the Independent Report
“Colorado banking at its best”
in this issue...

September/October 2018

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Cover by Bob Kissel: Poudre River near Cameron Pass, Larimer County, Colorado
To see more of Bob’s photos, visit his website at www.flickr.com/photos/rekissel/sets
2018 IBC Training Schedule

The IBC’s mission it to provide high-quality educational programs in a timely manner to you and your employees with all levels of banking experience. We believe that the knowledge gained through these programs can result in success for you, your employees and your bank.

IBC On-Site Conferences

<table>
<thead>
<tr>
<th>Convention</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>45th Annual Convention</td>
<td>Wednesday – Friday, September 19 – 21</td>
</tr>
<tr>
<td></td>
<td>Vail Marriott Mountain Resort 715 Wet Lionshead Circle, Vail</td>
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</table>

IBC Webinar

Cybersecurity Webinar Series
1. The Bankers Guide to the Cybersecurity Dilemma
2. An Inside Tour of the Dark Web and
3. Beating Cybercriminals to the Punch by Mitigating Zero Day Exploits

IBC and ProBank Austin Co-Sponsored Live Seminars

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Lending – Start to Finish</td>
<td>Tuesday, September 11</td>
<td>Aurora</td>
</tr>
<tr>
<td>2018 TRID Compliance: The Final Frontier</td>
<td>Wednesday, September 12</td>
<td>Aurora</td>
</tr>
<tr>
<td>2018 Mastering HMDA</td>
<td>Thursday, September 13</td>
<td>TBD</td>
</tr>
<tr>
<td>2018 ACH Processing Compliance</td>
<td>Wednesday, October 3</td>
<td>TBD</td>
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2018 Webinar Schedule

Auditing & Accounting

<table>
<thead>
<tr>
<th>Series</th>
<th>Details</th>
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<tbody>
<tr>
<td>Call Report Series: Complex Call Report Lending Schedule Preparation</td>
<td>Thursday, October 25</td>
</tr>
<tr>
<td>Form 1099 Reporting: Third Party Vendors, Foreclosures, Debt Forgiveness &amp; More</td>
<td>Wednesday, October 31</td>
</tr>
<tr>
<td>Auditing for HMDA Compliance, Including Data Collection Rules</td>
<td>Thursday, December 6</td>
</tr>
<tr>
<td>Call Report Series: Improving Efficiency in Call Report Preparation: Documentation, Accuracy &amp; Common Errors</td>
<td>Tuesday, December 11</td>
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Collections

<table>
<thead>
<tr>
<th>Series</th>
<th>Details</th>
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<tbody>
<tr>
<td>Consumer Debt Series: Maximizing Recoveries on Charged-Off Loans</td>
<td>Tuesday, September 11</td>
</tr>
<tr>
<td>Form 1099 Reporting: Third-Party Vendors, Foreclosures, Debt Forgiveness &amp; More</td>
<td>Wednesday, October 31</td>
</tr>
<tr>
<td>Consumer Debt Series: Proper Repossession Notice &amp; Sale of Non-Real Estate Collateral</td>
<td>Thursday, November 8</td>
</tr>
<tr>
<td>Compliance</td>
<td>Date/Time</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Complying with Reg Z Rules for HELOCs: Disclosure, Documentation, Statements &amp; Maintenance</td>
<td>Wednesday, September 5</td>
</tr>
<tr>
<td>Imaged Documents &amp; Checks: Regulations &amp; Legal Concerns</td>
<td>Thursday, September 6</td>
</tr>
<tr>
<td>Placing Reg CC Holds Compliantly and With Confidence: Clarifying the Confusion</td>
<td>Monday, September 10</td>
</tr>
<tr>
<td>New BSA Officer Training: Requirements &amp; Real-Life Scenarios</td>
<td>Thursday, September 13</td>
</tr>
<tr>
<td>Vendor Outsourcing: Due Diligence, Contracts, Risks &amp; Oversight</td>
<td>Thursday, September 20</td>
</tr>
<tr>
<td>HMDA Reporting: Lessons Learned, Common Mistakes &amp; FAQs</td>
<td>Friday, September 21, 9:00-10:30am</td>
</tr>
<tr>
<td>Compliance Officer Training: Risk Assessments, Monitoring &amp; Testing</td>
<td>Wednesday, September 26</td>
</tr>
<tr>
<td>Proper Preparation of the TRID Loan Estimate &amp; Closing Disclosure</td>
<td>Tuesday, October 2</td>
</tr>
<tr>
<td>Handling Subpoenas, Summons, Garnishments &amp; Levies</td>
<td>Monday, October 5, 9:00-10:30am</td>
</tr>
<tr>
<td>Payment Systems Rules &amp; Regulations for ACH, Cards, Wires &amp; Checks</td>
<td>Tuesday, October 16</td>
</tr>
<tr>
<td>Compliance Series: Job-Specific Compliance Training for Deposit Operations</td>
<td>Tuesday, October 30</td>
</tr>
<tr>
<td>Analyzing Common TRID Compliance Violations</td>
<td>Thursday, November 1</td>
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<tr>
<td>Compliance Series: Robbery, Preparedness: Requirements &amp; Proven Strategies</td>
<td>Tuesday, November 27</td>
</tr>
<tr>
<td>Cyber Series: Compliance Questions &amp; Issues in Deploying Mobile Remote Deposit Capture</td>
<td>Wednesday, December 5</td>
</tr>
<tr>
<td>Auditing for HMDA Compliance, Including New Data Collection Rules</td>
<td>Thursday, December 6</td>
</tr>
<tr>
<td>BSA Officer Reports to the Board</td>
<td>Thursday, December 20</td>
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<table>
<thead>
<tr>
<th>Director</th>
<th>Date/Time</th>
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<tbody>
<tr>
<td>Capital Planning &amp; Adequacy Under Regulatory Relief: Preparation Strategies</td>
<td>Monday, September 17</td>
</tr>
<tr>
<td>Roles, Responsibilities &amp; Liabilities of Community Bank Directors</td>
<td>Tuesday, October 23</td>
</tr>
<tr>
<td>Board Secretary Basics: Agendas, Meeting Records and Board Package Assembly</td>
<td>Friday, November 9, 9:00-10:30am</td>
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<tr>
<td>* Please note: Director Series is presented from 9:00 – 10:30am</td>
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<tr>
<th>Frontline and New Accounts</th>
<th>Date/Time</th>
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<tbody>
<tr>
<td>Handling Business Account Transactions: Dos, Don’ts &amp; Best Practices</td>
<td>Friday, September 7, 9:00-10:30am</td>
</tr>
<tr>
<td>Placing Reg CC Holds Compliantly and With Confidence: Clarifying the Confusion</td>
<td>Monday, September 10</td>
</tr>
<tr>
<td>How to Originate &amp; Onboard a New ACH Business: Set Up, Risk Assessment, Registry, Audit &amp; Third-Party Senders</td>
<td>Friday, September 21, 9:00-10:30am</td>
</tr>
<tr>
<td>IRA Series: IRA Conversions, Recharacterizations &amp; Excess Contributions</td>
<td>Thursday, September 27</td>
</tr>
<tr>
<td>Medallion &amp; Signature Guarantee Rules &amp; Risks</td>
<td>Thursday, October 4</td>
</tr>
<tr>
<td>Handling Subpoenas, Summons, Garnishments &amp; Levies</td>
<td>Monday, October 5, 9-10:30am</td>
</tr>
<tr>
<td>New Accounts Series: Opening Accounts for Nonresident Aliens</td>
<td>Wednesday, October 10</td>
</tr>
<tr>
<td>Stop Payment Versus Written Statement of Unauthorized Debit (WSUD): Which Is It?</td>
<td>Monday, October 29, 9:00-10:30am</td>
</tr>
<tr>
<td>Compliance Series: Robbery Preparedness: Requirement &amp; Proven Strategies</td>
<td>Tuesday, November 27</td>
</tr>
<tr>
<td>Improving Teller Performance: Head Teller Development</td>
<td>Tuesday, December 4</td>
</tr>
<tr>
<td>Your Depositor Has Died: Actions to Take &amp; Mistakes to Avoid</td>
<td>Wednesday, December 12</td>
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<tr>
<td>Closing or Changing Deposit Accounts for Consumers &amp; Businesses</td>
<td>Wednesday, December 19</td>
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<thead>
<tr>
<th>Human Resources</th>
<th>Date/Time</th>
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<tbody>
<tr>
<td>Managing the Employment Termination Process: Before, During &amp; After</td>
<td>Tuesday, September 25</td>
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<tr>
<td>The Fair Labor Standards Act: Do’s &amp; Don’ts of Exempt &amp; Nonexempt Pay Issues</td>
<td>Wednesday, October 3</td>
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<tr>
<td>IRA</td>
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<tr>
<td>IRA Series: IRA Conversions, Recharacterizations &amp; Excess Contributions</td>
<td>Thursday, September 27</td>
</tr>
<tr>
<td>IRA Series: Top 10 IRA Rollover Mistakes</td>
<td>Tuesday, November 20</td>
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<thead>
<tr>
<th>IT</th>
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<tr>
<td>Cyber Series: Cyber Threats: Prevention, Detection &amp; Response</td>
<td>Thursday, October 18</td>
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<tr>
<td>Cyber Series: Compliance Questions &amp; Issues in Deploying Mobile Deposit Capture</td>
<td>Wednesday, December 5</td>
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<tr>
<td>Managing * Mitigating Card-Not-Present Fraud</td>
<td>Wednesday, November 28</td>
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<table>
<thead>
<tr>
<th>Lending</th>
<th>Date/Time</th>
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<tr>
<td>Complying with Reg Z Rules for HELOCs: Disclosure, Documentation, Statements &amp; Maintenance</td>
<td>Wednesday, September 5</td>
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<tr>
<td>Consumer Debt Series: Maximizing Recoveries on Charged-Off Loans</td>
<td>Tuesday, September 11</td>
</tr>
<tr>
<td>Mortgage Lender Training Part 1: Life-of-Loan Reg B Requirements, Including Application, Monitoring &amp; Disclosures</td>
<td>Wednesday, September 12</td>
</tr>
<tr>
<td>HMDA Reporting: Lessons Learned, Common Mistakes &amp; FAQs</td>
<td>Friday, September 21, 9:00-10:30am</td>
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<td>Date</td>
<td>Time</td>
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<tr>
<td>Wednesday, September 26</td>
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<td>Tuesday, October 2</td>
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<td>Tuesday, November 6</td>
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<td>Thursday, November 6</td>
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<td>Tuesday, November 13</td>
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<td>Wednesday, November 14</td>
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<td>Thursday, November 8</td>
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<td>Friday, November 14, 9:00-10:30am</td>
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<tr>
<td>Thursday, December 13</td>
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<tr>
<td>Friday, December 14, 9:00 – 10:30am</td>
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<tr>
<td>Monday, December 17</td>
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**Marketing**

