Independent Report
“Colorado banking at its best”
2018-2019 Officers and Directors

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IBC has been a leader in webinar training for more than a decade and is committed to superior customer service. Webinars are designed for most positions in a community banks from the frontline to the board room. Speakers are industry experts with long-term, real-life, hands-on experience. Benefits of participating in an IBC webinar include:

- Easy to use, time effective, cost effective, convenient, interactive
- Current and hot topics delivered by experienced speakers
- Take-Away-Toolkit (consists of an employee training log and a quiz to measure staff learning)
- Webinar series specifically developed for: for ACH Specialists, BSA Specialists, C-Suite Executives, Call Report Personnel, Consumer Collection Specialists, Credit Analysis & Underwriting Professionals, Directors, Frontline Personnel, IRA Specialists, Mortgage Lenders, and Regulation E Specialists

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**HUMAN RESOURCES**

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9/18/19   Mitigating a Data Breach: Forensics & Incident Response

9/26/19   Emerging Trends & Developments in Online, Mobile & Digital Channels

**Lending**

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1/15/19   2018 HMDA Submission Due March 1, 2019 Part 1: Identifying Reportable Loans, Data Integrity & FIG Analysis

1/23/19   2018 HMDA Submission Due March 1, 2019, Part 2: Requirements, Clearing Edits, Exempt Fields & More

1/24/19   Determining Cash Flow from Personal Tax Returns After 2018 Tax Reform Part 1: Newly Revised Form 1040 & Schedules B & C

1/29/19   Credit Analysis & Underwriting Series: Analyzing Financial Statements for the Credit Analyst

1/31/19   SBA Lending 19 Update: Guidance on the Latest Changes to Policies, Procedures & Documentation

2/21/19   Credit Analysis & Underwriting Series: Debt Service Coverage Calculations in Underwriting

2/25/19   Determining Cash Flow from Personal Tax Returns After 2018 Tax Reform Part 2: Schedules D, E & F

3/20/19   Required Compliance for Commercial Loans Secured by Real Estate

3/26/19   **Credit Analysis & Underwriting Series:** Global Cash Flow Analysis for Underwriters & Credit Analysts

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4/22/19   Top 20 Questions About Completing the TRID Loan Estimate & Closing Disclosure

4/25/19   Advanced Credit & Risk Management in Agricultural Lending

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5/9/19   Developing & Delivering an Effective Loan Presentation

5/23/19   Advanced Commercial Loan Documentation

5/29/19   Military Lending Act & SCRA: Compliance & Lessons Learned

6/6/19   **Mortgage Lending Hot Spots Series:** Construction-Only & Construction-to-Permanent Lending

7/10/19   **Mortgage Lending Hot Spots Series:** Surviving a TRID Compliance Exam

7/15/19   Introduction to SBA Lending

7/25/19   From Prospect to Customer: Skills & Tools for Successful Business Development

**Marketing**

3/6/19   Federal Requirements for Tech-Based Marketing: Websites, Social Media, Robo Calls & More

10/29/19 12 Key Elements of an Effective Digital Marketing Strategy

11/7/19   Top 10 Compliance Mistakes in Advertising

**Operations**

1/8/19   Record Retention & Destruction Rules: Paper & Electronic

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8/8/19   **Mortgage Lending Hot Spots Series:** Adverse Action in Mortgage Lending: Compliance, Notices & Best Practices

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10/7/19   **Mortgage Lending Hot Spots Series:** Demystifying Rules for TRID Tolerances

10/24/19  Commercial Loan Annual Credit Review

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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.

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<th><strong>Contact</strong></th>
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<tr>
<td>Scott Wintenburg</td>
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<td>303.291.3700 or 800.601.8630</td>
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<td>Craig Johnson</td>
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### *IBC Preferred Providers*
Chuck Johnston: A rockstar banker

The president of $170 million-asset North Valley Bank in Thornton, Colo., embraces his passion for music by performing with his band, Wink.

As a high school kid, I got involved with rock ‘n’ roll and was a drummer and lead singer with a number of bands until Wink. We do eighties, nineties, 2000s and classic rock—oldies for everyone, including millennials. I’m enjoying the heck out of it.

Wink got its name from the little icon on your phone. It’s really been together about five years. We played at the Independent Bankers of Colorado annual convention two years ago and ICBA chairman Tim Zimmerman was at that event.

There isn’t a big connection between my music and banking. I don’t sing a lot in my day-to-day work! I’ve always been comfortable in front of people and enjoyed public speaking. That continuously helps me improve as a frontman—to be natural, think on my feet and deal with whatever the crowd or event might call for.

