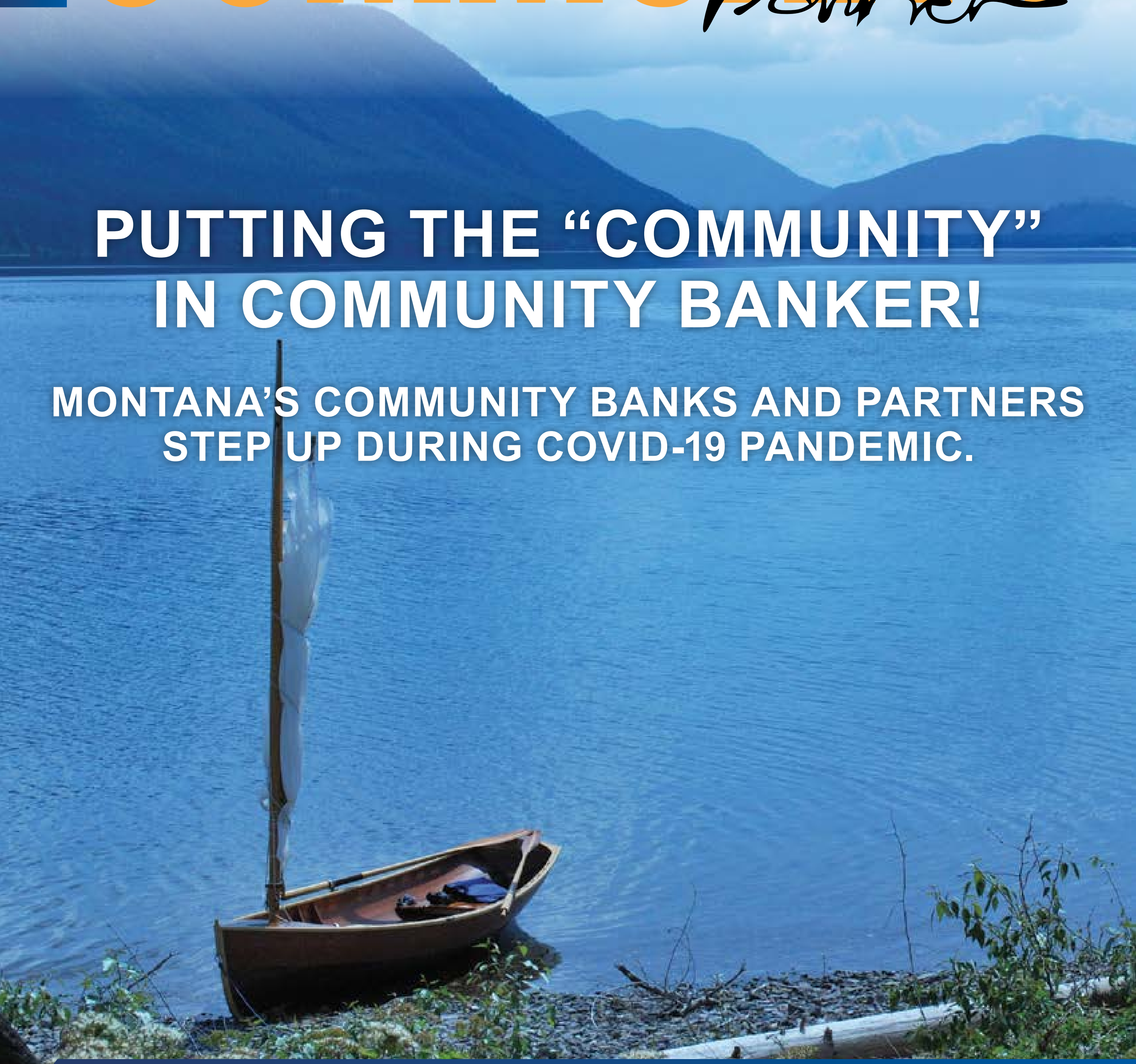
SUMMER 2020

COMMUNITY banker



PUTTING THE "COMMUNITY" IN COMMUNITY BANKER!

MONTANA'S COMMUNITY BANKS AND PARTNERS STEP UP DURING COVID-19 PANDEMIC.

