

In Touch

Official Publication of the Community Bankers Association of Kansas

10

WHAT IS A SUPERHERO
COMMUNITY BANKER?

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UNCOVERING FEE-INCOME
AND YIELD OPPORTUNITIES
IN A CHALLENGING MARKET

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FLOURISH

BY REBECA ROMERO, ICBA



"Community banks are independent institutions fueled by the needs of our individual communities, so what constitutes innovation will look and feel different for every bank."

As the popular saying goes, "Creativity is intelligence having fun," – and the same can be said for innovation. As community banks seek to evolve, we bring together the best elements of wise business strategy and out-of-the-box thinking to invent new solutions for a better customer experience. That process, as intense as it can be, is both fun and satisfying because, at its end, we see a product that makes a true difference in the lives of our customers.

That's why ICBA has focused so intently on innovation strategy over the past few years. From building an internal innovation team to launching programs like the ThinkTECH Accelerator, we have dedicated resources in support of community bank innovation. Our goal is to help you move more quickly toward practical solutions that serve your customers' needs.

For example, the accelerator has been structured to take concepts and transform them into fully viable solutions that participants can deliver directly to community banks. We connect community bankers, fintech and regulators as part of this product development. We have these active conversations during product evolution to ensure we answer the hard questions that will take the solution to a marketable level.

We also have to consider the fact that innovation is not one size fits all. Community banks are independent institutions fueled by the needs of their individual communities, so what constitutes innovation will look and feel different for every bank. That's why ICBA's programs offer a wide array of solutions. We're committed

to meeting each bank and its customers where they are to support their banking journeys.

So, as you read this month's issue, which focuses on digital banking, I encourage you to seek out those stories that spark new ideas and introduce a little fun into the process, too. We recognize that maintaining your ongoing focus on innovation takes a tremendous investment of time and resources, so we hope these articles support you in taking that creative leap.

As we approach Thanksgiving and take a moment to reflect on the year, I would be remiss if I didn't offer a huge thank you to all of you. Thank you for committing to doing more to support your customers and employees. Thank you for being unwavering supporters of the communities you serve. And thank you for your commitment to ICBA. We are so grateful for all of you. Happy Thanksgiving! *



Connect with Rebeca @romerorainey.

Happy Holidays!

During the Holiday Season more than ever, our thoughts turn gratefully to those who have made our progress possible.

And in this spirit we say, simply but sincerely
Thank you and Best Wishes for the
Holiday Season and a Happy New Year

Shawn, Nikki & Yvonna

2021 CBA Membership Appreciation Tailgate



On Saturday, Oct. 2, CBA members, friends and family enjoyed the CBA annual tailgate event in Manhattan. It was an exciting fall day with plenty of food, conversation and camaraderie. On behalf of the team and leadership of CBA, we extend our thank you to all who participated and attended – and we truly look forward to hosting events throughout the year to celebrate our shared commitment to Kansas community banking.

A big “Thank You” to this year’s sponsors: Bankers’ Bank of Kansas, Bank Compensation Consulting, First National Bank of Hutchinson, Security 1st Title, Shazam, Inc. and Varney & Associates, CPAs, LLC. ✨



Successor Beneficiary Options Post-SECURE Act

BY LISA HABERMAN, MBA, MAM



The idea of a “beneficiary” initially calls to mind the death of a loved one. For many, it also triggers emotions focused on carrying out the legacy of someone held in high regard. There was a time when the ability to carry out that legacy could be fulfilled over any beneficiary’s lifetime. But times have changed. Carrying out a loved one’s legacy now comes with a deadline for most nonspouse beneficiaries.

