



Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

Issue 2 • 2017

PRESIDENT'S MESSAGE

What conversation, collaboration and education can accomplish

The slide from the first quarter of each year into the second is usually marked by dramatic debate and predictions in bank trade publications, and 2017 is no exception. It seems that for every analyst expecting imminent regulatory freedom, another worries about potential backlash from a rollback. If one expert sees financial technology as a hotbed of risk, the next envisions that the upside of joining forces with fintechs will outweigh the concerns.

Even though seeing these opinions lobbed back and forth in print might try bankers' patience, they're part of a process that leads to reasonable decisions. When many voices and a broad scope of viewpoints are represented at the table, the odds of identifying the ideas with the most potential are very good. A current example of a huge, diverse group coming together to evaluate potential solutions is the FedPayments Improvement effort. (Read the recent progress report on page 5).

A discussion on a much smaller scale took place at the BBW offices in early March. The theme of that meeting—involving a dozen community bank CEOs and consultants with long industry experience—was how to ensure the strength, resilience and long-term staying power of community banks. In just a few hours, the CEOs

were able to add new ideas to their knowledge base, find out what their peers have been seeing and working on, and zero in on some common challenges community bank leaders are facing. The positive feedback from those participants has led to the scheduling of a second CEO group gathering in June.



Bill Mitchell
BBW President and CEO

A “pain point” mentioned repeatedly by community bank leaders relates to information technology and cybersecurity. They point to the need for sensible guidance and affordable, targeted education they can apply to help keep their Main Street-sized banks protected, up to date, and relevant. This demand for information, analysis and open discussion is the basis of BBW's **Conference on Cybersecurity in Community Banking**, an informative dual-track

program to be held in July.

In fact, the point of every educational program BBW organizes, sponsors and facilitates—from the long-established **Bank Card Conference** to the first-ever **PowerPack Conference**—is to broaden the knowledge base and enrich the collective wisdom of community bankers. We encourage you to collaborate and learn with your colleagues at every opportunity—starting with the upcoming BBW conferences described on page 5. Hope to see you there!

Enrollment in progress for fast-paced, skills-focused commercial lender seminar

The popular two-day seminar known as **Loan Officer Financial Management Training** will return to Denver on **October 26** and **27**.

The aim of the program—led by **Mike Milan** of Finagraph and sponsored by Bankers' Bank of the West—is to develop the financial and relationship-building skills business lenders need to succeed.

Among other things, the course walks through the entire lending process from

the customer's perspective, discusses how to structure and finance debt in a way that positions the business for sustainable growth, and focuses on practical tools and techniques commercial lenders can apply to benefit both the business and the bank.



Mike Milan

Registration is under way; early sign-up is recommended as class size is limited. Download the course brochure and logistics at bbwest.com (**Newsroom** tab).

TAKING NOTE

CHANNELING INFORMATION, EFFICIENCY

Being a registered agent for the FedPayments® Reporter service, BBW can make the feature accessible for your customers. The service allows you to obtain reports either on a set schedule or as needed, choose from assorted file formats, and arrange for delivery of ACH payment detail to your bank or directly to your business customer, among other things. To learn more or sign up, email ops@bbwest.com.

AGRIBUSINESS OUTLOOK SCHEDULED

An hour-long webinar led by **Dr. David Kohl** (professor emeritus, Virginia Tech) just ahead of the 2018 loan renewal season is scheduled for **Monday, Nov. 6**, at 10^{am} Mountain Time (11^{am} Central). The discussion of dynamics and trends most likely to affect agribusiness will be invaluable to ag lenders, credit analysts, and community bank board members. Details and sign-up brochure will be released this summer.

COMMUNITY BANKS: IN IT FOR THE LONG HAUL

How can banks navigate the demands of regulation, technology, compliance, and security while still providing the ultimate Main Street experience America is hungry for? This is the question at the crux of the **2017 Symposium for Community Bank Directors** sponsored by the Western States Director Education Foundation.

This year's program will feature Rebeca Romero Rainey with an update on Dodd-Frank; economist Dr. Stephen Happel on "The Economy: Past, Trump, and Future"; a session on cybersecurity and risks (with co-presenters from Managed Outsource Solutions and FIS Global); and a peer-led panel discussion on information technology and security solutions for community banks.

Striking an ideal balance between information, issue analysis and networking opportunities, the Symposium is highly recommended for community bank directors and executives.



