



# Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

Issue 2 ■ 2020

## PRESIDENT'S MESSAGE

### Keys to economic recovery: grassroots advocacy, grounding in economics, fact-based decisions

Something I have shared with my kids over the years is the importance of making decisions based on facts, not emotion. Today it's all too easy to rush to conclusions based on hand-picked information that's consistent with one's beliefs versus considering all the facts and then deciding based on verified facts. The same principle applies to the economy.



Bill Mitchell  
President & CEO

As a community banker, I am often asked about the state of the economy. Americans trust community bankers and believe we have an honest understanding of macro and local economic conditions. Community bankers are recognized as the economic change agent for the betterment of communities served. The way community bankers excelled at meeting the needs of small businesses and ag customers at the onset of Covid-19 reinforced public trust in our industry.

Community bankers walked the talk, working long hours to ensure their customers had access to Covid-related stimulus loans, deferring loans for borrowers with short-term cash flow issues, and helping businesses move forward.

Undoubtedly, state-level shutdowns of businesses had a profound impact on the economy. Unemployment hit a record 14.7% in April, improving to 8.4% in August—still high, but falling. Of course the big question on all our minds is where the economy goes from here. Since so many economic events and forecasts are reported by media with agendas, I sought feedback from sources I truly trust: community bankers.

In general, their replies reflected cautious optimism, as community bankers have not noticed significant downward trends in asset quality so far. Borrowers have no doubt been helped by aggressive deferrals or extensions granted by community bankers at the urging of regulatory agencies and elected officials. Despite positive trends to date, some banks in our market are raising loan loss reserve levels not because current methodologies require it, but as a safeguard against an element of “unknown” in the face of the possible economic impact customers may feel later in the current economic cycle.

I found it interesting that while all of the bankers providing feedback for this newsletter noted that current loan portfolios seemed to be stable, they are nevertheless taking a conservative approach to loan loss reserve balances because of the potential “unknown” (a word commonly used) longer-term economic impact of Covid. Several respondents indicated they expect reserves to be at or above 2% of loan balances by year-end, assuming they could meet accounting standards justification for the higher reserve.

Some specific comments from community bank executives:

▪ **Wasatch Range Utah bank with resort, suburban, and urban customers.** The bank has concerns on less than 1% of

the portfolio. Most deferments were for hotel loans—with resort hotels now doing well—in combination with a “mixed-bag” for other hotels. The bank's C&I portfolio is performing satisfactorily. ALLL reserves are being ramped up, not warranted for current loan portfolio performance but rather in case of currently unanticipated deterioration down the road.

▪ **Eastern Nebraska bank with rural, small-town, and midsize town customers.** Home builders, recreational vehicle sellers, and home improvement/lawn and garden companies are doing well. Hotels, bars, restaurants, and traditional retailers are having problems. Low corn and soy prices are hurting ag producers.

▪ **Northern Colorado bank with rural, small-town, and midsize town customers.** CRE loans are performing satisfactorily so far, although the bank is closely watching hospitality and retail loans. The livestock (beef) sector is performing better than row crop and wheat farmers.

▪ **Bank with branches in small-town, midsize town, and rural areas in three states in BBW's footprint.** CRE portfolio is improving, but the bank is nervous about retail and office space potential softness. The bank has not seen any deterioration in loan portfolio but is still cautious about any clouds on the horizon. ALLL is being increased for future “unknown issues” versus what has been experienced year-to-date; loans are performing, and classifieds have actually decreased.

▪ **Southern Wyoming bank with rural and small-town customers.** CRE loans are mostly back to normal and performing, though it is still too early to determine any additional risk. The bank will be increasing ALLL to 2.25% by year-end as a precaution. Livestock loans are performing satisfactorily.

▪ **New Mexico bank with urban and suburban customers.** Of loans deferred at the onset of Covid and over the subsequent months, 85% of these borrowers have begun either full or interest payments. The others are in scheduled deferment periods. The bank is still developing an ALLL strategy.

▪ **Front range Colorado bank with small-town, midsize town, and rural customers.** CRE loans are performing well. All loans deferred at the onset of the virus are now paying. As a precaution, the ALLL is being increased to 2%.

One objective expressed in virtually every response was to serve as an advocate for bank customers and a catalyst for the recovery of local economies (albeit within the confines of their conservative approach for dealing with possible loan problems down the road). We hope the regulatory agencies and elected officials alike will wisely avoid obstructing community bankers who, after all, will lead us as a country to a quicker economic recovery. I base this on wisdom offered by individuals who truly understand the facts: community bankers!

