the above questions, it's crucial to move program evaluation to the top of your priority list.

Risks of overlooking your overdraft strategy

Accepting the status quo can lead to processes and procedures becoming stale. This opens your bank up to vulnerabilities, such as:

- Potential regulatory exam issues
- Additional risk for class-action lawsuits
- Confusion or lack of understanding among account holders
- Account holders going elsewhere to have their needs met

As the focus and attention on overdraft programs increases, it's essential to perform a periodic, top-to-bottom assessment that looks at:

- Staff training and program knowledge (including lobby and call center)
- Disclosures
- Consistency in communication
- Compliance with regulatory rules and best practices
- Financial education resources
- Appropriate fee amounts
- Program components including de minimis, daily caps, grace periods, low-balance alerts, etc.

Optimize program results with proven resources

If strained resources and other projects currently consume all your team's focus and attention, it may be time to lean on an outside expert to ensure your overdraft program's success. Don't leave program evaluations on the back burner and risk getting burned. A professional overdraft program consultant can ease the burden of periodic program reviews and ensure your overdraft program is optimized.

Financial Abuse of The Elderly

By Travelers

According to the Federal Bureau of Investigation (FBI), millions of elderly citizens are targeted annually with some form of financial fraud, and many of these attempts are successful. It has been estimated that seniors lose approximately $3 billion per year as a result of these scams, which are becoming more widespread and sophisticated.

Surprisingly, much of the criminal activity is initiated by a friend or family member. A recent study by the University of Southern California revealed that 55% of respondents reporting any type of elder abuse categorized those acts as financial, and that family members were the most alleged perpetrators of elder financial abuse.

With these facts in mind, banks should maintain heightened sensitivity around transactions that involve elderly clients, particularly if these clients have historically managed their own finances and may be exhibiting signs of cognitive decline. Increased vigilance, in general, can assist in uncovering fraud.

Knowing the customer, coupled with a comprehensive employee training program, can act as a strong front-line tactic to help banks prevent and expose elder financial abuse.

Here are some best practices for recognizing "at-risk" clients:

- Be on the lookout for non-family members being added to banking or investment accounts.
- Monitor large money transfers and changes in spending patterns, as these could be signs that some form of abuse is occurring. A senior's spending habits are often predictable in frequency, volume and payees.
- Be alert for large amounts of funds exiting accounts to payees not previously paid in any manner.
- Keep detailed notes in the form of dated, journal-type entries, recording any spending or personal behavior that seems unusual. These notes would be in addition to those kept on risk tolerance, goals, objectives, etc.

"Elder financial fraud is on the rise and counts as one of the more heinous abuses of trust that senior citizens might endure.

- Follow up with clients via phone or email to discuss any sudden financial decisions that seem out of character.
- In addition to making personal contact, encourage the client to engage an independent attorney to assist in their financial matters.
- Understand the laws that apply to the financial abuse of an elder client. Follow prescribed protocols if any illegal activity is suspected.
- Implement internal procedures to elevate circumstances that may present the need for further inquiry and analysis to the appropriate decision-makers.

"It's important not just to have a system in place to detect elder financial abuse, but to also act on situations where potential fraud or malicious intent has been identified," said Kristin Roger, Vice President and Head of Financial Institutions at Travelers. "We know banks want to serve as trusted advisors to their customers, and by taking simple steps, they can better protect their customers from potential financial harm."

Elder financial fraud is on the rise and counts as one of the more heinous abuses of trust that senior citizens might endure. Along with the financial damage inflicted on customers, incidents of elder financial fraud can cause serious reputational harm. Therefore, implementing a sound method of prevention, detection, identification and reporting of this criminal behavior is paramount.

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

Colorado Bill Restricts Non-Compete Agreements and Creates Substantial Penalties for Violations

By Susan Sperber and
Katerina Grainger*
(2022 Summer Associate)

A Colorado law that took effect in August 2022 substantially changes what is permissible for non-compete and non-solicitation employment agreements.

Currently, Colorado allows employers to require non-compete agreements for, among other things, (1) the sale of assets of a business, (2) the protection of trade secrets with limited duration and geographic scope, and (3) executive and management personnel, officers, and professional staff to executive and management personnel.