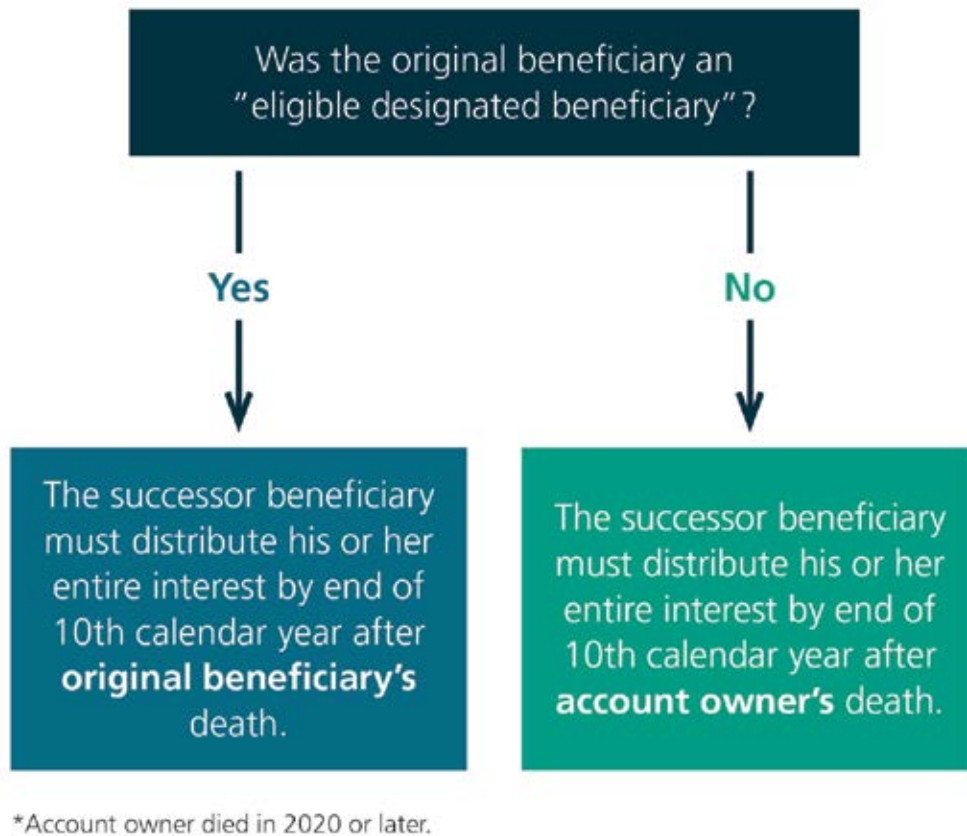
In 2020, the Setting Every Community Up for Retirement Enhancement (SECURE) Act changed many aspects that qualified retirement plan and IRA beneficiaries need to consider, making the administration of beneficiary distributions more complex. While the industry awaits regulatory guidance implementing the statutory changes, one aspect that is straightforward is the distribution options for a successor beneficiary. A successor beneficiary is a beneficiary named by the original beneficiary after the account owner’s death. A successor beneficiary is meant to receive the assets if the original beneficiary dies before receiving all of his or her share of the assets. An original beneficiary naming

a successor beneficiary allows for the seamless transition of assets after the original beneficiary’s death.

Before SECURE

While it’s important to understand how the new beneficiary options apply to successor beneficiaries, it’s equally important to know the options in effect before the SECURE Act applied. It’s not unusual to run into current situations where both the account owner and the original beneficiary died before Jan. 1, 2020, or the account owner died before Jan. 1, 2020, and the original beneficiary died after Jan. 1, 2020. In such cases grandfathering or transition rules apply.

If the account owner and original beneficiary died before Jan. 1, 2020, the successor beneficiary must withdraw the assets at least as quickly as the original beneficiary. The original beneficiary may have been receiving withdrawals under the 5-year rule or life expectancy payments based on the original beneficiary’s options.



The successor beneficiary may either continue the schedule of payments under either of these options or accelerate payments.

After SECURE

If the account owner died before Jan. 1, 2020, and the original beneficiary died on or after Jan. 1, 2020, the successor beneficiary must withdraw all assets according to the 10-year rule based on the original beneficiary's death, regardless of whether the original beneficiary was taking single life expectancy payments or payments under the 5-year rule. This means that all assets must be distributed by Dec. 31 of the 10th calendar year after the original beneficiary's death.

If both the account owner and original beneficiary died on or after Jan. 1, 2020, the successor beneficiary must withdraw all assets according to the 10-year rule. But the length of the 10-year period will depend on what type of beneficiary the original beneficiary was. If the original beneficiary was considered an "eligible designated beneficiary," the successor beneficiary's 10-year timeframe is based on the date of the original beneficiary's death. In other words, the successor beneficiary of an eligible designated beneficiary must distribute his entire interest by Dec. 31 of the 10th calendar year after the original beneficiary's death.

Example

An account owner, Sue, died in July 2020. The original beneficiary was Sue's brother, John, who was five years younger. John, considered an eligible designated beneficiary, died less than a year later in March 2021. John had named his daughter, Beth, as the successor beneficiary. Beth is required to distribute the assets according to the 10-year rule based on the date of John's death (not Sue's). This means that Beth has until Dec. 31, 2031 (not Dec. 31, 2030), to deplete the assets.

In contrast, if the original beneficiary was not considered an eligible designated beneficiary, the successor beneficiary's 10-year timeframe is based on the account owner's date of death. Thus, the successor beneficiary of a non-eligible designated beneficiary must withdraw his entire interest by Dec. 31 of the 10th calendar year following the account owner's death. Consequently, these successor beneficiaries generally have less time to distribute what's left of their interest in an account.

