Independent Report

"Colorado banking at its best"

June/July 2020

A Publication of Independent Bankers of Colorado
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Save the Date

BSA/AML Mile High Summit
Tuesday, August 18
Join us for our 5th annual BSA/AML Mile High Summit in Denver. You’ll hear from regulators and nationally recognized industry experts. This is a not-to-be-missed conference. Continuing professional education credits available.

Calling All Superheroes!
Wednesday-Friday, September 23-25
IBC’s 47th Annual Convention
Vail Marriott Mountain Resort
IBC’s Annual Convention is a must-attend event! Engaging education topics, industry-expert presenters, top-notch networking, and much more!

3-Day Agricultural Lenders Simulation & School
Tuesday-Thursday, October 27-29
This school was designed to train early to mid-career lenders specializing in agriculture and was developed to meet the training needs of agricultural lending institutions.

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COMMUNITY BANKS LEAD THE CHARGE
By Mike Van Norstrand, Executive Director IBC

For the last few months, I have been serving on the Financial Services Committee of the Governor’s Council on Economic Stabilization and Growth. Much of the Committee’s work has been focused on the Paycheck Protection Program and lobbying Washington to ensure that Colorado’s small businesses received their fair share of the program funds. Not only did Colorado banks pull their weight but it was overwhelmingly the community banks leading the charge. In recognizing your altruistic spirit, dedication and hard work, in the face of the PPP’s initial technological barriers to entry, its lack of profitability, lack of guidance and direction, and numerous other issues, the Governor’s Committee issued the following letter of acknowledgment and appreciation for your efforts, and an anonymous donor generously delivered gift cards to the Committee for you to distribute to your deserving employees. Congratulations! Well done IBC banks!

Connect with Mike at MVannorstrand@ibcbanks.org.

Dear Colorado Lender:

Thank you for your tireless efforts to help Colorado businesses, nonprofits, and independent contractors access the vital PPP loans to help them through this challenging economic interruption. Your energy and commitment allowed Colorado’s banks and credit unions to secure a substantial reallocation of PPP funding for Colorado’s small businesses and workers in need.

As a private sector volunteer serving on Colorado’s economic stabilization council, I can assure you that your hard work is a key reason that Colorado processed more than $11 billion in vital federal loans to aid our state’s economic recovery.

Acknowledging your hard work, an anonymous private donor wishes to contribute the enclosed gift cards to the employees who worked so hard to serve Colorado’s PPP Loan needs. While this is not a contribution from the state, the Colorado’s economic stabilization council is helping pass along those gift cards to the intended recipient – your employees.

Thank you for helping Colorado businesses when they needed it most.

Kindest Regards,

[Signature]

Blair E. Richardson
Chief, Financial Services Committee of Governor’s Council on Economic Stabilization and Growth
Deep exhale, breathe, repeat... deep exhale, breathe, repeat. Well, we made it through Phase 1 of the Paycheck Protection Program (PPP). I’m sure you will agree with me when I say that the last eight weeks have been absolutely exhausting, but incredibly rewarding. You provided a financial lifeline to our main street customers when they needed it most. Yes, the path has been incredibly frustrating, bumpy, and at times plain mind numbing, but Community Bankers YOU DID IT. An ICBA survey revealed that community bankers were able to fund upwards of 80% of all loans that came their way. In Colorado, Community Banks led the way with lending to our small businesses and blew away the big bank competition when it came to PPP dollar volumes and loan totals. You should be very proud of your banking team; we came together unlike any time I can remember. On behalf of your customers and your communities, thank you and congratulations.

Our communities are taking note of what makes a Community Bank essential – people, service, community investment, local ownership, and local decision makers. Our big bank and Credit Union competitors have given their customers a reason to leave them and to bank locally. It is time for us to ask for their business. Yes, we all are anxious as we transition to the audit process associated with PPP loan forgiveness, but again, you and your teams will “step up” and work through the forgiveness process, regardless of how many times it changes. Let’s all remember to “Ask for their Business.”

In this chaotic and troubling time, I take great pride in knowing each of you continue to clearly demonstrate why we are Community Bankers. Our goal is to work with and assist our friends and neighbors. We make connections and relationships that span decades and generations, going beyond just a single transaction. While our goal is to assist our customers in achieving their dreams, in times like this, we can be just as proud to assist our customers in weathering the storm.

I wish you the very best as we transition to summer and the possibility of opening our communities back to the new normal. Good luck, thank you for your continued service to your community, and stay healthy.

PJ Wharton
President and CEO
Yampa Valley Bank

IBC HIGH SCHOOL SENIOR SCHOLARSHIP RECIPIENTS

The Independent Bankers of Colorado (IBC) and Colorado’s independent community banks announce the recipients of their 25th Annual Scholarship Competition!

Requirements of the scholarship competition were: A cumulative GPA of 3.0 or higher; attendance at a public or private Colorado or a contiguous state university, college, junior college, community college, vocational/trade school; a banking relationship at an IBC member bank, completion of an application and essay question.

The IBC awarded a total of two, one-time, $1,000 scholarships. Scholarships were awarded in two categories: Bank customer and bank employee or child of a bank employee.

TRACE COX, sponsored by Frontier Bank, graduated from McClave High School in May and is the recipient in the child of a bank employee category. He has been accepted to Colorado Mesa University and Regis University and plans to major in Neurology.

The recipient in the bank customer category was SARA NOLL, sponsored by The First National Bank of La Junta. Sara graduated from La Junta Jr/Sr High School in May. Sara has been accepted to Colorado State University, University of Colorado Colorado Springs, and Otero Junior College. Her plans are to study Business and Design in pursuit of a career in Design.

IBC wishes Trace and Sara the best as they pursue their educational goals.

Thank you to the members of our High School Senior Scholarship Competition Selection Committee.

Proud to work with community banks

Since 1997, PCBB has worked diligently to ensure community banks thrive as a pillar to their communities, and we continue to stand by that commitment—today and well into the future.

Matt Helsing
SVP & Regional Manager
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Photo by Courtney Hedger on Unsplash
FROM THE TOP
By Noah Wilcox, Chairman, ICBA and President, CEO, and Chairman Grand Rapids State Bank, Grand Rapids, Minn.