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>Wednesday, September 19</td>
<td></td>
<td>Marketing Series: Measuring the ROI of Your Digital Marketing Strategy</td>
</tr>
<tr>
<td>Thursday, November 15</td>
<td></td>
<td>Cash Management: How Sales, Operations &amp; Technology Can Collaborate to Generate More Fee Income</td>
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</tbody>
</table>

**Operations**

<table>
<thead>
<tr>
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<td>Imaged Documents &amp; Checks: Regulations &amp; Legal Concerns</td>
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<td></td>
<td>How to Originate &amp; Onboard a New ACH Business: Set Up, Risk Assessment, Registry, Audit &amp; Third-Party Senders</td>
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<td>Friday, October 5, 9:00-10:30am</td>
<td></td>
<td>Handling Subpoenas, Summons, Garnishments &amp; Levies</td>
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<tr>
<td>Monday, October 29, 9:00-10:30am</td>
<td></td>
<td>Payment Systems Rules &amp; Regulations for ACH, Cards, Wires &amp; Checks</td>
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<td>Friday, October 14, 9:00-10:30am</td>
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<td>Stop Payment Versus Written Statement of Unauthorized Debit (WSUD): Which Is It?</td>
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<td>Compliance Series: Job-Specific Compliance Training for Deposit Operations</td>
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<td>Wednesday, October 31</td>
<td></td>
<td>Form 1099 Reporting: Third-Party Vendors, Foreclosures, Debt Forgiveness &amp; More</td>
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<td>Wednesday, November 7</td>
<td></td>
<td>ACH Liability &amp; Warranties for ODFIs: Reducing Your Exposure</td>
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<tr>
<td>Wednesday, November 28</td>
<td></td>
<td>Managing &amp; Mitigating Card-Not-Present Fraud</td>
</tr>
<tr>
<td>Tuesday, December 18</td>
<td></td>
<td>Handling Government ACH Payment Returns &amp; Reclamations</td>
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</table>

**Security & ACH Payment Returns & Reclamations**

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>Thursday, September 20</td>
<td></td>
<td>Vendor Outsourcing: Due Diligence, Contracts, Risks &amp; Oversight</td>
</tr>
<tr>
<td>Friday, September 28</td>
<td></td>
<td>React – Escape – Survive: Preparing Your Institution &amp; Staff for an Active-Shooter Incident – Available via recorded webinar and free digital download</td>
</tr>
<tr>
<td>Thursday, October 18</td>
<td></td>
<td>Cyber Series: Cyber Threats: Prevention, Detection &amp; Response</td>
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<tr>
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<tr>
<td>Wednesday, November 28</td>
<td></td>
<td>Managing &amp; Monitoring Card-Not-Present Fraud</td>
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**Senior Management**

<table>
<thead>
<tr>
<th>Date</th>
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<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday, September 17</td>
<td></td>
<td>Capital Planning &amp; Adequacy Under Regulatory Relief: Preparation Strategies</td>
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<tr>
<td>Thursday, September 20</td>
<td></td>
<td>Vendor Outsourcing: Due Diligence, Contracts, Risks &amp; Oversight</td>
</tr>
<tr>
<td>Wednesday, September 26</td>
<td></td>
<td>Compliance Officer Training: Risk Assessment, Monitoring &amp; Testing</td>
</tr>
<tr>
<td>Wednesday, October 3</td>
<td></td>
<td>The Fair Labor Standards Act: Dos &amp; Don’ts of Exempt &amp; Nonexempt Pay Issues</td>
</tr>
<tr>
<td>Tuesday, October 23</td>
<td></td>
<td>Roles, Responsibilities &amp; Liabilities of Community Bank Directors</td>
</tr>
<tr>
<td>Friday, November 9</td>
<td></td>
<td>Board Secretary Basics: Agendas, Meeting Records &amp; Board Package Assembly</td>
</tr>
<tr>
<td>Thursday, November 15</td>
<td></td>
<td>Cash Management: How Sales, Operations &amp; Technology Can Collaborate to Generate More Fee Income</td>
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</tbody>
</table>
**Preferred Providers**

IBC Preferred Providers are selected by bankers just like you, so give them special consideration when considering their proposals for your bank! To learn more about IBC’s Preferred Providers contact the IBC at 303.832.2000. Please note: IBC endorses the listed companies but not all products offered by the company.

<table>
<thead>
<tr>
<th>Company</th>
<th>Contact Details</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Preferred Providers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IBC Preferred Providers</strong></td>
<td>Mary Ann Elliott-Supple</td>
<td><a href="mailto:msupples@bbwest.com">msupples@bbwest.com</a></td>
</tr>
<tr>
<td><strong>Deluxe</strong></td>
<td>Chuck Allor</td>
<td><a href="mailto:charles.allor@deluxe.com">charles.allor@deluxe.com</a></td>
</tr>
<tr>
<td><strong>HARLAND CLARKE</strong></td>
<td>Eddie Hook</td>
<td><a href="mailto:eddie.hook@harlandclarke.com">eddie.hook@harlandclarke.com</a></td>
</tr>
<tr>
<td><strong>IBT</strong></td>
<td>Steve Thomas</td>
<td><a href="mailto:stthomas@ibtapps.com">stthomas@ibtapps.com</a></td>
</tr>
<tr>
<td><strong>iHELP</strong></td>
<td>Jim Iannuzzi</td>
<td><a href="mailto:jiannuzzi@ihelploan.com">jiannuzzi@ihelploan.com</a></td>
</tr>
<tr>
<td><strong>S&amp;P Global</strong></td>
<td>Craig Johnson</td>
<td><a href="mailto:cjohnson@oncourselearning.com">mailto:cjohnson@oncourselearning.com</a></td>
</tr>
<tr>
<td><strong>SBS CyberSecurity</strong></td>
<td>Ryan Schremmer</td>
<td><a href="mailto:ryan.schremmer@sbscyber.com">ryan.schremmer@sbscyber.com</a></td>
</tr>
<tr>
<td><strong>S&amp;P Global</strong></td>
<td>Claiborne Kitchin</td>
<td><a href="mailto:cikitchin@spglobal.com">cikitchin@spglobal.com</a></td>
</tr>
<tr>
<td><strong>Travelers</strong></td>
<td>Brandon Tate</td>
<td><a href="mailto:btate2@travelers.com">btate2@travelers.com</a></td>
</tr>
<tr>
<td><strong>Vantiv</strong></td>
<td>Lauren Gonnella</td>
<td><a href="mailto:lauren.gonnella@vantiv.com">lauren.gonnella@vantiv.com</a></td>
</tr>
</tbody>
</table>
SUPPORT THE IBC’S ASSOCIATE MEMBERS!