For us, it’s the joy of performing, and we go wherever there are people who want to have fun. It’s really kind of wide open. Wherever there are people that like to dance, we fit in. We play bars, outdoor events, parties of all types, and this next year we are planning to do larger events, local shopping centers, campuses and whatnot. —Rebecca Lubecki

To learn more and listen to Wink’s music, visit wink-band.com
When I began my term as ICBA chairman a year ago, I said I was anxious, humbled and excited. As community bankers gather for another ICBA LIVE convention—this time in Nashville, Tenn.—those words still apply, though for different reasons.

I’m still excited. A year ago, I was eager to complete the final stretch of the debate over the S.2155 regulatory relief law, which was a momentous accomplishment in our years-long efforts to achieve meaningful regulatory relief. But we community bankers don’t let grass grow under our feet, and there are still many initiatives to be excited about as we seek out new opportunities. These range from fresh possibilities to continue our advocacy gains under the 116th Congress and Trump administration to the ICBA ThinkTECH Accelerator and Network, which open new doors to collaboration between community banks and the most promising fintech providers.

I most certainly remain humbled by the opportunity to serve you. Traveling across the country over the past year and meeting with community bankers from coast to coast has truly been an honor. It provided insights into our beloved industry that I would not have gained otherwise, even after 30 years in this business. Meeting with so many great community bankers over this whirlwind year is something I’ll never forget.

Last year, I was anxious because of the tremendous responsibility of properly and effectively representing you. But as this awe-inspiring year as chairman comes to an end, I must say that feeling of anxiety has ebbed, at least a bit. After the positive interactions I’ve had with community bankers and the successful year we’ve had in Washington, I can look back and appreciate what our industry has collectively accomplished since we met in Las Vegas one year ago.

While I remain fully committed to tackling the challenges and opportunities we continue to face, I must say that what I feel now, more than anything, is gratitude. I am grateful for this opportunity to serve and get to know my fellow community bankers better than I ever have before. I am grateful that I’ve been able to champion our shared values and principles this year in Washington, Tokyo and at the Financial Accounting Standards Board’s headquarters in Norwalk, Conn. But most of all, I am grateful for you—my friends and colleagues.

Thank you for giving me this opportunity. I look forward to continuing to give back to this industry as we work together to create and promote an environment where community banks flourish!

Did you know?
Community bankers participated in 25 total grassroots advocacy campaigns last year, according to the 2018 ICBA Advocacy Annual Report.

IBC MOURNS THE LOSS OF COMMUNITY BANKER EUGENE (GENE) ROCK

Eugene (Gene) Rock, age 76, passed away in Denver on March 9, 2019. Gene was survived by his wife Kathy Rock and his five daughters: Lisa Page, Linda Rock-Kreutz, Lori Radcliffe, Lee Rock Cook, and Lana von Tersch. Gene also has nine grandchildren.

Gene was born in Denver, and he lived in Denver his entire life. He grew up with his brother George Rock III and his sister, Linda Rhea. Gene started working at The Bank of Denver in 1962, where he dedicated his life’s work at the bank until he retired in 2018.

The Bank of Denver, formerly Denver Industrial Bank, was organized by George F. Rock, Jr. as a result of a merger between Credit Finance Company, organized in 1936, and the Denver Safe Deposit Company, organized in 1908.

Gene served as an IBC District A Director and also as IBC Chairman from 1982-1983. The Bank of Denver was a founding member of the IBC and continues a member today.

Services will be held at 10:00 a.m. on Friday, March 15, 2019 at Holy Ghost Church, 1900 California Street, Denver, CO. Memorial contributions are welcome at: National Federation of the Blind, 200 East Wells Street at Jernigan Place, Baltimore, Maryland, 21230 (www.nfb.org/donate).
I’m looking forward to seeing you at ICBA LIVE 2019! We’ve been working hard to ensure this year’s convention is the best yet. Our theme is “Community Banks Turn Up the Volume,” and community bankers and our ICBA chairman Tim Zimmerman did just that over the past year.

As you know, Tim chaired ICBA during our final push for comprehensive regulatory relief legislation and continued our successful years-long fight for reforms to the Current Expected Credit Loss standard. Tim has been an expert and reliable advocate through it all. I cannot thank Tim and his wonderful wife Linda enough for their commitment and sacrifice over the past year, and for all of their time in the ICBA leadership ranks.

Tim’s commitment to community banking has taken him to state conventions and industry events from coast to coast, to the White House and all the way to Tokyo, where he evangelized the shared values of community banks. We’ve been so fortunate to have Tim there for us, representing us, at every event. He wanted to take every opportunity possible to meet with bankers and share our positive message with others.

