ISSUE 3 2021

In Touch

Official Publication of the Community Bankers Association of Kansas

2021 Convention & Trade Show

CBA
Community Bankers
Association of Kansas

“

Bankers’ Bank of Kansas is the definition of a trusted partner. Trust, for me, is enough. I am confident when I share information with BBOK it won’t leave their organization. When a partnership starts with trust, everything else follows.

”

JAY KENNEDY, FIRST NATIONAL BANK

BANKERS’ BANK
OF KANSAS

Community Bankers Association of Kansas

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FLOURISH

BY REBECA ROMERO, ICBA

"Unlike our credit union counterparts, we pay taxes, and those tax dollars are spent at home to ensure our communities grow."

The more things change, the more they remain the same. As we kick off Community Banking Month, I can't help but reflect on that statement and the changes of this past year. While we have been challenged far beyond our wildest dreams, community banks have stayed the course in keeping the focus on our communities. We ensured that when the ground beneath us shifted, we remained firmly rooted in our foundation as pillars of our communities, committed to helping the local environment flourish.

Yet, what it means to "go local" has shifted. We now are buying online from local retailers, ordering delivery or takeout from neighborhood restaurants, and corresponding more digitally. What used to be an initiative centered on physical proximity has now become a movement toward a greater sense of community. This newfound focus on commitment to the common good aligns with the very essence of community banking.

While the delivery channel may look different, the underlying concept of going local means that the money spent is reinvested in the community. By focusing on our communities, we are creating a brighter future for them, bridging the gap so that businesses thrive, jobs remain and the community prospers. Going local means that capital remains local, providing resources for the better of everyone.

And community banks are the heartbeat of these efforts. We've always placed an extraordinary focus on our local activism, but in today's environment, it means more than ever before. Think of the hundreds of thousands of small-business owners who turned to their community banks this past year to keep their doors open. Or the millions of Americans who have had peace of mind because their community bank was in their corner through the economic impacts of COVID-19. Or the thousands of local philanthropic organizations that have relied upon community bank support to respond to our communities' needs.

Because when we say "go local," we're all in. Unlike our credit union counterparts, we pay taxes, and those tax dollars are spent at home to ensure our communities grow. We support local nonprofits, food banks and other charitable efforts to aid community development. So, as we look to all that has shifted in the past year, let's take a moment to celebrate what has remained the same: our commitment to our communities. Because community investment is the basis of a healthy economy and is the purest form of economic development, and community banks are here for it.

What you need to know

The 2021 ICBA Capital Summit is going virtual at the end of the month. We hope you'll join us as we reinforce banking locally and our advocacy initiatives with members of Congress. Icba.org/capitalsummit.

Connect with Rebeca @romerorainey.

Changes Are Coming Fast

BY RICHARD BRATTEN, FSA, CFA, REGIONAL MANAGING DIRECTOR, BANK COMPENSATION CONSULTING, AN ENDORSED CBA PROVIDER

Congress Strikes!

The Consolidated Appropriations Act (CAA) was signed into law on Dec. 27, 2020. As you probably know, virtually any legislation passed at the federal level is a potpourri of goodies or, maybe not so goodies depending upon your point of view! The CCA included a change in the interest rates that are used by insurance companies for the purposes of determining whether a contract qualifies as a life insurance product under 26 U.S. Code § 7702. The immediate effect of this change is to reduce the relevant interest rate for one of these tests from 4% to 2% to reflect life insurance product economics in this ultra-low interest rate environment.

You're probably wondering if this is something that only an actuary like myself would care about. While there may be something to that, this change is having immediate and profound effects on life insurance products, including single premium products such as Bank-Owned Life Insurance (BOLI) as well as individual whole life and universal life annual premium products. What does it all mean for you? Today, I'll address the impact on BOLI products.

Chocolate Cake?

Many of you have heard me speak about BOLI like a chocolate cake. The single premium put into a BOLI policy creates the Cash Value (CSV), which is the chocolate cake. That chocolate cake comes with a thick layer of icing! The icing, in this case, is the Net Amount at Risk (NAR). That is the amount of additional life insurance that comes with the cake. The chocolate cake + the layer of icing adds up to the insurance policy's total Death Benefit (DB). So, Entire Delicious Desert = Chocolate Cake + Icing and, Death Benefit = Cash Value + Net Amount at Risk.

Life Insurance is Special

Life insurance has some excellent tax benefits that reflect the long-standing tax policies supporting the ability for consumers to purchase affordable life-long permanent insurance coverage. One of these tax benefits is tax deferral. The Cash Value compounds that are within the policy, without being taxed along the way (I'm simplifying here — there are many rules governing the taxes/penalties you might pay if you withdraw cash or surrender the policy instead of holding it until the death of the insured person.) When the Death Benefit is paid out to a beneficiary(ies), that Death Benefit payment is generally not taxed.

Since life insurance gets this important tax treatment, the IRS has certain requirements to make sure that someone doesn't create an investment product that they call "life insurance" just to get the tax-advantaged treatment. How does one test to see if something is an insurance product? Enter "26 U.S. Code § 7702, Life Insurance Product Defined," or just 7702 as we call it.