My Top Three
My top pieces of advice for rising leaders:
1. Roll up your sleeves and help out your staff; it’s about the collective team.
2. Find a mentor to inspire you.

Yet, while that exercise may have set the wheels in motion for my career as a community banker, having the opportunity to work side-by-side with my grandfather is what clinched it. At a pretty young age, my grandfather instilled in me an understanding not of what we do as community bankers, but why we do it. I can remember being eight years old and going on collection calls with him, and they were compassionate, trying to help people who were struggling to pay their bills. Through his example, he taught me that community banking is about taking care of people—the families in our community. That personal connection to something bigger than myself was vital. I’ll be continuing to connect with community bankers nationwide and champion their leadership via digital channels.

My grandfather set remains all the more important to helping our communities get back to vibrancy. We’re still running businesses, but for all of us, our decisions go far beyond dollars and cents and extend to finding ways to contribute to the greater good.

And I see that same spirit of practical altruism reflected in the young leaders emerging today. You need look no further than this month’s 40 Under 40 awards to see community bank leaders growing to become the anchors of communities that they will help to evolve and flourish in the coming years.

Generationally speaking, I feel like we’re getting back to our roots. My grandfather, a proud part of the Greatest Generation, set the stage for me, but we are standing on the precipice of that potential once again. This generation of emerging leaders brings a new level of humanity and activism to their work, so let’s continue to inspire them to act for the greater good, just as my grandfather did for me.

Connect with Noah @MWilcox

FLOURISH
By Rebeca Romero Rainey, President & CEO, ICBA

Remember that childhood game follow-the-leader where one person directed, and the others walked in line? Well, it was not a favorite of mine, and I could never quite pinpoint why.

"Well-executed leadership is less about marching to your own beat and more about creating a well-choreographed team play."

As I’ve moved forward in my career, I realized what bothered me: The leader in that game dictated the path, and others blindly followed suit. There was no room for creative collaboration or team dynamics. It was cut and dry: Either you were a leader and got to call the shots, or you were a follower and had to step in line.

That approach doesn’t line up at all with the reality of true leadership. A good leader listens and learns from their team, becoming stronger not by managing singularly, but by evolving concepts and direction based on group input. Leaders know that each individual’s strengths complement their own. Well-executed leadership is less about marching to your own beat and more about creating a well-choreographed team play.

That’s why I’m heartened this month as I look at our second-annual 40 Under 40 awards. These young professionals have expertise that makes them distinct from one another, but they share a common quality: They are rising leaders. They are strengthening the nature of community banking by bettering themselves, their teams and their organizations. And, they are doing it with gusto—by focusing on coming together for a greater good, for the strength of their communities.

This contagious enthusiasm is also why I look forward to our LEAD FWD Summit each year. As of this writing, we’re not certain if this year’s event in September will take place in-person or virtually. But we do know it will continue to assemble ambitious, results-oriented community bankers as they expand their leadership journeys. Young professionals recognize LEAD FWD as the key event at which to learn the strategies and insights that will shape the future of community banking.

As we look to the future, we’re still faced with a world of uncertainty, courtesy of COVID-19. Yet, despite the challenges over the past few months, we have led our communities toward prosperity. By going beyond what’s required of us in navigating the Paycheck Protection Program (PPP) and disbursement of Economic Impact Payments (EIPs), we have dug deep in supporting our communities. From blood drives and business donations to loan forgiveness and the renegotiation of contract terms, community banks have supported customers in creative ways.

That’s because we advance our communities not by controlling the path, but by ensuring our customers’ voices are heard. They know they can rely on us when it’s most needed. I’d say that’s the sign of a true leader.

Connect with Rebeca @romerorainey

FROM THE TOP
By Noah Wilcox, Chairman, ICBA and President, CEO, and Chairman Grand Rapids State Bank, Grand Rapids, Minn.

My senior year in college, I took a business law class that doled out a daunting assignment: Put a stake in the ground and say where you’re going to be at age 35 and how you’re going to get there. At that time, I was pretty unsure how my career would unfold, but I guess instinct kicked in, and I wrote about becoming presi-
**IBC EDUCATION AND TRAINING PROGRAM**

**IBC’s 2020 Webinar Schedule**

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 your bank from the frontline to the board room. Speakers are industry experts with long-term, hands-on experience. Benefits of participating in an IBC webinar include:
- Easy to use, time effective, cost effective, convenient, and interactive
- Current and hot topics delivered by experienced speakers
- Take-away-toolkit (consists of an employee training log and a quiz to measure student learning)

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<td>Dissecting Loan Loss Reserves, Including CECL Expectations</td>
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<td>Credit Reporting &amp; Delinquent Accounts: Disputes, Revisions &amp; Guidance</td>
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**COMPLIANCE**

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<td>Building the best possible board meeting from Agenda to Action</td>
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<td>Fair Lending Comparative File Review that Meets Regulator Expectations</td>
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<td>Risk Officer Series: A Year in the Life of a Compliance Officer: Tips, Tools &amp; Annual Requirements</td>
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<td>Regulatory Requirements for the Board: A Comprehensive Checklist</td>
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**FRONTLINE & NEW ACCOUNTS**

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IBC 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.

Contact: Scott Wintenburg | swintenburg@bbwest.com | 303.291.3700 or 800.601.8630
Merchant services from Bankers’ Bank of the West help you grow customer relationships with mobile payments technology, competitive unbundled pricing, efficient approvals and startups, responsive support, and training.

Contact: Chuck Allor | charles.allor@deluxe.com | 719.599.4466
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Contact: Steve Thomas | stthomas@btapps.com | 512.616.1100 ext. 110
IBT’s Core Processing platform enables you to meet the specific challenges of the marketplace efficiently and effectively. IBT’s Core Processing with iSuite is the right way to do business for you and your customers, reducing costs, improving efficiencies and enhancing compliance.

Contact: www.ibca.org/servicesnetwork / 866.843.4222
The IBC supports and recommends the following products and services supplied by our national association, the ICBA: ICBA Bankcard and TCM Bank, N.A.; ICBA Compliance & Risk Management; ICBA Mortgage; ICBA Reinsurance; and ICBA Securities.