## Unemployment fraud on the rise: what can be done to curb it

Chris Hill, SVP & CFO ■ Bankers' Bank of the West

While unemployment trends are improving, the current environment has created a new vector for fraudsters.

Numerous state governments and law enforcement agencies have been getting reports from citizens who received cards used to facilitate unemployment payments and accompanying paperwork **even though they had never applied for unemployment.**

At a time of severe strain on states' budgets, this scheme is targeting the pandemic assistance programs that provide unemployment assistance for self-employed workers and those unemployed as a result of COVID-19.

Law enforcement encourages anyone affected to report what happened for the purpose of creating a record of it. Authorities note that those targeted could be victims of identity theft.

People who receive a card they did not expect or request are advised to immediately contact the card issuer to deactivate the card. Additional recommended action steps include initiating a fraud alert with the consumer credit bureaus and reporting the identity theft to the Federal Trade Commission.

The Colorado Department of Labor and Employment has received new claims requesting back pay from dates as old as February, forcing it to modify the process for obtaining backdated benefits. That shift, which requires applicants to speak directly to a department employee, led to a 40% drop in new claims. However, the CDLE estimates that more than 75% of claims since July 18 were fraudulent. The agency believes the new procedure has effectively blocked over \$750 million in improper unemployment insurance payments.

Being no strangers to data privacy and protecting customers' personal identifying information, bankers can proactively support their customers and communities by providing education, raising awareness, and sharing resources to help fight fraud. **This article, together with hyperlinks to state agencies across BBW's market area, is posted at [bbwest.com/news/](http://bbwest.com/news/).**

## ABOUT

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## Benchmarks and building blocks for business development

Even while working from an array of distant office locations, members of BBW's Bank Card team have been steadily pushing forward on a series of 2020 objectives the department had identified last year.

"The projects we've focused on have a common thread: they benefit merchants," said **Scott Wintenburg**, head of the Bank Card Department and BBW's chief marketing officer. "A strong, loyal commercial customer base is important to many community banks. Offering a leading-edge merchant program can strengthen a bank's ties with existing business customers and attract new ones."

Scott added that relationship-focused community banks are well-suited for businesses of all sizes, as recent statistics on PPP lending bear out. Newly released and planned enhancements to the BBW merchant program will give businesses more reasons to make a full switch to BBW's community bank customers.

"The upgrades are also giving community bankers something new and exciting to discuss with commercial customers," Scott said.

### AMERICAN EXPRESS OPTBLUE®

The BBW merchant program currently incorporates built-in acceptance of Mastercard®, Visa® and Discover® cards. But many businesses consider American Express® acceptance desirable and important for leveraging growth opportunities, increasing average transaction value, and boosting customer retention.

In April, the Bank Card Department began a major project aimed at integrating with the American Express OptBlue payment processing option. When the revamped system is released, merchants of any size will be able to take American Express cards as easily as any of the other major brands. A second significant benefit for the merchant will be simplicity: one processing relationship, a single point of contact, a single deposit for all card types, and one merchant billing statement.

Currently in pilot phase, this project is expected to launch early in the fourth quarter.



### CLOVER® RELEASED MARCH 31

For small businesses intent on getting paid, growing sales and running their business, the Clover suite of solutions is unequaled in terms of its flexibility and integrated capabilities. Clover uses a combination of point-of-sale hardware and cloud-based software to facilitate safe, secure acceptance of contactless (such as ApplePay®), credit card, signature and PIN-based debit card, and EMV® chip payments. It empowers merchants to get business tasks done efficiently from anywhere—inventory management, marketing, payroll, and more.

Something else that distinguishes Clover from other solutions is the ability to easily reconfigure components from a dashboard—for example, to add a receipt printer for a pop-up or seasonal retail event. Merchants want this flexibility. Clover comes with more than 20 pre-installed apps, and merchants can find hundreds more in the Clover App Market.

### VESTA CARD-NOT-PRESENT GUARANTEE

A solution offered by Vesta, a leader in global fraud detection and prevention, can reduce fraud on card-not-present (CNP) and e-commerce payments with a payment guarantee. Using data science and machine learning, Vesta reviews transactions for potential risk and guarantees the fraudulent transactions it approves. The merchant is billed only for approved transactions; Vesta's guarantee means the merchant will bear no risk of loss on those transactions in case of fraud.

"Vesta has estimated a 2020 year-over-year increase in CNP and e-commerce sales in the range of 18% for the U.S.," said BBW AVP—Bank Card Projects **Kate Holloway**. "If that projection holds true, this service could increase revenue for many merchants."