THE OFFICIAL PUBLICATION OF THE MONTANA INDEPENDENT BANKERS ASSOCIATION

Contents

Cover Photo Lake McDonald and Roy H. Caldwell ©

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Andrew West

The last time I wrote the Montana bankers, I was feeling optimistic about the work being done and hopeful we'd seen the worst of the COVID-19 pandemic. While I am still optimistic, I am also realistic. We are far from through this crisis. We still haven't been given instructions from the SBA on how to submit applications for PPP payment forgiveness, and many of us have again closed our lobbies to protect our staff and customers.

Everyone is a little weary at this point, and some of us are experiencing staffing shortages as we deal with exposed or sick employees. There is no roadmap to deal with something like this, and many of us never thought we would be breaking out our Pandemic Policies and knocking the rust off. Yet, here we are, smack dab in the middle of 2020 still mired in economic uncertainty, health risks everywhere we turn, and a country divided like we haven't seen in many years.

So, what should be done about it? My offering is that we, as community bankers, are the rocks who've seen our towns through the worst of times. And we will be again. It is not easy to stay steady in the face of a storm. But steadiness is precisely what we need to provide for our customers and our employees. Perseverance and steadfast leadership are needed now more than ever, and you are uniquely equipped to provide these qualities for your employees and community. Now, above all, folks need calm reassurance everything is going to be OK. And it will. Just keep your head down and march forward. Keep faith in the goodness of humanity and the prevalence of people's ability to adapt and overcome.

The current crisis is far from the worst we've seen in this country, but it is the worst we've seen in a while. Regardless, we will triumph and be better in the end. Adversity forces growth and draws out the best in us. This era is no different. The America that will emerge from this current crisis will be a better version than before. You will contribute during these times by helping your friends and neighbors with their financial needs and counseling them through their difficulties.

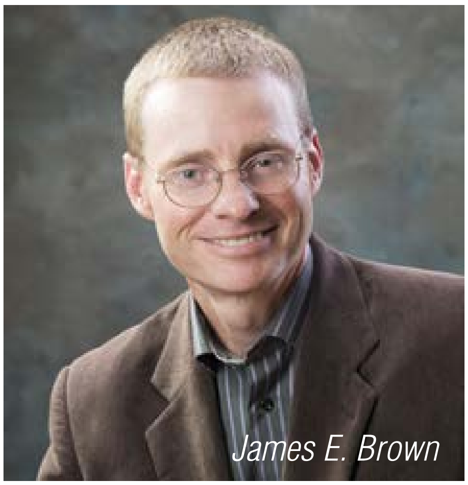
As of this writing, most of us have given many commercial customers payment forbearance, and we honestly do not know if they will be able to meet their obligations once the forbearance ends. Fortunately, the regulators have given us the latitude to assist our customers, but in the end, people need revenue to make payments. While most of us have done well through the first two quarters, it's impossible to know how the last two quarters will play out or even how 2021 will look.

All we can do is put a smile on and remember our efforts matter to those we serve. The banks of Montana are strong, and we form Montana's financial backbone. We have been there over the years, and we will continue to be. Nothing illustrates the value of community banking quite like what we've been living through the past few months. We are in the trenches with our customers, and we're doing everything we can to help them while keeping ourselves out of trouble.

So, I encourage you to remember why we are here and proudly continue knowing you are carrying the torch of those coming before you who saw the light at the end of the tunnel and didn't give up when things got hard. We are people who beat adversity and make a difference to those around us. It is the highest honor and privilege and is uniquely fulfilling.

The next time you feel like it's all a little too much, remember you are part of a group of exceptional individuals who have dedicated their lives to the service of others. Of course, banks operate for profit, but anyone who's ever been a part of a community bank knows we are in it for way more than the money. We know our business touches and helps so many people in so many ways. In the end, it's never really about the money, anyway. It's about the people and the work you do truly helping those who need it most.

Thank you from the MIB for doing all you do for your communities. You may not hear it very often, but you are doing a great job. I am so proud to be a part of this industry and a part of this association. I have found no finer bunch in my travels. God bless you and keep up the good work!



Phew — what a year these last few months have been.

Just three months ago, many of us were on flights returning from the ICBA convention held in Orlando, Florida.

