



Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

Issue 4 • 2019

PRESIDENT'S MESSAGE

For changing times, a contemporary narrative on building value, delivering support

At Bankers' Bank of the West, we have been discussing and refining the narrative on how we view our company.

As a bankers' bank, we comply with the same banking rules and regulations as traditional banks. Our company is led by individuals who previously worked at community banks. Our belief in community banking runs deep, and advocating for community banking is second nature for our team. We know from experience how vital you are to the communities you serve.

One difference between a bankers' bank and a traditional bank is the size of potential customer base for each. There are approximately 330 million citizens—that is, potential community bank customers—in the United States. There are roughly 5,400 community banks. The country's population is growing, as is the assets size of banks. Yet even as banks' asset size increases, the number of banks continues to decline due to mergers and acquisitions.

BBW still has many strong customer banks with total assets of less than \$250 million, and plenty of these have assets under \$100 million as well. At the same time, a number of our customers are approaching or passing the \$1 billion threshold. In fact, our biggest customers and shareholders have assets of \$10 billion or more. But asset size is actually irrelevant to the role we play and the work we do. If a bank is a community bank in attitude and practice—whether under \$100 million or more than \$10 billion in assets—we will effectively serve that bank, given the opportunity.

BBW currently has a balance sheet reflecting \$376 million in average assets for 2019 with total assets under management of \$5 billion. But in reality, neither of these measures reflects our

capacity for serving community banks of all sizes. Our ability to provide specialized support is what qualifies us to assist any community bank seeking the benefit of economies of scale,

enhanced technologies, and improved customer service from a correspondent provider or financial services vendor. BBW is capable of filling this role for any community bank with those needs.

All of this leads to the new narrative for Bankers' Bank of the West. Instead of identifying as an independent correspondent bank, we now see ourselves as a **community bank service provider** that:



Bill Mitchell
President & CEO

➤➤ Is led by people who are community bankers at heart and who embrace the BBW mission: **to champion community banking**;

➤➤ Is capable of delivering real value to a community bank of any size that seeks to add new products, improve pricing, increase efficiencies, access enhanced technologies, and receive premier customer service and support;

➤➤ Unlike non-bank vendors and fintech companies, understands the regulatory environment in which community banks operate, and maintains focus on safety and soundness in line with our customers; and

➤➤ Will never compete directly with our customer base, serving instead as an advocate and partner for our customers in their pursuit of success in the communities they serve.

Whether a community bank is \$25 million or \$15 billion in asset size, we can provide a superior customer experience. Community banking is vital to our country. Bankers' Bank of the West remains committed to serving the industry we're so passionate about—and we're equal to the task.

2019 Information Security in Community Banking Conference

October 23 - 25 at the **DOUBLE TREE BY HILTON HOTEL DENVER-AURORA**

Centered on the unique educational needs of community banks, this event features:

*dual-track sessions *regulatory panel discussion *peer-to-peer roundtables *TacX tactical exercise

Visit **[CVENT.ME/GWWYW](https://www.cvent.me/gwwyw)** to access event overview and registration

REGISTRATION
UNDER
WAY



TAKING NOTE

RESOURCE RECENTLY RELEASED BY FinCEN

An advisory (FinCEN Advisory FIN-2019-A005) was issued July 16 by the Financial Crimes Enforcement Network. It incorporates current insights that complement its previous advisory (FIN-2016-A003 issued September 6, 2016) pertaining to email compromise fraud schemes.

The new advisory is interesting and highly recommended reading for community bank CEOs, BSA/AML analysts, information security staff, and chief operations, compliance and risk officers.

To access the downloadable document, visit the FinCEN website (fincen.gov). Choose the Resources menu and click on Advisories/Bulletins/Fact Sheets. From the chronological list select FinCEN Advisory FIN-2019-A005.

BATTEN DOWN THE HATCHES ON FRAUD

Next in the 2019 series of WesPay-led webinars open to Bankers' Bank of the West customers is **Payments Fraud**. The 90-minute course scheduled for **August 30** will cover anti-fraud policies and procedures, risk mitigation, scam trends, and practices for defending your bank against identity theft, phishing, spoofing, and other fraud tactics.

