



Correspondent Views

BANKERS' BANK OF THE WEST newsletter for community banks

PRESIDENT'S MESSAGE

First Quarter 2023

Confidence, composure, wisdom—vital qualities under all conditions

During my 16-year tenure as the president of Bankers' Bank of the West, five significant economic events have occurred. In the fall of 2008, a major liquidity crunch struck the banking industry, triggered by fallout from the collapse of mortgage secondary markets beginning in 2007. This was followed by a second big event, the Great Recession, which technically ended in June 2009. I think we all remember that it took several years to fully surmount the fallout from the Great Recession.

The third economic trigger during my time with Bankers' Bank of the West was the onset of COVID-19 in March 2020, which has affected not only the United States but also the entire world for the past three years. The fourth and fifth challenges stem from COVID-19, the fourth being the rapid rise in inflation that soared in the spring of 2022 as the Russian invasion of Ukraine fueled the inflationary fire.

The fifth notable economic event since 2007 is the bank liquidity issue that emerged in March of this year. The impact of the dramatic increase in interest rates—aimed at curbing inflation—has been borne by the market values of otherwise good-quality bonds. Venture capitalist fearmongering on social media further exacerbated the problem.

A common thread running through all of these economic hurdles has been the calm that community banks have maintained. Firm in their role as an economic engine for local economies, they have stayed true to their mission. Community banks have been steadfast in this commitment regardless of economic twists, turns and bumps along the way.

The liquidity scare of 2023 really has been a larger coastal regional bank issue. Community banks in general—especially those in the Great Plains, Rocky Mountain region, and the non-coastal West—have not been significantly affected.



Bill Mitchell
President & CEO

Given the close relationships BBW has with our community bank customers, the regulatory agencies frequently reach out to us for our assessment of how community banks in our region are managing the “flavor of the month” crisis. We would like to respond, frankly, that community bankers are more likely to calmly handle crises than many decision-makers in Washington D.C.

Instead, we simply reiterate that community bankers manage issues in a calm, consistent, and effective manner. I am confident we will share the same message during the next crisis ... whatever that may be.



Education & networking for your directors and executive team

Even in this time of market challenges and persistent change, community banking remains strong in the U.S. Yet none of us can afford to take this strength for granted. The value of keeping your directors and senior management prepared for the future through education and peer networking is both incalculable and essential.

The Western States Director Education Foundation will hold its **46th annual Symposium for Community Bank Directors** at the Westin Kierland Resort & Spa in Scottsdale, Arizona, October 29-31. We urge you to check out the program at wsdef.org and sign up your directors!

TAKING NOTE

UPCOMING TRAINING FOR OPERATIONS STAFF

People who work in the fast-paced banking environment understand that staying current with changes affecting the industry is an absolute must.

Every year for more than a decade, Wespay, a long-time BBW partner and provider of education and training for financial industry professionals, has conducted a series of live webinar training sessions exclusively for BBW customers.

Each course is 90 minutes long. The webinars are recorded and made accessible to the customer bank for playback at any time.

There's still time to sign up for these 2023 courses:

- ★ **April 7** 2023 Payments Update
- ★ **June 2** Evolution of the ACH Authorization
- ★ **August 11** Reg E versus ACH: Friends or Foes?
- ★ **October 20** Check Fraud Prevention

Registration for the webinars is under way. To request the course descriptions and registration form, email ops@bbwest.com.

STAFF PROMOTIONS AND ADDITIONS

- ★ Effective January 1, 2023, **Andrew Prosnik** was promoted to Vice President—Information Technology. He has played a key role in the IT area of the bank for more than 16 years.
- ★ Hired by BBW in 2020 as a Compliance and BSA Officer, **Sharvelle Washington** has been promoted to AVP—Compliance and Risk Officer. Sharvelle will retain her original roles while at the same time expanding into enterprise risk management for BBW, a growing area of interest for all organizations.

TRADE ASSOCIATION HONOR

On March 1, the Colorado Bankers Association recognized five Colorado bankers as Bankers of Distinction for “going above and beyond in the banking spirit of dedication to and support of activities vital to Colorado communities and residents.”

Among those honored was **Jeff Benson**, SVP & Chief Operating Officer at Bankers’ Bank of the West. He has been with BBW for 21 years. Congratulations, Jeff, on this well-deserved recognition!



ABOUT

Correspondent Views is published by Bankers’ Bank of the West for independent community banks in our service area.

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Real-life use cases for the new FedNowSM payment system

Kevin Olsen ■ SVP Strategy & Innovation ■ Pidgin

The long-anticipated FedNowSM funds transfer system is expected to be live in mid-2023. The new system will allow near-instant settlement of transactions in final funds through debits and credits to a member bank's master accounts at Federal Reserve banks. The FedNow system will enable any deposit-account holder in the U.S. to send payments to any other deposit-account holder 24/7/365 with real-time settlement in final funds—meaning it is meant to be a push-payment system initially, and not a pull-payment system.