Accounting / Compliance
- Anderson & Whitney 970-352-7990
- Bank Accounting and Consulting, LLC 303-916-2566
- BKD, LLP 303-861-4545
- Capco 720-325-4967
- Eide Bailly, LLP 303-770-5700
- FIS EGRC 720-325-4967
- Fortner, Bayens Levkulich & Garrison, PC 303-296-6033
- Garland Heart – Info Security | Compliance | Consulting 972-429-8200
- Iverson & Associates, LLC 303-949-7702
- Moss Adams, LLP 503-471-1277
- Stockman Kast Ryan & Co., LLP 719-630-1186

Advertising / Equipment / Printing / Supplies
- *Deluxe Strategic Sourcing 800-992-0304
- FF&S, Inc. 303-323-4341
- *Harland Clarke 800-525-8848

Architects
- MG Architects 713-552-0707
- NewGround 888-613-0001

Career Advancement
- Graduate School of Banking at Colorado 800-272-5138

Consulting / Marketing / Strategic Planning
- @Risk Technologies 800-426-0178
- AccuSystems 719-583-8004
- Computer Services, Inc. 970-212-7104
- Convergent Technologies 847-620-5000
- DM Tech Solutions 214-883-4222
- FIS EGRC 720-325-4967
- Garland Heart – Info Security | Compliance | Consulting 972-429-8200
- *SBS CyberSecurity 785-594-0503

Computer Products / Consulting
- Bank Strategies 303-618-0056
- Bell State Bank 701-371-3355
- Expert Business Development 610-771-2121
- GLC Advisors 303-479-3840
- Kasasa 877-342-2557
- O’Connell Consulting Group 303-795-3539
- *OnCourse Learning 866-806-9900
- The James Paul Group 877-584-6468
- *S&P Global 434-951-6948

Correspondent Banking Service
- *Bankers’ Bank of the West 303-291-3700
- Bell State Bank 701-371-3355
- CenterState Bank 303-773-0441
- TIB – The Independent BankersBank 972-650-6000
- INTRUST Bank 800-732-5120
- PCBB 888-399-1930

Data Processing / EFT / ATM / Card Processing / Merchant Services
- *Bankers’ Bank of the West 303-291-3700
- BMA Banking Systems 801-887-0122

Data Processing / EFT / ATM / Card Processing / Merchant Services Continued
- *IBT 512-606-1100
- *ICBA Bancard / TCM Bank 800-242-4770
- Jack Henry & Associates 417-235-6652
- NuSource Financial, LLC 952-942-9191
- SHAZAM 515-288-2828
- *Vantiv Corp 513-900-4661

Insurance / Benefit Services
- Bank Financial Services Group 267-291-2130
- Corrigan & Company 805-963-2090
- Equis Alliance 469-252-1037
- Financial Designs Ltd. 303-832-6100
- Haas & Wilkerson Insurance 913-676-9259
- *ICBA Reinsurance 888-790-6615
- *Travelers 720-200-8416

Investments / Funding and Lending Partners
- 1st Mortgage Solution USA 303-651-7800
- The Baker Group 405-415-7200
- Colorado Enterprise Fund 303-860-0242
- Colorado Housing and Finance Authority 303-297-7329
- Colorado Lending Source 303-657-0010
- Community Reinvestment Fund, USA 303-870-9795
- Crescent Mortgage 970-278-9328
- D.A. Davidson 303-764-6000
- FHLBank Topeka – Denver Office 303-893-3452
- Gill Capital Partners 303-296-6260
- Hayden Outdoors 970-674-1990
- *ICBA Mortgage 800-253-5356
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Summer is a time to reflect. Whether it’s a well-deserved vacation or simply a slower day in your schedule, I encourage you to carve out time to reflect on where you are and where you want to go as a community banker and as a leader.

But I’m a realist and know all too well that being a community banker is a 24/7 job. We all know what can happen: It’s Saturday morning, you’re at the grocery store, and suddenly a customer races up to tell you his debit card isn’t working. Or you’re at your child’s dance rehearsal when a different customer inquires about a loan for a restaurant she would like to open someday. These interruptions are what being a community banker is all about: being selfless with our time and realizing that our job is much bigger than we are.

While that 24/7 job can make it hard to find the extra moments to pause and reflect, time isn’t going to stop or slow down anytime soon. That’s why it’s up to each of us to make the time to create a strategic vision for ourselves and our banks.

So ponder these questions the next time you carve out a moment—even if it’s just one question at a time.

What are you doing to take your skills as a community banker to the next level? Are you grooming the next generation of talent at your bank? Is your bank innovating the way it should be? Are you reading relevant publications that inspire you to be the best leader you can be? Are you networking with other community bankers? Are you getting outside your comfort zone and breaking through professional barriers to meet your goals?

Every community bank is indispensable to its local community. Each of us must pursue personal growth to ensure our businesses, and our industry, can continue to thrive and flourish.

I have no doubt that the 20 highly innovative community banks featured in this month’s Independent Banker cover story are run by leaders who ask themselves questions like these regularly. They know that to better their community banks, they must better themselves and dive into a culture of innovation—both at the bank and on a deeper personal level as leaders.

So, before we close out summer, I hope you take this message to heart and think about your strategic vision as a community banker and a leader of this great industry. I know great things are on the horizon for all community bankers, but it starts with being mindful of where we are right now.

I look forward to some of my own strategic discussions with state association executives. I’ll also be spending time with staff in ICBA’s Sauk Centre, Minn., office.
Community banking is a collaborative enterprise that produces ripple effects. You empower people, invest in small enterprises and agricultural businesses, and fuel the local economy. Community bankers generally hold that when you join others to achieve a common goal, the outcome surpasses what the individual participants could have accomplished separately. It’s no wonder that community banks play a critical role in the overall vitality of our country.

Your work is important. And our mission is to serve you as a non-competing provider of products and services, a source of industry expertise, and an industry advocate. We stand with the trade associations that voice community bank interests, too — the Independent Bankers of Colorado being one of the foremost.

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IBC Attends Legislative Leadership Events to Discuss Community Banking Issues

IBC President-Elect Megan Harmon, The Eastern Colorado Bank, and IBC’s Barbara Walker attended the annual Legislative Leadership Receptions hosted by The Capstone Group, IBC’s lobbying firm. We thank lobbyist Mary Marchun and her partners for arranging this great event for client face-time with key state lawmakers.

**July 17th Event:** Democratic Senators Steve Fenberg, Angela Williams, Kerry Donovan, Rachel Zenzinger, and Dominick Moreno; Majority Leader KC Becker; and Representatives Matt Gray, Tracey Kraft Tharp.

**July 24th Event:** Republican Majority Leader Holbert; Senators Cooke, Tate, and Sonnenberg; House Minority Leader Neville; and Representatives Buck, Wist, McKean, Rankin, Saine, Van Winkle, and Liston.

Credit unions, as well as proponents of zombie banks (public/government owned and operated “banks”), want to get their hands on public funds **without** providing the current strong protections public funds have in the banking system under the Public Deposit Protection Act administered by the Division of Banking.

1. Credit unions across the country are seeking the ability to take public funds as deposits. In Colorado credit unions have failed twice in the legislature in the past because they do not want to comply with the Public Deposit Protection Act like banks do. They have succeeded in states that do not have the vigorous protections of Colorado's Public Deposit Protection Act. Credit unions already enjoy government subsidies funded by taxpayers through credit union state and federal tax exemptions...so getting unfettered access to public funds creates double government subsidies.