One of the tests, and the one that is generally applied to BOLI products, goes like this: you must have a certain amount of icing on your cake. If you don't have a thick enough layer of icing, then it's not insurance. Pretty simple, eh? And you thought actuaries were so complicated.

Testing for Insurance

So what is the correct amount of icing needed for the chocolate cake? The test calculations vary for insurance policies based on the age and sex of the person being insured. For a 45-year-old male, the ratio of icing to cake has to be about 3 to 1. That's a thick layer of icing! For a 65-year-old male, the ratio of icing to cake only has to be about one to one.

So for a 45-year-old male and a BOLI premium of $100,000, the NAR has to be at least about $300,000. That's a lot of icing. That means a total Death Benefit of about $400,000.

For a 65-year-old male and a BOLI premium of $100,000, the NAR has to be at least about $100,000. Not as much icing is required. That means a total Death Benefit of about $200,000.

Actuaries design BOLI to tread as closely to that "minimum required icing" line as possible to keep the NAR down as low as possible (but still enough to qualify as life insurance.) Why? Because the less insurance benefit (NAR) that is provided, the less the charges that are taken out of the Cash Value to pay for the cost of that insurance benefit. Less charges taken out of the Cash Value can mean a higher net growth rate for the Cash Value. It is a lean insurance product, and that means better BOLI yields for you.

What Does This Change Mean For You?

So what does this change in the valuation interest rate mean to you? With this new, lower interest rate, the amount of icing required on your BOLI cake can be a lot less. One insurance company just provided illustrations showing that for a 45-year-old male and a BOLI premium of $100,000, the NAR will only have to be about $100,000 instead of $300,000! The result for this insurer is a higher return, on the order of about 0.15% in year one trending up to almost 0.40% in year 40.

Now be careful here; this isn't necessarily going to be the same for every insurer. This particular insurer is also making some other changes to their product at the same time such as reducing the guaranteed minimum credited interest rate from 1.5% to 1.0%, and making some minor changes to their 1035 Exchange Charge schedule. The approach that each insurer takes to updating their insurance products will vary greatly. The impacts upon product returns will vary accordingly.

Different insurers will have different approaches to updating their products. Some will provide the opportunity for you to buy now and then and update your product later if you want, once the insurer figures out the new pricing. Some insurers may even offer you the choice to move your existing BOLI policy into the newly priced product if you've recently bought a policy within the last few months. Other insurers will give you a choice of buying now under the old rules or holding off to buy under the new rules in a month or two. Other insurers may offer other opportunities.

Next Steps

You should talk to your trusted BOLI advisor to see what this new development means for you. If you can't name that advisor right now off the top of your head, then you should call me! My clients can tell you who I am because I provide the kind of proactive service that they count on. They pretty much know me as, "That guitar-playing, extroverted actuary (that's NOT an oxymoron) with a bazillion miles on his truck because he's always driving around to see us." Give me a call and I'll be happy to stop by (or Zoom if you prefer) and see you too!

Rich has worked in the Executive Benefits and Bank-Owned Life Insurance markets for over two decades and is an Endorsed Provider for the CBA. You can call Rich any time at 307-763-0070 or email him at rich.bratten@bcc-usa.com to discuss a new plan or to get advice on your existing situation!

Portfolio Management

BY JIM REBER, ICBA SECURITIES, AN ENDORSED CBA PROVIDER

Participants in the fixed-income market … are quite fond of creating acronyms and nicknames to define these new terms. In some cases, they're clever, logical and easy to recall. In other cases, they're curious.

As we proceed into the second quarter of 2021, I've happily been building out presentations to a number of community banking groups. I noticed that the past year generated products, strategies and terms that hadn't been used much previously or, in some cases, didn't exist.

- Participants in the fixed-income market, including underwriters, broker-dealers and analysts, are quite fond of creating acronyms and nicknames to define these new terms. In some cases, they're clever, logical and easy to recall. In other cases, they're curious.

- Several years ago, this column featured some of the more popular and relevant acronyms and nicknames in play at the time. Given the space limitations, we didn't get to visit all of these terms, and since that time, we've got more material to discuss anyway. So, as a service to community bankers who wonder what some of the lingo being passed around actually means, let's play another round of the word association game.

BAM

Could be: An exclamation by celebrity chef Emeril Lagasse as he "kicks things up a notch."

Reality: An acronym for the Bloomberg Agency MBS prepayment model. Most community banks have significant investments in mortgage-backed securities (MBS). The offering sheets made available by selling brokers have a table that estimates the yields and average lives when given a range of prepayment "speeds," which are derived from a large number of variables. These include horizon rates, borrowers' credit scores, geography and servicer, among many others. BAM is one of the more widely used models for these projections.

Bullets

Could be: Metal projectiles shot out of a firearm barrel.

Reality: Debt instruments that contain no call features. These are only partially embraced by investors because they have lower yields than those that can be called away. However, bullets also have a greater ability to appreciate in price given a drop in market rates. About 5% of a typical community bank's investment portfolio consists of bullets.

CAR

Could be: A colloquial synonym for an automobile, a popular means of transportation for the past 120 years or more.

Reality: An acronym for capital at risk, which is one of the more important interest rate exposure measurements. This calculation quantifies the dollar and percentage change to capital in changing rate environments, typically plus 3% and 4%.

