



Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

PRESIDENT'S MESSAGE

Issue 3 • 2022

Observations on community bank strengths, performance during challenging times

Over the past 30 months, community banks have successfully weathered the pandemic economy, including the current trend of high inflation. I believe this comes as no surprise to community bankers, who have a history of excelling in good and bad economies alike.

This idea is reinforced in an article by Jessica Olayvar,¹ which appears in the second-quarter 2022 issue of the Federal Reserve System's Community Banking Connections publication. The author observes that "community banks have long established their ability to weather economic downturns, in many cases more successfully than larger banks."² She points to a 2012 Federal Reserve Bank of Dallas analysis that found community banks in most states encountered relatively fewer loan problems than did larger institutions during the Great Recession.

Referencing the same Federal Reserve analysis, Ms. Olayvar goes on to note that community banks were found to have held roughly double the volume of business loans relative to total assets as the largest banks nationwide—and notes that, by and large, "those community banks generally had a smaller percentage of business (nonfarm, non-residential, plus commercial and industrial) that were noncurrent or charged off."³



Bill Mitchell
President & CEO

I encourage community bankers to read Ms. Olayvar's article in full, as she provides astute insights into the successes of community banks during difficult economic times, including the Great Recession and our current pandemic economy. She credits relationship banking, in large part, for community banks' success in administering PPP loans—and describes community bankers' proactive loan customer outreach efforts as a burden employees undertook out of a sense of responsibility to their neighbors.

Like our community bank customers, Bankers' Bank of the West has performed well during the current economic downturn, and loan quality has remained resilient. No doubt there could be a hiccup at some point, but we feel good about the performance of our own loan portfolio, which reflects community banks in our market area. In fact, of the loans participated to Bankers' Bank of the West that were deferred at the onset of the pandemic, all are current and paying, with 60 percent of the loans having actually paid off in just 30 months. The performance of our community bank customers and our own portfolio supports the observations made by Fed Supervisory Analyst Jessica Olayvar about the strength of community banking.

¹ Jessica Olayvar is a Supervisory Analyst, Regulation, and Credit at the Federal Reserve Bank of Richmond.

² Olayvar, Jessica. (2022, second issue). The Case for the Community Banking Business Model: Lessons Learned from COVID-19. *Community Banking Connections*®. <https://www.communitybankingconnections.org/articles/2022/i2/olayvar-lessons-learned>

³ Olayvar, Jessica. (2022).

ATTENTION, COMMUNITY BANK LENDERS

LOAN OFFICER FINANCIAL MANAGEMENT TRAINING comes to Denver October 24 & 25

This interactive course has helped thousands of bankers across the country further their understanding of C&I lending. Find details and registration at www.bbwest.com/event/

TAKING NOTE

IN PURSUIT OF EXCELLENCE THROUGH LEARNING

The BBW team acknowledges colleagues **Shana Thomas** (Cash Management Specialist) and **David Melton** (VP–Wire & Fed Funds transfer) for completing the ACH Network Certificate curriculum and passing the applicable exam in August. This distinction takes them both an important step forward in preparing for the Accredited ACH Professional (AAP) Exam.

SUMMERTIME STAFF PROMOTIONS

Kudos to three exceptional BBW employees on their well-deserved promotions:

- ★ **Lori Roberson** was named a Senior Wire Transfer Specialist.
- ★ **Josie Sanguinette** was promoted to Senior Cash Management Specialist.
- ★ **Christa Wells** was appointed Senior Administrative Assistant.

RECOGNITION OF WOMEN IN THE PAYMENT

Kate Holloway, AVP–Bank Card Projects at BBW, is a co-chair for the Phoenix chapter of **Wnet** (Women’s Network in Electronic Transactions), a professional organization that supports the success and advancement of women in the payments and fintech industries.



During Wnet’s September 2022 Leadership Summit in Atlanta, Kate (left) and her fellow Phoenix co-chairs were presented with the Wnet Chapter Linkup Program of the Year award—in recognition of the chapter’s innovative approaches to member engagement.

Kate, your BBW colleagues congratulate you on this recognition and thank you for generously sharing your wealth of knowledge with us and the community banks we serve! (Learn more about the organization at www.paytechwomen.org.)

Coming in OCTOBER:
Cybersecurity lessons
by Chris Tuzeneu

ABOUT

Correspondent Views is published by Bankers’ Bank of the West for independent community banks in our service area. To add yourself or others at your bank to our email distribution list, please send your request to info@bbwest.com.