2. So-called public, government owned and operated “banks” are pushing at state and local levels across the country to get unfettered access to public funds. These so-called public banks would operate without state and federal regulatory safety and soundness oversight required of real banks. All of Colorado's public funds would be required to be "deposited" into the public bank to be used to make high-risk loans, exposing public funds not only to loss, but also to tax payer bailouts. A double government subsidy. Proponents do not disclose that public banks can and do fail...most recently the Bank of Puerto Rico failed, causing a fiscal crisis in Puerto Rico.
GOOD NEWS FOR BANKS: CONGRESS MAKES WAY FOR RECIPROCAL DEPOSITS
Glenn Martin, Regional Director, Promontory Interfinancial Network, LLC, IBC Associate Member

A lesser-known provision of a new law just changed the market for deposits, and it could not have come at a better time for banks, especially community banks. The provision, which is part of the regulatory relief package for banks just signed by President Trump, provides that most reciprocal deposits are no longer treated as brokered. As a result, well-capitalized banks can now attract more large-dollar, local relationships and, in turn, have more cost-effective funding on hand to finance lending in their communities.

In recent months, U.S. banks have been bracing for increased competition for customer deposits. According to the Bank Executive Business Outlook Survey (2018, Q1) a record number of bank respondents (76 percent) reported facing more competition for deposits over the past year and almost 90 percent believe it is only going to get tougher.1

In fact, the combination of rate hikes (more are expected later this year) and the Federal Reserve’s $1.5 trillion reduction of its balance sheet should continue to push deposit costs upward. With the Fed not reinvesting the principal proceeds from maturing securities, liquidity will be pulled from the markets and banking system, reversing the impact of the first and second Quantitative Easing. And banks are bracing themselves for more competition from the nation’s largest banks, as well as from non-traditional players that include the likes of fintech companies, Goldman Sachs’s Marcus, and the potential entry of Amazon.

Reciprocal Deposits

Fortunately, the enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act should offer banks some relief. This important new law provides that most reciprocal deposits are no longer considered brokered deposits.

1 The Bank Executive Business Outlook Survey is a publication of Promontory Interfinancial Network, LLC.
GOOD NEWS FOR BANKS: CONGRESS MAKES WAY FOR RECIPROCAL DEPOSITS
Continued from prior page

Reciprocal deposits are deposits that a bank receives through a deposit placement network in return for placing a matching amount of deposits at other network banks. Although there are a number of providers, the leading reciprocal deposit placement network in the United States is operated by Promontory Interfinancial Network, LLC, which invented reciprocal deposits and offers two of the nation’s largest reciprocal deposit placement services: Insured Cash Sweep®, or ICS®, and CDARS®.

The Economic Growth, Regulatory Relief, and Consumer Protection Act

This new law recognizes something that many in the banking sector have long understood—reciprocal deposits behave as core deposits in that they are “sticky” (CDARS deposits reinvest at a rate of approximately 80%, for example), and that the institution accepting the deposit maintains the relationship with the depositor.²

Specifically, the law amends section 29 of the Federal Deposit Insurance Act so that, subject to the definitions, terms, and conditions of the Act as amended:

- If a bank is well capitalized and has a composite condition of outstanding or good (CAMELS 1 or 2), its reciprocal deposits up to the lesser of $5 billion or 20% of the bank’s total liabilities are no longer considered brokered. Reciprocal deposits over these amounts are allowed, but the incremental amount (overage) is treated as brokered.
- If a bank drops below well capitalized, the bank no longer requires a waiver from the FDIC to continue accepting reciprocal deposits, so long as the bank does not receive an amount of reciprocal deposits that causes its total reciprocal deposits to exceed a specified previous average. As before, interest rate restrictions apply while the bank is less than well capitalized.

Banks now have a much larger, approved source of stable deposits that can be tapped. This means banks can help even more customers—including businesses (large and small), nonprofits, municipal governments, financial advisers, and even individuals—to safeguard their funds, potentially at even higher levels. All at the same time attracting locally priced, large-dollar deposits, which can be used to reinvest in the bank’s community.

Furthermore, banks can use reciprocal deposits to replace more expensive deposits, like routinely collateralized deposits that come with tracking burdens, and those from listing services (generally associated with wholesale pricing and no loyal or local customer relationship).

Making the Most of This New Opportunity

Now is the time to act by taking advantage of this important change in banking law. Read more about the new law and about the nation’s largest, most well-known reciprocal deposit services by visiting promnetwork.com. For more information, contact Glenn Martin at gmartin@promnetwork.com.

² Promontory Interfinancial Network calculates the reinvestment rate as the percentage of the aggregate balance of CDARS deposits that are reinvested through CDARS within 28 days of maturity. ■
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Community bankers have put years of effort into the regulatory relief provisions that were signed into law under the bipartisan Economic Growth, Regulatory Relief and Consumer Protection Act. But the battle doesn’t end there.

Federal regulators are now charged with writing the rules that implement the act and detail how it will affect community bankers on the ground, so ICBA is working with the agencies to maximize its beneficial impact.

For starters, ICBA called on federal regulators to issue regulations that implement the ICBA Plan for Prosperity-inspired law as quickly as possible. In letters to the prudential banking regulators and the Consumer Financial Protection Bureau, ICBA cited the many regulatory relief provisions that will help community banks unleash their full economic potential.

Some provisions, such as those simplifying capital rules and establishing a new community bank leverage ratio, will take time to implement. But many can be enacted by simply revising existing rules. For instance, ICBA's letters encourage the agencies to quickly issue regulations providing “qualified mortgage” and Home Mortgage Disclosure Act relief, implementing Volcker Rule and escrow exemptions, and expanding access to the 18-month exam cycle and the Small Bank Holding Company Policy Statement.

In a separate message, ICBA specifically called on the agencies to quickly issue regulations for the short-form call report created by the law and long advocated by ICBA. A provision in the act directs agencies to use a short-form report in the first and third quarters for banks with total consolidated assets of less than $5 billion.

ICBA is calling on the agencies to limit short-form reporting to the balance sheet, income statement and statement of changes in shareholders’ equity without any other supporting schedules. This would allow relevant stakeholders to gain a solid understanding of reporting institutions’ financial condition and performance without the excessively complex and burdensome reporting exercise associated with the long-form report.

ICBA and community bankers have spent much time at the forefront of the regulatory relief push, and we need to ensure those efforts deliver meaningful relief at the operational level. We’ll continue pushing to make these reforms as valuable as possible for community banks. We are not resting on our laurels but are committed to delivering additional relief for community banks and local communities.

Did you know?

ICBA submitted two petitions during the debate over the Economic Growth, Regulatory Relief and Consumer Protection Act that garnered more than 10,000 signatures each.
More Time on CECL for Community Banks & Credit Unions

The Financial Accounting Standards Board (FASB) recently met to address timing relief on the implementation of the new current expected credit loss (CECL) model for nonpublic business entities financial institutions. When the CECL standard, Accounting Standards Update (ASU) 2016-13, was issued, it was FASB’s intent to provide additional implementation time for community banks and credit unions. Three effective dates were established for public business entities (PBE) that are U.S. Securities and Exchange Commission (SEC) filers, PBE non-SEC filers and all other entities. However, the transition guidance, as written, would have required both PBE non-SEC filers and non-PBEs to adjust retained earnings for the cumulative effect of adoption as of January 1, 2021, for calendar year-end entities. This negated any timing relief for non-PBE financial institutions.

FASB recently approved the issuance of a proposed ASU that would provide additional time for non-PBEs. Under the proposal, a non-PBE would adopt ASU 2016-13 and adjust its opening retained earnings balance as of January 1, 2022. The proposed ASU will be issued in a few weeks with a short 30-day comment period. Given the overwhelming support for this relief, a final standard is expected before year-end.

As Issued

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<td>ASU 2016-13</td>
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Other CECL Relief Projects

There are several additional codification changes underway as a result of the June 2018 TRG meeting:

- **Fair Value Option** – A one-time election to apply the fair value option (FVO) to existing financial instruments on adoption. This would allow entities that choose to elect FVO for instruments going forward from having two different accounting models for portfolios (CECL and fair value).
- **Capitalized Interest** – Preparers found the language in ASU 2016-13 ambiguous on the treatment of capitalized interest when a model other than a discounted cash flow method was used. FASB plans amendments to clarify that the allowance for credit losses should be based on amortized cost at the reporting date. Unearned future interest resulting from interest deferral features should not be considered.