Tim has always amazed me with his selflessness and servant leadership. It’s always been about doing what’s right and what’s necessary for community banking. Through it all, he’s also skillfully managed Standard Bank of Monroeville, Pa., and navigated a complex merger, all the while working with his community of Pittsburgh. Tim embodies what it means to be a community banker. The ICBA team and I are so grateful for all his support. I know community bankers across the nation feel the same way.

As Tim hands the reins to incoming ICBA chairman Preston Kennedy, he should feel proud of his chairmanship. In his convention speech last year, he referenced a classic children’s story, The Little Red Hen. And I can say without a doubt that, unlike the hen’s barnyard companions, Tim is never one to utter “Not I.” We can all learn so much from Tim.

We will continue to be in great hands with Preston. He has always impressed me with his fierce dedication to this industry. Never one to back down, Pres will help us work with a new Congress and will shepherd our efforts in community banking advocacy, innovation and education.

We have so much to look forward to over the next year. With so many amazing community bankers representing us in ICBA leadership, and with the support of community bankers like you, our industry will continue to flourish.

Where I’ll Be This Month
I’ll be at ICBA LIVE 2019 in Nashville, Tenn., and I can’t wait to see you there!
Monitoring the vital signs of the local economy is a basic job requirement for most community bankers. That awareness makes them interesting conversationalists and often better-than-average forecasters for their markets. So when BBW’s visits to community banks in several states in January (usually a slower month for business development) yielded five requests for merchant services proposals, the likelihood of a very busy 2019 became real.

The heightened interest in merchant services came on the heels of a seamless yearlong transition of departmental leadership to Scott Wintenburg, who was appointed SVP–Bank Card effective Jan. 1. Scott’s preparation for the role consisted of extensive product training, exposure to operational work flow and processes, a solid grasp of team dynamics and strengths—and most notably, the benefit of working side by side for 18 months with Mary Ann Elliott-Supples, who headed BBW’s bank card functions from 1998 until her retirement from the full-time role at the end of 2018. She continues to support the bank card area part-time as a bank card advisor.

“Mary Ann’s institutional knowledge is phenomenal, and she has an extensive background in electronic payments. The past year and a half was constructive in so many ways,” Scott said. “And from a management perspective, it will be advantageous to know Mary Anne will still be a sounding board.”

Scott said he’s been impressed with the camaraderie and work ethic of the eight other members of the Bank Card team, which is diverse in terms of type of professional background, tenure with BBW, skillsets. “They all bring relevant experience and energy to their work. It’s a very empowered group.”

Bank Card Supervisor Andrea Schneider described the four bank card specialists who report to her as a true team who work collaboratively, “always doing everything they can to ensure our customers are treated right. Their efforts are the true reason behind our success as a department. They work collaboratively, leaning on each other’s strengths—and they really make work fun.”

Andrea was recently awarded the designation of Certified Payments Professional, the second member of the Bank Card team to become certified in the past eight months. BBW Bank Card Project Officer Kate Holloway earned the CPP designation in mid-2018.

Requirements for attaining a CPP, which is awarded by the Electronic Transaction Association, include three or more years’ experience in the payments industry, recommendation by a management-level individual in the payments industry, and successful completion of a rigorous, impartially proctored exam. Those holding a CPP must also agree to adhere to the Electronic Transaction Association Code of Conduct. Relevant continuing education is a condition of CPP recertification every three years.

Members of the Bank Card Division, nine employees in all, are joining their counterparts in the BBW Operations Department in preparing for the 2019 Payments Conference to be held in Denver April 23 through 25 in Denver. The event will incorporate education on various facets and types of payments with the goal of delivering maximum benefits to community bank attendees. The program will include presentations on payments trends, technologies and issues, two optional training sessions, roundtable discussion, vendor exhibits, and networking opportunities.

The 2019 conference is geared toward cashiers, e-banking reps, bank card personnel, universal bankers, branch managers, operations officers, commercial accounts, controllers, and others with similar roles.

“The point of this Payments Conference is to position community banks in particular for success in the payments sphere, which is evolving in some amazing ways,” Scott said. “The feedback from last year’s conference was overwhelmingly positive, and many bankers told us they took back ideas and tactics they planned to implement at their bank. We want this event to build on that success.”