Contact: Nick Podhradsky | nick_podhradsky@sbscyber.com | 605.770.3926
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Contact: Stacy Sheehy | stacy.sheehy@spglobal.com
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COVID 19 – A CREDIT RISK MANAGEMENT PRIMER

By Jim Swanson, President-Bank Strategies, LLC, a Division of Bankers’ Bank of the West Bancorp, Inc., IBC Member

While death and taxes typically get the most press when it comes to the “certainties” in life, economic behavior also ranks right up there. In fact, between 1929 and 2008, the U.S. experienced a recession or one every 5.6 years. At the beginning of 2020, the U.S. was in the midst of its longest period of economic expansion in recent history (over 10 years); it is not surprising that we were due for a downturn.

Of course, not many envisioned the source of the current economic stress we are experiencing—the COVID-19 pandemic—or the impact it has had on our lives and the economy.

Banking, as we all know, rides the coattails of these economic cycles. In part, due to longer periods of economic expansion experienced over the past several decades, banks have often found themselves dealing with varying degrees of readiness in managing the unique challenges that come with loan portfolio stress during downturns stemming from lending staff’s skill and experience levels in this regard. Between cycles, experienced staff with the battle scars retire, replaced by new staff who have never experienced a downturn; and for some, skill sets get rusty after years of limited or no use. Much like the years after the Great Recession, many believe we will not experience a V-shaped rebound that would be ideal and least painful. A more protracted recovery increases the odds institutions will be ideal and least painful. A more protracted recovery increases the odds institutions will face. Severe and 5.6 years. At the beginning of 2020, the U.S. was in the midst of its longest period of economic expansion in recent history (over 10 years); it is not surprising that we were due for a downturn.

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Regulatory agencies have relaxed traditional supervisory expectations and requirements on several fronts to encourage and support the industry’s efforts to work with customers experiencing COVID-related hardships.

While none of us working in the banking industry today, regardless of tenure, has lived or worked through a situation like we are now experiencing, we can draw upon the lessons learned and strategies that have proven successful in previous trying times. Although the list is extensive and beyond the scope of this article, some higher-level items particularly relevant from our perspective are outlined below:

- Devote strong attention to internal credit risk identification systems and ensure those are working effectively.
- Provide problem loan identification/management training to less experienced staff, and refresher training to other staff.
- Thoroughly and realistically assess management’s ability to address issues effectively guide the business forward.
- Closely police and address weak or timid account management.
- Promote a culture that expects and does not discourage problem loan identification.
- Comprehensively scrub loan files and aggressively address deficiencies soon after weaknesses are identified.
- Be prepared to shift account servicing responsibilities if a lender does not demonstrate skills or motivation to effectively manage stressed relationships.

We’ll leave you with one additional thought: Remain grounded and optimistic but prepare for the downside scenario. While the outcome of the pandemic may ultimately be much less impactful than many fear, spending additional time and attention ensuring staff and risk management systems are prepared for pending challenges that may not materialize is often much less painful than playing catch-up due to lack of preparation.

You can reach Jim at jim@bankstrategiesllc.com or 303-903-9369.

IBC welcomes new Associate Members
Godfrey Law Group LLC, Community Bank Mortgage, Greenline Ventures LLC, and Spierer Woodard Corbalis Goldberg

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KICKING THE CAN
CONGRESS AND THE FED ARE ON A SPENDING SPREE

If you ultra-busy community bankers have been able to catch some of our policymakers commenting on the waves of fiscal and monetary stimulus rushing toward the U.S. consumer, what you heard essentially translated into an elaborate game of Kick the Can. Please note that I said “elaborate” and not “elegant.”

Here are some popular sound bites from these commentaries: “The amount of debt that we’re adding up is a matter of genuine concern.” “We are deploying these lending powers to an unprecedented extent, enabled in large part by the financial backing from Congress and the Treasury.” “Our country’s highest priority must be to address this public health crisis.” All of which sound good, and each of which are undoubtedly true. As is this: We’re going to have one large bill to pay sometime in the future.

It came from Foggy Bottom

In barely a six-week period in March and April, we saw three different bills enacted, each providing assistance to individuals and the domestic economy. The three have an aggregate price tag of about $2.8 trillion. Congress and the administration have not yet advanced any bright ideas about how this spending is actually going to be repaid.

For context, here is some color on what $2.8 trillion entails:

- It’s equal to the annual gross domestic product of France.
- It’s greater than any annual U.S. budget up until 2008.
- It’s twice the amount of all the individual income tax payments in the U.S. in 2017.

And more may be in store as the government tries to keep our economy from completely shutting down. Still, to summarize, we’ve just taken a big jump in weight to the buying spree is the increase in reserves caused prices to rise, as inflation is the residue of “too much money chasing too few goods.”

But since inflation never really picked up during the prior rounds of QE, and since it sure looks like monetary stimulus is currently needed to keep the economy from collapsing, deficit hawks have completely thrown in the towel at the present. Thirty-year Treasury bonds with yields below 1.50% have further empowered lawmakers to borrow-and-spend, and we’ll figure out how to finance it later.

What’s of value

The list of Fed activities is too lengthy to go into much detail, but let’s just say it is taking its role as Lender of Last Resort quite seriously. It has invested in, or provided financing to, several investment sectors that it had never done so in the past. This includes corporate bonds and municipal loans.

More fundamental to community banks is that it has again cut overnight rates to just about zero and has invested in a lot of mortgage-backed securities (MBS). This includes more generic MBS like the Federal Reserve has supplied a set of monetary responses and more to come. Some of these moves have not only rebuilt its colossal balance sheet but have far surpassed its previous buying binges. As of the end of April, its total assets were up to around $6.6 trillion. That number never exceeded $4.5 trillion even during the succession of quantitative easings (QE) in the past decade.

Of course, we learned last time that the counterweight to the buying spree is the increase in reserves in the banking system. The finance textbooks will tell you that an increase in the money supply will cause prices to rise, as inflation is the residue of “too much money chasing too few goods.”