Eligible Designated Beneficiary

The surviving spouse of the deceased account (IRA or retirement plan) owner is considered an "eligible designated beneficiary," as are minor children of the account owner, disabled or chronically ill individuals, and individuals not more than 10 years younger than the deceased account owner. The distinction between the original beneficiary being considered an eligible designated beneficiary and not an eligible designated beneficiary is important, because — as noted above — it affects the successor beneficiary's timeframe for distributing the assets. ✨



Lisa Haberman is a Consultant with the ERISA Compliance Department at Ascensus. Ms. Haberman interacts daily with internal partners to answer client questions through Ascensus' 800 Consulting Service. She also participates in technical reviews, assists in updating forms and documents, and prepares articles for industry publication. For more information about Ascensus, visit them online at ascensus.com.



What is a Superhero Community Banker?

BY BYRON EARNHEART, BARRET SCHOOL OF BANKING



Community Bankers Association of Kansas is there for you and your local community. Getting involved with their advocacy initiatives and their educational programming has the double benefit of growing your skillset and building a community of support for you.

Two years ago, I approached Chris Kelley (Barret's Executive Director) with an idea for a book I wanted to write. My idea was a book on strategy for community banks based on Sun Tzu's *The Art of War*. Graciously, he didn't laugh me out of the office. As most crazy ideas do, it was shelved, but morphed into a podcast series we ran on Main Street Banking occasionally, and, honestly, it received numbers comparable to some of our other content.

Initially, it started with these deeply rooted analogies in superhero and Star Wars lore, comparing bankers to Batman and Luke Skywalker coming in to save the day. However, I realized I missed the point of a superhero and what I missed is not best illustrated by Batman, the Jedi, or Xavier's

Gifted Youngsters. It is illustrated by a Guy Clark song called "The Cape." Yes, it has a superhero theme, but it is not the tale of Jedi with lightsabers or aliens that look like us defending our way of life. It is the tale of a regular little boy obsessed with jumping off his garage, and throughout his life, he is singularly focused on whatever goal he has in front of him. He ignores what would be considered common sense. He ignores the jeers of those around him. He just trusts his cape (which is really a towel his mother ties around his neck). The best lines in the song are "He did not know he could not fly. So he did." And "spread your arms, hold your breath, and always trust your cape."

And that is what a superhero community banker is. At the moment, they may not

know the answer, but they "trust their cape." They believe they can fly. In a sense, all of the content around *The Art of War* is really the next step after the banker ties the towel around their neck and climbs up on the garage. The strategy part is figuring out how to fly. Once you've made the decision to be different, climb up on the garage. They are singularly focused on their bank, their team, and their community.

It's easy to do what other bankers in your community do. You may even win a few loan deals away from your competition if you bid the rate down low enough. However, we've been taught (or we have taught ourselves) that we can't fly, that we can't make a difference, that we can't change the world one community at a

time. "The fintechs are going to take over."
"The big banks have too much money."
"Regulations are killing the industry."

Kansas bankers: the Superhero Community Banker does not buy into these excuses!

They embrace the challenge because of the love they have for their communities. However, being a superhero is a lonely gig at times. Superman had his Fortress of Solitude, the boy in Guy Clark's song was all alone in thinking he could succeed. Being a force for good in the world can be isolating. The great thing about a superhero community banker is you are NOT alone in your fight! Community Bankers Association of Kansas is there for you and your local community. Getting involved with their advocacy initiatives and their educational programming has the double benefit of growing your skillset and building a community of support for you. Even at Barret, our podcast (Main Street Banking) is built to support you, our blog, our social media posts, even our programming is designed to educate and support you.

I've put together a playlist of Superhero Community Banking content from the Main Street Banking podcast. It's on the Barret website at barretbanking.org/superhero-community-banker.


Grab your cape. Climb up on the garage. And let's change the world! 🌟



Byron Earnheart is the Programming Director for the Barret School of Banking in Memphis, TN and the host of the "Main Street Banking" podcast...the #1 rated community banking podcast on Apple. He

has over 20 years experience in the financial services industry; 11 of which have been in banking in various roles from teller work to branch management. He spends his time playing guitar and singing in Delta Heart (the "house band of the Mississippi Delta"), song writing, cooking, reading, and enduring the University of Tennessee Volunteers athletic seasons. He is married to his wife Kelly of 13 years and has two children, John Aubrey (11) and Mary Laura (8).

Grab your cape. Climb up on the garage. And let's change the world!



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Mike Pate

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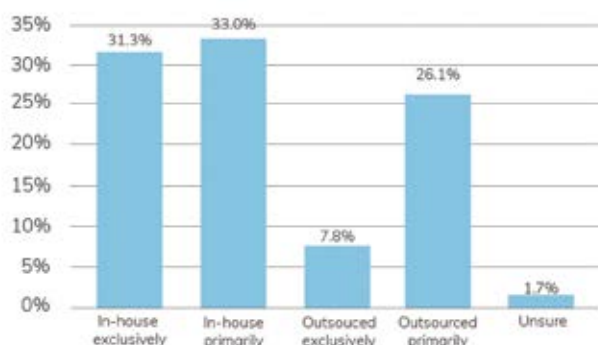