Bankers’ Bank of the West has been the Independent Bankers of Colorado endorsed merchant services provider since 2011. To learn more or request an analysis, call the Bankers’ Bank of the West Bank Card Division at 800-601-8630 or email bankcards@bbwest.com. To access logistical details, download registration form, and review the most current program information on the 2019 Payments Conference, visit bbwest.com.
On February 25, bankers from across the state gathered for IBC’s 2019 Day at the Capitol. More than 20 participants joined us for this fun and informative event.

Representative Dylan Roberts began the day with an overview of what is like being a second year legislator, followed by Senator Bob Gardner. Senator Gardner shared his passion about Colorado’s sales tax issue and how he worked with the IBC to re-write Colorado’s unclaimed property law. We appreciate their time and willingness to share their experiences with us.

Barbara Walker, IBC Executive Director, provided the group with the IBC legislative priorities for the 2019 session. Barbara encouraged attendees to get to know their legislators and become involved in the legislative process.

After hearing from state legislators, participants made their way to the Capitol to see our state government in action. While some participants visited the Senate chamber others visited the House. Comparing notes later, it was evident the two chambers operate very differently. While the House was busy and appeared to operate under a form of organized chaos, the Senate was much calmer and quiet.

We thank our sponsors Representative Roberts and Senator Gardner for allowing us this wonderful opportunity.

Independent Community Bankers Association’s (ICBA) Joshua Habursky, Assistant Vice President of Advocacy, spoke to the group about what it means to be an advocate and how it differs from lobbying. He also shared with the group the path that brought him to advocacy for community banking.

After lunch everyone made their way back to the Capitol to either meet with their legislator or listen to a legislative committee hearing. Our day ended with a guided tour of the Capitol. We were fortunate access to the Dome was open and provided a breath-taking view. Did you know the rose onyx in the Capitol came from Beulah, Colorado, the marble floors are from Marble, Colorado, and the granite steps from Gunnison, Colorado? There’s so much to learn.

A big thank you to Mary Marchun and Avery Turman, The Capstone Group and IBC Lobbyist for their assistance in planning this fabulous day!
Before 2018 gets too much further into our rearview mirrors, it may be worthwhile to review what investment portfolio lessons we can derive for future reference. The popular notion among community bankers is that, for all the positives that the industry enjoyed last year (record earnings, continued loan growth, and solid credit metrics), the bond portfolio was a lagging performer. I believe most of that impression was the result of fixed-income investments being, for the most part, underwater. It may therefore surprise you to learn that, in 2018:

• Tax-equivalent yields improved nicely to 2.78%, an increase of 32 basis points (0.32%);
• Average lives actually decreased from 4.4 years to 4.3 years; and
• Net unrealized losses did increase, but only by about 1 percent of face value.

That third bullet point may sound like fake news, alternative facts, or just old-fashioned spin, but the average net unrealized loss as of December 31 was still only about 1.5 percent. The average bank’s bond portfolio was further underwater than that for most of the year and was down around 3.0 percent as late as November.

Late rally
The relative stability in bond prices for 2018 was all the more impressive when one considers that the Fed raised interest rates four times and ran off nearly $400 billion from its still-prodigious balance sheet. Of course, some of the support for bond prices in the last quarter of the year was fallout from the stock market’s correction, and a spate of indicators that signaled some weakness in certain segments of the economy. This includes modest, if not disappointing, inflation.

And rates did fall by significant amounts. In the 90 days from Dec. 1, 2018, to Mar. 1, 2019, maturities from two to 10 years all decreased by about 25 basis points in a rare example of a parallel shift in the yield curve. What that means for the community bank portfolio manager is that some investments may have moved in-the-money to be called or refinanced.

Called upon
With overnight rates below 2.5 percent, and yields on government agency bonds not much more than that, it doesn’t take an ambitiously high stated coupon rate to get called. For example, in Feb. 2019, 201 different agency issues totaling $9.5 billion were called. The following issues are cases in point:

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<td>FHLB 2.54%</td>
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<td>FHLMC 2.625%</td>
<td>6-28-2021</td>
<td>Step-Up</td>
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<td>FNMA 2.94%</td>
<td>8-27-2021</td>
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Most community bank managers have their portfolios’ expected redemption dates graphically displayed in a bar chart, by quarter or year. Broker-dealers or interest rate consultants commonly provide this information upon request. As most bonds owned by community banks have some type of call option embedded in them, the cash flow graph with rate shock scenarios resembles an inverted bell curve, with increased cash flow from falling rates in the near term, and increased cash flow from rising rates in the distant future.

Step with a ladder
This column will now enter the recommendation stage. As alluded to earlier, the curve is very flat out to about the seven-year stage. At some point, we will see a steepening of the curve, and usually a steepening occurs when the Fed is cutting rates. Bond wonks refer this condition as a “bull steepener.”