Not to be outdone, the Federal Reserve has supplied $2.8 trillion of fiscal and monetary stimulus rushing toward the U.S. consumer, what you heard essentially translated into an elaborate game of Kick the Can. Please note that I said “elaborate” and not “elegant.”

I think we’d agree that we’re not having an especially fun time at the present, but it surely appears to your correspondent that our policymakers are using all the toys in their sandbox. Some of these will hopefully prove to be popular (and effective) at maintaining sufficient activity in the financial sector until normalcy returns. Then we can all look forward to dealing with the extended-play game of Kick the Can 2020.

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Not that anything in this market is going to have nominally attractive yields, but there are some pockets of relative value. MBSs that the Fed are not buying, such as jumbo pools and collateralized mortgage obligations (CMOs), have not yet followed the prices on the Fed’s pools. The aforementioned liquidity facility to support municipalities is concentrated on short (two years and less) duration credits. Therefore, longer (e.g., more than 10 years) munis should remain the highest yielding sector that’s of interest to community banks.

More to come.

Jim Reber, President/CEO, ICBA Securities, IBC Preferred Provider
Virtual IT Audit – Not a Novel Idea

Security and IT professionals across the world have invested a large amount of time and effort transitioning to a remote workforce. At the start of this transition, much of the time was spent on getting the technology up and running, securing remote access, and finding a way to conduct business as normal (or as close to normal as possible). Now that the initial shock to the system is somewhat behind us, it is time to shift our mindset back to proactive security.

It’s important to keep in mind that cybersecurity risks grow significantly during a time of uncertainty. In fact, we have seen a massive increase in cyber incidents in recent weeks stemming from phishing emails, phone calls, malicious websites data maps, and ransomware attacks. The spike in malicious activity is so severe that researchers have seen an increase of 667% in phishing email attacks alone in the month of March.

A critical component of proactive security includes continuous process improvement, including regular testing of an organization’s people, processes, and technology. Many times, an IT audit is how we verify that proper security measures are in place and are effective. A traditional onsite IT audit has historically required a security firm to send a qualified information security auditor onsite to review policy, procedures, and technical controls, as well as to conduct investigative interviews. The auditor typically examines whether the organization is compliant with its own program (and with applicable regulations), as well as identifying possible gaps in the adequacy of controls.

The Future of the IT Audit is Virtual

In response to the COVID-19 virus, regulatory agencies have announced plans to conduct virtual IT examinations. This may seem like a novel idea; however, virtual IT audits have been around for years. A virtual IT audit should follow the same process of the onsite audit, except all the work is done remotely. The virtual audit requires the same evidence, documentation, scope, and process. An added bonus of your virtual engagement is that your IT auditor is not spending time traveling, meaning there should be an increase in the efficiency of the audit process from start to finish. Here are three common questions and solutions to note when conducting a virtual IT audit.

Question 1: Can the IT auditor communicate effectively if the service is performed virtually?

Answer: Communication is important for all services; however, in a virtual IT audit, communication is absolutely vital to the value that the organization gets from the engagement. A virtual IT audit should utilize several different communication channels such as online meetings (with screen sharing and conference call capabilities), video conferencing (when available), email, secure information sharing portals, phone calls, and text messages to ensure the quality of the process. Communication expectations should be set up front with your auditor.

Question 2: What about the availability of the auditor vs. our in-house staff? How does that work?

Answer: When an auditor is onsite it is easy to get access to your team for interviews, questions, and concerns. When the auditor is virtual, it’s even more important that the auditor gets access to the staff and information needed to conduct the audit. With a virtual IT audit, a schedule should be created for the duration of the audit that encompasses the topics and ISP components to be reviewed, interview times for your staff members, regular check-ins with your team, and a formal Exit Meeting to discuss findings and recommendations.

Question 3: What about physical security checks? How can you validate physical security controls if you’re not onsite?

Answer: Physical security is a very important component in an information security program and needs to be addressed even in a virtual IT audit. Physical security can be reviewed and assessed through the use of video or photos of each physical control to ensure the completeness of the audit. If you have the ability to turn on a webcam and walk your IT auditor around your physical premises virtually, that’s the preferred option.

Don’t push off your IT audit until later. Stay ahead of cybersecurity threats and incidents with a virtual IT audit.
COLORADO LENDING SOURCE SECURES $5 MILLION IN FUNDING TO SUPPORT EASTERN COLORADO BUSINESSES

By Lauren Kloock, Lead Marketing Maven, Colorado Lending Source, IBC Associate Member

Colorado Lending Source in partnership with ZOMALAB and the Gates Family Foundation have established the Eastern Colorado Small Business Loan Fund with the goal to protect jobs and invest in our communities in the short, medium, and long-term. This fund was created to offer affordable loans to rural Colorado businesses and non-profits in eastern Colorado affected by the COVID-19 crisis.

The program is open to eligible entities located in communities with populations of under 50,000 in: rural Adams County, rural Arapahoe County, Baca County, Bent County, Cheyenne County, Crowley County, rural El Paso County, Elbert County, Huerfano County, Kit Carson County, Kiowa County, Lake County, Lincoln County, Logan County, Morgan County, Otero County, Phillips County, Prowers County, rural Pueblo County, Sedgwick County, Washington County, rural Weld County, and Yuma County.

For businesses interested in applying, they must complete an application and email it to submit-mainstreet@coloradolendingsource.org.

You can learn more about the Eastern Colorado Small Business Loan Fund and download the application by going to: https://www.coloradolendingsource.org/articles/eastern-colorado-small-business-loan-program

COLORADO LENDING SOURCE

Thank you for shopping LOCAL

Photo by Tim Mossholder on Unsplash

INSURED CASH SWEEP® AND CDARS®: A GAME CHANGER FOR BANKS AND LOCAL COMMUNITIES

In the past, many large-dollar depositors, such as public entities, institutional investors, and nonprofits, were reluctant to deposit their cash at small banks because their deposits could only be insured up to $250,000. They feared losing money if their bank failed. In effect, small banks were penalized for their size on the mistaken belief that small automatically equaled risky. This changed in 2002 when Promontory Interfinancial Network began offering the first “reciprocal deposit” placement service—CDARS® and, later, another called Insured Cash Sweep, or ICS®.