Loan Review Challenges: Survey Finds Data, Staffing Among Top Obstacles

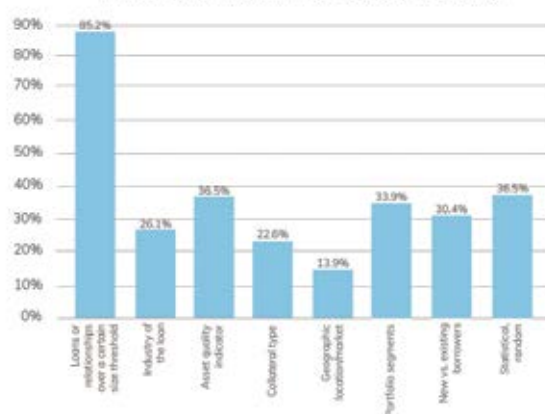
BY MARY ELLEN BIERY, ABRIGO



How is the loan reviews function organized at your financial institution?



How does your financial institution determine which credits will be examined? (Select all that apply.)



Staffing concerns and getting the necessary data are financial institutions' biggest challenges when it comes to performing loan reviews, according to a new survey by Abrigo.

Among 115 people from banks, credit unions, and other organizations surveyed about the loan review function, 37% named getting the necessary data as the top challenge. Almost one in every four respondents identified inappropriate staffing as their financial institution's biggest loan review obstacle.

A poorly defined scope of review (12%), lack of independence (6%), and lack of commitment from senior management (3%) were less prominent challenges in the loan review process for respondents in Abrigo's survey.

Effective loan review begins with good data

Effective loan review has always been critical for managing a financial institution's credit risk as part of ensuring its safety and soundness. Uncertainty related to the coronavirus pandemic highlighted the importance of identifying loans with actual or potential credit weaknesses as early as possible.

In addition, updated guidance on loan and credit risk review in 2020 emphasized the importance of independent loan review or credit review systems that are tailored to institutions' specific risks and circumstances.

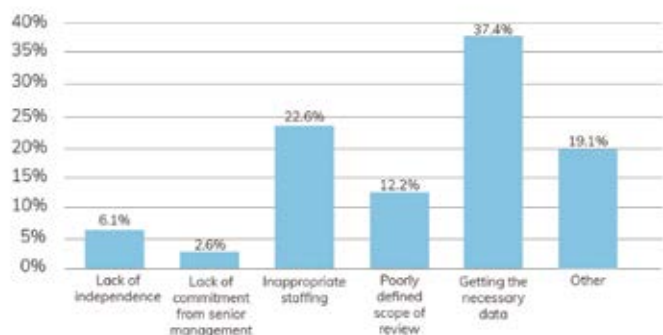
However, loan reviews can only be as accurate as the information used for the review. And as the survey showed, getting the necessary data can be difficult for many financial institutions. Loan reviewers require accurate information at the loan level, which, at many institutions, might be located in multiple systems:

- the core
- a third-party origination system
- Excel spreadsheets
- even paper files for some documents related to collateral.

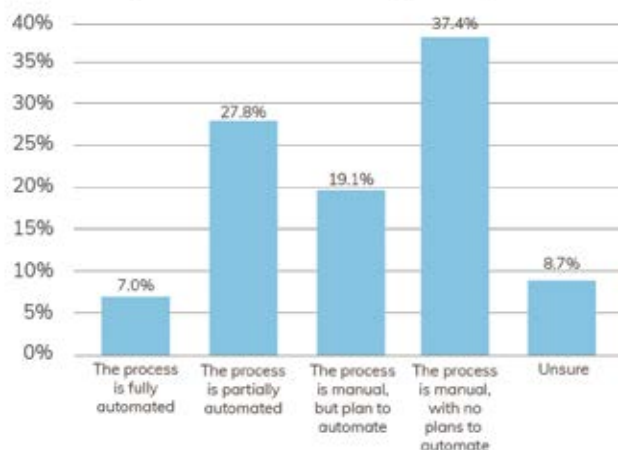
More lenders automating loan review function

Getting consistent and accurate data can be complicated and laborious when stovepipe systems and manual processes

What is your financial institution's biggest challenge when it comes to loan review?



How does your institution approach loan review right now from a technology standpoint?



are involved, especially when inappropriate staffing is also a concern. Some loan review workflow automation software, on the other hand, can pull a sample of loans and the required data, then automatically respread the loans' financials without additional data entry or searching other systems.

Automating the loan review process and other data-intensive functions have become higher priorities for many financial institutions and organizations over the past few years. A recent example is the U.S. Small Business Administration, which is automating low-end functions of loan reviews for 7(a) loans to cut loan reviewers' evaluation time by as much as a third so they can focus on high-value work.