Need a course schedule and registration form? Email your request to ops@bbwest.com.

WHEN PREPARING FOR YOUR NEXT EXAM

While performing vendor management duties or getting ready for an exam, you might need reports, certificates or other documentation from your service providers. To request information on services you obtain through Bankers' Bank of the West, email vendormgmt@bbwest.com. In the body of your message, be sure to specify which documentation you need.

PROACTIVE EDUCATION FOR BUSINESS CUSTOMERS

One of the most effective ways your bank can demonstrate its commitment to commercial customers' success is by keeping them educated on financial issues that affect them. Are your business customers aware that an ACH return of a commercial (CCD or CTX) received/presentation item must be processed within two banking days of its receipt? Thereafter, the RDFI can refuse the return as a late return claim. *Read more under Operations Biz, p. 5.*

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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Prognosticators point to lengthier, obfuscated passwords shielded with added verification

Ashlee Aleshire-Ash, Senior IT Support Specialist
Bankers' Bank of the West

From the inception of security for technology, we've been urged to change our passwords regularly. The common advice was to make the password complicated, nonsensical, and (most importantly) something nobody else could guess. That is now changing: Recently, many organizations—Microsoft and the National Institute of Standards and Technology among them—have released statements indicating current password procedures are obsolete and in need of an overhaul.

Before, the guideline had been to change your password every 90 days. That password had to be no fewer than eight characters long with at least one uppercase, lowercase, number, and special character. Now we're being advised to change passwords only when a breach occurs.

From an IT perspective the new recommendations might seem dangerous, but there are some stipulations to add layers of security. First, passwords should always be checked against a blacklist of known passwords. (Also, by now it should be obvious that using "pass-

word" in your password is not best practice.) Second, use all characters available, **including the space**. Third, password length should be anywhere from 8 to 64 characters long. Fourth, use a second factor for authentication.

To clear up any confusion the previous sentence might have caused: Multifactor authentication takes something you alone have and turns it into another way to authenticate with a system. The simplest form is the RSA token. In recent years, smart innovators have applied the idea behind an RSA token to creating an app for your phone—something you're likely to always carry with you.

Changing passwords is nobody's idea of a good time, but don't camp outside your friendly neighborhood IT person's door with pitchforks just yet: These things will take time to implement. Many websites already have no limits on password age, and yet business systems will be slow to follow for a variety of reasons. The best advice I can offer is this: Multifactor authentication is the way of the future. Be ready for it.

Introductions to some of the people working at BBW to champion community banking

Shortly after **Kevin Jacobs** decided to move from Casper, Wyoming, to Denver along with his identical twin, he was hired in May 2017 by BBW for the Bank Card team. He adapted quickly to his new job, city and lifestyle. Since joining the bank, Kevin has made significant progress toward earning a bachelor's degree in project management and marketing, which is one of his main goals. To that end, he recently took on part-time work with a real estate marketing firm that will augment his studies with hands-on experience as an operations coordinator.



Kevin

Kevin has made numerous return visits to his home state to spend time with family, and he's hosted them at his apartment as well. When there's enough time for leisure on his own, he frequently heads outside. "Hiking really helps me focus and calm down," he said. "I enjoy fishing and being outdoors in general. It's also fun to check out local breweries once in a while."

Donny Watters joined the Bank Card Department in November of 2017 with a seven-year background in community banking in a variety of roles, including proof operator, teller, treasury services, adjustments research, and customer service. In his current position as a bank card specialist, he puts that knowledge—not to mention a positive attitude, strong work ethic and healthy sense of humor—to work for his customers and BBW colleagues.



Donny

On weekends, Donny often unwinds at his sister's house, spending time with his nephew and niece. Travel ranks high among his favorite pastimes, too. The destination he likes best so far is New Orleans for its buildings, unique atmosphere, signature music, and walkability. "Of course you cannot forget about the amazing beignet," he added. An item at the top of his bucket list is traveling to Germany, where his mother and two sisters were born and raised ... and where he has yet to set foot.