SAVE THE DATES AND PLAN TO ATTEND

October 29 through 31, 2017

**Hyatt Regency Scottsdale Resort & Spa
at Gainey Ranch • Scottsdale, Arizona
Details coming soon to wsdef.org**

ABOUT

Correspondent Views is published by Bankers' Bank of the West for independent community banks in our service area. Downloadable versions are posted to our website.

If prefer to receive newsletters by email, send your request to info@bbwest.com.



Headquarters:

Bankers' Bank of the West
1099 18th St., Ste. 2700
Denver, Colorado 80202
303-291-3700 | 800-873-4722

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IDEAS FROM THE FIELD

Wanted: more carrots, more options (and fewer sticks)

Marlene Wade ■ VP – Correspondent Services
Bankers' Bank of the West

A long stretch of mild weather allowed me to call on more banks than usual this winter—which to my mind is more exciting than March Madness. Visiting with bankers gives me a chance to learn something new, soak up some wisdom, and (ideally) share a few insights in return. While the conversations are fresh in my mind, I'd like to share a few of the valuable takeaways from those recent visits.

- 1 When it comes to agreements and service contracts, overlooking small details can give rise to big problems. It's important to read any binding document with a critical eye, fine print and all, before signing. To avoid making a decision you'll later regret, give yourself enough time to think through all contingencies, vet prospective service providers, and check references.
- 2 Reputable vendors are usually willing to make certain concessions to earn your business. With your bank's priorities in mind, be prepared to negotiate the terms of new agreements or renewals. You'll never know what degree of compromise is possible unless you ask.
- 3 With change and innovation being constant in our industry, it's next to impossible to envision what payments will look like in just a couple of years—much less a longer period of time. The possible impacts of rapid change should weigh into every decision. So knowing you'll have to adapt in the future, seek out contract terms that will allow you to change service providers when needed.
- 4 Be sure to factor opportunity cost into the equation. If you aren't offering merchant processing, how much income is walking out the door? What additional business—lines of credit or payroll accounts, for instance—is slipping away along with it?
- 5 Most core providers are so eager to bundle ATM and debit into your core contract that they offer a discounted rate on the core product. This pricing strategy is lucrative for them: Giving up a little on the core allows them to charge you a greater per-transaction

fee for approving each card-based transaction, which leaves a smaller interchange fee for you. It's up to you to decide whether the reduced interchange income over the course of the contract period is acceptable. Also ask yourself whether core systems are likely to evolve at the same rate as the debit processing environment. If not, how hard will it be for you to disconnect ATM and debit from your core when it becomes necessary or advantageous?

Of course all of these issues and questions are complex, and there are no one-size-fits-all solutions. As a partner and catalyst for community banking, Bankers' Bank of the West has always taken a consultative approach to relationships—which means every member of the BBW team is a resource for you.

If the ideas introduced above raise any questions or concerns for you, we invite you to contact **Mary Ann Elliott-Supples (1-800-601-8630)**, who has been the head of BBW's Bank Card Division since 1998. Mary Ann is frequently sought out as an outside consultant with deep expertise in the field of bank card and electronic payments—a service she provides for community bankers at no cost.

A closing thought: If you can't remember the last time you looked at how you do your daily processing and settlement work in terms of efficiency, a thorough review may be in order. Consider scheduling a checkup for each of your departments with your BBW correspondent officer. We're happy to meet with your people, review your processes, and perhaps discuss automated options that could help make you more efficient. You can either reach out to your correspondent services officer directly, or call our main line at **800-873-4722**.

Ramp up for Same Day ACH debit

All receiving depository financial institutions must be able to receive and process Same Day ACH debits when Phase 2 goes into effect Sept. 15. To make sure you're prepared, sign up for the **June 2** webinar, "Let's Get Ready for Debits," led by WesPay. Email ops@bbwest.com to request a 2017 course listing.

When loans go bad—making the best of a bad situation

Jim Swanson, President ▪ Bank Strategies LLC

Loans go bad for a variety of reasons. When a failure does occur, efforts are typically focused on how to mitigate loss to the bank, which is understandable.

However, once the situation has reached its conclusion or has at least stabilized, your bank can be well served by conducting a post-mortem analysis of what went wrong. This review should include an assessment of whether or how the situation could have been prevented or better mitigated during the underwriting and origination phases. Many of us learn best through experience; in fact, the lessons we learned from the mistakes or failures in our lives often have a bigger impact than the successes we achieve. Just ask any successful retiring lender about the first time they suffered a loss when lending money. Chances are they'll be able to recite all the details behind the story.