### NMI PAYMENT GATEWAY

BBW anticipates rolling out the NMI payment gateway solution to enable merchants to capture payments through their website, virtual terminal and mobile. NMI allows merchants to access other tools as well—invoicing, fraud controls and recurring payments, for instance. BBW will continue supporting all current mobile solutions merchants while also researching other economical mobile solutions to add to the product line.

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## Tales and takeaways from the road, mid-pandemic

*Jim Swanson, President ▪ Bank Strategies LLC, a Bankers' Bank of the West Bancorp Company*

I think I can go out on a limb and say that 2020 has been a year for “firsts” without much controversy. Unfortunately, many have not been good milestones. On a personal level, we’re entering a fall where my college alma mater (Go Huskers!) is not playing football—a first in my lifetime—and my son’s senior year high school soccer season has been postponed (we hope) until spring. In my banking world, there is no shortage of firsts, either. During a career that has centered around regular visits to community banks, I went over four months without stepping foot in a bank during the early stages of the pandemic and Colorado’s stay-at-home directive.

Since mid-July, though, I have ventured back out on the road for six weeks of recent travel to community banks across three states. To quote a line from “The Hunt for Red October,” *welcome to the new world*. The once nearly robotic process of traveling and engaging with community bankers has been fogged in uncertainty and awkwardness: Will I offend someone if I don’t wear a mask, or if I do? Will I offend someone if I shake their hand, or don’t? One thing for sure: I had never envisioned a day when I would be required to **put on** a mask to enter a bank, or that someone would actually unlock the door before opening hours to let me in.

In many respects, my recent experiences have been a microcosm of how the nation has responded to the pandemic – varied! Some banks have adopted strict mask policies for staff, some have erected Plexiglas® shields, and some have elected a business-as-usual approach. Some are still restricting lobby access or hours and some still have staff working off-site, while others are back to normal.

Despite the array of responses and reactions to the pandemic, I have also noticed common themes emerge in my recent bank visits.

◆◆◆ Lobby traffic is down even in rural markets that have generally been slower to embrace online and mobile banking technologies. This lends some visual evidence to support speculations that the pandemic might accelerate declining trends in branch visits and transactions. This is something community banks need to monitor.

◆◆◆ Customers are taking a cautious approach with their finances, with many banks I’ve visited

reporting a general decline in demand for financial services. The exception has been residential mortgage lending, where record-low interest rates have buoyed activity. Rates on 30-year mortgages dropped below 3.0%—another first.

◆◆◆ The banks I have visited have unsurprisingly stepped up to support their communities and customer bases by participating in the PPP loan program and granting COVID-based deferrals to assist loan customers. But the credit risk profiles of the recipients of the PPP loans and deferrals varies widely. It appears these do not provide reliable gauges of increased pandemic-related credit risk. I cannot recall such a unique and challenging time relative to risk portfolio risk quantification. Community banks need to be more diligent than ever in actively identifying, monitoring and managing credit risk across their portfolios.

◆◆◆ You might have read reports that the pandemic and social unrest are prompting a flight from urban density to more suburban and rural markets. Some of the mostly rural banks I’ve visited have reported seeing some influx of out-of-area residents into their markets since the pandemic, so perhaps the current environment will provide an overdue shot in the arm for rural America. At the same time, several of these banks are actively looking for lenders and have not been swamped with qualified applicants. We clearly need to keep the “uptick” in perspective.

While the last six months is a period many of us would rather not repeat, I am happy to be back at work face-to-face with community bankers (mask or no mask), and thankful for good health. I am confident the industry will persevere through the unique challenges posed by the pandemic, just as it prevailed over all others.



*Jim Swanson applies decades of broad financial industry experience to every community bank consulting assignment he undertakes.*

*You can contact him at 303-903-9369 or [jim@bankstrategiesllc.com](mailto:jim@bankstrategiesllc.com).*

## Individualized merchant training created for BBW community bank customers

In response to positive customer feedback on training and growing interest in merchant services, BBW formed a Bank Card Merchant Training Team in early June. Responsibility for merchant training for the bankers BBW serves is shared and coordinated by **Kate Holloway**, **Lynette Morin** and **Eileen Ortega**, who have adopted the group email address **bankcardtraining@bbwest.com** for the purpose of centralizing communication and project management. Customer banks are asked to address any comments or requests related to merchant training to that designated team email.

The Merchant Training Team customizes each webinar to the needs, schedules, and time constraints of the individual customer bank as well as to its specific bankers, as needed. Upon request, personalized webinars can be recorded and made available to the community bank client for future playback.

