



Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks
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PRESIDENT'S MESSAGE

Because each generation has its own definition of “over the top”

A while ago, BBW's Denver team ordered a custom banner stand for tradeshow. They turned to the same local business we'd used about five years ago, not because of pricing (it wasn't the cheapest) but because the earlier purchase had gone well. Only this time there was a hitch—a subtle flaw showed up along the top edge of the banner, which had been printed by an outside vendor.

The way the sales rep, named Nick, handled the situation is worth describing. He examined the printed banner 24 hours before the scheduled pickup. Noticing the flaw in the banner, Nick sent us a digital photo with an email explaining he'd already put a rush on a replacement order from the vendor.

By the time our employee came to the warehouse to pick up the stand, Nick's in-house production staff had made a second (less durable but similar) banner as a temporary fix, giving us two good options for our immediate exhibit needs. Both stands had been set up side-by-side in the showroom, so we could pick one to use until the replacement was delivered (free) to our headquarters. Nick turned a production problem into a result that earned our loyalty.

No doubt you've had above-and-beyond experiences like this—some on the receiving end and many as a service provider. Community banks are known for superior service, so there's no need to preach to the choir, right? But considering how rare “wow” relationships have become, community banks now enjoy a significant competitive edge over their much bigger counterparts. It's time to take the next steps: double down on everything “the edge” consists of, and boldly communicate those benefits.

One of the most telling sessions at BBW's bank operations conference in August was a panel discussion involving a smart and popular community bank president/lender and three successful, hard-working business people in their 20s and 30s—part of a demographic that financial institutions want to draw into their customer base. The panelists' responses to the question of what they expect from a bank included some technical

capabilities—mobile and online banking, remote deposit capture and bill payment, to name a few. Another comment was met with smiles and nods across the board: “What I want is anything that saves me time or makes my life simpler.”

They defined what relationship means to them:

Earn our confidence. Educate. Deliver on your promises. We want a main contact at the bank who knows and advocates for us—who's competent and responsive. It's okay not to know all the answers, but get back to us even if the answer is no.

At several points during the conversation, panelists mentioned their need for a banker they can trust and rely on. Their comments suggested that they not only see the banker as an adviser but also consider the advice worth paying for. One man whose clients own small businesses themselves put it this way: “I know my banker will get it done right, so I don't care that he's not the cheapest.”

Later the same panelist noted that the countless connections community bankers make in their line of work represent real value to business customers. He said that both he and his clients depend heavily on networking and referrals to grow their businesses. Therefore, he expects his banker—who takes time to know all commercial customers well—to recommend him to prospective customers as appropriate. It's part of a win-win relationship.

These were just a few of the constructive remarks made by the panelists in August. While four people can't speak for an entire generation, I hope their ideas will encourage you to start conversations with the up-and-coming wave of potential bank customers in your community.

Finding out how your prospective customer base defines a “wow” relationship can guide you toward a competitive strategy for years to come. You already have an edge; enjoy discovering exactly what that is!



Bill Mitchell
BBW President & CEO



TAKING NOTE

DR. KOHL ON AGRICULTURE AND AG LENDING

In an hour-long webinar on Nov. 6, **Dr. David Kohl**, Professor Emeritus, Virginia Tech, will discuss the state of agriculture and ag lending. Among other things, he will describe some offensive and defensive strategies for working capital burn rates and core equity burn rates, which can influence the agility of the customer; explain what should be included on a one-page recovery plan; examine financial and management characteristics of the top 40% and bottom 30% of producers; and look at the key financial and non-financial metrics of customer quadrants.

The webinar will be helpful to ag lenders, credit analysts, and producers. To receive enrollment information, email conferences@bbwest.com.

RISK CONTAINMENT AND MOBILE DEPOSIT CAPTURE

The final WesPay-led webinar course in BBW's 2017 targeted training series will be a thorough look at duplicate presentment of items deposited through mobile and again as paper, the risks of consumer transfers, and tactics for reducing loss or fraud for your bank. To make sure your team is prepared for situations like the one described on page 5, sign up for the Dec. 15 webinar on **Mobile Deposit and Consumer Transfer Risk**. (For details, email ops@bbwest.com.)