A suggestion is to get a grip on how much of your portfolio would be at risk of being called away, if and when rates fall. Most full-service brokers can produce for you a simple cash flow table, which calculates how much cash your portfolio will throw off each month, in a wide range of rate scenarios. This report should be complimentary and can be updated frequently, including weekly.

Secondly, and this hasn’t been talked about very much this decade, the portfolio structure known as a “ladder” performs pretty well when the yield curve steepens. Portfolio managers that have built out the alternative construct known as the “barbell” have been rewarded over the past five years. Ladders produce superior total returns with bonds that have some degree of “lockout” (a.k.a. call protection). Agency bonds are staples of this strategy.

Don’t let an unexpected interest rate swing whip your investments’ cash flows around. Stay attuned to your call risk and consider building a solid ladder as a foundation of your bond portfolio.

Jim Reber is president and CEO of ICBA Securities and can be reached at (800) 422-6442 or jreber@icbasecurities.com.

Cash flow tables on demand
ICBA Securities’ exclusive broker Vining Sparks will create a complimentary shocked cash flow bar graph and a cash flow table for any community bank upon request. For more information, contact your Vining Sparks sales rep or visit viningsparks.com.
It’s true. It’s uncommon for interest rate risk (IRR) to be the main driver underlying a bank’s failure. Even more so for community banks, whose balance sheets share the same characteristics with vanilla ice cream. Nonetheless, the regulation side of the industry equates a dynamic interest rate environment with risk, and as a result, examination findings surrounding having an independent IRR review performed are running rampant. The results of the steadily increasing number of these reviews we performed over the last year have yielded some trends. Take a look and consider implementing these common suggested enhancements to boost the value of your bank’s IRR management program, if you haven’t already.

Incomplete or Outdated Policies

This one is essential. Even more so given the true purpose of a bank policy, which is to communicate the directorate’s risk tolerance and guidance to the bank’s senior management team. It’s challenging to perform an audit, a directors’ exam or an IRR review when the bank’s IRR policy hasn’t truly been updated to reflect its IRR management practices. Let’s use the Gap measure as an example. Many banks still use Gap to measure IRR, and many have transitioned away from this tool to using earnings-at-risk and economic value of equity simulations. Is your bank in the latter category? If so, does your policy still include a few paragraphs about Gap? It probably shouldn’t.

Model Results Versus Established Risk Parameters

Do you know how many IRR models there are available on the market today? Yeah, neither do I. What I do know is that some models do a stellar job at comparing the results for the various scenarios simulated against board-approved risk tolerances outlined in policy, while others don’t. What does your model do? What is your model capable of? Given the board’s overarching responsibility for the bank’s risks, they should be regularly reviewing this comparison quarterly, at minimum.

Outdated Assumptions

Some IRR models are so customizable, that a bank can change the key driver rate assumption for each general ledger account. Other models request a few simple inputs each quarter to run. And some models fall in between the two extremes. When was the last time your ALCO review model inputs and assumptions? Has it been a few years, perhaps prior to when rates began to climb? If so, it’s time to revisit these to ensure they still make sense and mirror your bank’s characteristics. After all, as we’ve all heard before, “garbage in, garbage out.”

WAYS TO BOOST THE VALUE OF YOUR BANK’S IRR MANAGEMENT PROGRAM

by Christina Long, Senior Manager, and Eric Budreau, CPA, Tax Partner, Eide Bailly LLP; IBC Associate Member

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What will rise as the hot-button issue for bankers in 2019? To find out, CSI annually polls executives at U.S. financial institutions across the country, asking questions that uncover the strategies and issues they believe will most affect the financial sector in the year ahead. 220 bankers answered our survey this year, and shared how they plan to exceed customer expectations in 2019.

As we analyzed the findings, five key topics stood out: Customer Acquisition, Digital Banking, Cybersecurity, Regulatory Compliance, and Lending.

**Customer Acquisition**

Key Data:

a. 44% of bankers are adding self-service options like online account opening, 17% are adding ITMs/ILTs and 19% are pursing M&A activity.

b. 39% of bankers recognized loans as the most important channel for attracting new customers in 2019.

c. 32% of bankers see self-service account opening as essential to improving the customer experience.

Customer acquisition is the name of the game, and it’s a battlefield out there. So, how are banks stepping up to the fight? Automated online account-opening solutions are a strong vehicle to both increase banks’ customer base and solidify existing account relationships through cross-sales.

Elsewhere, bankers are dead-on in naming loans as the most important channel for acquiring customers in 2019. The market is quite favorable, despite rising interest rates. However, without a solid presence in digital lending, you’ll likely miss this opportunity.