Some loans go bad for unpredictable reasons. But if it appears certain credit risk factors that contributed to problems could have been better vetted during the underwriting phase, this represents a learning moment—an opportunity to enhance credit risk management practices. A post-mortem analysis will often reveal weaknesses in the scope, content, and analysis considered in the underlying credit presentation that supported the loan. While credit presentations serve a variety of functions, their first and foremost purpose is to facilitate sound credit decisions.

Over the decades, we've found that key information lacking from a presentation—and not visible on the loan committee's radar—is far more likely to haunt the credit approval decision than risk issues that were well disclosed and openly discussed during the underwriting and approval stages.

In conducting your post-mortem analysis, take into account the experience level of the originating lender. Approach the process with enough sensitivity to prevent the effort from turning into a finger-pointing exercise.

When the situation involves junior staff, recognize that the lender might not have developed

the skills or acquired enough experience to fully understand the importance of locating, analyzing, or including certain information in the presentation. Understand that an unseasoned lender may also lack the confidence to ask critical questions and obtain all the necessary information from the customer.

Keep in mind that most community banks groom junior lenders mainly through on-the-job training, and the quality of their preparation can vary widely by institution. Employees newer to the lending field could also be more susceptible to a “that-will-never-happen” mentality—until it does happen, and the reality hits home in the form of a problem loan or loss.

When more experienced lenders are involved, different questions are called for: Is the lender more focused on business development than on underwriting? Have the lender's portfolio size and existing duties become a detriment to thorough underwriting—and if so, is assistance needed? Could incentive systems be upsetting the balance between loan generation and loan quality? Are the expectations of production so high as to compromise quality? Consider too that a need for additional or more specific training is not out of the question—even for veteran lenders.

No one wants bad loans. But when they do happen, we encourage you to make the most of the situation by maximizing them as learning opportunities for enhancing your bank's risk management processes and lending skill sets. Better yet, be proactive in augmenting both staff training and the quality of loan presentations with the ultimate goal of enabling sound credit decisions. Those preventive measures can go a long way toward minimizing the need for (and frequency of) future learning opportunities.

The Bank Strategies LLC team of professionals provides community banks on-call assistance with independent loan reviews, loan policy and procedure review and development, loan portfolio acquisition due diligence, credit administration workflow and structure consultation, and other services. Call them at 303-903-9369.

BUZZ ON BIDS

By popular request, do-it-yourself data extraction capability

Debbie Wendt, SVP-Operations ▪ Bankers' Bank of the West

With one giant leap, LendingTools has transported BIDS users into an exciting, time-saving build-your-own-reports world. And there's icing on the cake: The tool is **free** and ready to use.

Start by selecting **Custom Reports** from the menu system. From there, choose from available transaction types, which include:

Incoming ACH. Batch-level information is available for the last 30 days of activity.

Outgoing ACH. Batch-level information.

Domestic Wires. Transaction-level information for all active fields in the domestic wire form.

International Wires – corporate and consumer (Reg E). Transaction-level information.

Vault Cash. Transaction-level information.

After specifying the categories of information you want, you can import it into a .csv file that can be sorted if you like. Do keep in mind, though, that only transactions entered on BIDS can be extracted. So, as an example, information on a wire called in cannot be pulled.

This new capability was added in response to suggestions from users like you. Keep your comments coming, and have some DIY fun!



2017 BANK CARD CONFERENCE

May 3-5 ▪ Ameristar Casino Resort & Spa ▪ Black Hawk, Colo.

- ✓ Learn what's new and important in card services; cybercrime trends; product advancements; EMV; regulations—and more
- ✓ Pre-conference training sessions and networking opportunities

REGISTER ASAP ▪ hotel room block expires April 19

➔ **BBWEST.COM** FOR CURRENT INFO & REGISTRATION

2017 BANK OPERATIONS CONFERENCE

Aug. 24 ▪ Denver Airport Marriott Gateway Park ▪ Denver, Colo.

- ✓ Outlook on the next five years: priming for changes and leveraging strengths
- ✓ Vendor management; customer succession planning; the grooming of your future workforce; payments progress

Program and registration to be available soon

2017 CONFERENCE ON CYBERSECURITY IN COMMUNITY BANKING

July 16-18 ▪ Grand Hyatt Downtown ▪ Denver, Colo.

- ✓ Educational sessions on dual tracks—detailed with technical drill-down for IT staff; big-picture and strategic perspective for bank directors and senior management
- ✓ Regulatory panel; information security panel; breakout sessions
- ✓ Information pertinent for community banks

REGISTRATION under way ▪ agenda in progress

JOIN US!