ANOTHER REASON TO GET ON BOARD

The educational program for the **Symposium for Community Bank Directors** to be held at the Hyatt Regency Scottsdale Resort and Spa Oct. 29-31 is centered on positioning community banks for the future. Every year, one of the most popular and highly anticipated Symposium features is the peer-led panel. The panel facilitator in October will be **Anne Benigsen**, CISSP, head of information technology and security at BBW and an often-requested presenter for banking and industry group functions.

The panelists are community bank information technology experts. Representing four geographical regions and institutions of varied asset sizes, they will share extensive knowledge and a range of perspectives on technology with an emphasis on enterprise risk and risk management. Visit www.wsdef.org for event logistics, program agenda, and registration information.

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



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Adding a good measure of culture to compliance

Jill Emerson, Owner ▪ Integrity One Consulting, LLC

What does the word “compliance” bring to your mind? To me it suggests structure, details, rules, standards, regulations. Sounds technical, right? True, it is. While following the rules is certainly mandatory, **culture can be just as important or more so**—even though it’s natural to focus on the technical details of maintaining a compliance program.

Why is culture important? Culture helps us identify areas of inefficiencies where potential improvements can be realized. It can even draw attention to significant gaps that can then be resolved, resulting in the avoidance of an enforcement action.

In September 2014, the Financial Crimes Enforcement Network published an Advisory, FIN-2014-A007, to address the importance of promoting a culture of compliance. It outlines a six-step process for positively affecting your institution’s compliance culture. Although the focus of the Advisory itself is on BSA compliance, it can (and should) be applied across the entire compliance function at your bank.

Let’s take a quick dive by asking intelligent questions for a quick review of your program.

Leadership should be engaged ...

✓ *How well do your leaders understand their responsibility regarding your institution’s duty to compliance and creating a culture of compliance?*

✓ *How visible is your leaders’ commitment? Consider that beliefs are tied to commitment, which in turn influences others’ attitudes.*

✓ *For example, how does your leadership demonstrate support for the BSA compliance program?*

Compliance should not be compromised by revenue interests ...

✓ *Is your compliance team empowered with suitable authority and autonomy to implement its compliance program?*

Information should be shared throughout the organization ...

✓ *Can you clearly identify the mechanisms in place for the sharing of information?*

✓ *Are there blockages that prevent your compliance department from accessing information from other departments?*

Leadership should provide adequate human and technological resources ...

✓ *Based on your bank’s risk, does leadership allocate sufficient staff and technology resources to the compliance function?*

The program should be effective and tested by an independent and competent party ...

✓ *Is this party unbiased, independent, and qualified, with no conflicting business interests?*

Leadership and staff should understand how their BSA reports are used ...

✓ *How is the information used with compliance and BSA reports—are the reports effective?*

Your bank’s efforts to foster a robust compliance program consist of more than creating efficiencies within processes. Culture may play an even greater role. So ...What is **your** bank’s culture?

...

Integrity One Consulting, LLC provides expertise in BSA and consumer compliance testing, training and program development. Need assistance? Contact us at **720-350-1676** or integrityoneconsulting@outlook.com.

Skill-building seminar to equip business loan officers with strategies, tools

Loan Officer Financial Management ▪ Oct. 26-27 ▪ Denver

For the tenth consecutive year, Bankers’ Bank of the West is sponsoring [Loan Officer Financial Management Training](#), a two-day interactive seminar for loan officers with any mix of portfolio, underwriting or calling responsibilities.

The course walks through the lending process from the business customer’s perspective, explains how to structure and finance debt in a way that positions the business for sustainable growth, and focuses on practical techniques lenders can apply to benefit both the business customer and the community bank.

The seminar has consistently received positive feedback from bankers who’ve taken it. The course outline, logistics and registration form are available at www.bbwest.com. **Sign up now!**



Seminar leader
Mike Milan

What's your bank's mortgage solution?

Mark Hansen, President ▪ West Gate Bank Mortgage

When I visit with community bank CEOs, I always ask, “What’s your mortgage solution?” Many voice frustration. If you can relate to the CEO’s struggle to provide good options for customers while managing the bank’s risk, I encourage you to read on.