**Cybersecurity**

Key Data:

a. 44% of bankers say the number one issue affecting the financial industry is cybersecurity.

b. 72% of bankers said they will spend up to 20% of their budget on cybersecurity.

c. Nearly all bankers (96%) noted that employee education is the most important tactic to pursue in 2019.

It’s no surprise respondents called cybersecurity the number one issue for 2019. This illustrates that cybersecurity awareness is finally accepted as a fundamentally important concept of business. Cybersecurity is an enterprisewide issue and affects all aspects of an institution.

It’s also great to see employee education topping the list for 96% of respondents as the best cybersecurity tactic, as it’s one of the strongest controls institutions can implement to provide tremendous security value in a cost-effective manner.

As to other tactics for battling hackers in 2019, on-going vulnerability assessments came in at 78%; social engineering/penetration testing at 79%. The survey’s overall responses demonstrated that institutions realize the need for a layered security approach.
Regulatory Compliance

Key Data:

a. More than 75% of banks are spending up to 20% of their budgets on regulatory compliance alone.

b. Most banks (nearly 75%) will spend up to 40% of their budget on compliance and cybersecurity!

c. 16% of respondents think the Regulatory Relief Act will most affect the financial industry in 2019.

With the Regulatory Relief Act signed into law by President Trump, it’s reasonable that bankers are anxiously awaiting the changes—and new rules—expected to regulatory guidelines.

Further, cybersecurity goes hand-in-hand with compliance, as prudential regulators will examine financial institutions’ vendor management and incident response programs to ensure a robust cybersecurity program.

And, a good portion of institutions’ budgets will surround the usual suspects:

1. CECL: As the implementation date nears, many bankers are looking for third parties to assist in their CECL calculations.

2. BSA: Bankers implemented the beneficial ownership rules and regulations, along with on-going monitoring known as the “fifth pillar” in 2018. Therefore, they must ensure their policies and procedures adhere to the recent guidance.

3. Change Management: Regulators want to ensure that institutions have adequate resources to handle the changing regulatory landscape.

Lending

Key Data:

a. 39% of respondents’ customers are small businesses. And nearly 90% of bankers surveyed service small-business customers through commercial lending.

b. 40% of bankers identified loans as the most important channel for attracting new customers.

c. 10% of respondents say loan growth will be key in reaching new customers.

Bankers can augment their small-business lending by letting automated solutions handle the establishment of basic lines of credit and term notes. And since lending is most certainly a top strategy for 2019, here are important things to consider:

1. It’s difficult for small-business loans of less than $25K to be profitable for a bank. The market would suggest that there are better ways to originate loans in the small-business space, especially if those loans are less than $100K and NOT secured by real estate.

2. If your institution’s loan volume is down, it’s likely your customers are securing those funds elsewhere. The opportunity in this space becomes very appealing when digital technology is applied. These are high-margin, short-term loans you can deliver through a digital channel with minimal investment.

3. Flexible opportunities delivered via the proper channel of mobile banking services/internet banking are plentiful. Investments in digital technology as it pertains to traditional lending, like residential real estate, also are important.

Also, over the next few months, CSI’s industry experts will be diving deeper into each of the areas mentioned above, so please watch for further insight on the survey results. In the meantime see how your strategies compare by downloading CSI’s Executive Report: 2019 Banking Priorities.

Steve DuPerrieu is vice president of product management for CSI. In his role, he provides leadership for CSI’s delivery channel strategy, which includes digital banking, payment services, business and analytics software, and branch/retail delivery solutions. Steve is also a board member for the Association for Financial Technology (AFT).
When authenticating transactions, choosing between one authentication method or another isn’t a good strategy. A better approach is to leverage layered authentication, allowing the PIN to serve as the strongest option because the issuer is authenticating the consumer’s identity.

There’s a clear trend emerging in the payments industry regarding payment authentication. It’s moving from authenticating the consumer to authenticating the transaction or device initiating the transaction. The effects and ramifications aren’t yet known; and, combined with countless new entrants into the payments landscape, consumers are using — and loading personal information into — more and more applications to access their accounts. Storing credentials in a third-party app to query other financial institution accounts, investment accounts or reward accounts carries inherent risk, and may have some unintended consequences. One of which occurs when an app is compromised but still has access to the consumer’s financial institution or investment credentials and is used to do nefarious things.