CPR

Could be: Cardiopulmonary resuscitation, an emergency procedure to restore one's heartbeat.

Reality: An acronym for conditional prepayment rate, which is how models like BAM (see BAM) are quantified in yield tables. CPR assumes a certain number of prepayments occur in a given forecast yield environment and displays these amounts as an annual rate.

Friction

Could be: Resistance to the motion of one object or surface when moving over another.

Reality: Qualitative features of certain MBS pools that can limit the borrowers' ability to refinance. Prepayment friction can occur when the average principal balances in a pool are lower than conventional loans (e.g., maximum $125,000) or when the properties are in states that impose onerous taxes in a refi (e.g., New York or Florida).

Rev

Could be: A verb meaning to increase a motor's speed by accelerating while the clutch is disengaged.

Reality: As an adjective, it's short for Revenue, a type of municipal bond. Munis are repaid via two main tax streams. For General Obligation (GO) bonds, ad valorem property taxes are usually the source. For Revs, income from some specified service or activity (e.g., utilities, parking, tolls) is designated for debt service.

SOFR

Could be: A New Yorker's pronunciation for a long, upholstered piece of furniture used for seating.

Reality: An acronym for Secured Overnight Financing Rate. 2021 may be the year that the preferred index for interest rate swaps in the U.S. will finally transition away from the London Interbank Offered Rate (LIBOR) and into SOFR, with an assist from banking regulators. There is usually a degree of correlation between SOFR and LIBOR.

TAP

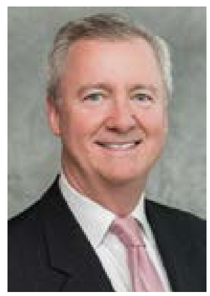
Could be: A pressurized valve that dispenses malt beverages.

Reality: A Federal Home Loan Bank program to issue a series of bullets (see Bullets) in a specified window of time without the need to submit new registrations for each bullet. The result is that a given TAP issue is likely to have a larger total size and improved liquidity.

Close

Could be: The final distribution of all of the proceeds of a bond issue to end investors.

Reality: The end of this column.



Jim Reber, CPA, CFA is the president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks. Connect with Jim jreber@ icbasecurities.com.

Q&A from CBC Members

BY WILLIAM J. SHOWALTER, CRCM, CRP
SENIOR CONSULTANT; YOUNG & ASSOCIATES, INC.

TILA. Q: Our flood vendor no longer separates out the life of the loan portion of the fee. Should the entire fee now be considered a prepaid finance charge?

A: Yes, though it will have a minimal (if any) impact on the annual percentage rate (APR) and finance charge disclosures (well within tolerances). The Official Staff Commentary on Regulation Z states, "If a creditor is uncertain about what portion of a fee to be paid at consummation or loan closing is related to the initial decision to grant credit, the entire fee may be treated as a finance charge."

BSA. Q: If a legal entity has multiple accounts (or multiple loans), does the beneficial ownership information need re-certified for each new account even if the beneficial ownership information remains unchanged and was previously verified? From what I understand from the Beneficial Owner FAQ (#10), the bank is able to receive verbal or written consent that the beneficial owner information remains unchanged. Is my understanding of this correct? We would probably need to retain that written/verbal consent on file, presumably.

A: Your reading is correct. Once the bank has confirmed the information (memorialized on the proper form), then it can continue to rely on that confirmation and its information – as long as you specifically ask the customer whenever any subsequent account/loan is opened if it is still correct and up to date, and clearly document this inquiry with its customer response.

Of course, if they say, "No, there's been some change" or something similar, then you pull out a new form for them to fill in before proceeding any further.

HMDA. Q: We have always said that we do not have a preapproval or a prequalification program. HMDA has been reported as NA or borrower did not request preapproval to this question since before I joined the mortgage department. If a consumer wishes to see what they qualify for, they have to apply. A comprehensive review of creditworthiness is determined via application, a full review of income, deposits, and credit history.

Many times they even have an address, which is one of six criteria to be considered an "application" under HMDA. So, we call that an application. We disclose all the proper up-front disclosures each time and report to HMDA that application. We give a letter of approval subject to clear title, appraisal, verification of missing pieces, and sometimes require PMI review.

Now, as I read the definition of a "preapproval program" in Regulation C, it appears that this is so close to what we call an application that it makes me wonder if we are still OK to say we do not have a preapproval program.

A: From your description, it sounds like the bank does have a "preapproval program" under HMDA. The basic purpose of that reporting field is to explain longer time frames for fair lending exams. The best course would be to incorporate the preapproval program in bank policy and begin reporting it correctly.

Of course, when the applicants start out with a property when they approach the bank, it is an "application" rather than a request for preapproval.

TILA. Q: We need to correct the purpose of the loan disclosed on a Closing Disclosure (CD) from "refinance" to "home equity." Does this call for a corrected CD and a new waiting period?

I know Regulation Z provides that, if the product changes (which it did not in this case), a new CD and waiting period are required. But I did not know if this situation falls under that rule as well.

A: Yes, a new CD is required. However, a new waiting period is not to correct this clerical error.