When the Merchant Training Team was first announced, ten webinars had been developed. Adding to the recordings posted in the SmartVault merchant online resource center will remain a work in progress. Please email the team to request a current list of webinar topics. The BBW Bank Card Department looks forward to receiving your feedback and responding to any questions you have.

### GET ACQUAINTED WITH JORDAN WALZ

When **Jordan Walz** decided to study finance at the University of Nebraska-Lincoln, he hadn't yet fixed his sights on the field of banking. It was his first professional position—as a personal banker in a Fort Collins, Colo., branch of a community bank—that gave him a true grasp and appreciation of banking principles, functions and products.

“It gave me a chance to do a bit of everything, and I liked learning from the commercial lenders,” he said.

Jordan recalled that while growing up in York, Neb. (current population estimated at 7,900), it was common for local businesses and community banks to sponsor kids' sports teams, high school events, and other activities. As a community banker years later, Jordan took the opportunity to give back by volunteering with nonprofits and the chamber of commerce.



“I might not have realized it at the time, but community spirit shaped my childhood in powerful and positive ways,” he said. “So getting involved as an adult brought me full circle in terms of valuing how unique community banks are.”

In 2019 Jordan was hired by BBW as a credit analyst. Now he lives in central Denver and still values getting pointers and perspectives from experienced loan officers.

“I like what I'm doing here, and I'm always looking to get better at it. Supporting the work community banks do is fulfilling for me.”

Jordan makes regular trips to Nebraska to visit family, including a brother and a sister. He enjoys skiing, hiking, and watching sports in his free time.

Next in the **2020 WesPay Webinar Series**

**ACH Risk for RDFIs**

**FRIDAY, OCTOBER 30 • 1PM**

ACH rules require every bank to perform a risk assessment related to its activities within the ACH network. This 90-minute webinar covers risks associated with processing transactions from the RDFI side and ways to mitigate them.

Email **ops@bbwest.com** to request a registration form

### A FRIENDLY REMINDER FROM BBW'S INFORMATION TECHNOLOGY & SECURITY TEAM

To commemorate National Bad Poetry Day (August 18, 2020) **BBW Systems Administrator Chris Tuzeneu** composed the following wise and timely verse.

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***Roses are red  
With thorns that will prick.  
Be mindful of scammers  
And watch what you click!***

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## Industry veteran shifts gears, undertakes new correspondent role

The most recent addition to the Bankers' Bank of the West calling officer team views his new position as an opportunity to put 30-plus years of industry experience and knowledge to work for community banking. Since joining BBW in late July as a vice president of correspondent services, **Kelly Malone** has focused on getting to know his colleagues and thoroughly understanding the bank's products and systems.

President and CEO **Bill Mitchell** described Kelly's hiring as a win-win fit of skills and values—a match initially suggested by several mutual friends in the industry. He noted the assignment of Kelly's territory will be defined over time.

“Bringing someone of Kelly's caliber on board is consistent with our strategic succession plan and growth strategy,” Bill said. “His consultative approach to developing relationships is completely in sync with our mission.”

Kelly's background includes a stint in internal audit for a community bank followed by nine years with FHLBank Dallas and two decades with FHLBank Topeka in various functions—membership manager, collateral operations, funding solutions, and relationship management.

During his tenure with FHLBank Topeka, he developed relationships with quite a few community banks in Nebraska, Kansas and Colorado,

which means he's already acquainted with a number of BBW customers.

Kelly explained that although he had no firm career plans during his years as a student at the University of Nebraska-Kearney, he realized soon after graduation that his degree in business administration was well-suited to the job market at the time.

“I was somewhat bent toward the field of financial services to start with,” he said. “From my first professional job on, exposure to different facets of banking has made for an interesting career path and a well-rounded experience.”

Kelly's outside pursuits are diverse, too. He enjoys golfing, hiking, working on cars, hunting and fishing, and lake activities. He and his wife, high school sweethearts, have an abundance of nieces, nephews and siblings from California to Georgia. But Kelly's most time-consuming interest has been competing in Ironman triathlons.

“Training for the Ironman is a major commitment, and the day will come when I'll hang up my cleats,” he said. “But the experience has taught me a great deal about what can be accomplished with discipline and focus. And the Ironman motto – ‘anything is possible’ – is as applicable to everyday life as it is to athletics.”

Kelly summed up his attitude toward work as “Take the long view, focus on mission and values, and do the right thing for the customer.”



One of the easiest ways to reach **Kelly Malone** by phone is to call the main line at Denver headquarters: **303-291-3700**.

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