THE PAST. The rules of engagement for mortgage lending changed drastically with the 2007 recession as investors and government regulators grew increasingly risk-averse. We were in uncharted waters; industry confidence was low. The mortgage industry came under intense regulation and scrutiny due to wrongdoings of a few. Fannie and Freddie are still in conservatorship. Dodd Frank was enacted. Cryptic additions to our vocabulary—TRID (TILA RESPA Integrated Disclosures), QM, QC, UCDP, CU, CFPB—were created for new rules and systems meant to protect either consumers or the end investor (typically a GSE).

THE PRESENT. Extending residential mortgages is more complicated and pricey. Community banks are at risk of being squeezed out of mortgage. The new paradigm has hurt the local community housing stock and the bank charter.

Some banks have reluctantly exited the mortgage business altogether—a tough call for a bank CEO because the home mortgage is a foundational service: Most bank customers dream of owning a home. What’s more, a bank that has no mortgage solution is vulnerable to losing a deposit customer to a competitor that does. The lack of a mortgage solution can be detrimental to the local economy, too, as housing infrastructure is vital to attracting workers for industry and commerce.

Offsetting the desire to meet a customer need are two other decision factors: risk management and profit potential. Does the bank have staff capabilities and expertise to fulfill mortgages? Will the mortgage volume justify the payroll and overhead expense? Does the potential reward justify the risk?

I recommend that community banks devise a strategy for this service just as they do for core deposits. Don’t tell customers you have no mort-

gage solution. Customize a solution to your bank’s capabilities and marketplace. What’s your size? What’s the home loan demand in your market? What are your staff capabilities? Be the go-to financial advisor and problem solver for your customer. Serve your community and provide access to home loans to maintain and improve the community housing stock. Doing these things will enhance the franchise value of your bank, too.

Community bank CEOs could consider the merits of four secondary market options:

Referral: no income, no risk

Broker: some income, low risk

Correspondent: more income, more risk

Direct Seller/Servicer (Fannie, Freddie or FHLB): most income, most risk

There is no one-size-fits-all solution, however. As the mortgage industry evolves, new outsourcing options are sure to surface. Only you can decide if outsourcing is right for your bank.

An additional solution is to make portfolio loans and hold them. Given the significant downside of this approach—the heavy compliance burden and interest rate risk inherent in long-term fixed-rate loans—most banks are unlikely to choose it as their primary solution.

THE FUTURE. This article is a brief look at a few issues to think about when creating a mortgage strategy. It doesn’t discuss all the risks and opportunities that must be considered. It’s based on a detailed white paper entitled *What’s Your Mortgage Solution*. I invite you to order it if you have more questions. Just email your request to mhansen@westgate.bank, specifying “mortgage white paper” in the subject line. We’ll be happy to provide you a copy.

I believe community bank CEOs and boards want to offer this service to their customers and their communities. The good news is solutions and strategies are available for minimizing the risks and allowing the bank to offer the service. Depending on your size and strategic objectives, the most important decision you’ll make is the mortgage partner—lender or investor—you align yourself with. Be strategic in your choices.

OPERATIONS POTPOURRI

A mixed bag of facts, issues and resources worth talking about

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

At BBW's recent Bank Operations Conference in Denver and PowerPack Conference in Omaha, I was impressed with the attendees' candid "shop talk." These bankers clearly grasped the value of collaborating with peers and the importance of sharing industry knowledge to ensure all their banks stay current, secure and compliant. So for this column, I'll shift the spotlight away from BIDS specifics and instead highlight three topics that got operations people talking.

Surcharge awareness. At this time, 10 states prohibit merchants from adding a surcharge to credit card transactions. The onus is on the merchant to learn whether restrictions apply in the states in which it operates, and to stay informed of legislative changes. Consequences for violating any restrictions vary by state, and future court decisions could impact the rules as well. Merchants should understand that ignorance of the law is no defense against failure to comply.

Multiple complications. The ability to deposit either physical checks or check images has opened the door to duplicate presentments—say, one image and one physical check. The past assumption in such a situation—i.e., the paying

bank should make the warranty adjustment claim to whichever bank of first deposit was faster to clear the item—is no longer hard and fast. In this scenario today, a warranty adjustment claim would be made to the bank in possession of the physical check. This example shows how an adjustment process involving multiple banks of first deposit has grown more complex and risk-prone. Education is the best way to reduce risk. Excellent sources of information are **ECCHO**, if your bank is a sponsored member; your **payments association**; and **adjustment training sessions** led by the Federal Reserve Bank. (See also the reminder about a relevant webinar on **page two**.)