House Bill 22-1317, signed in July, will effectively eliminate all non-compete agreements, except for those applying to highly compensated employees (earning $101,250/year) or more, if the non-compete is for the protection of trade secrets and is no broader than reasonably necessary to protect trade secrets. Customer non-solicitation agreements will also be void, except those entered into by a person who earns at least 60% of the threshold for highly compensated workers ($60,750/year), and again only if the covenant is no broader than reasonably necessary to protect the employer's trade secrets. These new standards will apply to agreements entered into or renewed on or after the effective date of the law. Employers will not be required to amend existing agreements, but Colorado courts will likely not enforce non-competes that violate the new law against their departing employees.

Non-compete covenants can include reasonable confidentiality provisions relevant to the employer's business, so long as they do not prohibit disclosure of information arising from general training, experience,

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public information, or legally protected conduct. Similarly, stand-alone non-disclosure and confidentiality agreements must be narrowly constructed to not impede competition in the marketplace. Notably, the law continues to permit non-competition covenants for the purchase and sale of a business or the assets of a business, but it is not entirely clear how these will work in the context of employees who are provided stock options or ownership as a part of their employment.

In addition to changing which non-compete agreements are enforceable, the new law also contains specific requirements when a non-compete is being presented to an applicant or employee. For applicants, notice of a non-compete requirement and the applicable terms must be provided to a prospective worker before the worker accepts the offer of employment. Employers satisfy the notice requirement by:

1. Providing a copy of the agreement;
2. Identifying the agreement by name and stating that the agreement contains a non-compete that could restrict the workers' options for subsequent employment; and
3. Directing the worker to the sections or paragraphs of the agreement that contain the non-compete covenant language.

For current workers, notice and terms must be provided 14 days before either (a) the effective date of the covenant or (b) change in employment terms that provide additional consideration for the covenant, whichever comes first. Additionally, employers must give adequate notice in a separate document and receive an employee signature on the contract. Upon request, employers must provide a supplemental copy of the covenant to the employee once per year.

The law also states that an employer may not require a worker who, at the time of termination, primarily resides or works in Colorado to adjudicate the covenant outside of Colorado and bans employers from trying to select any governing law other than Colorado law for workers who reside and work in Colorado.

Finally, House Bill 22-1317 creates significant exposure to employers who disregard its terms. Employers that enter into, present to a worker as a term of employment, or attempt to enforce any impermissible non-compete covenant can be liable for actual damages and a penalty of $5,000 per worker harmed by the conduct. The Attorney General and any worker harmed may also bring an action for injunctive relief and recover penalties. Additionally, a worker may bring a private action and recover actual damages, reasonable costs, and attorney fees. In such actions, if the employer shows the violation was in good faith and that the employer had reasonable grounds for believing that the act was not in violation of the law, the court may, in its discretion, limit the penalties otherwise available.

Due to these sweeping changes, companies and organizations who regularly use non-compete and non-solicitation agreements should analyze their practices to confirm any non-compete agreements apply only to covered highly compensated employees and are not broader than reasonably necessary to protect trade secrets.

If you have questions about Colorado House Bill 22-1317 or how to plan for the coming changes in employment regulations, please contact Susan Sperber at ssperber@lewisroca.com.

**Katerina Grainger, 2022 Summer Associate, attends the University of Arizona James E. Rogers College of Law and currently serves as Note Editor on the Arizona Journal of International and Comparative Law. Katerina contributed to this client alert under the supervision of Ms. Sperber.*

How Banks Can Respond to the Shifting Funding Landscape

By Rob Blackwell, Chief Content Officer and Head of External Affairs, IntraFi Network

With banks still flooded with cash in the wake of the pandemic, many are waiting to raise deposit rates, content to watch some excess liquidity run off the balance sheet. But in a rising rate environment, some analysts are raising questions about whether banks risk waiting too long. They cite increasing competitive threats from fintechs — many of which weren't around the last time banks battled for deposits — and internet-savvy consumers better equipped to chase higher yields elsewhere.

Some bankers are also clearly anticipating a fight. Over the next 12 months, 76% percent of bank executives expect deposit competition to increase, and 90% anticipate higher funding costs, according to IntraFi's most recent quarterly survey.

To better understand how banks should be thinking about funding, we recently sat down with Neil Stanley, founder and CEO of The CorePoint, for our Banking with Interest podcast. Neil shared his thoughts on the Federal Reserve interest rate outlook, how soon banks should be responding, alternative investments to consider, and much more. What follows is our conversation, edited for length and clarity. (This article was updated on July 19, 2022.)