Continued on next page
Accrued Interest – FASB acknowledged the operational challenges in its amortized cost basis definition and will consider a practical expedient that would allow entities to:

- Estimate expected credit losses on accrued interest separately from the related loan balances
- Continue current practices for the presentation of accrued interest, *e.g.*, in other assets
- Disclose the accrued interest amounts included in amortized cost for the vintage disclosure table by:
  - Including the amounts in the vintage year and class of financing receivable amounts
  - Including the amounts in the class of financing receivable amounts only
  - Not including them in any amounts and adding a footnote to the table that states the total amount

FASB also will address the reversal of accrued interest when a loan is placed on nonaccrual status.

Transfers Between Classifications – FASB will consider amendments to avoid a potential double count of the credit allowance when a loan or security is transferred from available for sale to held to maturity. FASB also will address the accounting for mortgage loans and nonmortgage loans upon transfer from held for sale to held for investment.

Recoveries – FASB will clarify how expected recoveries should be treated; Transition Resource Group (TRG) members generally agreed recoveries could be included in the estimate of expected credit losses if reasonable and supportable.

As SEC-filer financial institutions begin full parallel testing of CECL systems in 2019, we are likely to see additional TRG meetings and possible codification updates.

CECL represents a significant change in accounting for credit losses and requires significant hours and resources to implement correctly. BKD can help educate your team, provide implementation tools and assist you should you would like assistance complying with the CECL standard, contact your trusted BKD advisor. BKD has prepared a library of BKD Thoughtware® on this topic. Visit our Hot Topics page to learn more.

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Community banks have historically been viewed as slow to adopt technology when compared to their larger counterparts. However, the need to answer increased consumer expectations via modern banking strategies has spurred more and more community institutions to embrace new technologies. And with customer expectations centering on digital channels, a digital push has become paramount.

Today, community banks are zapping the technology gap between themselves and larger institutions. An ABA study found that 52% of community banks will increase the number of digital channels offered to customers to improve engagement this year.

This advance toward digital banking stems from a desire to attract new customers. But how exactly are banks using technology to level the playing field and acquire these customers?

Using Technology to Enhance the Customer Experience

Today, the experiences customers receive from online shopping and smartphone apps have shaped their expectations for all other service providers, including financial institutions. Indeed, matching an Amazon or Netflix experience can be a tall order to fill for community banks, but it’s a challenge they’re meeting head on—starting with a seamless mobile experience.

For financial institutions, integrated mobile banking is arguably the greatest way to tighten the technological gap. Those that have implemented mobile banking have gained major benefits, the most important of which is pleasing customers.

“One mobile has been one of the most utilized services that we have rolled out,” says Wayne Garrett, executive vice president of Legence Bank in Eldorado, Illinois. (The bank utilizes a digital banking platform directly integrated with its core.) “The way the software is designed almost makes it foolproof. I believe anyone can use it.”

One major focus area for a community institution like Legence is fostering and maintaining growth. Because its mobile app enables customers to connect to the bank from anywhere, Lynn Byrd, the bank’s chief financial officer, believes it has been key in not only gaining new accounts, but also retaining long-time customers.

“Because of the mobile app, students who are graduating and moving off to college can still keep their accounts here at Legence,” Byrd says. “So we are able to retain those customers, and they can retain a connection to their hometown, too.”

Using Technology to Build Relationships

Technology is often perceived as a dividing force in our society; yet, technology also harbors the potential to build lasting, meaningful relationships. And a growing number of banks have employed an integrated customer relationship management (CRM) platform to do just that.

CRM systems enable banks of every size to enhance relationships with their customers, and for community banks, relationships are everything. An integrated CRM allows banks to tailor individualized communications to customers based on their channel preferences.

“We can reach out to specific types of customers throughout the year via newsletters, phone calls, etc.,” says Byrd. “If we notice customers aren’t coming into the branches, we’ll reach out to see if there’s anything we can do for them.”

CRM systems also grant the bank invaluable, behind-the-scenes access to the behaviors and needs of its customers, which, according to Byrd, transfers directly into new business: “For us to be able to see what’s going on with our customers at a quick glance helps us serve them better in the long run, which in turn, evolves into referrals.”

Using Technology to Connect with Commercial Customers

Though vital, retail customers don’t corner the market on high expectations for financial institutions. Commercial customers’ demands are rising in tandem, and community banks are leveraging technology to connect with these customers, too.

Paducah Bank—located in Paducah, Kentucky—is forging new commercial relationships outside of its city limits, a fact that brings a deep sense of pride to Terry Bradley, the bank’s senior vice president and director of commercial depository and treasury management services. For Bradley, utilizing treasury management technology to connect with commercial customers is an art of precision.

“It’s important for us to find ways to leverage technology, tools and services to enhance the banking relationship outside the scope of brick and mortar,” Bradley says. “And with our tools, we can offer a well-defined set of services for business customers around the country, just as if I were able to see their buildings from my office window.”

Using technology such as remote deposit capture, ACH origination and risk management, Bradley believes any size bank can compete.

“People often think treasury management services are only for larger commercial customers, but they’re not. For Paducah Bank, the ideal treasury management client is one that has a need that can be met by a solution we offer. It’s that simple.”

Today, community banks are implementing technologies that let them compete with larger institutions, a trend that is likely to continue. And by deploying innovations while maintaining personal relationships these banks can only sharpen their competitive edge.

Shane Ferrell serves as CSI’s vice president of digital strategy. In his role, he leads the strategic direction of CSI’s digital banking suite of products, which includes omnichannel, internet and mobile banking. During his year career with CSI, Shane has held various positions, from conversions to product management. ■
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Cash Collateral Support (CCS) is a state program administered by Colorado Housing and Finance Authority (CHFA). CCS is designed to help small and medium sized businesses access capital that would otherwise be unavailable due to collateral shortfalls. Due to strong performance and community impact, the six-year-old program has been renewed through 2020. Currently, the program has a total of $17 million in funds available to qualified businesses. To date, $24.8 million has been deployed to enhance the credit of small businesses in Colorado through CCS, totaling $195.7 million in private-sector financing leveraged.

“Guaranty Bank and Trust Company is pleased to work collaboratively with CHFA’s Cash Collateral program. On top of an application and approval process that is very user-friendly, the program has enabled us to support several new customers. Our bankers are now including this structure as an additional arrow in our quiver to deepen our relationships with clients and prospects,” said Mike Bond, Greeley Market President for Guaranty Bank and Trust Company.

“Colorado’s economy is flourishing, and most of our clients are experiencing strong growth, which inevitably requires working capital. CHFA’s Cash Collateral Support allows us to help them preserve that working capital. The economic development component of the program, creating jobs, results in a strong sense of pride for our clients and our bankers as we help contribute to a strong Colorado economy,” added Bond.

Deposits made by CHFA to bank lenders participating in the CCS program are held by the lender. Most business loan types are eligible including loans for nonprofit and for-profit organizations, as well as manufacturers. To utilize CCS, eligible lenders demonstrate that there is a collateral shortfall, and that there is a reasonable expectation that the business borrower will repay the loan as agreed.

The maximum loan size that CCS supports is $10 million, and the business borrower must have fewer than 750 employees at the time of the financing. Cash deposits are pledged as additional collateral to the lender for an initial term of three years. For longer-term loans, lenders may request an extension for up to 10 years.

To learn more, and to apply for collateral support, please visit CHFA’s website at chfainfo.com/business-lending/Pages/credit-enhancements.aspx, or contact CHFA’s Community Development Division at 303.297.2432.
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MANY MERCHANTS UNAWARE EQUIPMENT CAN BE ACTIVATED TO ACCEPT TAP-AND-GO

By the Bankers’ Bank of the West Bank Card Division
Preferred Merchant Services Provider of the IBC

If trends elsewhere in the world are any indication, the U.S. is bound to see an upsurge in contactless payments.¹ Card issuers that have invested in technology infrastructure and witnessed the widespread adoption of contactless payments in markets across the world—including Canada, the United Kingdom and Australia—are certainly eager to get more contactless cards in circulation here as well.²

For a recent example of consumers’ appetite for contactless payments, consider that more than half (54 percent) of spending inside the stadium during the first few days of the 2018 World Cup in Russia was contactless. Visa™ reports that over the course of the nearly month-long tournament, contactless payments accounted for 17 percent of Visa spending in the country’s 11 host cities.³ The types of devices used by international tourists and domestic soccer fans to make tap-and-go purchases included not only smart phones but also near-field communication-enabled wearable devices.