Power tool. There was buzz on the Financial Fraud Kill Chain, a process that can be initiated by U.S. financial institutions—in rare situations that meet specific criteria—as part of an effort to recover funds illegally withdrawn and wired outside the country. FFKC information is accessible to members of two reputable organizations: Infragard (www.infragard.org) and the Financial Services–Information Sharing and Analysis Center (www.fsisac.com). Join one or both: Members can log in to download documents.

Fraudsters and hackers and exploits ... oh, my!

Greg Miller, IT Analyst ▪ Bankers' Bank of the West

We're coming up on Halloween, the time of year when the ghouls come out. I'm not talking about ghosts and goblins; I mean the bad guys who try to steal information any way they can. Soon they'll ramp up attacks in an effort to cause you more misery than overeating at your relatives' house. Here are some reminders and safety tips to keep you skating smoothly through year-end:

🔒 Avoid using free Wi-Fi. Sure, it's convenient. But it's also easier for bad guys to hop on, "listen" to the traffic, and maybe intercept the information you send over the internet.

🔒 When shopping online, make sure the page you're buying from is secure. Look for either the lock symbol in the address bar or a website address that starts with **https**.

🔒 Speaking of buying online, shop only at reputable sites. Chances are that Frisky Frank's Online Discount Shack is a shade too risky.

🔒 Use a different password for each site you sign in on. Yes, using the same password for dozens of sites is convenient. But you're also making it easier for hackers to access **all your valuable private information** on those sites. Several password managing apps are available to help you keep track of your passwords, and most are affordable if not free. Check them out.

🔒 Update, update, update! When an update comes out for your PC or mobile device, do it as soon as possible. Updates often address security concerns. Hackers can use out-of-date versions of apps and programs to exploit security holes that allow them in to steal the goods. Adopt this mantra: "**Stay up-to-date; it sure is great!**"

Don't let the crooks scare you. Just stay on your toes this holiday season and make sure the only thing the bad guys steal is some of Aunt Millie's fruitcake from last year! (That'll teach 'em.)



Oh, Equifax

Anne Benigsen, First Vice President—Information Security and Info Technology ▪ Bankers' Bank of the West

Oh Equifax. A breach in one of the three largest consumer credit reporting agencies is sending ripples through our entire economy and rightly dominating the news. Which remedial steps and information can keep both you personally and your customers safe?

Stay current by reading the latest postings at www.equifaxsecurity2017.com.

What Equifax is **not** providing is detailed information on who was breached, what was really breached, and which cards were breached. While the public may be angry at Equifax about the lack of information, it's likely they themselves don't know exactly what data was breached.

I've been hearing awful things about the site www.equifaxsecurity2017.com. Things like, *It's not reporting correctly. It's making me waive my right to file a lawsuit. It costs money.*

Use the site. It might give you a false positive, but it likely won't give you a false negative if you **have** been compromised.

You will not waive your right to sue by signing up for the monitoring program. The language about the waiver was removed following an uproar on social media, and anyone who signed up before the clause was revised will definitely have the right to sue. However, if you see any

checkbox stating "I do not want mediation" or words to that effect, check the box.

There's no cost to sign up for the monitoring program or to freeze your credit on Equifax.

Realize that you might have credit cards or other financial products that already provide fraud protection or other security benefits. If you really don't want to deal with Equifax again, look to your credit cards. Most MasterCard® issued cards come with identity theft protection. It's worth your while to check out any benefits your other cards may have as well. If you have questions about this, our BBW Bank Card specialists are willing to assist.

Use a tool. Freeze your credit. The Equifax breach will be used by criminals for more than gaining lines of credit. Spear phishing, the filing of fraudulent tax returns next year, and applying and defaulting on health insurance are but a few of the things ill-gotten data can be used for.

It's important to keep your customers informed and safe. Remind them that the Federal Trade Commission website (www.ftc.gov) is a credible source of consumer information with guidance on how to order a free credit report, place a credit freeze or fraud alert, sign up to receive scam alerts, stay safe online, and more. Education can be a lifeline at times like this.

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SEASONAL TIPS
FOR ONLINE
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