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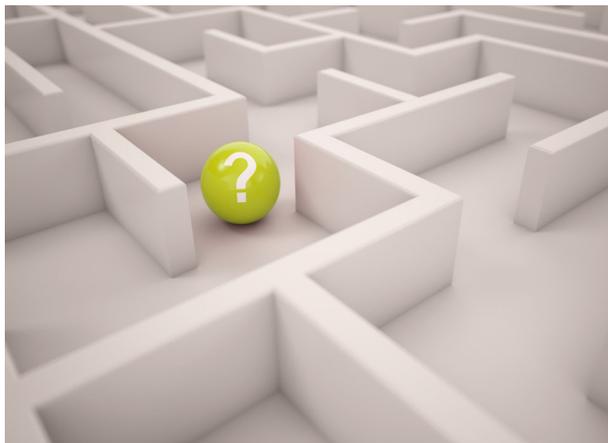
Instant payments: Let's get the ball rolling

Bankers' Bank of the West Cash Management and Relationship Management Teams

What is an instant payment?

By definition, an instant payment enables the payment originator and the recipient to message and settle a transaction in real time (within seconds) in their respective accounts. This enables the recipient to use the funds immediately.

Instant payments are also final: There is no settlement delay between the payment message and final settlement, nor can the payment be reversed by the sender. In addition, payments can be sent, received, and settled 24 hours a day, seven days a week.



It's also important to understand what an instant payment is not. Applications like Venmo® or Zelle® enable individuals to send payment messages. Such applications have mainly used the ACH or debit payment rails to settle transactions. Although the messaging of the payment transaction is instant in these cases, the settlement of the funds is not as fast as instant.

The instant payment rail—FedNowSM and RTP®—is an entirely new payment rail that settles the transaction between financial institutions as fast as messaging occurs. Applications such as Venmo, Zelle, treasury management systems, and payment applications will plug into the instant payment rails similar to plugging into Fedwire, ACH, and debit payment rails.

What are the options?

At this time, there are two instant payment networks that bankers should consider when planning for instant payments.

FedNow contrasted with Real Time Payments (RTP)

The FedNowSM Service, the offering from the Federal Reserve Bank, is scheduled to go live late in the second quarter or early third quarter 2023. It is accessed and managed in

much the same way in which banks access the Fedwire and FedACH systems. Your customers could use your payment platforms to initiate payment messages that flow through this network to the receiver while settling the transaction between the sender/receiver financial institution's Fed accounts or correspondent accounts.

BBW can be your settlement agent for FedNow transactions, which means you would not need to monitor funding during non-business hours. BBW will also provide liquidity should you experience an excess amount of payment outflow during non-business hours.

The RTP network, offered via **The Clearing House** (a consortium of the largest U.S. banks), is live today. It has gained good adoption by large banks and some community banks, but many community banks are waiting for the FedNow Service. The question of whether the RTP and FedNow networks will communicate with each other has not yet been settled. For this reason, you might want to consider adopting both, depending on how your customer needs develop.

The RTP network operates similarly to the FedNow Service in that messages are sent between sender and receiver while settlement instructions are passed through the network.

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Instant payments: Let's get the ball rolling

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The settlement takes place in a jointly owned account at the New York FRB between participating financial institutions. BBW can be your settlement agent in the RTP network, thus eliminating the need for you to manage a separate account at the New York FRB.

Who should you talk to?

Given the requirements of instant payments, you will need to discuss the FedNow Service and RTP network with various service providers to learn where they are in the process of allowing you to join instant payment networks. The first two priorities are (1) your core system for sending and receiving messages, and (2) your settlement agent for settling the payments.

Your core provider. Instant payment networks need to confirm availability at your customers' account level as part of their process, among other items. In most cases, this means your core provider must be

involved on a real-time 24/7 basis.

Questions for your core provider include:

- ▶ What options and functionality will they offer to process messages/transactions?
- ▶ Are they ready now?
- ▶ What is the timing, from start to finish, on rolling this product out to your customer base?
- ▶ What agreements are needed to begin the process? (Allow time for reviewing agreements with your legal team.)
- ▶ What are they offering as a fraud/risk solution for faster payments? Provide potential use cases that may prove beneficial for your customer base. For instance, A2A, P2P, B2B, B2C, C2B, G2C, C2G, and so on. *(Continued)*

Where to access the full article

Visit bbwest.com/news/newsletters to download the complete, printable version of this article.

Learn about the FedNowSM Service:

<https://www.frbervices.org/financial-services/fednow/instant-payments-education>

Learn about the RTP[®] Network:

<https://www.theclearinghouse.org/payment-systems/rtp/institution>

MEET SEAN SMITH

Hired in November 2021 as an Information Security Analyst at Bankers' Bank of the West, Sean Smith has nothing but good things to say about BBW—particularly its culture of mentoring.

"Right from the start, everyone on the IS/IT team has been supportive and generous in offering encouragement, tips and advice," he said. "That's huge for me at this point, fairly early in my career."