Abrigo's survey found that more than half of respondents either have automated or plan to automate loan review processes. Respondents with fully or partially automated loan review processes represented 35% of those surveyed, and another 19% reported they have plans to automate loan review processes. Thirty-seven percent said their financial institutions have manual loan review processes and have no plans to automate.

How lenders select loans or relationships for review

Financial institutions vary in their methods for selecting samples of loans or credits to review, and sometimes the sampling criteria can differ by portfolio. Therefore, participants in Abrigo's survey were able to choose multiple answers when asked how they determine which loans or relationships to review. Most respondents (85%) said they base the review sample on a certain size threshold. The next most common methods were choosing a statistical or random sample (37% of respondents) and basing the sample set on an asset-quality indicator (37% of respondents). Respondents said they also selected loans or relationships for review:

- By examining new rather than existing borrowers (30% of respondents)
- Based on the industry of the loan (26%)
- Based on the collateral type (23%)
- Based on the geographic location or market (14%)

Among 115 people from banks, credit unions, and other organizations surveyed about the loan review function, 37% named getting the necessary data as the top challenge.

When it comes to organizing the loan review function, Abrigo's survey found that a majority of financial institutions performed at least some of the loan review process in-house. Only 8% of respondents outsource all loan review work, and 26% primarily outsource the function, while 31% perform loan review in-house, and another 33% primarily conduct loan review using in-house resources.

Abrigo's survey was conducted from Sept. 2-24. Among the 115 respondents, 77% were from banks, 21% from credit unions, and 3% from other organizations. The asset-size breakdown among participants was:

- Below \$500 million: 28%
- \$500 million to \$3 billion: 51%
- \$3 billion to \$10 billion: 14%
- More than \$10 billion: 7% *



Mary Ellen Biery is Senior Strategist & Content Manager at Abrigo, where she works with advisors and other experts to develop whitepapers, original research, and other resources that help financial institutions drive growth and manage risk.

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This web page is reserved for banks that are registered members of the CBC Program. In it, you will find timely information and tools provided by Young & Associates, Inc., that can be used to enhance the regulatory compliance function at your bank.



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Tim Matlack, President, FNB Washington, Washington, Kan.



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What are Consumers' Top Cybersecurity Concerns?

Find Out How Your Bank Can Address Key Issues and Build Trust Among Your Customers

BY SEAN MARTIN, CSI



To understand how U.S. consumers view cybersecurity risks, CSI – a leading provider of fintech, regtech and cybersecurity solutions – worked with The Harris Poll to survey more than 2,000 U.S. adults aged 18 and above.

Respondents were asked to identify their primary financial institution, providing a look into the perceptions of big bank customers (e.g., Chase, Wells Fargo, etc.), community bank customers, credit union members and those without a primary institution. The data from this online survey was then analyzed and used to create an executive report to help financial institutions understand consumers' cybersecurity perceptions and expectations.

This executive report provides key insight into this year's survey results and offers a comparison to data from a similar survey conducted on behalf of CSI by The Harris Poll in 2019, exploring how cybersecurity concerns have shifted among Americans.

How is Consumer Perception of Cybersecurity Issues Changing?

Although a substantial number of consumers (85%) reported cybersecurity concerns pertaining to their personal confidential data, 15% are not particularly worried – a surprising number considering the surge in pandemic-related cyberattacks.

By comparison, in 2019, 92% of consumers reported cybersecurity concerns pertaining to their personal confidential data, so this year's decrease could signal that Americans are becoming desensitized to cybersecurity risks. It's likely that the size, scope and frequency of cybersecurity events have made breaches appear somewhat abstract and distant to the average consumer. And the constant barrage of media coverage on this

topic could be contributing to greater risk tolerance among consumers – potentially leading to adverse effects for banks and making effective cybersecurity education even more important.

Key Takeaways from the Consumer Cybersecurity Poll

To gauge shifting perceptions, consumers were asked their thoughts regarding password habits, payments security, data breaches and more. Here are a few takeaways for banks:

- **Top Cybersecurity Concerns:** Identity theft and stolen credit or debit card information tied as the top cybersecurity concerns among consumers, at 60%. This is down significantly from 2019, when identity theft topped the list of concerns at 73%, followed closely by stolen card information (72%). These changing perceptions among Americans indicate that institutions should prioritize educating customers on these evolving risks.
- **Risks of a Data Breach:** Nearly half of respondents (48%) would leave their institution if it suffered a data breach, and 51% of community bank customers agreed that a breach would cause them to leave. To mitigate the risk of customer attrition, institutions should have an incident response plan in place to direct their actions in the event of a breach.
- **Strong Authentication:** 30% of Americans agree it is okay to use the same password for an online bank account that they use for other online accounts, representing an increase of six percentage points from 2019 (24%). To mitigate risks associated with lax security habits, banks should provide and promote multi-factor authentication and reinforce the importance of strong passwords.