Rundown on new and longstanding strategies for managing excess liquidity

Jeff Benson, SVP and Chief Operating Officer • Bankers' Bank of the West

In July, Bankers' Bank of the West significantly increased the rate we pay for fed funds. You can now earn a better rate selling into our fed funds agent pool than by parking excess funds at the Federal Reserve Bank (FRB). As I write this (the second half of July), the market is expecting the Fed to cut rates and the large banks are already bidding down the rates in anticipation, which will affect the rate BBW can pay. No matter what has transpired in the interim, the factor to focus on is the difference between the two rates, which can vary daily.

Something else to consider is that the BBW fed funds pool pays interest daily whereas the FRB pays interest every other week. Needless to say, the compounding of interest is an advantage.

A difference in risk exists between fed funds and deposited funds at the FRB. Fed funds carry a 20% capital risk weighting while deposits at FRB are 0% risk weighted. Fed fund sales are not guaranteed; deposits at the FRB have an implied guarantee. BBW has never experienced a loss in our fed funds agent pool, and we aim to keep it that way.

BBW's long-term goal is to grow the spread between our fed funds rate and the FRB's interest on excess reserves further, regardless of rate changes in either direction. Our strat-

egy for achieving this is to grow the volume of the fed funds pool which, in turn, allows us to trade in larger blocks of funds that drive better pricing in the national markets. Additionally, we diversify the sales among several large institutions that we monitor constantly.

Much of the value of an agent pool as opposed to direct sale to a large institution is diversification. Under one scenario, a bank might sell \$20 million to a single bank overnight, creating quite a concentration. Under another, \$20 million in the BBW agent fed funds pool is split among multiple institutions, lowering the concentration risk to any one bank with one transaction. The number of banks the funds are sold to depends on how many banks are in the market any given day. You might lose a few basis points but gain an hour of sleep under the second scenario.

In the end, your decision will come down to a risk-based capital versus income question. If you decide to pursue fed fund sales, BBW's agent pool is an efficient and valuable option for you. The Reg F matrix of banks we trade with every quarter is posted to our website for easy reference. For assistance, you're welcome to contact our Federal Funds Department staff at **800-318-8393**; email them at fedfunds/wires@bbwest.com.

At the intersection of positive intentions, helpful neighbors and good work

Prominent businesses are often invited to support nonprofits, charities and causes. With deep roots in the localities they serve, community banks tend to receive many requests for help. Deciding whether (and which) to support can be difficult, especially if no guidelines are in place. A few examples of structured approaches follow:

- ♦♦ Decide the general categories of causes your bank will focus on—scholarships, civic projects, youth activities, and so on.

- ♦♦ Charge a small cross-section of staff with periodically reviewing and making recommendations on requests within a defined budget.

- ♦♦ Create a standard form to be completed by all individuals and entities asking for support. Obtain contact information for the person at the



charity who approved the solicitation, and list some criteria the bank will use in deciding.

- ♦♦ Select a different charity each month to receive a donation from the bank.
- ♦♦ Lend in-kind support if available and appropriate—use of a meeting room, a parking lot that's empty over the weekend, or space for a donation bin in the lobby, for instance. Some businesses give employees paid time off for doing community service during working hours.

While there's no perfect playbook on supporting the community, it is helpful to have at least a few general parameters and outcomes in mind.

Finally, some helpful advice from the Federal Trade Commission: If you're approached by an organization you're not familiar with, doing some online research can help you avoid scams.

When an ounce of preventive diligence could be worth a pound of indemnification

Debbie Wendt, SVP Operations ■ Bankers' Bank of the West

As popular as summer is, the eagerly awaited peak vacation season can bring a little extra stress to the operations side of the bank in the form of thin coverage and added responsibilities during employees' absences. It can be tempting to put off routine tasks when you're down a person or two on a busy day, but there are good reasons not to fall behind on the most important ones. Let's look at an example.

Suppose that an ACH transaction is received/presented on Monday. If the item is a consumer transaction, you may have a 60-day window of opportunity to process an ACH return, as stipulated by the applicable NACHA rules.

In contrast, if the received/presentation item is a commercial (CCD or CTX) transaction, you have just two banking days to process the

return. Once that period has passed, the RDFI can refuse the return as a late return claim.