Little did we know that in the following 12 weeks, MIB's member banks would experience one of the most intense, novel and demanding time periods in U.S. history.

When I stepped off the plane in Helena, I certainly did not expect that in a few days Governor Steve Bullock would issue a "stay at home" order, effectively shutting down Montana private businesses in its wake and then extending that order through the end of April.

What is more, I certainly did not expect that by the end of the first week of May 2020 that MIB's member banks would be participating in one of the largest government assistance programs in U.S. history and would be on the forefront of helping to rescue small businesses all across the Treasure State. No way. No how.

I also did not expect to report that as of May 1, 2020, some 7,227 of the new PPP loans had been approved in Montana for a total of more than $277 million. The average loan size in Montana for this time period was roughly $79,000. Nationally, for round-two of the PPP program, at the end of the first week of funding, some 2,211,791 loans had been approved for 5,432 lenders with the total dollar amount exceeding $175 billion.

Did any of us expect, as of March 1, 2020, the stock market would tank and that Montana's state budget would flatline? I cannot even imagine the tremendous fiscal challenge that will face our Montana legislature when it goes back into session in January 2021.

Could any of us have conceived at the beginning of March that all of MIB's live education events would be canceled through the end of August? Who would have thought our Annual Convention slated for the third week of July would be canceled due to the COVID-19 pandemic? At the start of 2020, did we ever envision a scenario where our member banks would be closing their bank lobbies as they did for the entirety of April and into May? Again, no way. No how.

Would we have, in our wildest imaginations, ever thought the press would be reporting COVID-19 related deaths statewide like box scores or that the number of positive tests for COVID-19 exposure would be in excess of 850 by the end of June? Again, no way. No how.

As I write this article at the beginning of July, our state officials continue to make every effort to slow the spread of the novel coronavirus. There are cheers and jeers for their attempts and methods. But all of us realize this reality. Due to the shutdown of so-called nonessential businesses, many Montana small businesses were casualties of public health decisions.

Being on the frontline of the PPP and disaster loan programs, our member banks experienced firsthand the economic devastation many employers and their employees experienced, with unemployment reaching 9% in Montana. What is more, Montana's community banks have seen economic devastation reaching Great Depression levels this year — a situation none of us could have contemplated coming into March. Who would have thunk?

Coming through this novel period in American history, we are once again reminded of the most key ingredient of America's economic success. That is, government loans, programs and grants cannot ever serve as a substitute for a healthy and free private sector economy.

We are also reminded of how fortunate we are to call Montana home. Unlike many other states, Montana has not experienced the volume of COVID-19 cases that were originally predicted to happen. But that does not mean that "we" still won't feel the long-lasting impact of the pandemic in terms of delayed and slow economic growth and recovery, particularly for those businesses that were deemed nonessential.

However, Montana's economic circumstance is in a much better place than it would have been thanks to the efforts of community banks all across this State. Due to your herculean efforts as frontline workers, "you" were able to secure the funds your business customers needed to stay afloat, and your efforts will still be felt by your customers long after this pandemic has receded into the past. Montana's community banking industry was able to quickly adapt to and effectively respond to these unprecedented times, providing your customers with the high level of care and concern that they have come to expect from Montana's community banking industry.

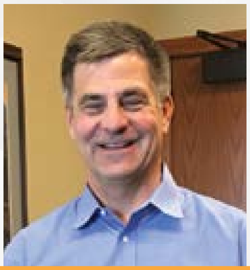
So, too, with the association itself. The association had to turn on a dime and transform its operations almost overnight. During this time, the association has been able to carry out the mission of the MIB without interruption. Even so, previously scheduled educational programs and live meetings had to be converted into virtual events. The association also created a link on its webpage dedicated to providing information to our membership on the COVID-19 epidemic.

What is more, during this time, the association communicated regularly with our elected officials, both on the state and federal level, to bring our membership the most up-to-date information on the virus and responses thereto, including expressing the need for our members to have clear guidance on implementing and carrying out the PPP program. What is more, the association worked hard during the last several months to help our bankers get answers to questions related to human resources, lobby closures and revised regulatory requirements. Further, as the crisis unfolded, the association communicated with the public to assure them that leaving their money in the bank was the safest course of action. In sum, the association has shown, similar to what our member banks show on a daily basis, the importance of and the value of the personal banking relationship during this turbulent period.