Now, many institutional and individual investors are embarking on a flight to safety, moving funds out of the stock market and into cash to manage volatility during these challenging economic times brought on by the COVID-19 pandemic. For banks that are part of Promontory Interfinancial Network’s network of banks, this shift represents an opportunity to offer customers access to multi-million-dollar FDIC insurance through a single bank relationship.

How Insured Cash Sweep and CDARS Work

Nationwide, thousands of banks use ICS and CDARS to provide safety-conscious customers with access to FDIC insurance beyond the traditional $250,000 per insured bank, per depositor (for each account ownership category). By splitting a customer’s original deposit into smaller increments—each below the standard FDIC insurance maximum—and placing it into deposit accounts at other banks, Insured Cash Sweep and CDARS enable safety-conscious customers to access multi-million-dollar FDIC insurance through a single bank relationship.

The Insured Cash Sweep service provides access to FDIC insurance on funds placed into demand deposit accounts and money market deposit accounts, whereas the CDARS service provides that access on funds placed into CDs. Reciprocal deposits are “sticky.” CDARS reinvestment rates are approximately 80 percent, and banks typically see less than 5% of ICS Reciprocal accounts liquidated in any given month even as total accounts and balances steadily increase. And, the institution accepting the deposit maintains a relationship with the depositor—typically a locally-based depositor. The safety-conscious customer is often a government organization (such as a city or county treasurer or a public school district), an institutional investor, a nonprofit, or another depositor that would otherwise
• make a large deposit in a large money-center bank, rather than a community bank (foregoing access to FDIC insurance for most of the deposit and relying on large rating agencies, like Standard & Poor’s and Fitch, and then tracking the ratings over time);
• require that a bank collateralize or otherwise secure the deposit with Treasuries or other ultra-safe, highly liquid government securities (an added cost for the bank that could lead to the customer receiving a lower interest rate if the bank adjusts its rate to compensate for the added cost it incurs); or
• manually split its large deposit among multiple banks (which requires negotiating different interest rates, signing multiple agreements, receiving multiple statements, etc.).

Bank customers enjoy peace of mind and the convenience of working through one institution. Participating banks can grow relationships and deposits from a local customer base without losing either to larger institutions, without the added costs or tracking burdens associated with ongoing collateralization requirements, and with the ability to lend the amount of these relatively low-cost funds locally. At the end of the day, it’s a win-win for banks and their customers.

**Most Reciprocal Deposits Are Considered Core Deposits**

In recent years, community banks have received relief from certain rules and regulations through the Economic Growth, Regulatory Relief, and Consumer Protection Act. Among the law’s many provisions, most reciprocal deposits are considered core deposits. The nonbrokered status of most reciprocal deposits presents an opportunity for banks to grow core deposits, attract high-value relationships, and make cost-effective funding available.

Reciprocal deposits held by an FDIC-insured institution are considered core as long as:

1. The bank is well capitalized and has received an “outstanding” or “good” on its most recent examination; and
2. The total amount of reciprocal deposits held does not exceed the lesser of $5 billion or 20% of the bank’s total liabilities.

A bank that drops below well capitalized can continue to accept reciprocal deposits without a waiver from the FDIC, so long as the bank does not receive an amount of reciprocal deposits that causes its total reciprocal deposits to exceed a previous four-quarter average.1

**Bank-to-Bank Connections – Helping Community Banks Help Each Other**

Why would a bank agree to take Insured Cash Sweep or CDARS deposits from another bank, essentially helping that other bank? Because in a reciprocal deposit allocation service, each bank is sending an equal amount of customer deposits to other banks. Exchanges occur on a dollar-for-dollar basis so that each participating bank comes out whole.

This benefits banks and local communities across the United States in several ways, helping Main Street banks to attract and retain the amount of deposits from local customers by:

- expanding the availability of deposit funding for such banks;
- providing banks with more funding to make loans within their communities;
- potentially lowering the cost of funding for banks over time; and
- enabling banks to compete more effectively with larger, too-big-to-fail banks for stable funding.

As a result, banks have a larger source of stable deposits. And banks can replace more expensive deposits, like brokered deposits, with reciprocal deposits, and those from listing services, with reciprocal deposits received by using CDARS and Insured Cash Sweep.

With CDARS and Insured Cash Sweep, banks can help more customers—including businesses, nonprofits, municipalities, financial advisors, and even individuals—safeguard their funds, potentially at even higher levels, while at the same time attracting locally priced, large-dollar deposits, the full amount of which can be used to make loans locally. These are loans that can launch new businesses or help existing ones to expand, creating jobs and providing much-needed services for a community, or that can help individuals to finance a new home, college expenses, and more.


For more information, visit https://www.icsandcdars.com/.

For more information, contact [name], Community Bankers School, Bloomington, IL.

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Vision for Success!
At the time of this writing, some states are beginning to slowly reopen. Now is the time to develop and implement reopening plans, and a long-term, at least 24 months, social distancing strategy for your financial institution. According to experts, COVID-19 is a risk until antibodies are present from a vaccine or recovery from the virus. An approved vaccine is still 12-18 months away and the millions of doses needed just for the U.S. will extend the timeline even further. Once the reopen strategy is implemented, plans should include a rebound strategy in the event COVID-19 cases increase and mandated work from home is reinstated.

For branch locations, software programs such as CAD or Bluebeam may be used to design an optimal 6’ social distancing design for employees and customers/members. Adhesive directional and queue line markers on the floor at 6’ intervals provide a clear path for customers/members to safely follow as they wait for an available teller, meeting location, or to the exit. It is recommended you have a plan to secure the branch once the maximum number of employees and customers/members is reached and provide a clearly marked social distanced queue line outside the branch.