While adoption has lagged in the U.S. for various reasons, a number of the country’s top merchants currently take contactless payments—McDonald’s, Subway, Walgreens, Macy’s, and Trader Joe’s among them.⁴ The public transportation sector is also considered an ideal fit for accepting so-called open-loop transactions that enable commuters to tap a contactless payment card or phone on a reader.

Just how fast contactless payments will catch on in the U.S. is yet to be seen. Some industry observers note that the American public, now accustomed to dipping EMV chip cards, could take a while to form new habits. Others counter that the speed and ease of a tap-and-go transaction (versus dipping at a terminal) will motivate consumers to embrace them.

What U.S. consumers need to form new habits is more opportunities to use contactless payments. Many merchants could accept them today, although they may not be aware their equipment can be easily activated to do so.

In fact, all desktop terminals purchased through the BBW Bank Card Division since 2016 are equipped to take contactless payments. SwipeSimple mobile readers are available as well.

Now that contactless payments have gone mainstream in many countries, America’s community banks should consider what the technology will mean for American businesses. It may come as a surprise to learn that an estimated 54% of the top 100 merchants in the U.S. already accept⁵ them. How might acceptance help your merchants grow sales, attract younger markets, or improve efficiencies? Would you like to play a leading role in educating your business community? What opportunities could the phenomenon of contactless payments open for your community bank?

Bankers’ Bank of the West, an IBC Preferred Provider of merchant services, offers complimentary consultations and complimentary analyses on bank card services upon request. To inquire about any of the bank card programs we provide, call the Bank Card Division at 800-601-8630 or email bankcards@bbwest.com. We are proud to carry out our mission—to champion community banking—as a decades-long supporter and now the Legacy Sponsor of the Independent Bankers of Colorado.

Louis Vincent Gerstner Jr. is an American businessman, best known for his tenure as chairman of the board and chief executive officer of IBM from April 1993 until 2002. He is credited with the quote, “People don’t do what you expect but what you inspect.”

Like Sherlock with his magnifying glass, banks need to look for the clues of how well they are doing. There are hard facts like open and close rates, cross sell ratios and overall profitability. But then, there are the softer facts like how your customers feel about the bank or its staff, what they tell friends, and how many other institutions they have accounts with – all of which are rather hard elements to evaluate.

But moving the needle even a small percentage can have big benefits. “Increasing customer retention rates by 5% increases profits by 25% to 95%” (Study by Harvard Business Review) For banks specifically, a recent study by Forrester Research indicates that banks can increase revenues significantly by delivering a better customer experience. This topline revenue growth is quantified in five areas, with over half driven by reductions in churn, followed by increased share-of-wallet, low price sensitivity, better word-of-mouth acquisition, and a more competitive cost structure. What are the fiscal impacts of keeping more of your most valuable customers longer? Bain found that “banks that are loyalty leaders enjoy a growth rate that is 10 percent higher and a cost of funds that is 80 basis points lower than banks that are price leaders.”

A well designed mystery shop program gives quantitative as well as qualitative feedback on the customer’s experience. In a J.D. Power’s 2017 U.S. Retail Bank Study, it was noted that 37% of customers who switched their primary bank said they did so because of bad experiences. And isn’t that what it’s all about? The Customer Experience.

Your staff may be doing a fantastic job! They may be meeting all of your customer’s expectations and more importantly their needs, even the unrecognized ones. Or your staff may need some encouragement or training to reach the top of their game. One of the best ways to find out is through a mystery shop. The goal of a good mystery shop program is to find people doing things right.

A well-structured program combines the bank’s service standards with real life scenarios and sales opportunities. Your staff should know your products and how the products save the customer money, time or create peace of mind. They should know how the products solve a customer’s problems and add value to their life, and of course the relationship with the bank. Shops can be done as a baseline or to monitor service and training on an ongoing basis. Great service goes beyond being nice and friendly. How are you serving your customers?

Every community bank says that their differentiating factor is their service, but do you feel comfortable that your customer has the same experience no matter which branch or contact point they interact with? Are you confident your customer facing staff is identifying every potential product opportunity that is available with each customer?

If not, or to learn more about evaluating customer interactions, contact Connie West at The James Paul Group, cwest@jamespaulgroup.com, or tollfree at 877-584-6468.

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UPFRONT PAIN IN CECL COULD PROVE LONG-TERM GAIN

Authors: Chris Vanderpool and Nathan Stovall, S&P Global, an IBC Associate Member

If U.S. banks have too rosy of an outlook when complying with the current expected credit loss model, they might defeat part of the accounting provision's purpose.

If CECL works counter-cyclically as intended, it will help banks prepare for the next downturn as they pull forward losses by reserving for them up front. But many bankers have argued that it will prove difficult to predict turning points in the credit cycle. If banks do not see credit deterioration coming soon enough, they may end up having to build reserves significantly right when losses are peaking. With some worrying signs appearing on the longer-term horizon, institutions would be wise to focus on those potential threats and adequately build reserves when adopting CECL.

CECL impact comes down to your view of the credit cycle

CECL compliance begins in 2020 for many institutions and marks a considerable shift from the current model, under which banks set aside reserves over time. The new provision requires banks to substantially increase their allowance for loan losses on the date of adoption. If that adjustment exceeds retained earnings, the change will result in a capital hit to the industry.

Banks can use various methods to estimate future losses and will not be required to forecast beyond a reasonable and supportable period, which many institutions peg at 12 to 18 months. After that point, banks will rely on historical experience.

S&P Global Market Intelligence recently updated its expectation for CECL's impact on the banking industry under two scenarios for how banks will think about credit. The first scenario assumes that credit quality will remain relatively benign through the remainder of 2018 but begin slipping the following year. Thereafter, the scenario assumes that the industry experiences a turn in the credit cycle akin to what occurred during the 2001 downturn. The second scenario assumes that credit quality will remain stronger for longer and only deteriorate modestly over the next few years.

We then modeled how both reserving scenarios would play out against our previously published outlook for credit quality.

Help for banks that see the credit cycle turning in the not-too-distant future

We assumed in our first scenario that institutions would share our credit quality outlook over the next 18 months. That outlook suggests credit quality will remain strong in the near term, in part due to the passage of tax reform, which put more money in borrowers' pockets. Current economic conditions are quite strong and the labor market is tight, but it is hard to see much improvement from current levels.

In 2020, economists expect further rate increases, higher unemployment, even slower economic growth and only modest increases in home prices. Higher spending from the tax reform legislation will also wane in 2020, serving as a drag on growth. Some market watchers even believe the yield curve could invert in 2020, suggesting that a recession could lie ahead.

Considering the prospect of rising delinquencies and the late stage in the current cycle, which stands as the second-longest on record, we think it is reasonable for banks to expect credit to sour. Our first CECL scenario assumes institutions would look at historical experience during the brief recession in 2001.

Continued on next page
Using that credit experience as a guide, we estimate that banks would reserve for aggregate net charge-offs of $336.3 billion when adopting CECL in 2020. The industry’s tangible equity-to-tangible assets ratio could fall to 8.54% in 2020, assuming uniform adoption of CECL by all banking subsidiaries at that time. That level is 100 basis points below projected capital if banks continued operating under the existing incurred loss model.

**Measuring CECL’s impact if there are legs in the cycle**

Some observers do not share our view and might focus more on the strengths in current economic conditions, including positive sentiment among consumers and business. It seems reasonable to consider that some banks would forecast a more sanguine outlook for credit quality.

In a less severe scenario, we estimate that banks would reserve for aggregate net charge-offs of $260.3 billion when adopting CECL.

In that less severe scenario, returns after CECL adoption would be similar to those that would result if the accounting provision were not put in place, but profitability would be less consistent. Banks would still have to record material provisions for losses in 2021 and 2022, causing a drag on earnings.

Some forecasters believe there could be further legs in the current economic cycle. Using alternative data to capture sentiment across the country, Kensho Technologies has developed a model to forecast net charge-offs. The Kensho model relies on macroeconomic data, delinquency rates and three financial stress indicators for consumers, businesses and real estate. The indicators capture internet search volumes for select keywords to measure anxiety surrounding the credit cycle in different areas of the economy.