This hypothetical story calls attention to the importance of monitoring your accounts daily. Prompt reconciliation is a best practice; it's also key to spotting issues and taking corrective action early—which is far less time-consuming than trying to recoup a loss after the fact.

➤➤ BIDS driver software update reminder.

The enhancement of the biometric authentication environment to version DP Lite Client v3.0 was released July 11. Juniper Payments anticipates the earlier version (DP Online Client v5.5.1) will be disabled in September. If you are utilize the BIDS biometric reader and haven't yet updated your driver yet, please do so soon. Questions about this? Contact us at ops@bbwest.com.

CONNECTING THE DOTS:

CURRENT DOMESTIC AND GLOBAL OVERVIEW FOR AG LENDING



A LIVE WEBINAR LED BY DR. DAVID KOHL

Professor Emeritus, Virginia Tech Dept of Agriculture & Applied Economics Blacksburg, Virginia

Monday ■ November 25, 2019 12:30 to 1:30 pm MST 1:30 to 2:30 pm CST

The agricultural reset appears to be elongated, with uncertainty around every corner and concern over when it will end. A domestic and global overview will provide perspective concerning the factors and transformative trends influencing customers' financials and lenders' portfolios. In this engaging webinar, Dr. Kohl will incorporate a discussion on the spectrum of performance possibilities for credit risk and business development and what is an acceptable burn rate on working capital and core equity.

Online registration opens soon: Visit NEWSROOM—Events and Classes—at BBWEST.COM

PROGRAM HIGHLIGHT: 2019 Western States Director Education Foundation Symposium

“Creating Order out of the Fintech Chaos”

Symposium Presentation by Brian Bauer

Fintech. Disruption. All the buzzwords. 2018 was a record year for U.S. fintech investment. One major challenge for community banks is to detect the signal among all the noise. The next challenge is to turn that insight into value.

As managing director of Accelerator Programs at The Venture Center in Little Rock, Arkansas, Brian Bauer (pictured here) is responsible for program strategy, company recruitment, strategic partnerships and curriculum for the Independent Community Bankers of America ThinkTECH Accelerator.



Brian earlier served in the U.S. Navy as an aerial gunner and crew chief on board the HH-60H Seahawk helicopter. He was awarded the Air Medal seven times for support of Special Operations Task Force missions in Iraq.

FOR COMPLETE SYMPOSIUM INFORMATION VISIT WSDEF.ORG

Aiming high? Go boldly into the future from a position of strength

Debbie Meyers, Partner, and Dave Nowling, President & Partner • DunamikosGroup

Community bankers, on the whole, recognize the “face” of their bank is largely represented by the people who work within it. From this perspective, those employees can be considered the bank’s biggest asset. Investing in that talent is one of the most critical efforts any community bank can undertake to create a sustainable future for the organization. Staff development not only correlates to bank profitability; it yields other substantial benefits as well.

First, investing in employee training and development programs positively influences staff retention. Studies show such programs can impart a sense of value to staff, foster loyalty, and factor into an employee’s decision as to the length of their tenure. Evidence indicates that 94% of employees would stay longer with a firm that invests in staff professional development. Given that the “hidden” cost of staff turnover is roughly 150% of a worker’s annual salary (or more), the financial burden of churn can severely hamper bank performance.

Second, employers offering staff training and development programs enjoy a competitive advantage in the hiring process, which is significant in the current tight labor market. While professional development is useful for workers across the board, it’s valued highly by millennial recruits, who tend to give more weight to ongoing education when making

employment decisions than do their more seasoned counterparts.

Third, leadership succession is a growing concern for community banks—one that, if not properly addressed, could lead to serious leadership voids and quite possibly prompt the sale of a bank that’s unable to fill the void. Providing targeted leadership and essential skills training for tomorrow’s leaders can help address this common deficiency in leadership and establish a basis for the future growth and viability of the organization.

Further, when employees feel well-trained and fully developed, they gain a sense of growing empowerment, autonomy and confidence in their work. Studies have shown that organizations with high staff engagement levels perform much better than the norm, and they’re also more efficient and productive.

In view of the factors laid out above, can you afford to not make a serious investment in training and development programs for your community bank? If you’d like to learn how to create a high-impact customized program for your bank, please get in touch with either of us regarding the variety of options available.

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