As Americans become increasingly desensitized to the risk of security breaches, it is critical for your bank to break through the noise and educate your customers on cybersecurity best practices. Providing valuable education and promoting good cyber hygiene will mitigate cybersecurity risk for both your institution and customers while increasing the potential for new business through knowledge sharing.

- **What to do Post-Breach:** Most Americans (69%) believe they know what to do if their personal confidential data is compromised. While this result is encouraging, a clear opportunity exists for banks to continue educating customers on the necessary steps to take after their information is potentially compromised. A community financial institution that prioritizes cybersecurity education for its customers could become the go-to institution for advice, which could help expand market reach.
- **Perceptions of Secure Payments:** Half of Americans (50%) believe a person's payment information (i.e., account number) is more likely to be compromised when using a physical card versus a digital payment such as a contactless card or digital wallet. Banks should embrace the latest payments technology and provide customers with resources on best practices for using secure digital payments.
- **Importance of Building Trust:** More than three in four consumers (76%) agree their financial institution can protect their personal and payment information from hackers. In fact, 78% of community bank customers agree with this, indicating that institutions should continue building trust among consumers by explaining how to safeguard data and hosting cybersecurity awareness training.

Prioritizing Cybersecurity Awareness and Education

As Americans become increasingly desensitized to the risk of security breaches, it is critical for your bank to break through the noise and educate your customers on cybersecurity best practices. Providing valuable education and promoting good cyber hygiene will mitigate cybersecurity risk for both your institution and customers while increasing the potential for new business through knowledge sharing.

To really capitalize on this opportunity, your bank should be intentional and strategic in its planning:

- **Determine the Needs of Your Customers:** Avoid a one-size-fits-all approach; different customers have varying needs and concerns.

- **Tailor Your Approach:** Create campaigns to reach different groups, tailoring based on age, work schedules, etc.
- **Get Creative:** Think creatively about how best to communicate with your customers and deliver a compelling message.
- **Go Digital:** Leverage digital channels to reach a broader audience – don't limit the size and scope of events to physical locations.
- **Deliver Actionable Tips:** Inspire confidence in your bank and motivate customers through actionable tips, such as best practices for creating strong passwords, etc.

Gain Additional Insight from CSI's Consumer Cybersecurity Poll
To strengthen defenses against evolving cyber threats, institutions should embrace a layered approach to cybersecurity, a key component of which includes providing customers with continued education. ✨

Use the QR Code to download the full executive report for a deep dive into consumers' perceptions surrounding cybersecurity.



https://www.csiweb.com/cybersecurity-poll-2021/?utm_source=association&utm_medium=article&utm_campaign=wp_ms_cybersecuritypoll21



Sean Martin serves as a product manager for CSI Managed Services and has extensive knowledge on implementing effective systems security and network management practices. He speaks and writes frequently on security-related topics affecting the financial services industry and holds Cisco CCNA and CCIE written certifications.



Growing Up to Become a Larger Bank

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

Many community banks “graduate” to a different level of scrutiny under the Community Reinvestment Act (CRA), either through organic growth or by acquiring other financial institutions.

Most community banks are considered “small banks” under the CRA rules of the federal supervisory agencies because of their size. A “small bank” in 2021 is one that, as of Dec. 31 of the previous two calendar years (2019 and 2020), had total assets of less than \$1.322 billion. An “intermediate small bank” is one with assets of at least \$330 million but less than \$1.322 billion.

At some point, many of these banks grow to the point that they move up through the ranks to become “intermediate small

banks” or “large banks” when they pass these dollar thresholds for two years in a row. The dollar thresholds are updated annually to adjust for changes in the Consumer Price Index.

How to “graduate”

A “small bank” can become an “intermediate small bank” by growing beyond the \$330 million threshold – through natural growth in loans and deposits or by acquisition of either whole institutions or portfolios of their assets or liabilities.

Similarly, an “intermediate small bank” can become a “large bank” by growing over the \$1.322 billion threshold through organic increase in assets or by acquisition of additional institutions or assets.

A “small bank” can become an “intermediate small bank” by growing beyond the \$330 million threshold – through natural growth in loans and deposits or by acquisition of either whole institutions or portfolios of their assets or liabilities.

Different evaluations

The CRA performance of a “small bank” is evaluated under a streamlined process that focuses largely on its loan-to-deposit (LTD) ratio and its lending distribution. If the bank meets the following criteria, it can expect at least a “satisfactory” CRA rating:

- Its LTD measure is “reasonable”
- A majority of its loans are in its assessment area(s)
- Its loans are distributed to individuals and businesses of different income levels
- The geographic distribution of its loans is reasonable
- There are no fair lending concerns

An “intermediate small bank” is evaluated under the above process, plus the following additional criteria (a modified “lending test”):

- Number and amount of community development loans
- Number and amount of qualified investments
- Extent to which the bank provides community development services, and
- Responsiveness through such activities to community development lending, investment, and services needs