Privacy. Q: I have a beginner's question I think you may be able to help me with.

In an effort to make sure all information available on our website is current and accurate, I found our Privacy Notice. For all intents and purposes, it seems compliant with Regulation P and our privacy policy, and it is based on the model form provided in the regulation.

We noticed that the revision date at the top, December 2010, is more than a decade old and could cause a customer to question if the notice is actually current/reliable. I think that is a fair sentiment; however, the notice is current despite its age. Would removing the revision date from the notice trigger a new one to be mailed? I do not think that would constitute a privacy policy change to require a new mailing, nor do I think the revision date is required on the notice from my reading of Regulation P.

In practice, I do think it is a good idea to keep track of the revisions, but not necessarily on the document in this particular situation. Am I correct in my understanding?

A: I can understand that concern, but there is no requirement that the notice be updated on any particular frequency. It is updated when the bank's privacy policy/practices change, whenever that is. So, having the same notice for 11 or so years is not a problem under Reg P.

As far as having the revision date on the notice, I will point you to the General Instructions in the Appendix to Reg P. While the body of the regulation is silent about a revision date, the General Instructions in the Appendix does require it.

Insider Credit. Q: When calculating Regulation O loans to insiders, how do we treat related interests? We have a director who is a senior executive of an LLC and owns 10.6% of the LLC. I am pretty sure he sets the policies and practices there. He does not guarantee the loan. Do we count 10.6% of the LLC loan or 100% of the LLC loan in his total Regulation O loans?

A: You are correct. From your description, your director has "control" of the LLC since he "Has the power to exercise a controlling influence over the management or policies of the company or bank." Therefore, extensions of credit to that related interest feed into your computations of insider lending limits – and you count the entire loan amount (100%), no prorating based on any ownership percentage in that related interest. Percentage of ownership comes into play in one of the tests of "control," as well as in determining whether someone is a "principal shareholder." Otherwise, it is not an issue.

EFTA. Q: After going through a webinar on Regulation E errors and disputes, we have come to the conclusion that third-party payment applications (e.g., PayPal, Apple Pay, Cash, Venmo) do not fall under the Regulation E rules.

During the webinar, it was noted that the financial institution may not be liable for unauthorized electronic funds transfers (EFT) initiated through third-party payment applications. The financial institution will not be liable if the "account" is held by a third party, it does not provide an access device (such as login credentials or debit card that the consumer can use to access the consumer's account held by the third party), and it does not have an agreement with the consumer regarding the access device.

With that being said, I would like to confirm that we are not obligated to give the customer credit for those types of "fraud" disputes, even under the $50.

A: First, unless the customer is funding the particular transfer with a check, money order, cash, Bitcoin-type "currency," or some other non-EFT method, then the method used to get their funds from their account at the bank does qualify as an "electronic fund transfer" ("any transfer of funds initiated through an electronic terminal….").

If the bank does not have an agreement with the third-party payor, it still has some EFT error investigation obligation, but that is limited to its own records (whatever it has within its four walls — actual & virtual — so to speak).

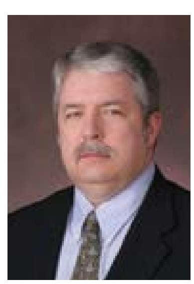
So, the bank is not totally off the hook regarding investigation, but its role is rather limited when it has no agreement with that third party regarding EFTs to/from its customer's "account" (that is accessed somehow to fund transfers through that third party).

CRA. Q: If a bank originates a loan in an area that gives them CRA credit and they later sell the loan (servicing released), do they still get CRA credit for that loan?

What if the loan originates in the bank's name — do they get the CRA credit? On the other hand, what if the loan originates in the other bank's (the one they are selling the loan to) name? Does the originating bank get the CRA credit?

A: Generally, to get "credit" for a loan, it must be originated in the bank's name. Whether it is sold later is not really an issue – that just allows the bank to lend more as it gets its funds back.

The bank could keep records related to loans it originates in another bank's name and share this information with examiners as additional information. Since the bank is acting as the other bank's agent in such cases, rather than as the lender/creditor, it does not get full "credit" — after all, this is a loan of the other bank. ✸



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COMMUNITY BANKERS ASSOCIATION

2021 Convention & Trade Show

CBA
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July 22 - 24, 2021

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We can't wait to see you at the Community Bankers Association Convention and Trade Show! After a year that brought so many changes, we are excited to bring back our biggest and best event. We hope you will join us at the Margaritaville Resort July 22nd – 24th.

Explore fresh, innovative ideas and receive answers for your challenging questions from our lineup of superstar guest speakers:

- **Philip Smith:** Community Banking: What Has Changed and What Hasn't
- **Dudley Carter:** Tracking the Recovery from the COVID-19 Recession
- **Bruce Woner:** Legal Update 2021
- **Russell Laffitte:** ICBA Update
- **And More!**

Register today!

Visit the Events page at cbak.com or call (785) 271-1404.

MEET DAN MEERS,
the KC Chiefs Wolf Mascot

Meet the official mascot of the 2020 Super Bowl Champion Kansas City Chiefs Dan Meers! When he's not firing up the crowd at Arrowhead Stadium, Dan is a motivational speaker and author, sought after by audiences everywhere.