Why did you start The CorePoint?

I was surprised at the lack of art and science in retail banking. Years earlier, when I was working at the Lauritzen Corporation, we had multiple charters, so we could test and learn things at some of the smaller ones. We ended up with a toolkit of ideas we could use with banks across the country. One day my wife said, "Why are you limiting this to the banks you work at? Start your own business."

What will the Fed do over the next few months?

Well, I'm not a rate forecaster, but we shouldn't forget that the Fed has a dual mandate. If either unemployment or inflation is out of line, the Fed is chartered to bring

> To ignore that rates are rising in the wholesale markets would be a mistake; in the non-loan market, banks can get good rates for a very short duration. Why would they not pay something closer to those rates in this environment, knowing that the Fed is going to be aggressive? It's hard to understand that banks can simply opt out when the wholesale world is giving them riskless profit opportunities.

those into a healthy position. And [with inflation] they're determined to do just that.

Are we headed for a recession? Are we in one now?

If you've studied economics, you'll know that every economy is headed for a pause or slowdown. Unfortunately, we've grown accustomed to believing that recessions are deep and painful because the last two were so severe. But not all are. So I think we're going to see adjustments, but without the same agony and pain as the last two recessions.

I hope you're right. So how should bankers be responding to the Fed? Should they be raising rates?

Yes, but not across the board. To ignore that rates are rising in the wholesale markets would be a mistake; in the non-loan market, banks can get good rates for a very short duration. Why would they not pay something closer to those rates in this environment, knowing that the Fed is going to be aggressive? It's hard to understand that banks can simply opt out when the wholesale world is giving them riskless profit opportunities.

Some banks gained so many deposits during the pandemic that they wanted a certain amount off their books. Are they right?

A bank may have a low loan-to-deposit ratio relative to its history, but it can make money by deploying assets today — that's the part that's hard for some to see. Digital banks and neobanks, competitive threats that didn't exist 15 years ago, are more than happy to relieve banks of the burden of paying something materially less than Fed Funds for insured deposits. So I think the question [for banks] is, do I have enough capital? If so, I'll take these assets. But I have to figure out how to negotiate with depositors without paying everybody higher rates.

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Are bank leaders adequately communicating the value of depositors and deposits today?

No. The conversation that occurred within banks during the pandemic was that they would stop looking for deposits and that it would be fine if some left. If things have changed, unfortunately, sometimes an executive team will soften or even revise a posture without [adequately communicating] the change, and the front line continues to operate under the old marching orders. So the top of the house needs to ask itself if it has communicated those changes to the front line.

You regularly post on LinkedIn. Recently, you wrote about multiple deposit pricing betas simultaneously. What did you mean?

Technically, the deposit beta is a single ratio of the percentage change in total interest expense relative to the change in wholesale interest rates. So there's not really a multiple beta; I'm sort of distorting the concept, but it gets bankers' attention. To optimize results, management teams need to recognize different rate sensitivities for different products and deposit bases. For example, the amount of rate adjustment needed on a common savings product is very different than on a high-yield money market account that's been promoted as high-yield.

The fastest growing segment of deposits from 2018 and 2019 were actually time deposits, which many consider a relic of the past. Bankers knew they didn't want to reprice their whole portfolio of non maturing deposits, and depositors saw a high enough interest rate to open an account. That combination caused CDs to grow at a 20% annualized rate, and we'll see that again.

What happens to deposits if the Fed continues to aggressively raise rates?

It's going to be an ongoing evolution or adjustment. Prior to the Great Recession, we would talk about Fed policy being accommodative or restrictive. The notion of a stimulative policy was outside the boundaries of sound economics. Ultra-low Fed Funds and quantitative easing have brought trillions in fixed income securities onto the government's books. And we went too far. We used performance-enhancing drugs until we overdosed, resulting in a disease called inflation.

But you know, for every interest rate, there's a payer and a receiver. The receiver thinks one thing, and the payer thinks something else. So the idea that low-interest rates are always good for everyone I don't think holds true.

"Not having a big bond portfolio doesn't make sense when bonds are as profitable as loans. Also, the one-price-fits-all notion [of retail banks] shouldn't be the thinking anymore, especially with the technologies we have today that can enable us to customize pricing for depositors.

What are you recommending that bankers do now?