Video system analytics can enhance the monitoring of social distancing. The following are some of key features:

- The analytics software provides a virtual 6’ “halo” around each person inside the branch. A person with a green 6’ “halo” indicates appropriate distancing and a red “halo” indicates 6’ distancing was not achieved.
- This system can generate reporting for evaluation and reporting on the effectiveness of your social distancing program. Video analytics also provide heat mapping based on employee and customer/member activity inside the branch. Heat mapping allows cleaning services to focus more attention...
on high-use areas. Many financial institutions have decreased branch traffic by increasing the usage of remote video lending, drive-up, ATM, and ITM equipment. Even customers that have avoided digital or remote services in the past, have become more comfortable with those services during the COVID-19 crisis. Remote managed services with the ability to remotely monitor, diagnose, fix, and patch have been crucial for safety and keeping financial institutions operations.

Other new products designed to increase safety include:

- UV lights installed in cabinets designed to be a part of the under-counter steel. This allows employees to disinfect drive-up tube carriers and other items. UV light is a proven disinfectant for viruses and bacteria.
- UV lights installed inside ATMs, ITMs and cash recyclers that disinfects cash while the cash is being dispensed from the machines.
- Clear "sneeze guards" installed at each operational branch workstation and teller window to protect customers/members and employees.
- Executive readiness tests provide the C-suite with a tool to measure their organization resilience to COVID-19 changes or future crisis.

A social distancing design is also recommended for administrative facilities to determine workstation configurations that maximize the number of employees that can be safely accommodated.

Video system analytics that monitor social distancing inside the administrative facility, alarm functionality for violations, and reporting capabilities assist with monitoring the effectiveness of the social distancing program.

Video system heat mapping analytics allow janitorial staff to focus deep cleaning efforts on high-touch areas of the facility.

Perimeter access points protected by access-controlled doors, revolving doors, or optical lanes should have social distancing queue lines to safely manage access and egress traffic.

The same UV cabinet mentioned for branches is effective for sanitizing temporary visitor, vendor, guest access badges and keys that are temporarily assigned to vendors.

Developing and implementing effective reopening and a social distancing plans for administrative and branch facilities is critical to the safety of employees, customers/members.

If you would like more information about COVID-19 and technology solutions to keep your financial institution safe and operational, please visit the Cook Crisis Hub at https://cooksecuritygroup.com/cook-crisis-hub/. Executives interested in completing a COVID-19 Executive Readiness Test may contact me at steve.ryker@cooksecuritygroup.com

HELP FOR SMALL BUSINESSES: ACCESS TO CAPITAL

By Steve Johnson, Community Development Director, Colorado Housing and Finance Authority, IBC Associate Member

Amid the COVID-19 situation and its effect on local economies, the Colorado Office of Economic Development and International Trade (OEDIT) and Colorado Housing and Finance Authority (CHFA) understand that small businesses need help quickly and efficiently. We are encouraging lenders to consider using the Cash Collateral Support (CCS) and Colorado Credit Reserve (CCR) programs as flexible resources to support your business customers if your standard loan, SBA Economic Injury Disaster Loan (EIDL), or the other rapidly evolving disaster support mechanisms aren’t a better fit.

CCS is designed to help small- and medium-sized businesses access capital that would otherwise be unavailable due to collateral shortfalls, and to support business activity that isn’t eligible for an SBA loan. To date, the CCS program has helped 311 businesses leverage $300.1 million in private-sector lending, supporting 2,165 jobs.

CCR serves as a credit enhancement tool designed to provide Colorado lenders an incentive to stimulate safe and sound lending to small businesses statewide. To date, the CCR program has helped 3,545 Colorado businesses leverage $442.3 million in private-sector lending, supporting 31,553 jobs.

For more details on these programs, including their criteria and if, or how, they may be adapted to support your customers, in need, please contact Justin Vause, CHFA Commercial Loan Officer at 303.297.7345 or jvause@chfainfo.com.

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A lot of activity has occurred in a relatively short amount of time, so in many cases banks lack important guidance from the IRS, SBA and others needed to determine the effect on the industry. However, a key area of focus for many community banks will be tax legislation and related regulatory relief provided for banks relative to capital ratios.

**CARES Act**

Banks can benefit from several business provisions contained in the CARES Act.

**Net Operating Losses**

The CARES Act allows net operating losses (NOLs) generated in 2018, 2019 and 2020 to be carried back five years. The availability of a five-year carryback period for NOLs can potentially boost a bank’s Tier One capital ratio. Deferred tax assets attributable to NOLs are not included in Tier One capital under current regulatory guidelines.

A NOL carryback effectively monetizes the NOL (to the extent tax refunds are generated from prior tax years) and allows a bank to reclassify the carryback refund from its deferred tax asset account to a current income tax receivable account on the balance sheet. This reduces the subtraction from capital on the bank’s Call Report relative to deferred tax assets attributable to NOL carryforwards. In addition, carrying back NOLs to 2013-2017 (where effective tax rates were generally higher) may provide permanent tax savings that reduce tax expense and increase earnings.

**Alternative Minimum Tax**

Similarly, the CARES Act accelerates the refund of Alternative Minimum Tax (AMT) credits to the 2019 corporate income tax return (or to 2018 at a taxpayer’s election). Deferred tax assets attributable to credit carryforwards are also not included in Tier One capital. So, reclassifying an AMT credit to a current income tax receivable account on the bank’s balance sheet would likewise provide an increase to Tier One capital.

**Lease Improvements**

For banks that lease their facilities, the CARES Act also fixed a glitch from the 2017 tax reform law that made certain leasehold improvements no longer eligible for 100% bonus depreciation beginning on January 1, 2018. The CARES Act retroactively allows leasehold improvement expenditures to be treated as eligible for 100% bonus depreciation. While these types of expenditures had been eligible for the Section 179 expense deduction, some S corporation banks with shareholders not able to utilize a Section 179 deduction were not able to realize the accelerated tax benefit for leasehold improvements. This correction provides welcome relief; taxpayers that placed in service qualifying leasehold improvements during 2018 or 2019 can now claim bonus depreciation on the property.