As you know from the operation of your own business, there have been many changes in 2020 in the way we are all operating. And, certainly, there will be more. However, your MIB team remains constant in our dedication to serving you in the same manner you are fully committed to serving your customers and communities. Thank you for being helpers during this time of need and let's hope the second half of 2020 turns out to be better than the first half of 2020.

RISING COMMUNITY BANK LEADER

Independent Community Banks of America has chosen and recognized Loren Brown as a rising community bank leader. As CEO of Ascent Bank, Loren is the key figure in the execution and growth plans for the organization. He has a deep background in banking leadership, financing and operations. Loren believes that community banks are an integral part of our communities and is committed to making Helena a wonderful place to live and work. Loren has called Helena home since elementary school days and has always been very active in the Boy Scouts of America. In addition to his current scouting leadership activities, Loren also serves on the boards of directors for West Mont, St. Peter's Health, Sleeping Giant Flying Club and the Montana Independent Bankers.



A.J. KING

July saw MIB's longest-serving board member A.J. King step off the Board.

A.J. provided nearly 20 years of tremendous service to the Association. He missed only two board meetings during that extended time. A.J. became CEO of Three Rivers Bank earlier this year, and is dedicating all of his time and effort to this long-standing bank member of MIB. A.J.'s term on the MIB Board included serving two terms as Montana's ICBA State Director, as well as serving on numerous ICBA committees. A.J. has been and remains a strong advocate for community banking, and his leadership in the MIB will be missed.

MEET NEW BOARD MEMBER, SCOTT MIZNER

Scott is a Montana native who began a 24-year career as a banker by accident. His interests include economic and community development and a passion for life-long learning. He relocated to Bozeman in 2015 as Chief Credit Officer of American Bank after spending almost 20 years in commercial lending with First Interstate Bank in Great Falls and Kalispell. He has had the pleasure of living in six of Montana's seven largest communities. He is an active volunteer as a member of multiple community boards involving economic development and education. Supportive husband to Alison, proud father of two active high school boys, and a loyal graduate of Montana State University and Pacific Coast Banking School. He enjoys cheering on the Bobcats, golfing, skiing, hunting, fishing, hiking and is an avid reader.

MIB'S TAILGATE PARTIES CANCELED

In late July, the Association made the difficult decision to cancel our in-person football tailgate parties this fall. The decision was made easier by the fact that the University canceled the Grizzly football game for which we were slated to attend. All of us here at MIB are hopeful that 'things' will return to normal in 2021, and that we will once again be able to host our live member events.

LEAVITT GROUP

I am honored to be a featured associate member of the Montana Independent Bankers Association. As I have interacted with my clients in the Montana banking community, I was able to glean some insight into what might be of interest to you in an article. Health benefits are one of the most expensive line items for our Montana Community Banks. The industry changes rapidly and is affected by many factors, including the healthcare system, carrier decisions, new marketplace programs, legislation and many others. In this article, I will discuss national benchmarks, address how COVID-19 could affect health benefits in the future, and review several cost management strategies available to employers.

Benchmarking: How do you compare?

In a study done by The Kaiser Family Foundation last year, a firm in the finance industry pays an average total monthly premium of $587 for single coverage and $1,731 for family coverage. This single coverage is slightly lower than the average across all industries, which is $599 per month. The family coverage is a bit more than the cross-industry average, which is $1,715 per month.

Here are some statistics produced by the 2019 Zywave Benchmarking Survey:

- Over 50% of employers contribute $5,000 or less toward employee-only premiums and $10,000 or less toward family premiums annually
- 51% of employers have a fully insured plan
- 42% of employers have a partially or fully self-funded plan
- 97% of employers provide coverage for prescription drugs as part of their health care plan
- 93% of employers offer dental benefits
- 88% of employers offer basic life insurance — 93% of those employers pay the entire premium
- 79% of employers offer AD&D coverage — 74% of those employers pay the entire premium
- 70% offer short-term disability insurance — 54% of those employers pay the entire premium

How will COVID-19 affect health care costs?