This situation reignites the old debate: Can you have a strong, seamless authentication process that doesn’t require consumer action, but instead just magically works? This is the trend in payments. In many cases the transaction is being authenticated by the device, not the consumer. One example is the elimination of the consumer’s signature for chip-on-chip transactions. PINless chip-on-chip transactions, which generally occur under a certain dollar amount, also operate this way.

The implementation of biometrics — fingerprints, facial recognition, etc. — are used to authenticate a consumer to a device. But that biometric data itself isn’t sent to the issuer to verify the consumer; the transaction is authenticated based on the device authentication. A personal identification number is, and continues to be, the only payment authentication method in which the consumer is authenticated by the financial institution.

Plus, while both PIN and biometrics are technically controlled by the consumer, one can be changed, and the other can’t. As a consumer, I can have hundreds of different PIN combinations and change them any time I want, but I can’t change the biometrics of my ten fingers and toes, and my two eyes.

Like biometrics, many other methods use device-level or transaction-level authentication, such as QR codes, text messages, email addresses and phone numbers. All these options are various representations of a token, just as the consumer’s credit or debit card number is a token to reach a consumer’s debit, prepaid or other account.

Should the PIN be required on every transaction? Well, it would allow for the least amount of fraud, but it’s not a practical approach for many channels. Yet, the PIN, because of its strength as well as its dynamic nature in its ability to be changed by the consumer, can serve as a highly effective secondary authentication method when the need for stronger authentication beyond the device or transaction authentication is needed.

I don’t believe choosing between one authentication or the other is a good strategy. A better approach is to leverage layered authentication and the PIN can serve as one of the strongest and most trusted methods because the consumer is being authenticated, not a device.
As you are putting the finishing touches on your strategic planning, CECL is likely on the top of your mind. There is a lot of information to distill and many questions that arise. To help you check some key questions off your list, you will want to review the Top 5 Things to remember as you look towards the imminent deadline.

1. First of all, CECL is not going away. There are many financial institutions still sitting on the sidelines hoping that it will not happen. There are lots of excuses as some uncertainty still exists. But, let’s face it – the chances of CECL going away are close to nil. I don’t know many bankers that would place a bet on those odds. So, you won’t want to put your bank on a shorter implementation timeline because of those odds. As a reminder, this rule is not just for banks, but for all companies. Just because there are challenges for banks doesn’t mean that FASB will rethink CECL.

2. Remember to think of your entire portfolio – including securities – when you are looking for a solution. With a diverse portfolio of products, you could very likely need more than one method. So, how will you know if you choose the right method? You will need to see the reserve results before you make a decision, of course. This means gathering the data and running it through multiple methods to see the best results. One method does not necessarily fit all portfolios. To save you time down the road, make sure you take this time upfront to find the best method(s) by testing a variety of them prior to your selection.

3. If you haven’t already, talk to your accountants and regulators about CECL. These experts and others will be able to help keep you on course and could provide you with gap areas still needing attention. Starting the conversation with them early in the process will ensure success down the road.

4. As you review possible CECL vendors, have a robust discussion with them about implementation. What does this mean for each one? Can you compare the different methods before choosing more than one? What resources do they provide? Can they help you with external data, if needed? How will they continue to support you after implementation? These are all important questions as you do your vendor due diligence.

5. Last, but not least, don’t forget that you will need to run ALLL and CECL in parallel for a period of time. This is to ensure that you have captured everything needed, and there are no hiccups in the transition. How long should they run in parallel? Since reporting is quarterly, you should run it four times or for one year. So, clearly, you won’t want to postpone CECL implementation any longer.

For more information on CECL, contact Matt Helsing.

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To read more about CECL, check out [www.pcbb.com/products/cecl](http://www.pcbb.com/products/cecl).

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**TOP 5 CECL THINGS TO REMEMBER**

*by Matt Helsing, SVP Regional Manager, PCBB, IBC Associate Member*

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Business continuity planning is a process that is vital to your organization. There is always the possibility that your organization’s critical business processes could be negatively affected for reasons that are beyond your control. If a disruption occurs, it’s extremely important that your organization has a plan in place to address any potential issues and ensure that your organization is still able to serve your customers.

However, if you’re never enacted your plan, it’s hard to be confident that your plan will be sufficient. Testing your Business Continuity Plan (BCP) helps to continuously improve your ability to successfully recover from various scenarios, whether it be a natural disaster or a communications failure. The good news is that there’s no one way to test your BCP. Here are four steps to help you build a better Business Continuity Plan testing program and ensure you are prepared for any situation that may come your way.