Join Devin Henderson, a seasoned and entertaining speaker and performer! Break free of your perceived limits and realize your greatness like never before with his inspiring session!

Thursday Golf Tournament

The Annual Golf Tournament will be held at the Oaks Golf Course. The tournament will mix men and women golfers. The format is a golf scramble, so even if you haven't had much time to golf this year, you can still have fun and a chance to win some great prizes!

Friday & Saturday General Session & Trade Show

This is not your average trade show! Take advantage of this new and focused opportunity to hear our selected and screened demo companies share about their innovations on the General Session Stage. We've carefully chosen only a limited number of the most relevant vendors and presentations, so you're sure to get maximum value for your trade show time.

Resort Reservations

Resort accommodations at Margaritaville Lake Resort are not included in your convention registration and should be made directly with the Resort. CBA has reserved a block of rooms for July 21-24, 2021. The special block price of $170/night will be held until Saturday, June 21, 2021. After June 21, neither price nor room availability will be guaranteed, so make your reservations today! Be sure to mention you are with the Community Bankers Association.

Strengthening Your Defenses Against Emerging Cyber Threats

BY TYLER LEET, CSI

Over the past year, cybercriminals have proven they are adept at taking advantage of the vulnerabilities stemming from changing work environments and increased usage of digital channels. As institutions continue navigating the risks and challenges of remote workforces, it is imperative to stay informed of existing and emerging cybercrime trends.

A variety of scams have made recent news, many of which opportunistically seize upon pandemic-related topics. Your institution must be prepared to recognize and mitigate evolving cyber threats, including:

- Social Engineering: We've seen a stark increase in social engineering campaigns as cybercriminals leverage the hardships of the pandemic, including increased levels of stress among employees. Many of these campaigns masquerade as being related to stimulus checks, unemployment benefits, or even vaccines. CSI's 2021 Banking Priorities Executive Report revealed more than 80% of bankers identified some form of social engineering as the top cybersecurity threat of 2021.

- Ransomware: Once installed, ransomware locks out the authorized user and encrypts the available data to hold for ransom. Since ransomware attacks pose little risk to the hacker, provide a speedy payout for criminals, and are perpetuated with relative ease and anonymity, institutions should remain on high alert to identify and combat these attacks. Ransomware can be crippling for institutions, especially if regular data backups are not maintained. Because this type of malware continues to be an attractive method of extortion, incidents of ransomware are growing — along with the maliciousness and sophistication of attacks.

- Increased Surface Area for Attacks: Due to the size of today's remote workforce, attackers are targeting home networks — which are typically much weaker than in-office networks — to gain access to corporate data. Employees' personal devices are also often targeted, providing attackers with a base to operate from within home networks and allowing them to monitor or intercept secure traffic.

- Credential Stuffing Attacks: In this type of attack, botnets conduct brute-force password attacks using compiled lists of stolen credentials against login interfaces. Recently, the FBI reported that credential stuffing accounted for 41% of financial sector cyberattacks.

- Point of Sale (POS) Skim Attacks: POS skim attacks occur when a criminal copies card payment information using POS processing devices, which are used everywhere from ATMs to gas station pumps. Despite the massive transition to e-commerce during the pandemic, these types of attacks have continued as criminals use digital skimmers to steal payment information from e-commerce websites.

Emerging Cybercrime Trends for 2021

Although the threats discussed above indeed pose a risk to financial institutions and other organizations, there are several emerging cyber threats to consider as well. Institutions must stay vigilant, especially as many employees continue working remotely.

- Supply Chain Attacks: This attack occurs when a bad actor targets a software vendor to deliver malicious code through seemingly legitimate products or updates. The recent SolarWinds breach is an example of a supply chain attack, which is becoming an increasingly popular method to distribute malware.

- Virtual Private Network (VPN) Attacks: As remote work becomes the norm for many organizations, cybercriminals will likely continue VPN attacks in an attempt to gain access to corporate networks and data. Many home networks do not have proper passwords set up or lack security protocols, presenting vulnerabilities for criminals to target.

- Cloud-Based Attacks: Many organizations are migrating more of their infrastructure to the cloud, prompting cybercriminals to shift more of their efforts to cloud-based attacks. Institutions must ensure their cloud infrastructure is securely configured to prevent harmful breaches.

Strengthening Security for Your Institution

Financial institutions should consider the following strategies to protect their networks and customers while strengthening their cybersecurity posture.

- Create Stronger Passwords: Institutions should enforce stronger password requirements for employees and customers to prevent unauthorized account access. Many organizations previously recommended 8-character, frequently changed passwords, but current best practices dictate using passwords consisting of 14-characters or more and changing them once per year or as needed.

- Utilize Multi-Factor Authentication (MFA): True MFA — not just double passwords — should be used whenever possible. With MFA, multiple authentication factors are required to verify a user's identity. This verification strengthens resiliency and prevents fraudsters from accessing an account solely by obtaining or cracking a password.

- Enhance Employee Education: Your institution should enhance employee and customer education efforts. Instead of one annual training, provide frequent information that delivers both basic security principles and news about timely issues. Focus trainings are also recommended based upon an employee's responsibilities and access rights. Employee education will also reinforce proper online conduct and normalize communicating with IT after encountering a potentially malicious link or other risk.