Research shows there are two major drivers that will have the biggest impact on healthcare costs. First, the direct medical costs through the testing and treatment of COVID-19 patients. The virus has the capability to overwhelm hospital capacity, causing increased staffing needs, a required purchase of expensive medical equipment beyond the standard, and increased testing resources. The CARES Act allocated $100 billion in stimulus funds specifically for medical providers to offset lost revenue, but it is unclear at this time if that will cover what is needed.

Second, the deferral of care for elective or non-emergency medical needs. It is likely that the pent-up demand for medical services will cause a significant increase in future costs, and this is where we anticipate the largest financial impact of COVID-19 to come from. These services will likely be scheduled in the future, and the biggest variable is when. Health insurance carriers make their assumptions on medical costs months in advance, and each carrier uses a different algorithm for calculation. These costs are then set based on those results for employers to see during renewals and quoting for their own health benefit plans. It is up to employers and their health insurance consultants to best navigate the resulting costs. There are plenty of options available to employers to adjust and be in the best possible position as the true cost impacts are revealed.

Cost: Where do we go from here?

Premiums have seen an increase across the benefits tiers. One major reason for higher premiums is simply the cost of prescription drugs. This is one of the largest challenges facing our community bank employers and families here in Montana. Policymakers have focused on evaluating rebate programs from manufactures to help encourage transparency. Insurance carriers work with pharmacy benefit managers (PBMs) to provide the best cost options available to its members. On a member level, individuals are encouraged to take advantage of any discount coupons and patient assistance programs and find lower-priced alternatives where possible to reduce cost.

Deductibles have also seen an increase of 36% over the last five years and 100% over the last 10 years. A large reason for this increase is due to the offering of HDHP (High Deductible Health Plans) and employees preferring the high deductible options with lower premiums rather than the traditional options with copays that often come with lower deductibles. Some 75% of firms that offer health benefits offer only one type of health plan option, so many employers have decided to opt for the HDHP plan only.

There are several cost management measures that community banks in Montana have used successfully.

1. The No. 1 most used measure is to offer resources to **help employees become better consumers of their health care.** Encourage team members to use their preventive benefits and those with chronic conditions to work with their doctors regularly on condition and medication management.
2. Employer or carrier provided **wellness initiatives**, including risk assessments, have proven effective in cost management.
3. **Cost-sharing**: In order to be eligible for a tax credit, businesses must pay at least 50% of the employee only medical premium. Although 50% is the minimum, many employers choose to contribute more. In fact, according to the 2019 benchmarking report by Kaiser, the average total annual premium for single employee coverage is $7,188, and of that amount, $5,946 was paid by the employer and $1,242 was paid by the employee, which is an 83%/7% breakdown.
4. **Employee communication** on the benefits offered and access to care has proven successful also in cost management.
5. Use your **employer resources** and evaluate your program often: your employee benefits representative can help you take a deep dive into what options are available in Montana and what is the best fit for your group. Options change regularly, and more are coming to Montana every year.

I invite you to reach out to me for any of your benefits questions or assistance in considering your options. I look forward to meeting you and crossing paths in the future.

Warm regards,
Kindra Warman

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A note about Kindra Warman at the Leavitt Group

Kindra Warman is a licensed employee benefits consultant out of Bozeman, Montana, with Leavitt Great West Insurance. She has 10+ years of experience in employee benefits in the banking industry and specializes in working with community banks here in the state to find and design cost-effective group benefits programs. She is an associate member of the Montana Independent Bankers Association. Kindra is from Gallatin Gateway, Montana. She graduated from Colorado State University and lives in Bozeman with her husband, Ryan, and two young children.

Leavitt Group

For additional information:

1. 2019 Zywave Benchmark Survey
2. The Kaiser Family Foundation Employer Health Benefits 2019 Annual Survey
3. Healthcare.gov
4. Milliman: Estimating the impact of COVID-19 on health care costs in 2020

COMPLIANCE Q&A — SUMMER 2020

By Bill Showalter, Senior Consultant, Young & Associates, Inc.

Young & Associates provides banks and thrifts with support for their compliance programs, independent reviews and in-bank training, as well as a full menu of management consulting, loan review, IT consulting and policy systems.

Credit Practices Rule. Q: Regulation AA was rescinded some time ago, but is a Notice to Cosigner still required when we are doing a loan that has a cosigner?