Smaller institutions that do not have an account with the Federal Reserve can participate in the FedNow service via a service provider or a fintech that banks at an institution that has an account with the Federal Reserve.

What problem will the new FedNow system solve? The answer is “timing.” Read the following three push-payment use cases below to gain both an appreciation for some timing pain points that consumers and businesses experience with current payment rails and an understanding of how the FedNow system will help alleviate the pain.

Use Case #1: Consumer

There it was: a late fee in bright red font on the laptop screen. LaShon wasn't expecting a late fee because he thought he had initiated his online payment to his gas and electric company soon enough to enable a timely payment, but he must have missed the mark. When LaShon called the bank where his checking account was held to learn what happened, the customer service representative reminded him of the disclaimer about allowing up to three days for the payment to process, or longer if a weekend or holiday falls within that timeframe. LaShon asked about ways to instantly make a payment to a company. The representative explained that the bank was planning to enroll in the new FedNow system in late 2023 to both send and receive transactions, and also mentioned that the FedNow system is a 24/7/365 system.

Use Case #2: Consumer

Like many mortgage professionals in late 2022, Katia got laid off and needed to immediately take on a role in the gig economy to help make ends meet. She knew how to wield a hammer, so she

joined a construction day-job company where she could work an eight-hour day and get paid for an eight-hour day on the following day, versus in two weeks. This arrangement included getting paid on Saturday for working Friday. It worked perfectly for Katia because it allowed her to bypass the entire payday lender scene.

Katia knew her bills, especially her rent, couldn't wait two weeks, which is the average time it takes to get paid with traditional payroll. Fortunately, the bank Katia banked with was a pilot institution for the FedNow system and accepted credits. Her gig employer was banking with another pilot institution testing instant payments for payroll.

Use Case #3: Business

Since its launch two years ago, Amit's B-to-C small business has been growing steadily. However, he continues to struggle with getting paid on time by the people he provides services to.

“I wish I could send my customers a request for payment that makes it really easy for them to pay me, and when they pay me, the funds are sent to me instantly,” he said. “That would help me with my cash flow situation.”

Amit visited with the treasury specialist at the bank who helped him with his merchant systems. The treasury specialist explained that the bank was planning to enroll in the new FedNow system in late 2023. With this new system, businesses like Amit's can send their customers a request for payment that includes all the information needed to remit the payment to the business. The treasury specialist told Amit that not only is the bank a Fed member bank, but the service provider Amit works with is also planning to upgrade to its system to accommodate the new FedNow system. Amit agreed to meet with the treasury specialist in June 2023, noting that although he didn't want to be a first-mover, he was still interested in the new system because his business would benefit from anything that helps speed up cash flow.



◀ *Popularly nicknamed the **Payments Professor**, Kevin Olsen will share insights on preparing for instant payments at an April 12 discussion during BBW's 2023 **Payments Conference**.*

WELCOME , HEATHER KATZ

Since starting work as VP–Correspondent Services at Bankers’ Bank of the West in late February, **Heather Katz** has been building her knowledge of BBW’s systems, workflow, products, and the needs of community banks in the Great Plains and Western states.



Having worked nearly 14 years in merchant services and operations management for a large company, she said she’s excited to be working for a smaller organization.

The territory Heather will cover consists of Montana and Wyoming in addition to parts of Nebraska and Colorado.

While she and her husband have lived in Colorado since 2008, she grew up in Alaska, later attended school in Flagstaff, and then lived for a while in Phoenix—thus experiencing a variety of climates before setting down roots.

Outside of work, Heather likes spending time with her family, which includes the couple’s two high school-aged sons. She said they all enjoy “pretty much any outdoor activity,” from hiking to paddleboarding. Their two golden retriever puppies keep them busy as well.

“I’m eager to meet my community bank customers face to face,” she said. “I don’t think any job could be more rewarding than relationship building.”

Longtime banker assumes lead role in federal funds and wire transfer

Early in 2022, after a retirement date for then-head of BBW’s Wire & Funds Transfer department Rosemary Fuentes-Malone was set, the Bank made a plan for the eventual shifting of duties.

Having worked in banking for two decades, **David Melton** was a familiar and respected professional in Denver’s community bank circles. David joined

BBW in April 2022 as VP–Wires & Fed Funds Transfer. His onboarding process continued until the end of 2022, at which time the transition of responsibilities to David was complete.

To get in touch with David Melton and BBW’s knowledgeable team of wire transfer specialists, please call 303-291-3770.

The importance of bringing YOUR shoes in your career journey

Marcia Malzahn, founder and keynote speaker ■ *Crowning Achievements International*

Your career is a journey and, whether you want to grow into a management job or not, I encourage you to “bring **your** shoes” in your career journey.