- Secure Internet Access: It is critical to ensure proper network security for employee VPNs and their home networks. Encourage employees to use high-quality routers with strong network passwords, run current security protocols, and install up-to-date virus and malware protection on personal and corporate devices. Your institution should also review your policies for VPN access and removal, acceptable use of business devices, and any other relevant corporate policies.

Facing Future Cyber Threats

As your institution navigates this new landscape, ensure the proper security controls are in place to enhance your risk mitigation and stay one step ahead of emerging cyber threats.

Tyler Leet serves as director of Risk and Compliance Services for CSI's Regulatory Compliance Group.

ANNIVERSARIES

May

145 years
First National Bank of Hutchinson
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135 years
Citizens Bank of Kansas
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132 years
State Bank of Bern
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129 years
Kendall State Bank
Valley Falls

126 years
State Bank of Canton
Canton

121 years
Citizens State Bank & Trust Co.
Ellsworth

120 years
Bison State Bank
Bison

120 years
Union State Bank
Uniontown

116 years
Kanza Bank
Kingman

98 years
First National Bank
Hope

31 years
The Trust Company of Kansas
Wichita

June

124 years
Peoples State Bank
Manhattan

120 years
Union State Bank
Clay Center

119 years
KansasLand Bank
Quinter

112 years
Farmers State Bank
McPherson

110 years
Astra Bank - Scandia
Scandia

When Is It OK to Accept Last-Minute Contributions?

BY JENNIFER BASSETT, CIP, CISP, QKA, CHSP

EDITOR'S NOTE: On March 29, 2021, the IRS issued Notice 2021-21, which postpones the federal income tax filing due date from April 15, 2021, to May 17, 2021. Notice 2021-21 also automatically postpones the April 15 deadline for making IRA, HSA, and ESA contributions to May 17, 2021.

We all have them — clients who wait until the very last minute to file their tax returns. Those same clients are the ones who will be in your office at 4 p.m. on April 15 to make a 2020 contribution (i.e., a prior-year contribution). Although they may be making a contribution at the last minute, at least you know that they're making it by their tax filing deadline.

But what about other prior-year contributions that you receive — contributions that are mailed to your organization or deposited through an automated clearing house (ACH) payment after April 15? How do you handle those? This article will explain when it's OK and when it's not OK to accept these contributions as prior-year contributions.

CONTRIBUTION DEADLINES

IRA and HSA Contribution Deadline

Account owners generally have until their tax return deadline — not including extensions — to make a regular IRA and health savings account (HSA) contribution. So even if an account owner files for an extension to file his tax return, he will not be granted additional time to make a prior-year contribution. Most account owners have a calendar year tax year, so their deadline is generally April 15. If the deadline for filing an individual's federal income tax return falls on a Saturday, Sunday, or legal holiday, the account owner will have until the following business day to make his contribution.

ESA Contribution Deadline

Individuals who contribute to a Coverdell education savings account (ESA) have until their tax filing deadline — not including extensions — to make a prior-year contribution. Note that the deadline follows the contributing individual's tax filing deadline, not the designated beneficiary's (i.e., the child that the ESA is established for).

It's also worth noting that designated beneficiaries cannot receive ESA contributions once they turn age 18. This restriction seems to conflict with the treatment of prior-year contributions when designated beneficiaries turn 18 on or after January 1, but before their tax filing deadline. The law provides that prior-year contributions are deemed to have been made on the last day of the previous calendar year. But according to IRS comments to Ascensus, the age 18 restriction prevails, and thus, contributions cannot be made once a designated beneficiary turns 18 — even if the contribution is intended for the previous year when the designated beneficiary was not yet 18. If the opportunity arises, it may be worth reminding contributors of this and perhaps suggesting that they plan ahead to make contributions before the beneficiary's 18th birthday arrives.

SEP and SIMPLE IRA Employer Contribution Deadline

Employers have until the due date of their business' federal tax return, including extensions, to establish and fund a simplified employee pension (SEP) plan or a savings incentive match plan for employees of small employers (SIMPLE) IRA plan. This deadline is less restrictive than other contribution deadlines: If an employer files for an extension to file its business tax return, it will have until the end of the extension period to make a contribution.

NOTE: Employee SIMPLE IRA deferrals must be contributed as soon as practicable, but no later than 30 days after the end of the month to which the deferrals relate.

CONTRIBUTION DELIVERY METHODS

Contributions Sent by Mail

Your organization may receive 2020 IRA contributions that were delivered after the contribution deadline. A contribution delivered by U.S. mail or an IRS-approved delivery service after the deadline is still considered timely made if the envelope in which it is delivered carries a postmark date of on or before the applicable deadline.

Example: ABC Bank receives Jane Doe's 2020 IRA contribution on April 19, 2021. Because the envelope is postmarked on April 14, 2021, ABC Bank can still treat this as a 2020 IRA contribution.

If your organization chooses to accept these contributions, you should save, copy, or electronically image the envelope bearing the postmark in the client's file. If the client did not indicate in writing the tax year that the contribution is for, you should ask the client to complete an IRA contribution form. Completing this form will document the tax year that the contribution is for (which is required if they intended it to be for the previous year, a prior-year contribution) and the client's authorization to process the transaction.