Step 1: Incorporate Different BCP Testing Methods

There are a variety of methods you can utilize to test the usability and effectiveness of your Business Continuity Plan. Some of the possible testing methods include:

- **Plan Review**: Typically involving higher-level management and department heads, a BCP review consists of analyzing the Business Continuity Plan and discussing potential improvements, as well as making sure contact information is up-to-date, recovery contracts are still in place and effective, and applicable business continuity and disaster recovery scenarios are appropriately covered. A plan review may also include training new managers on plan details so they can pass that knowledge down to their teams.

- **Tabletop Exercise/Structured Walk-Through Test**: At its core, a BCP Tabletop Test is a scenario-based role-playing exercise. The objective is to ensure all critical personnel in your organization are aware of and familiar with the relevant portions of the BCP, as well as their role in a disaster/event. Tabletop testing will typically include discussion of one or more disaster scenarios, during which the potential response procedures will be reviewed, responsibilities outlined, and process improvements uncovered.

- **Walk-Through Drill/Simulation Test**: A BCP Walkthrough Drill/Simulation Test is a more hands-on version of the tabletop exercise mentioned above. Whereas a Tabletop Test (as the name mentions) usually consists of sitting around a table and discussing plan details, the Walk-Through/Simulation Test incorporates actual recovery actions such as restoring backups, live testing of redundant systems, and any other relevant processes. In addition to critical personnel, any employees that would be involved in a BCP event should now be involved in the testing process. A Walk-Through Test may also include validation of response processes/systems, a simulated response at alternate locations, and varying degrees of actual notification and resource mobilization.

- **Functional/Full Recovery Test**: A BCP Functional/Full Recovery Test involves a complete process of spinning up your backup systems and processing transactions or data, although the Functional Recovery Test scope can vary from parallel testing (running your live and backup systems in conjunction) to a full failover test (completely transitioning operations to your backup systems). This test should be simulated as similarly to a “real-life” disaster as possible.

Step Two: Understand How Often to Test

Although there is no hard-and-fast standard for determining how often to test your Business Continuity Plan, there are some general guidelines that are typically recommended. Note that each of these timeframes is going to be dependent on your organization’s industry, size, personnel, available resources, and current BCP maturity levels. Don’t take these timelines as gospel, as they are strictly that: guidelines.

SBS recommends reviewing each of your Emergency Preparedness Plans (Business Continuity, Disaster Recovery, Incident Response, and Pandemic Preparedness) throughout the course of a given year. Testing would typically include an annual Tabletop Test and/or Walk-Through Test of all four individual EPP plans, testing multiple scenarios for threats that you identify as higher-risk to your organization. Be sure to test the scenarios that you believe to be the highest risk to your organization most frequently, and the scenarios you don’t believe to be that probably less frequently.

Additionally, a Functional Recovery Test is recommended at least every other year, but such a test is largely dependent on the size and complexity of your organization and the maturity of your failover procedures. For example, if your organization’s goal is to have a fully-functional failover DR backup site, but you have not yet achieved full-failover mirroring and backups, implementing this complex backup process and testing to ensure everything works correctly from failover-to-failback may take years to achieve. In comparison, testing file-level restores from nightly backups is something any organization can do quickly and frequently today.

However, if your organization has any major changes in processes, systems, or plan details, you may want to perform these tests more frequently. And again, these timelines are highly dependent on your organization; it may not be feasible or logical to perform some of these tests at a particular frequency. Base this decision on your organization and its specific needs.

Continued on next page
Step Three: Include Your Vendors
In the course of your testing cycle (whether a Plan Review, Tabletop Test, Walk-Through/Simulation Test, or Functional Recovery Test), you’ll want to ensure your critical vendor partners are included in the testing process to whatever extent possible. Involving your vendors in this process not only allows you to test to a greater degree of accuracy and usability, but also allows your vendors a chance to provide feedback that may be valuable to your plans or testing process.

Step Four: Document Your Testing
Finally, be sure to document the results of any testing performed, along with any actionable findings from those tests. Following up on these items and incorporating recommendations resulting from tests is the most important process in the BCP testing lifecycle. Testing, documenting the results of your testing, and implementing processes to improve your BCP is the best way to strengthen your organization’s response processes.

Resources and Testing Options
Numerous additional resources that your organization may use or participate in to continue to mature your BCP testing program are widely available. Here is a list of organizations and resources to help you perform such testing on your own organization’s BCP:

- **FS-ISAC (Financial Services Information Sharing and Analysis Center) Exercises** - [https://www.fsisac.com/exercises](https://www.fsisac.com/exercises): A range of exercises, performed throughout the year, in which your organization can register and participate, including simulated cyber-attacks on payment and insurance systems, cyber-range, and regional exercises.


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### LOCATIONS

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