A: Since the repeal of FRB Regulation AA (and similar rules by the Office of Thrift Supervision and National Credit Union Administration), there has not been an explicit requirement for banks, thrifts, and credit unions to give cosigners the Notice to Cosigner. Lenders under the enforcement authority of the Federal Trade Commission are subject to the FTC's Credit Practices Rule, which requires such a notice (among other provisions).

However, at the time the Federal Reserve Board (and other agencies) proposed the repeal of its Regulation AA, the agencies issued Interagency Guidance Regarding Unfair or Deceptive Practices (8/22/2014). In this document is a footnote (#11) that states:

"The Agencies note that the FTC's Credit Practices Rule requires — and the former credit practices rules applicable to banks, savings associations, and Federal credit unions required — creditors to provide a 'Notice to Cosigner' explaining the cosigner's obligations and his or her liability if the borrower fails to pay. The Agencies believe that creditors have properly disclosed a cosigner's liability if, prior to obligation, they continue to provide a 'Notice to Cosigner.'"

So, providing the Notice to Cosigner continues to be the best way to document that the bank has properly disclosed the liability that a cosigner is taking on when signing on to someone else's loan.

Red Flags. Q: Regarding an Identity Theft Prevention Program, what are the requirements for reporting to the bank's board of directors?

A: There is nothing in the regulation about how you accomplish the board reporting or how often you do it. That is left up to the bank. The requirements in the rule are that the board (or appropriate committee) approves the "red flags" program initially and that they (or a designated senior management employee) be involved in the oversight, implementation and administration of the program. If the board (or committee) is involved in this latter role, periodic reporting will be needed to keep them current on what is happening in the outside world and inside the bank's walls/systems regarding identity theft issues since things change constantly.

BSA. Q: I have filed a Suspicious Activity Report and need to report this to our board. How much should I disclose or need to disclose to them? Also, should the actual SAR filing be included in the board package?

A: There is nothing in the BSA rules that spells out what must be communicated to the board, just that the board is to be notified of a SAR filing. Of course, if a board member is the subject of the SAR, the fact that one was filed about them must not be communicated to that person (as with any other subject of a SAR).

We see a variety of how SAR filings are reported to the board (or applicable board committee). A common method seems to be to report that a SAR was filed about a person(s) structuring or regarding elder

financial abuse or some other general description. Providing a copy of the actual SAR to board members is not required and is probably not a good idea, given the strict confidentiality requirements surrounding SARs — it opens up security issues, and so forth.

TILA/Flood Insurance. Q: Could we modify a current 15/1 ARM to a fixed-rate loan? They are looking to modify the note to the current rate for the rest of the 30-year term. If possible, what disclosure requirements exist?

A: Whether the bank can make such a change, and how to accomplish the modification, are questions you need to put to the bank's legal counsel, as these issues are governed by state law. Another question for your attorney is whether this transaction would be considered under state law to satisfy/extinguish the original obligation and replace it with a new one — which is considered a "refinancing" under Regulation Z.

If the transaction is a "refinancing" and a consumer loan (for personal, family or household purposes), then full Regulation Z disclosures are required — Loan Estimate and Closing Disclosure. If there is any new money involved (it does not sound like it), then the right of rescission will also apply.

Another issue to be sure you address is the flood insurance regulation. Even a simple modification of an existing loan triggers the flood insurance rules if the loan is increased, renewed or extended. If the modification entails no increase in the loan amount, an extension of the loan maturity, or renewal of the loan (this latter issue would be defined by state law), then the flood insurance rule — hazard determination and customer notice — would not apply.

TILA. Q: We are in the process of purchasing five branches from another bank. Their HELOC statements cycle on the 1st of each month, while ours cycle on the 27th. We will be changing their schedule to match ours. What notification will be required about the cycle date, payment date and maturity date?

A: The bank is permitted by Regulation Z to make such "an insignificant change to terms" to home equity lines of credit accounts. No particular notice is mandated, but good customer service (and perhaps state contract law, check with your legal counsel) would call for some notice to affected customers, so they know what is going on.

EFTA. Q: A customer called yesterday about some charges that came out of his account from Dec. 24, 2018, through Aug. 23, 2019. The customer did not notice those transactions were coming out of his account monthly for that period of time.