The Kensho model projected credit losses at the individual bank level for the last three quarters of 2018. An analysis based on that model suggests that net charge-offs across the industry would total $38.59 billion, or 0.40% of estimated average loans, in 2018. That would represent a 13.5% year-over-year decline.

Continued on next page
Assuming that came to pass, losses across the banking industry would fall well short of aggregate annualized first-quarter net charge-offs for only the fourth time since 2000. The three other occasions occurred in 2003, 2004 and 2013, when the economy recovered from a prior recession, reinforcing that the Kensho forecast captures improving sentiment across the U.S.

Returns, however, would be much stronger if banks adopted a harsher forecast and assumed that further deterioration in credit would follow. That approach would result in minimal increases in the allowance for loan losses in 2021 and 2022, and accordingly, considerably lower provisions for loan losses than would have been recorded under the current reserve methodology.

If the cycle bottoms several years after CECL’s adoption and banks focus on the warning signs on the horizon, the new accounting provision could help banks pull forward losses. But the devil will be in the details from one institution to the next. Banks operating in strong markets that boast pristine credit quality today might struggle to support an outlook that results in a large enough upfront reserve build to stand against future losses.

For more information please contact

Steve Kruskamp at steve.kruskamp@spglobal.com
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QUARTER INCH HOLES

By Lauren O’Connell, past director of the IBCEF and president of O’Connell Consulting Group, Inc., a professional marketing firm that specializes in developing customized marketing solutions for community banks to help them acquire new profitable customers and motivate existing customers to buy more and refer your bank more often. O’Connell Consulting Group is an Associate Member of the IBC. Lauren can be reached at 303-795-3539 or Lauren@oconnellconsultinggroup.com

One of the toughest challenges in marketing has always been how to present and discuss benefits vs. features to an audience and have those messages resonate. Many very smart, intelligent people get confused – and that’s understandable!

In the simplest terms, a feature is something that you offer – it’s about you. A benefit is about the prospect or customer – what they get out of what you have to offer – the “what’s in it for me.”

The confusion stems from that little voice in the back of your head that fills in the bridge between a feature and benefit. You know your competitive rates, (a feature) earns a customer more interest, hence more money – your little voice knows this instinctively and so it sounds like a benefit to you. But it’s not – the benefit is earning more money – that’s what’s in it for the customer and that’s what you should emphasize.

Benefit-packed copy uses the word “you, you will, you can” - it’s all about the reader, not the product or institution. Use benefits to clarify your message to make sure the reader’s little voice doesn’t leave them with a different message than the one you intended.

The famous marketer Theodore Levitt said it best: “People don’t want to buy a quarter-inch drill. They want a quarter-inch hole.”

Use this test – if you can put “we” or “we offer” in front of a phrase – it’s a feature.

OK – so we know it’s still not easy to sort benefits and features – and sometimes it’s necessary to provide a list of features. But if you want to persuade someone, emphasize benefits to make sure it’s easy for them to answer the “what’s in it for me.”

And of course we’re available if you want us to audit your marketing and pack it full of benefits. Contact me at 303-795-3539 or lauren@oconnellconsultinggroup.com.
MOBILE BANKING TRENDS CONTINUING TO RISE  
By Hannah Day, Strategic Initiatives Analyst, Jack Henry & Associates, IBC Associate Member

It’s no secret; mobile banking is a requirement for financial institutions (FIs) today. In 2017, we noticed a few key trends that set the stage for where we are today. These trends are; enhanced customer experience via the mobile device, new authentication methods, and big data.

Many traditional FIs have begun to change their approach to mobile banking for several reasons, including growing competition from an innovative field of fintech providers. With so much growth, it is critical to be mindful of consumers’ actual mobile experiences and how they impact the relationship with the FI. Consumers have firsthand knowledge about what makes mobile banking simple and efficient, or cumbersome and time-consuming.

2018 continues to be a promising year for the mobile banking market, as increased pressure from consumers pushes the financial services industry to birth innovation in customer experience. FIs and their providers must produce a frictionless mobile experience that meets expectations set by players such as Google™, Amazon®, Facebook®, and Apple® (GAFA). Larger banks are now looking to former GAFA employees to spearhead their customer experience as well.

Digital onboarding via the mobile device will soon be table stakes. Research supported by Aite predicts that digital onboarding will continue to progress in larger institutions and that this will be a large focus for smaller FIs throughout 2018. Customers opening accounts are making decisions based on the ease of use and capabilities of digital banking apps.

Earlier this year, hundreds of consumers were outraged when they experienced a digital banking downside … downtime. TD Bank’s online and mobile update turned sour when their outage caused some customers to be without digital banking for up to a week. In another odd turn of events that month, customers could mistakenly access other user’s accounts at JPMorgan Chase. In each instance, customers quickly turned to social media, complaining of support wait times at over an hour. PR apologies fell on deaf ears, and customers helped each other solve their support issues via Twitter! These are just a few examples of what can happen when mobile banking services crash and burn, sending consumers running for the hills.

Mobile banking will continue to see a shift in authentication technology this calendar year. With identity theft skyrocketing, device identification via biometrics has become increasingly important. Many FIs are starting to associate specific devices with customers if they used the device previously with an undisputed transaction. Fingerprinting is one example of how biometrics can help layer an effective authentication process. Knowledge-based authentication (KBA) is quickly becoming an authentication method of the past and will likely be mostly abandoned in the next 1-2 years.

Big data is here to stay, with predictive analytics as its sidekick. Big data is no longer just for large banks. Currently, FIs are data rich and insight poor, falling short on mining their customers’ financial behaviors. Despite big consumer questions (Am I saving enough? Can I pay these bills?), FIs will soon be racing to become the “financial Fitbit” for consumers. It will be up to community banks and their vendor partners, to develop an analytic strategy that works for each institution. For example, using transaction analytics an FI could flag a user that has spent over $750 in car repairs in less than 90 days. The FI would be wise to track the spending habits of the consumer and proactively send a mobile alert with an appealing interest rate for a future car loan. FIs should harness and interpret patterns, behaviors, and analytic data sets to increase touch points with their customers, increasing customer satisfaction and loyalty.

Bottom line, for FIs to succeed with mobile engagement, it is crucial to execute on a solid and innovative digital strategy in order to deliver an exceptional mobile banking experience.

Hannah Day is a Strategic Initiatives Analyst at Jack Henry & Associates and can be reached at hday@jackhenry.com.
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BEST PRACTICES FOR HANDLING CARD FRAUD
HOW TO DEAL WITH COMPROMISED CARDS
By Sunny Thakkar, Product Manager – FI Fraud and Disputes, Worldpay, IBC Associate Member

Breaches in the financial services industry have increased 60 percent in the past year. So the chances are pretty good that your financial institution will need to deal with a card compromise at one point or another. Taking proactive steps to come up with best practices to deal with a potential card compromise can make a big difference to your financial institution’s bottom line. One out of two consumers switch financial institutions after experiencing identity theft, according to the Aite Group.

Like most of your industry competitors, your institution may employ technology solutions and people resources to protect your cardholders and your reputation. Still, it’s a good business practice to have a plan in place in the event that your issued cards are compromised. A financial institution must take immediate action if it has been breached. The first step is to identify the cards in their portfolio that have been compromised. It’s likely that the financial institution’s processing partner will be the first to discover the breach and notify you of the problem.

With all the breaches occurring today, as well as the increased cost of cards, the decision to reissue is not as simple as it was a few years ago. Card reissuance can be expensive and can also have a negative impact on cardholder experience. But weighed against the institution’s average fraud loss, it could be worth it. The two key factors to consider are how many cards are compromised and how much money is the financial institution losing to fraud.

There are two areas financial institutions must be diligent in when a breach has occurred. First, you must take the time to review the fraud run rate of the breach. This is an important factor in the decision about whether or not to reissue cards. The second is to notify your processor of the breach, and create fraud strategies to closely monitor cardholder activity. Reputable processors like Worldpay have many tools and services to help financial institutions monitor fraud activity and mitigate their risk.

Reassuring cardholders after a breach is imperative. Begin by acknowledging what happened and inform cardholders about the steps being taken to protect their accounts and prevent a breach from happening again. Be sure to explain why their card is being reissued. The reason, of course, is dependent upon your reissue strategy.