Contributions Sent by ACH

The IRS has not addressed the timing requirement for ACH requests in any of its published guidance. But there are two situations where the IRS has addressed the timing requirement for electronic delivery of instructions for contributions: the deposit of payroll taxes by an employer and income tax payments made by individuals. Your organization may be able to use these as a guide for how to handle contributions via ACH requests.

Payroll Taxes: Employers must deposit their payroll taxes using the Electronic Federal Tax Payment System (EFTPS). According to the EFTPS website, employers that submit a payment of $100,000 or less before 1 p.m. ET on a business day may make same-day payments. Employers that do not meet these requirements must have payments set up at least one day before the taxes are due. The IRS will then make the debit request the day the payments are due.

Income Tax Payments: Individuals can make a same-day tax payment if they submit

- A payment of $100,00 or less before 1 p.m. ET on a business day, or
- The payment through EFTPS before 11:45 p.m. ET and select "current business day" as the payment date.

Reporting Prior-Year Contributions

Now that we've covered the contribution deadlines and whether it's OK to accept contributions after the deadline, let's review the reporting requirements.

IRA, HSA, and ESA Contribution Reporting Requirements

Your organization must report IRA, HSA, and ESA contributions for the year for which they are made. For example, you must report all prior-year contributions made from Jan 1, 2021, through April 15, 2021, as follows.

- Report Traditional IRA contributions in Box 1 and Roth IRA contributions in Box 10 of the 2020 Form 5498, IRA Contribution Information.
- Report HSA contributions twice — the first year (2020 Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information) in Box 3 and the following year (2021 Form 5498-SA) in Box 2.
- Report ESA contributions in Box 1 of the 2020 Form 5498-ESA, Coverdell ESA Information.
- SEP and SIMPLE IRA Employer Contribution Reporting

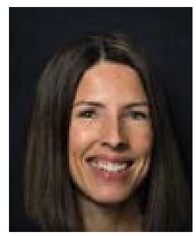
Requirements

Your organization must report SEP and SIMPLE IRA employer contributions for the year in which they are made. So if an employer makes a SEP or a SIMPLE IRA contribution in 2021 for 2020, your organization must report the contribution on a 2021 Form 5498 — even if the employer plans to deduct the contribution on its 2020 tax return. You must report all

SEP contributions in Box 8 of Form 5498 and all SIMPLE IRA contributions in Box 9.

Next Steps

If you haven't already, take some time now to review your organization's procedures for accepting prior-year contributions. Ensure that everyone understands the deadline for each contribution type and whether it's OK to accept contributions delivered after that deadline. ✷



Jennifer Bassett, CIP, CISP, QKA, CHSP

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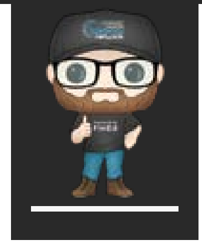

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Keep in mind that the services provided by each company on this list may only be a sampling of the many services they offer. By their CBA Associate Membership, these companies have shown their commitment to serving community banks. Please look to these companies first, whenever possible, to meet your banking needs.

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Top Banking Challenges: Finding Growth in 2021 and Beyond

BY MARY ELLEN BIERY, ABRIGO

The top banking challenges in 2021 are growing loans and earnings, according to Independent Banker's recent 2021 Community Bank CEO Outlook survey. More than half of respondents (53%) named increasing earnings as among their top three challenges, and 48% cited increasing loans.

Those rankings, along with the fact that "growing deposits" fell to nearly the bottom of challenges from the survey's top spot in 2020, tell the story of last year in a nutshell. While financial institutions are now largely flush with pandemic-related deposits, their path to increasing loans and profitability is uncertain, given the economy.

Nevertheless, many financial institution executives have taken — and are taking — steps that will help address their top concerns related to lending and profitability. These steps include technology upgrades, as well as efforts to eliminate inefficiencies, expand customer or member relationships, and develop non-interest income to ensure success and survival.

Technology sets up future lending success

For example, many banks and credit unions that participated in the Paycheck Protection Program (PPP) during a time requiring remote work implemented digital technology for originating PPP loans and processing forgiveness applications under extremely tight deadlines. Nearly universally, community financial institution PPP lenders have reported winning new business customers as a result of their help during the PPP. Now, they are focused on expanding those relationships.

"There have just been dozens and dozens of stories of us landing relationships, and in multiple cases, it's relationships that are several million dollars," Brian Plum, CEO of Blue Ridge Bank, told an audience at the ThinkBIG conference in September. "For us, these are sizable, meaningful relationships."

Financial institutions also spent money on technology to enable accepting smaller-dollar business loans profitably or to open retail or small business deposit accounts online. Indeed, Bank Technology's 2020 Technology Survey found 65% of respondents implemented or upgraded technology to serve customers' needs or enable remote work as a result of the COVID-19 pandemic. A similar percentage reported having increased their technology budgets.

Among those that boosted budgets and implemented technology, 35% focused on digital loan application technology, and 32% boosted technology for digital deposit account openings.