Bankers should be continuously assessing their capacity for capital as well as their investment options. Wholesale needs to be part of the mix, not just on the funding side but also on the investing side. Not having a big bond portfolio doesn't make sense when bonds are as profitable as loans. Also, the one-price-fits-all notion [of retail banks] shouldn't be the thinking anymore, especially with the technologies we have today that can enable us to customize pricing for depositors.

What's the most common mistake bankers are making?

Pursuing low-cost funds no matter what. It feels good not paying for deposits; it also feels good to think about the yield potential of our assets. But at some level, more money is made with a smaller spread and higher volume.

Is there something I should have asked but didn't?

Maybe, what do I think will surprise bankers in the next few years? I think they will experience a refinance wave on the deposit side. If they haven't fortified their early withdrawal penalties, banks that hold time deposits today might be surprised when other financial institutions — some traditional, some nontraditional — come after those.

ATM Pooling:
Solving the ATM Puzzle for Community Banks

By Dolphin Debit

At its inception over 50 years ago, the ATM fired the starting gun for the self-service banking culture and quickly gained steam as a crucial touchpoint that freed account holders from the shackles of business hours and banking at a single branch. Today, a myriad of factors including trends accelerated by a global pandemic, social/political pressures, and rapidly advancing ATM technology are again shifting self-service expectations and changing the framework of the traditional ATM network.

For community banks, the recent changes surrounding the ATM have created a quandary in regard to their ATM network strategy. On one hand, cash usage decline and scares of a “cashless society” have put a microscope on escalating ATM costs, usage, and regulatory compliance for community banks, and understandably so. But, simultaneously, access to cash remains relevant, accounting for roughly 20% of all transactions in the U.S., and the pressure for community banks to serve even the smallest of communities remains constant. All while new ATM technologies continue to add functionality and deeper account access for consumers, giving way to hybrid or fully self-service branch models.

So, to sum it up — If you reduce or stop investment into your ATM fleet, you risk a critical self-service channel becoming obsolete and your institution failing to effectively serve your customers and community, likely costing you accounts and goodwill. Conversely, if you continue to invest in your ATM fleet to meet the rising demand for self-service, the cost is high and the return is low, in other words, putting more capital into a loss leader. So, where do we go from here?

Shared Infrastructure:

Across the globe, community banks faced with this same dilemma have turned to a solution commonly referred to as “ATM Pooling”, a strategy that delivers operational cost savings while expanding the ATM footprint and simplifying the management and security of the ATM channel as a whole.

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By definition, ATM pooling involves transferring ATM ownership and operational responsibility to an expert third party, resulting in significant cost reduction for the individual financial institution, and allowing them to continue serving consumers in locations where low demand would otherwise render an ATM uneconomical. Prime examples of the success of this strategy are the Geldmaat Network in the Netherlands, and Batopin in Belgium. In both cases, several of the country's largest banks have joined forces through shared ATM infrastructure aimed at optimizing the network and providing a safe and efficient service to their account holders. In short, these community banks are less attached to the headache and heartache of ATM ownership and operations, and more interested in the efficiency and performance of the shared infrastructure.

The U.S. ATM Pooling Blueprint:

In the U.S., ATM pooling might not yet be on the radar of our country's largest community banks as it is in Europe, but organizations such as banking associations, leagues, and other membership-based advocate programs create opportunities in the ATM pooling space at the state and regional level. With widespread reach and member bases typically consisting of hundreds of community banks, opening a shared ATM infrastructure program would create significant cost savings, network optimization, and operational efficiencies for participating community banks, while passing along convenience to their account holders.

Dolphin Debit (Euronet Worldwide's North American ATM Services Division) has been "pooling" ATMs since 2005. Currently, the Dolphin ATM Alliance consists of 2,000+ ATMs spread throughout the U.S. With a blueprint already in place, this is a shared infrastructure service model that is poised to rival the ATM pooling initiatives of our foreign banking colleagues.

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Service models like the Dolphin ATM Alliance combine the operational simplicity and cost-cutting elements of a pure play end-to-end ATM outsourcing solution with the "pooling" effect of shared ATM infrastructure. A combination that effectively solves the ATM puzzle for community banks: less capital investment into the ATM fleet, streamlined ATM operations, an expanded ATM footprint, and seamless adaptation to everchanging regulatory compliance requirements and rapidly advancing ATM technology.

For more information, please visit www.dolphindebit.com.

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