Sean is currently a student at the Metropolitan State University of Denver, where he intends to complete a bachelor's degree in cybersecurity within the next two



years or so. His previous work experience includes four years as a junior systems administrator for a fast-paced solar company.

Having grown up in a military family, Sean has lived in many parts of the country, but he has called Colorado home for the past five years.

Sean's outside interests include dabbling in photography and spending time with friends at their favorite Denver spots. He also finds playing guitar and writing songs relaxing, although these days he spends most of his time working and studying.

The scoop on marketing tools that inform and empower business customers

From the Bankers' Bank of the West Bank Card Team

If your community bank is striving to grow its base of business customers and strengthen ties with current commercial customers, think in terms of what else—what **more** you could do to further their success.

Community bankers naturally take pride in cultivating relationships. The expertise, advice and support you share carries weight and helps build loyalty. But to benefit from all the services your bank can provide, your customer first needs to know about them.

Small-business owners are often the busiest and hardest working people in any community. Can you be sure the ones who bank with you are familiar with everything you can help them with? Which additional solutions in your menu of services could save them time and money?

Educating prospective and longtime business customers could be easier than you think. If the image of ice cream on this page caused your mouth to water, you've experienced the power of visual perception.

Bankers' Bank of the West can provide a variety of attractive marketing tools to our merchant and ATM/debit customers. To

promote merchant services, we offer **digital marketing options**—including web banners and email signature banners—for reaching your digital customers.

Placing our **posters** and **plaques** in your lobby, on desks, or at the drive-through can supplement your efforts. We can also supply promotional **postcards** you can mail out, give customers at the new accounts desk, or include with loan documents.

And the best part? All the resources mentioned here are available to our ATM/debit and merchant customers at **no cost**.

Thanks to our partnership with Mastercard® and its marketing center, BBW's customers also enjoy access to a variety of marketing support tools, including an **animated video** (see QR code). We encourage you to make use of the attention-getting materials that are best suited to your customers and prospects.

Ready to unleash a fun, informative marketing campaign? Call our team at **800-601-8630** or email BankCards@bbwest.com.



SPOTLIGHT ON ELLEN SCOTT

Since becoming the Marketing Administrator for Bankers' Bank of the West in July 2021, **Ellen Scott**, a native of El Paso, Texas, has relished the creativity and enthusiasm of her colleagues and the community bankers she's met. Her current role involves project coordination, social media management, advertising, event promotion, and related functions.



When asked about past influences that helped shape her career, Ellen described an elective monologue theater class she took in college.

"I was anxious about performing my monologue for the class," she said. "After I finished, I connected with the eyes of my fellow students. They looked perplexed. The room was silent. I thought I'd bombed—until my classmates started cheering a moment later."

Reflecting on that experience, Ellen now realizes the class taught her far more than performance. She picked up tips on memorizing, focus and confidence that she still relies on.

"Every day brings a new lesson to be learned," she said. "I try to approach work with discipline and confidence offset by a heap of humility. And a healthy sense of humor is always a must."

Keep password importance and safety top of mind

Sean Smith, Information Security Analyst ▪ Bankers' Bank of the West

Understandably, resetting our passwords can seem like a chore we're not able to get away from, but why? While many of us know the importance of passwords, we may still question the need to change what seems like a good password.

Over the last few decades, data has become an extremely valuable source of currency. Data runs our world in terms of ads that are personalized to us, and the new strategies companies implement to increase revenue—and these are just two of the many uses of data today.

Passwords are our first line of defense in protecting company data. As of now, a six-character password can be cracked instantly, an eight-character password can be cracked in 39 minutes, and a 16-character password can be cracked in 6.5 trillion years, according to experts.

LastPass, which is one of the largest password managers, was breached on August 25 of this year. LastPass, which currently has 25 million users, confirmed that unauthorized actors stole “portions of source code and some proprietary LastPass technical information,” according to CEO Karim Toubba. This should serve as a reminder that although password managers are useful, that does not mean they are always safe.

Tips for keeping your passwords secure

1. Modify passwords frequently. Changing important passwords every three months (90 days) is highly recommended, but you can change your passwords even more often.
2. Improve the complexity of your password. Make the password long and use a mix of letters, numbers, symbols, upper-case and lower-case characters. One example of a strong password: cH@ng3y0urp@5\$w0rd.

You can use phrases, changing some of the letters to symbols. Remember: the longer your password, the better.

3. Don't use the same password across multiple accounts. Once cybercriminals crack one password, they will test that same password across other accounts.
4. Don't write your password down. Leaving evidence of your password will create an opportunity for someone to steal it.
5. Don't use personal information—such as dates, the names of your spouse, children or pets—in your password. These details are easily accessible via social media.
6. Make use of multifactor authentication (MFA), which involves an extra method of verification and adds an additional layer of security when you sign into your accounts.