Additionally, encourage your cardholders to use your institution’s antifraud tools. For example, financial institutions that partner with Worldpay have access to interactive voice response (IVR) and SMS texts alerts, mobile fraud notifications, and card controls that help reduce fraud, increase card usage, and enhance the overall cardholder experience.

Educate your cardholders about proactive ways they can protect themselves. For example, they can review their account statements more closely, pay bills on your secure online portal, and let you know when they are traveling. Make sure your cardholders are aware of phishing scams via email and SMS text and other common fraud threats. Research shows that most consumers are receptive to taking fraud control into their own hands—70 percent feel they are as equally responsible as the card companies for protecting themselves against credit and debit card fraud.

One of the most effective things financial institutions can do to mitigate the effects of a breach is to work closely with their processor to develop and implement effective fraud fighting strategies. As breaches are increasing in frequency throughout the country, it will also be essential to proactively manage future breaches. In order to protect themselves from being targeted by fraudsters, financial institutions will want to make sure they have strong protections in place and have a team dedicated to monitoring security for their institution.

To find out more about the tools and technologies that can help your financial institution prevent a cardholder breach and mitigate the effects if one does occur; please contact Worldpay at 866-622-2201.

Sunny Thakkar, Product Manager – FI Fraud and Disputes. Sunny and his team manage all of the Fraud and Dispute products available to Worldpay’s FI partners. Sunny recently joined the Worldpay team within the last year and brings over 7 years of Product and Project Management experience. His responsibilities include working with FIs to support current products as well as bringing new products and solutions to market to fill the necessary gaps as fraud trends continue to grow and evolve.
Only a few can rise above. Access the annual Top 100 Community Banks and Credit Unions report now.

**Banks under $1 billion in assets**
1. Metro Phoenix Bank - Phoenix, AZ
2. First Bank of Owasso - Owasso, OK
3. FinWise Bank - Sandy, UT

**Banks $1 billion to $10 billion in assets**
1. Sterling Bancorp, Inc. - Southfield, MI
2. Royal Business Bank - Los Angeles, CA
3. Arbor Bancorp, Inc. - Ann Arbor, MI

**Credit Unions**
1. Fox Communities Credit Union - Appleton, WI
2. Idaho Central Credit Union - Chubbuck, ID
3. Technology Credit Union - San Jose, CA

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By their very nature, banks are an attractive target for cyber criminals because of the assets they hold and the personal information of customers that they keep. Due to the evolving threats and uncertainty in today’s cyber landscape, it is vital for banks to take the necessary steps to guard against vulnerabilities and exposures, and to protect themselves from malicious attacks that can cause serious harm. A single breach can result in significant losses, and the damage is often not limited to lost data. It can extend to loss of customer confidence, financial harm, legal challenges and business interruption.

Much like cyber threats such as ransomware, social engineering and phishing, cyber security has also evolved. Many insurance companies, including Travelers, offer risk management services that feature pre-breach cybersecurity expertise. These services go a long way toward strengthening the systems that banks use to keep cyber criminals at bay. In the event of a cyber attack, post-breach assistance kicks in, provided a bank has secured appropriate insurance coverage.

Over the past few years, banks have increased their focus on preparing for a cyber incident – in other words, recognizing that when it comes to a network compromise, “it’s not if, it’s when,” even for a well-defended network. Banks are doing a better job of updating their incident response plans, business continuity plans, and disaster recovery plans, at least every one or two years, and they are conducting periodic tabletop exercises to make sure that the right people respond when an incident does occur. Staying up-to-date on cyber insurance coverage is another important part of being prepared.

The tough thing about cyber security is that defenders have to be vigilant at all times, while attackers only have to get through the defense once to create havoc. For that reason, it’s important to have well-designed change control procedures in place to ensure that changes to network configurations and controls do not inadvertently introduce security vulnerabilities. Many network compromises can be traced back to change control procedures that either did not exist or were not properly followed. Implementing – and diligently following – established change control procedures can help prevent the mistakes that may lead to a data breach.

How can banks best prepare for a potential cyber incident? There are many “best practices” for cyber security, but let’s highlight one that is particularly valuable for preventing complacency.

Banks – all industries, really – should rotate their cyber-security assessment and testing providers. If the same team is used for penetration testing year after year, they will likely find the same kinds of vulnerabilities year after year. Sometimes a new set of eyes can be beneficial. If a rotating group of trusted cyber-security assessment and testing providers consistently reports that a bank’s networks and systems are clean, the bank can feel more confident that nothing important has been overlooked.

Banks should rotate their cyber-security assessment and testing providers. If the same team is used for penetration testing year after year, they will likely find the same kinds of vulnerabilities year after year. Sometimes a new set of eyes can be beneficial. If a rotating group of trusted cyber-security assessment and testing providers consistently reports that a bank’s networks and systems are clean, the bank can feel more confident that nothing important has been overlooked.

Being proactive is key – educating employees and putting proper risk management systems in place should be a high priority. Banks should work with an independent insurance agent to identify coverage to manage potential cyber exposures and ensure that employees are exhibiting behaviors that limit cyber risks. Finally, banks should utilize resources such as Travelers.com/cyber to help understand and navigate the growing threat of cyber risks.

Travelers is committed to managing and mitigating cyber risk, and does so backed by financial stability and a dedicated team – from underwriters to claim professionals – whose mission is to insure and protect a company’s assets. For more information, visit www.travelers.com/cyber.
HELP! MY CUSTOMER WAS ROBBED!

Wire Fraud: What You Need To Know
By Janet Rickman, Banking Risk Manager, TIB The Independent BankersBank, N.A., IBC Associate Member

Community bank customers have reported a 100% increase in wire fraud cases in the first half of 2018 compared to the same period in 2017. The dollar volume has also nearly doubled! Dollar volume reported in the first half of this year increased to $2.9 million from $1.6 million. The most commonly reported forms of wire fraud have been:

- Business Email Compromise
- Real Estate Transactions
- Romance Scams
- Fraudulent Online Advertisements

In each case, other than romance scams, wire instructions provided via email were not verified over the phone by the originator before submitting for execution. Phone verification is vital to stopping fraud.

Business Email Compromise
The most common targets recently are small businesses that occasionally send international wires and communicate with their vendors over email. Every email account is vulnerable and everyone from bank directors to small business owners to accounting personnel has been compromised.

Real Estate Transactions
Much of the communication for real estate transactions is conducted via email. The agent, attorney, buyer, seller, and title company are all vulnerable. Often, hackers silently monitor one of the parties and insert fraudulent wire instructions into the email string, resulting in misdirection of funds.

Romance Scams
For fraudsters, obituaries can contain a treasure trove of information about survivors. In their grieving state, both male and female targets are susceptible - and most have never sent a wire before, so they are not suspicious about the process. A simple online search for the originator can often help to avoid being defrauded.

Fraudulent Online Advertisements
Listings for everything from machinery sales to vacation rentals can be suspect. Again, a simple online search often reveals red flags, such as a UPS store front or an extremely remote location. Within the US, searching county appraisal district websites can help determine whether the person listed as the contact is the rightful owner. Automobile sellers should provide a VIN number before a wire is sent. If your customer is defrauded via online advertisement, have them report the seller to the platform (i.e., Craigslist, Ebay, etc.).

What Should You Do When Your Customer Reports Wire Fraud?
- Call TIB immediately to make a wire recall request. Reporting the fraud to the beneficiary bank within 24 hours provides the best chance for recovery.
- Contact police and/or the FBI - especially for large dollar amounts, or;
- Have your customer submit internet cases directly to the FBI at www.ic3.gov.
- Prevent future wire fraud by phone verification.

In many business wire cases, the beneficiary name in the instructions does not match the account number. The fraudsters will provide a compromised account number, but keep the rightful beneficiary name to avoid suspicion. As a result, some banks have flagged incoming wires for further review where the name and account number do not match. This is a good practice and has been an effective means of detecting possible fraudulent activity.

Remember
A wire transfer payment provides immediate funds availability to the beneficiary and banks do not routinely reverse the payment. While these transactions are very efficient and useful for legitimate businesses, the same characteristics also make them very attractive to fraudsters. A quick phone call before the wire is sent can save many hours of work to recover a fraudulent transfer afterward.

If you have questions regarding wire fraud, please contact me. I would be happy to assist you.

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