While moving up in your career into positions that carry bigger responsibilities, you may have been told that you have big shoes to fill. One day it occurred to me that we must stop making that discouraging statement. So I embarked on a mission to inspire emerging leaders to instead bring their **own** shoes in their leadership and career journey.

As you plan to hike up a mountain, for instance, what essential items must you bring if you can take only one backpack? Before you even begin to pack your bag, you must choose the right shoes to wear for your journey. With the wrong shoes, you won’t even make it the first mile!

Your “shoes” in this analogy consist of your uniqueness, your personality, and who you are as a person. You must also identify your talents to understand what you can do on your own and what you’ll need help with on your adventure. For this, you must take an inventory of your talents and make a list of what you might be missing. Next,



Marcia Malzahn
Closing keynote speaker

invite others in your journey. Now you have a complete team and you’re ready to go.

You don’t necessarily have to be in a management job to be considered a leader in your organization. There are countless ways you can display leadership behavior without a supervisory title. Leaders are influencers of thoughts and actions. Leaders take the leadership responsibility seriously.

Part of that responsibility is to first know yourself and your gifts well, then get to know those you lead—and especially, learn what their talents are. You can then embark on a leadership journey where you lead the team by maximizing everyone’s talents and, joining together, accomplish the vision of your organization.

I look forward to speaking at **Bankers’ Bank of the West’s 2023 Payments Conference** on April 13. There I will share how to discover and make the most of your talents, optimize the talents of those you lead, and then lead your team by maximizing everyone’s talents. You’ll be astonished, I think, to discover what happens when you bring **your** shoes in **your** career journey!

Recent events: an unwelcome reminder to stay on guard for loan fraud

Jim Swanson ▪ *President—Bank Strategies, LLC (a Bankers' Bank of the West company)*

As you may have heard, officials in Nebraska are currently investigating what could become the state's largest case of bank fraud.

To date, claims totaling more than \$30 million have been filed against the estate of the alleged perpetrator for fraudulent loans granted based on falsified financial statements, and it is estimated that the figure could eventually top \$50 million. More than 20 banks are involved with a number reporting fourth-quarter 2022 losses stemming from associated charge-offs, and several reporting losses for the year.

The situation is a stark and painful reminder of one of the inherent risks banks face in their lending activities that often flies off the radar until it rears its ugly head.

One of the challenging aspects to fraud is that it's often carried out by people you would least expect: a trusted employee, for instance, or a seemingly upstanding, well-to-do member of the community.

What's more, fraudulent activity is frequently perpetrated by individuals who have never before committed such actions. They commonly rationalize what they've done, regarding it as unintentional, a solution to a temporary problem or financial need, and not necessarily an unethical action.

The upshot: No one checks the box as a likely fraudster when applying for a loan.

The desire to help customers is embedded in the DNA of a community banker. But bankers must walk a fine line in balancing the needs and desires of customers and those of internal stakeholders. In fact, one could argue that striking an ideal balance is one of the bigger challenges of the job—and something that less experienced lenders are ordinarily not well-equipped to manage.

Challenges are intensified given that traditional lender training is normally focused on the science of the job—how to analyze financials, compute cash flow, assess collateral and perfect liens, and so on—rather than on the art of managing customers and customer relationships.

Trust is often the factor that opens the door for fraud. Banks trust and reasonably expect that their employees will act in a manner that protects the organization's best interests. At the same time, though, lenders may feel pressure from customers to take shortcuts on risk management on the presumption of trust, or in an effort to gain customers' trust or business.

Perhaps the best philosophy your bank can adopt and instill in your lending team is one made famous by former President Ronald Reagan: "**Trust but verify.**"

Although sophisticated fraud can be very challenging to prevent, following traditional best lending practices can prove effective in detecting and protecting against fraud in many instances. Examples of such practices include verifying key data on borrower financial statements and tax returns; ensuring borrowers attest to the financial documentation submitted; clearly understanding the purpose of loan proceeds; monitoring loan disbursements; and inspecting the projects or collateral financed.

While fraud risk is ever-present, it tends to worsen during periods of economic uncertainty or downturn when financial pressures mount and jaded rationalization for such actions can take root. With fears of a pending recession lingering for the road ahead in 2023 and 2024, banks need to be on guard against fraud and keep the issue top of mind with staff.

Online classes or webinars for staff certainly can be helpful. However, they are no substitute for healthy internal discussions on steps your bank can take to protect against fraud and what "**trust but verify**" means within your bank and your lending activities.

Jim Swanson provides consulting services for bank management and boards. His background includes ten years in lending roles including chief credit officer, loan administration, and compliance. He formerly served as a commissioned bank examiner with the Federal Reserve Bank of Kansas City. Jim holds a master's degree in business administration.

Email him at jim@bankstrategiesllc.com or call **303-903-9369**.

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