Positive signs in recent lending data

As the PPP frenzy winds down, some of those same business borrowers will undoubtedly request additional funds from their new lenders to bridge the uncertainty. Meanwhile, businesses that flourished in the pandemic may look to expand operations. Cleaning and delivery services, liquor and wine stores, fitness equipment companies, gardening suppliers, and used car sellers are among businesses that have thrived during the pandemic and may be targeted for new loans.

In fact, the decline in commercial and industrial loans moderated during the fourth quarter and ticked higher in February, according to Federal Reserve data. Some bridge lenders are already seeing renewed interest in commercial real estate, one of the hardest hit lending areas last year. Mark Jarrell, head of Greystone's Portfolio Lending Group, said recently in a company blog post that he expects a normal pace of CRE investment activity in 2021, as well as a boost from activity that has shifted from 2020 into 2021.

"Some of this optimism comes from the perception that there's a light at the end of the tunnel," Jarrell said. "We're not as in the dark about what's happening, such as what it will cost to operate senior housing post-COVID-19. Things have settled down in the multifamily space, too, especially in the secondary and tertiary markets where garden apartments, in particular, have survived well."

Other loan programs provided by the Small Business Administration (SBA) could also generate some activity for lenders that have not historically pursued SBA loans.

"This is a great time with low interest rates for small businesses that are renting to buy their building," said Tom Bennett Jr., Chairman and Co-CEO of First Oklahoma Bank, in a recent interview with TulsaWorld.com. "Or if they've thought about expanding because they can get long-term SBA loans at fixed rates."

In addition, businesses with current SBA loans may find help from the SBA programs to structure their balance sheets and debt for growth as the economy recovers.

Capture efficiencies, opportunities with tech

Lenders with streamlined, digital applications and underwriting will have the upper hand on those opportunities to increase lending. Financial institutions can also leverage technology to address the challenge of growing profits — especially if they optimize tech investments they've already made.

One challenge with adopting technology during the pandemic is that the staff have been working almost in a fire-drill mode for more than a year. As a result, some old, inefficient processes may remain despite technology adoption simply because no one had time to review them and propose changes or because there was insufficient time to train staff on all the technology's capabilities.

Now is a good time to examine these issues and adjust to make the most of tech investments. Take steps to course-correct on any technology purchases that aren't delivering the expected efficiencies or opportunities for scaled growth.

Some ideas include:

- Reach out to the technology provider for suggestions on features unused so far
- Ask about bolt-on technologies that can help further transform time-consuming processes and improve customer or member experiences
- Examine user adoption and, if necessary, arrange for additional training for staff

Reevaluate how existing resources can blend digital innovations with the community financial institution's hallmark relationship-banking practices. Some of these resources help develop banking relationships more fully and keep down expenses that can pinch net interest margin (NIM).

A customer relationship manager (CRM), for example, can organize and manage customer/member/prospect relationships. A CRM that connects with the lending platform and other systems eliminates time-consuming tasks that aggravate borrowers and underutilize bankers' talents, such as inputting basic account data when filling out a loan or new account application. It also enables marketing targeted at a specific industry or type of customer or member, such as PPP borrowers who might need equipment loans. Offering cross-sells and up-selling options at the right time will yield optimal success.

Using technology to expand relationships can be as simple as making use of some of the learnings during the pandemic, even after the crisis ends.

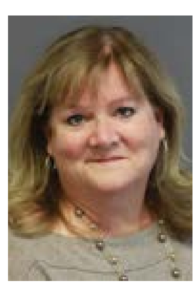
Using technology to expand relationships can be as simple as making use of some of the learnings during the pandemic, even after the crisis ends. Centric Bank President and CEO Patricia Husic said her financial institution has practiced flexibility in its efforts to continue conducting business safely. Centric has replaced some out-of-office business lunches by sending a meal via DoorDash and then holding the meeting "over lunch" via Zoom, Husic said during the Fintech Talents North America conference. Using the DoorDash-Zoom model, lenders may find busy business owners more willing to meet to discuss needs if offered this convenient option rather than requiring a face-to-face meeting.

Use pricing models to retain the best customers/members

Various types of technology can make banking relationships more profitable. Pricing models for loans and deposits can combat margin pressure and help retain the best customers or members. One example: a financial institution can leverage the low interest rate environment to offer some of their best clients the opportunity to refinance. Abrigo Senior Advisor Rob Newberry has noted that by adding product features like six months interest only and adding that interest back into the principal balance, lenders can provide the best customers or members with cash flow relief and more security of a lower interest rate. Clients "have something longer term they're locked in that they're happy with, and you have a customer for life," Newberry says.

Deposit pricing models can also help institutions manage deposit accounts more profitably or use benefits to drive more loan growth by, for example, closing a loan deal with an offer of 25 basis points on a deposit account.

The path to earnings growth in 2021 won't look like it has in recent years for most financial institutions. But by leveraging recent technology investments and ensuring deposits are put to use wisely, banks and credit unions can spur growth and increase profitability despite the uncertain economic environment. ✸



Mary Ellen Biery, senior writer and content specialist at Abrigo. Abrigo is a leading technology provider of compliance, credit risk, lending, and asset/liability management solutions that community financial institutions use to manage risk and drive growth. Visit abrigo.com to learn more.

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