The tips and tricks described above are intended give you more insight into the importance of password and security account maintenance. Fortunately, Windows makes resetting easy.

How to reset your password

Select **ctrl alt del > Change a Password >** When prompted, type in your old password and your new password: This completes the reset.



Visit the CivITAS blog for more cybersecurity-related articles and tips:

acivitas.com/blog/

“Service” is the operative word for Denver Business Journal C-Suite Award recipient

Since becoming CFO of Bankers’ Bank of the West in 2015, **Chris Hill** has served on the boards of the Young Americans Bank and Young Americans Education Foundation; the advisory board for the American Bankers Association’s Risk Management Schools, where he is also an instructor; the Education Committee of the Colorado Bankers Association; the ABA’s Correspondent Bank Working Group; and the U.S. Coin Task Force.

His involvement in the community banking industry dates back to the mid-90s, though.

Chris recently accepted the C-Suite Award, designated for high-ranking executives who develop effective business strategies, lead successful teams, and weigh in on some of the most consequential decisions in companies with a significant presence in the seven-county Denver metro area. “I’m honored to receive the award—and work in a field I thrive in,” he said.



Chris Hill

Loan portfolio management amidst rising rates

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- ▶ Ensure the scope of the process is manageable and risk-focused. Most institutions achieve this by establishing a de minimis threshold based on loan size. Also keep in mind that the goal is to reassess risk, not re-underwrite the loan, so the process should be more streamlined than assessing a new credit requests.
- ▶ Ensure accountability for conducting the reviews is clear, whether this resides with the servicing officer, analyst team, or someone else involved in risk management.
- ▶ Ensure there is a process for tracking whether the reviews are being completed, and that performance on this front is given some weighting in the performance review of the accountable party or parties.
- ▶ Sometimes we see these reviews waived or tabled when current borrower financial reporting has not been obtained, which can undermine the end goal. Although lack of current reporting certainly hinders the scope of analysis that can be done, that does not mean an updated risk assessment cannot be performed. Visits to the business or the property financed often can provide meaningful information. What’s more, such visits also represent an opportunity to proactively reach out to your customer, stay top of mind, discuss their banking needs, address any concerns they have, and head off unexpected refinances to the competition.

Pulling credit bureau reports, validating that real estate and business personal property taxes are current, and evaluating loan and depository account histories are other measures that can be taken to ascertain risk profile in lieu of current financial reporting, or to supplement financial analysis.

You might also consider requesting an executed IRS Form 8821 from your borrowers. Form 8821 allows the IRS to disclose confidential tax information to an authorized designee. In contrast to the more common Form 4506, Form 8821 provides access to broader and more in-depth information, including future tax reporting information.

Based on Chairman Powell’s comments at the August Economic Policy Symposium in Jackson Hole, the Fed is committed to reducing inflation back down to 2% and expects to maintain “a restrictive policy stance for some time.” This will likely continue to contribute to near-term economic volatility, bringing some pain to households and businesses that could elevate risk to community banks’ asset quality.

If Bank Strategies can assist your bank in its efforts to manage loan portfolio risk, please don’t hesitate to contact us.

Bank Strategies LLC provides community banks with consulting, analysis, loan review, and other industry expertise on an as-needed basis. Call Jim Swanson at 303-903-9369 or email jim@bankstrategiesllc.com.

Loan portfolio management amidst rising rates

Jim Swanson, President ■ Bank Strategies, LLC, a Bankers' Bank of the West Bancorp, Inc. Company

Just when the world seemed to be normalizing following two years of COVID disruption, high inflationary pressures have prompted at first a slow but now-aggressive monetary policy reaction by the Federal Reserve (Fed) to slow the economy.

Since March, we've seen the Fed raise rates by 225 basis points, the most rapid increase in more than 40 years. Most people in the banking industry today were not around the last time the Fed raised rates this significantly. In fact, anyone entering the industry over the past decade and a half has experienced only one other period of rising rates in their career: the much more gradual ramp-up from late 2015 to late 2018.

One result of this is a real-life stress test of borrowers' abilities to handle a sharp uptick in debt service. For example, a \$1 million loan priced at Prime + 1.0% with a 20-year amortization underwritten with a debt cover-



age ratio of 1.25x at the start of 2022 would now be closer to 1.0x and could fall below that if further rate increases occur before year-end, as seems expected. While some borrowers

have negotiated fixed-rate and limited repricing terms into their loan structures to mitigate the impact, banks must be mindful of the risk to their portfolios and ensure staff are proactively managing these risks.

Many banks utilize annual internal loan reviews to help manage portfolio credit risk, particularly for term loans that are not part of a broader credit relationship subject to ongoing underwriting. If your bank has never made use of these, now might be a prudent time to build them into your credit risk management processes. In doing so, you may want to consider the following suggestions:

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