**Employee Retention Credit**

A provision of the CARES Act that, on the surface, seemingly provides relief to community banks is the Employee Retention Credit (ERC). This refundable credit of up to $5,000 per employee rewards eligible employers that retain their employees through the COVID-19 crisis. The credit is based on 50% of qualifying wages paid to employees from March 13, 2020,
through December 31, 2020, for up to $10,000 of qualifying wages for all payroll quarters combined. This valuable tax credit is generally available for employees that do not participate in a forgivable loan program with the Small Business Administration’s Paycheck Protection Program (PPP), and that:

• Have experienced a 50% reduction in 2020 gross receipts compared to the same quarter in 2019; or
• Whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel, or group meetings due to COVID-19.

Many banks will provide payment deferrals to assist their loan customers over the coming weeks; however, it is in question whether the deferral volume would result in a 50% reduction in quarterly receivables due to the decrease made by each individual bank rather than ordered by a state government. Thus, depending on each bank’s circumstances and interpretation of the requirement to “partially suspend” operations, many community banks may not qualify for the ERC. Hopefully, future IRS guidance will clarify this issue for banks and other taxpayers in similar situations.

Payroll Tax Deferral

Another provision in the CARES Act that could aid community banks is the deferral of payments of the employer portion of Social Security taxes on employees wages incurred from March 27, 2020, through December 31, 2020. The deferred taxes can be paid over two years, the deferment can provide added liquidity, the payroll tax liability still needs to be accrued as a payable on the bank’s balance sheet, so earnings will not be directly affected by the deferral. Since currently most banks’ cost of funds is minimal, deferring the payment of payroll taxes provides very little indirect effect on a bank’s financial position. However, if the cost of funds should rise over the next two years, the deferral could provide increased benefit for banks. A final note—the payroll tax deferral is not available to taxpayers that have PPP debt forgiven.

Bank regulators have also provided banks temporary relief in dealing with the COVID-19 pandemic. Due to the uncertainty of future economic conditions and the extent of resulting losses, regulators took steps to help banks continue their lending operations. Since credit losses combined with increased loan demand could potentially put pressure on a bank’s capital ratios, relaxed capital requirements have been put into place.

An interim rule effectively permits S corporation banks to pay tax distributions to their shareholders even if they fall into the Basel III capital “buffer zone.” Normally, distributions to shareholders were prohibited without prior approval of applicable bank regulators.

In addition, the CARES Act reduces the Community Bank Leverage Ratio (CBLR) to 8% from the previous minimum of 9%. Regulators have since issued two interim rules that will modify the CBLR framework in these two ways:

• Beginning in the second quarter 2020 and until the end of the year, a qualifying community bank that has a CBLR of 8% or greater and meets certain other specified criteria may elect to use the CBLR framework.
• Qualifying community banks will have until January 1, 2022, before the CBLR requirement is re-established at 9%.

Under the interim final rules, the CBLR will be 8%, beginning in the second quarter of 2020 and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The interim final rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable CBLR.

Stay Up to Date on Information Affecting Your Bank

Guidance continues to be released and regulations continue to be updated. It’s important to stay in the know on information related to your financial institution and how these relief provisions may help you as you navigate this uncertain time.

LEARN MORE

Please contact your us if you have any questions or would like to more information.

Employees who believe that management is concerned about them as a whole person—not just an employee—are more productive, more satisfied, more fulfilled. Satisfied employees mean satisfied customers, which leads to profitability.”

— Anne M. Mulcahy, former chairperson and CEO of Xerox Corporation

To learn more about Employee Engagement, contact Connie West at The James Paul Group, cwest@jamespaulgroup.com, or toll free at 877-584-6468 to explore how empowering your people with the right skills, attitude and level of engagement can help your bank have the best 2020 possible!
MORALE-BUILDING DURING COVID-19
By Matt Helsing, Senior Vice President, PCBB, IBC Associate Member

This crisis has also been tough on our employees. As this crisis continues, it is more important than ever to keep up morale among your teams. It is complicated with a spread-out workforce. But, it is crucial as employees may feel more isolated and disjointed from the rest of their team. Not only that, Smarp.com, an employee communications platform, found that companies having high employee engagement are 21% more profitable and generate 4 times higher revenue growth. While you may still be in survival and stabilization mode, the day will come when you will hit growth mode again. You will want to be ready with some morale-boosting practices in place. So, here are some ideas to help raise the spirits of your employees today and in the future, to keep productivity going.

Leaders and managers should be seen and heard. Providing regular updates and even individual “check-ins” can really help keep employees feel connected and valuable. Talking about the industry, your institution, and then providing thanks and kudos to your employees for rising to the occasion will give them a nice virtual pat on the back. This also makes employees feel more confident about their position in the company and their future. Making a quick 30-60 second video (on your phone, posting to your company account on YouTube and providing the link) is an unconventional, but fun way to let your employees know you care.

Allow your team’s humanity to show. Give your employees a way to express themselves, such as virtual hangouts or sharing of family pictures online. Encourage employees to contact each other to stay more cohesive. Sharing experiences makes staff feel a sense of community and provides a social outlet. It could also give them an ear to bend, especially if employees live alone. Last, but not least, it could help with productivity too as people share remote working tips and tricks.

Encourage creativity and fun. We have heard of some bankers that have initiated games of bingo for staff still on-site in the drive-up windows. They have also provided snacks or meals to employees on-site to make things a bit easier and make them feel appreciated. For remote workers, some institutions have spirit days where they allow employees to dress up in their favorite sports team or college gear and share pictures, and still others have remote employees take pictures of their pets and then try to match them up with the employees. Having fun and light ways to socialize is important as the stress levels can easily rise during today’s coronavirus crisis.

We know you and your employees will find creative ways to boost morale and keep everyone connected. If you have unique ones you want to share, we would love to hear. Stay healthy and engaged!

For more information or to continue the discussion, contact Matt Helsing mhelsing@pcbb.com.

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WILL YOUR COMMUNITY BANK MAXIMIZE ITS CORONAVIRUS REPUTATIONAL DIVIDEND?

Ever since Lionel Barrymore created the iconic role of Mr. Potter, the mean curmudgeonly banker in the 1946 classic film, It’s A Wonderful Life, bankers have endured a generally bad to terrible rap. While some of this ignominy was deserved, a lot of it was not.

Having worked with banks and bankers for the last 27 years, I have come to appreciate that bankers are like everyone else. There are smart ones and dumb ones, nice ones and mean ones, but the one overarching conclusion that I’ve reached is that bankers virtually always get put in a worse light than they deserve.