On the other hand, a “large bank” faces a much more complicated evaluation. The CRA examination and rating systems for these institutions is a three-pronged process comprised of:

- Lending test (responsiveness to credit needs; geographic and demographic distribution of loans; record of serving the credit needs of economically disadvantaged, areas, businesses, and individuals; use of innovative or flexible lending practices; level of community development loans)
- Investment test (level of qualified investments, particularly those not routinely provided by private investors; use of innovative or complex qualified investments; responsiveness to area credit and community development needs)
- Service test (accessibility of service-delivery systems to areas and individuals of different income levels; record of improving accessibility through branch openings and closings; extent to which services are tailored to convenience and needs of its area; record of providing community development services)

Nine steps to success

When you see that you are approaching graduation to “intermediate small bank” or especially to “large bank” status, you need to begin planning for a smooth transition. You should consider taking the following nine steps:

1. **Set up a transition team.** You can use an existing CRA committee, perhaps adding new or more senior members (if needed). Senior managers, including the CEO and compliance officer, should be involved in this process – including representatives of all functional areas within the bank.
2. **Prepare for data collection and analysis requirements.** As a “large bank,” the bank will be required to collect and submit data on its small business and small farm lending to your supervisor each year. Reports are generated from these data, reports that play an important part in your CRA evaluation. If you are subject to the Home Mortgage Disclosure Act (HMDA), then your home lending data is also considered. The bank may also choose to have its consumer lending considered if that lending makes up a significant portion of your lending.

You will need to evaluate your current management information systems (MIS) to ensure that they will provide the required data – for small business and small farm lending, as well as expanded HMDA information. Do you already have reporting processes in place for community development loans and investments? Can your MIS be organized to reveal geographic and borrower characteristics, by assessment area, for bank and examiner analysis of the data? Should you collect data for consumer loans in one or more of the five optional categories?

3. **Perform a baseline assessment.** To gauge where your bank stands now, you should consider performing a thorough review of how the bank meets, as applicable, the modified “lending test” for an “intermediate small bank” or each of the three “large bank” CRA performance tests. Objectively assign ratings just like the examiners will, using the rating system in the CRA rules. You should assess areas for which you already have data and then create additional systems using new data sources and analysis tools.

Is your assessment area still reasonable? Would you earn at least a “satisfactory” rating from CRA examiners? What performance areas need attention? What changes do you need to make?

4. **Define your CRA mission, goals, and strategies.** Performing some CRA strategic planning, as in other areas, can guide

Continued on page 20

your performance and help you maximize the involvement and contribution of all areas within the bank. The senior transition team should think through at least the three core CRA goals that most banks really care about – promoting community well-being, since your bank is a community leader and this helps maintain an economically healthy market; doing business profitably, including serving low- and moderate-income (LMI) customers and areas as desirable business; and regulatory risk management, that is, avoiding regulatory problems.

Do you have a corporate-wide mission statement that is a dynamic statement of the purpose of your CRA and community investment program? Have you set specific, measurable goals that reflect your business purposes and the applicable larger bank performance tests? Have you established accountabilities and strategies to achieve these goals? Do you have a larger bank CRA implementation schedule set up so you can fully meet your new requirements and performance standards?

5. Ensure full fair lending compliance. Fair lending issues pose a significant CRA risk for many banks. All your other work to enhance your CRA program can be brought down by fair lending problems, even subtle and unintentional forms of discrimination. You cannot earn a “satisfactory” CRA rating if examiners find any evidence of lending discrimination. Have all staff been trained how to avoid subtle disparate treatment by helping some customers more than others? Are there potential disparate impact issues in your loan programs – from marketing to underwriting to collections? Does the bank conduct a regular fair lending self-assessment to ensure that similar applicants receive similar treatment and outcomes? Is a formal second review process in place to ensure that lending decisions are consistent without regard to any “prohibited basis”? Do your marketing and delivery systems effectively reach a diverse market?

6. Establish supporting strategies to meet CRA goals. Detailed strategies should be developed for making progress in all organizational units within the bank and throughout your CRA assessment area.

Have any identified gaps in lending been evaluated to determine whether products and underwriting standards are effectively matched to your target market? Is bank marketing directed to all customer segments within your assessment area? Have any identified gaps in service delivery systems been evaluated for any new approaches needed in delivering credit and other services? Are your investment options actively evaluated to ensure that investment test standards are met or exceeded?

7. Train staff in the new CRA program. All personnel should be trained, at a level appropriate for their role at the bank, in the larger bank requirements of the CRA rules and the specifics of the bank’s program to meet or exceed those expectations. Management and the directors need to be briefed on the larger bank requirements. All staff needs training in the bank’s CRA program and their roles and accountabilities. Lending staff needs guidance on extending credit successfully and safely, and soundly in nontraditional areas – such as affordable mortgages, government-backed loans, and other community development credits.