2017 POWERPACK BANKING CONFERENCE

Sept. 18-19 ▪ Omaha Marriott ▪ Omaha, Neb.

- ✓ Integrated education across varied aspects of bank operations; security; technology; bank card and electronic payments
- ✓ Updates and practical guidance targeted to key staff with disparate responsibilities or multiple areas of oversight

Details to be announced and sign-up to begin late second quarter

Bankers' Bank of the West has been part of the effort to help improve the payments system in the largest economy in the world thanks to Debbie Wendt and Chris Hill's participation on the Faster and Secure Payments task forces, respectively. Embracing the fact that the U.S. payment system is at a critical point in its evolution, the task forces have been charting a path to effective approaches for implementing safe, ubiquitous, faster payment capabilities. We envision a payment system where money can be transferred safely in real-time between all individuals and companies in the U.S. This new capability will help set the stage for the modernization of banking and transaction processing infrastructure, and enhance the ability of service providers to meet emerging consumer and business demands for real-time payments and information exchange. This ensures our country remains competitive in a rapidly evolving global marketplace.

In under two years, we have established a guide for this new real-time payment capability, the Faster Payments Effectiveness Criteria, and reviewed faster payment solutions proposals submitted by a number of innovative payment experts. In January of this year, *Final Report Part One: The Faster Payments Task Force Approach* was published, highlighting the task force's background. The task force's recommendations and suggested next steps to achieving this improved payment system will be in part two of the report, expected in mid-2017. The hope of improvement lies within the unprecedented industry collaboration, momentum and innovation.

To find out more, follow us on Twitter (@fedpayimprove) and visit FedPaymentsImprovement.org.

An update from the Faster Payments Task Force

What blockchain means for you and your customers

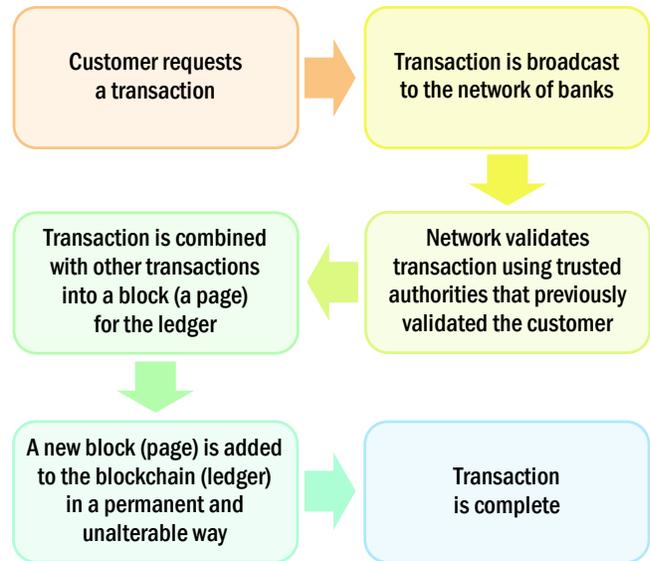
Anne Benigsen, CISSP ▪ First VP – Info Security & Technology
Bankers' Bank of the West

For years there has been talk of blockchain, bitcoin, and cryptocurrencies. With the ever-escalating demand for speed and security in the processing and settlement of payments, community bankers and their customers need to understand what this technology means to them.

Blockchain, also referred to as diversified ledger technology, is a decentralized digital ledger that records transactions across many computers in a way that prevents the registered transactions from being altered retroactively. More simply, a blockchain is like the ledger books used by bankers for decades—but with an infinite number of pages. Every “page” represents a “block,” sequenced in chronological order, each reflecting verified transactions and timestamped, thereby preventing retroactive alteration. The sequence of these pages represents the “chain.”

Because blockchains are secure by design, they are suitable for transaction processing, identity management, the recording of events and medical records, and other records-management activities. Their unalterable character allows for easy transaction verification and auditing. The graphic at right is a representation of the transaction flow.

Bitcoin, which runs on a blockchain database, became the first decentralized cryptocurrency in 2009. Since then, numerous cryptocurrencies,



or altcoins, have been created. These digital currencies use decentralized control as opposed to centralized electronic money/centralized banking systems like the Federal Reserve. Some central banks are studying issuance of a central bank-issued cryptocurrency.

Blockchain remains an evolving system, but as the need to process and securely verify transactions grows, and systems are developed to meet this need ubiquitously, it will become a greater and more significant part of the U.S. financial services industry.



1099 18th Street ▪ Suite 2700
Denver, Colorado 80202