For several decades my firm has been developing commercial opportunities for community and regional banks by reaching out to businesses and making face-to-face appointments. We make about 10,000 such appointments each year and, in the course of that enterprise, have documented conversations with roughly 50,000 business owners and CFOs. When it comes to how they feel about their banking relationships, we hear the good, the bad and the ugly, and there’s a lot more bad and ugly.

The financial crisis went a long way to sully the reputation of bankers in general. Egregious behavior on the part of a small but highly visible group of banks really did help create and deepen the crisis. Specifically, dealing in subprime mortgages, commercial backed mortgage securities and derivatives contributed to the depth and length of the recession. While the roots of the “housing bubble” can be traced to the Clinton administration, there’s no doubt that the actions of certain banks made a bad situation worse. The fact that the perpetrators were never brought to justice or punished only reinforced the perception that greed on the part of bankers was at the heart of the problem. As we all know, the overwhelming majority of community banks had nothing to do with these shameful acts, yet all banks were painted with the same unkind brush.

Then came Wells Fargo and its amazing ability to take egregious behavior to new heights. Between creating millions of phony accounts and foisting redundant insurance policies on thousands of auto borrowers, the public perception of banks sank even lower. The fact that the responsible executives walked away with bags of money only exacerbated that resentment.

Fast forward to today. In mid-March, when the country went into Coronavirus lockdown and the economy went into freefall, it became apparent that the government had to take drastic and immediate efforts to keep people afloat. The Payroll Protection Program (PPP) was created as a short-term lifeline for the millions of people who became instantly unemployed, many if not most by small businesses. PPP, flawed as it was, created an unprecedented challenge and burden for virtually every bank. Based on the stark differences between the way community and regional banks handled PPP applications and the way very large banks handled PPP applications, community and regional banks may have unwittingly received a reputational dividend that could last a generation. Not only did large banks come off as discriminatory and incompetent, but the inability for customers to have any meaningful communication with the bank regarding their applications is a story that echoed in the press on a daily basis. While the two very obvious economic benefits that the banking community will enjoy, modest fee income and, more importantly, sustaining distressed businesses that might ultimately prevent massive loan losses, I believe that it is this reputational dividend that will, in the long run, prove to be most valuable.

While we know that the next challenge will be assisting PPP recipients in organizing and accumulating their documentation for loan forgiveness, it’s safe to say that there will not be the frantic frenzy associated with PPP applications. I believe that community banks do have incredible opportunity to double down on their reputational advantage. It is becoming very clear that the Coronavirus will not be an eight-week problem, so all businesses, including banks, need to be thinking about what they should be doing both immediately and over the longer term to sustain their businesses both financially and reputationally.

Community banks should develop a short-term tactical plan which might include the following elements, specifically addressing the small business and commercial segment:

1. Provide its PPP recipients with very specific guidance on allowable expenses, required documentation, hiring and firing requirements or restrictions, and other information specifically designed to help these firms prepare for and ultimately receive maximum loan forgiveness. Many small businesses are woefully unprepared for this process. Providing this information by distributing electronic handouts, online FAQs and knowledge bases, and other resources can really reinforce the notion that the bank is there for that customer and with that customer through the whole process.

2. Provide small and midsize business customers with general resources that could be of great value during the pandemic but may have nothing to do with PPP. This could be a golden opportunity to showcase your existing customers who are consultants, accountants marketing firms or another discipline that could be of value to your business customers. These resources could be provided completely electronically, and the providers would likely jump at the chance to do so.

3. Provide small and midsize business customers (as well as consumers) with valuable resources to help them cope with and work through the challenges of a world turned upside down. This could be anything from cooking to exercise to personal financial information. Again, this could be a very attractive opportunity for your existing customers to provide these resources.

4. Be looking beyond PPP to help those businesses that will still be facing challenges. One obvious solution is already in place in the form of SBA 7A and 504 loans as well as the emerging Main Street program. For community banks that have heretofore shied away from SBA lending, an expedient way to ramp-up is to partner with a firm that specializes in providing community banks with SBA back office and other support. Two examples are SBA Complete headquartered in El Segundo, CA and Innovative Financial Solutions in Drexel Hill, PA.

5. If he or she is up to the task, perhaps your CEO or another senior officer could host a virtual interactive session along the lines of a town hall or “fireside chat”. Questions could be asked in advance or live through Zoom or another of the many existing platforms.

There are two enormously important aspects of all the aforementioned concepts: they would involve virtually no hard dollar costs and they could be delivered to prospects as well as existing customers. Thus, these retention strategies could double as customer acquisition strategies and portray your bank as an institution that reaches out and communicates, educates and welcomes new relationships.

Your long-term strategy, on the other hand, should be all about building and strengthening relationships to reinforce the notion that your businesses customer would be far better off with your bank than with the mega bank. This challenge can be met by encouraging your frontline sales team to really go out of their way to ramp-up is to partner with a firm that specializes in providing community banks with SBA back office and other support. Two examples are SBA Complete headquartered in El Segundo, CA and Innovative Financial Solutions in Drexel Hill, PA.
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*2018 industry benchmarking data

Right now, your community bank is in a most enviable position. Thanks to how badly the big banks have bungled PPP, and how widely those stories have been chronicled, you have been bestowed a wonderful reputational gift. Whether you capitalize upon it or squander it will depend on how your organization and individual bankers take the message to the market. Based on what we are already picking up, the next two quarters will be rife with opportunities to have conversations with decision-makers. Eventually, most banks will figure this out so getting out ahead of the curve will be critically important. This will definitely be a time for leadership and, as media mogul Ted Turner said, “Lead, follow or get out of the way”. ■
IBC ATM NETWORK

IBC’s 24-ATM SURCHARGE FREE NETWORK!

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Our alliance means that community bank customers will remain with their community-based banks, yet be able to access a broad choice of surcharge-free ATM locations.

LOCATIONS

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For information about how your bank can join our network, please call Lauren Gonnella Copeland at 513-900-4661 or lauren.gonnella@vantiv.com