There are two very good reasons for maintaining active communication with your community. An ongoing dialogue allows the bank to become aware of local needs and how to meet those needs profitably.

8. Communicate with the local community. Under a formal CRA strategic plan, such communication is required. However, it is still essential for the bank to gain input from local businesses, government, and community leaders and share your plans with them.

There are two very good reasons for maintaining active communication with your community. An ongoing dialogue allows the bank to become aware of local needs and how to meet those needs profitably. A negative reason is that the CRA rules provide many opportunities for community members to comment on your performance – including during a CRA examination or when a corporate application is being considered by supervisors.

9. Meet the new technical requirements. Besides maintaining a CRA public file, posting lobby notices, and the other technical requirements that all financial institutions must meet, there are some additional obligations for “large banks.” These include small business and small farm loan data collection rules and somewhat expanded public file disclosure requirements.

Your bank will be well served as you approach “intermediate small bank” or “large bank” CRA status by early and thorough consideration of the issues raised in this article. And be sure to take an objective look at where you are and where you should be. Glossing over shortcomings or minimizing enhanced expectations and requirements will not serve the bank’s interests. ★



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Uncovering Fee-Income and Yield Opportunities in a Challenging Market

BY TOM BADOLATO, BHG



The pandemic has brought a lot of change to financial institutions, including how to engage with your borrowers, serve their needs, and drive additional revenue into your bank. For many, this includes looking at partnering with alternative lenders.

With the right lending partner, community banks can strengthen and diversify their loan portfolio through new income opportunities. A strategic partnership can provide you with access to quality loans that align with your business goals and enable you to work toward your growth plans – without additional time or cost.

These five questions can help you quickly uncover a potential partner's credibility and commitment so you can focus on increasing your revenue while mitigating your risk:

1. What is your track record of success?

Gauge how the lender has endured market changes. The economy is still recovering, and this won't be the last downturn – seek to understand how they navigate uncertainty. You want a resilient partner that can originate quality loans for your portfolio at any time, has a track record of success, and can adjust its business model to meet your needs.

2. How do you make lending decisions?

Quantitative analytics and historical borrower data are key, as they uncover variables that predict risk. Utilizing data is commonplace today, but a partner that dives deep into the analytics can make better predictions when originating loans, resulting in a stronger return on the portfolio you purchase.

3. How do you attract borrowers?

You want access to expertise and experience. The best way to attract the highest quality borrowers is through

selective targeting and investing in marketing. Partners that execute innovative, highly targeted campaigns across every marketing channel and are precise to whom they lend, offer a unique advantage in the marketplace, which ultimately creates a better loan offering for your bank.

4. How does your underwriting process create efficiencies for our bank?

Evaluating credit files is time-consuming. Your partner should offer a simplified underwriting process with consistent loan packages, so you can quickly and easily analyze files to make informed purchasing decisions.

5. What is your commitment to service?

Borrowers seek out their local community bank because of the personalized level of service provided. Your partner should also place a high value on service to ensure a positive borrower experience every step of the way.

The pandemic has been challenging for community banks across the country, but it has also posed a new opportunity for banks to partner with alternative lenders to drive fee income and new revenue streams into your business. Adding high-performing assets and maximizing yields can help boost your profitability for those willing to seek out new partners this year. ★



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135
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132
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112
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108
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87
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60
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- December 7** Security Officer Reports to the Board: Timing, Contents & Requirements
- December 9** Visa Debit Card Chargebacks
- December 14** Commercial Loan Annual Credit Review
- December 15** Are You Prepared for CECL?
- December 16** Opening Multi-Tiered Business Accounts
- January 4** Head Teller Development: Improving Teller Performance
- January 5** ACH Series: Quick Start Guide to ACH for the Frontline
- January 6** A Year in the Life of a Compliance Officer
- January 10** Call Report Series: Call Report Update 2022
- January 11** A Cookie Diet: Privacy, Restricted Data Access & Building Online Visibility Beyond 2022
- January 12** Deposit Ops Series: Interest Reporting for Nonresident Aliens: Foreign & US Taxpayer ID Numbers
- January 13** New Employee Required Training
- January 18** 2022 IRA & HSA Update: Staying Compliant
- January 19** Provisional Credit Under Reg E: Rules, Best Practices & FAQs
- January 19** Dealing with ACH Tax Refunds: Exceptions, Posting & Liabilities
- January 20** Understanding the Current M&A Market for Community Banks
- January 25** Lending Regulatory Roundup: Avoiding Violations & Preparing for Changes
- January 26** 2021 HMDA Submission Due March 1, 2022: Updates & Challenges
- January 27** Loan Documentation for All Legal Entities



x



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Each asterisk (*) represents an agreement for a specific endorsed product with that company. Not all products that these companies offer are endorsed by CBA. To see a detailed list and explanation of endorsements, visit CBA online at cbak.com.

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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