He finally noticed them recently and called the car insurance company that was receiving the funds and they told him they could not find anything under his name. We did some research and found a debit card number associated with the account was marked stolen and closed, but the customer never stated at the time any charges that were not his.

The customer gave the debit card number to the insurance company and found out the money was being used to pay a guy's insurance in Florida. They told him they could not do anything about it and that he would have to call the bank and have us refund his money back.

Due to the time frame, if we cannot get money back when disputed, would the bank be out this amount? It is over $4,000.00.

A: This customer is long past his time period to assert an EFT "error" or "unauthorized transaction." You are not required by Regulation E to refund any money at this time.

To preserve their rights and limit their losses, customers must notify the bank of an unauthorized EFT within 60 days after the date the first periodic statement reflecting that the unauthorized EFT was sent to them ("sent" or "provided" can mean made available for pickup, for those customers who do not want statements mailed to them). In such a case, the customer's liability is limited to those unauthorized transfers that occur after the 60-day period until notice is given to the bank. If an access device is involved, there may be other liability for transfers within the 60-day period, as discussed next.

If the alleged error involves a lost or stolen access device (such as a debit card), then there is a stepped liability structure. If the customer notifies the bank of the loss/theft within two business days after the customer discovers that the device (card) is lost/stolen, their loss is limited to no more than $50. If they fail to notify the bank within two business days after learning of the loss/theft, then their liability is limited to the lesser of $500 or the sum of $50 (or the actual amount of losses within the first two business days) plus the amount of unauthorized EFTs that occur after the first two business days up to the day they notify the bank.

BSA. Q: We have a legal entity customer that has credit cards for their employees with us. If they add another user — and authorize another card for an employee — is this considered a "triggering event" for getting a certification, etc., even though this employee is not a "beneficial owner"?

A: No. The mere addition of a new user to an existing account is not considered to be the opening of a "new account," so no CDD/BO obligation is triggered at that time.

If the entity had changed signers on the account, that would be considered a trigger to ask if control or ownership had changed (and document that this was asked), but just adding a credit card user to the account would not necessarily be considered a trigger unless the bank has identified it as such in its own beneficial ownership policy and procedures.

WITH A HEART LED BY COMPASSION, LET'S ASK OURSELVES A QUESTION: WHO DO WE WANT TO BE WHEN WE GROW UP?

By Rebeca Romero Rainey, President and CEO, ICBA

At times in our country, true independence has arisen from points of crisis — critical moments in time that require us to listen and reflect. Just think about the foundation of our nation so many years ago. A crescendo of events drove actions that ultimately led to the birth of a new nation.

Today, as our country continues to grapple with the COVID-19 pandemic and the heavy-hearted weight of racial tensions, we must remember that as Americans, and as community bankers, we have an opportunity to make decisions that will shape our future.

So, I encourage you to listen and reflect, just as I am. With a heart led by compassion, let's ask ourselves a question: Who do we want to be when we grow up? It doesn't matter if you're 25 or 85. It's always the right time to question if where we are lines up with where we want to be. After all, the gift of each moment provides us with a unique opportunity to listen to the world, to our fellow citizens and to ourselves. It's a chance to forge a path that's driven by our intentions and will lead to something bigger and better.

Let's bring people together and realize similarities rather than differences. Let's focus on the opportunity to be stronger as individuals, as communities and as citizens of this great nation.

Just as our Founding Fathers did years ago, let's dream of what we want our country to be. And let's take the time to ask: What do we want America to be when it grows up?

As Americans, there's nothing we can't accomplish when we work together — just as there's nothing we can't accomplish when we community bankers come together.

The world looks very different today than it did even just a few months ago. Let's focus on bringing about change to improve the lives of all who call America home — just as you do every day for the customers and communities you serve.

Where I'll be this summer

I'll continue to celebrate the independent spirit of community banks via digital forums and social media.

The importance of remaining independent

Today, consumers and communities need their community banks more than ever. Now that we've celebrated another independence day, we have yet another reason to celebrate the importance of community banks remaining independent. The efforts of this year's top lenders demonstrate that community banks are the best of both worlds: lending powerhouses that still put their customers, employees and communities first. It's the way it's always been for community banks and the way it will always be — just as we'll continue to be advocates of local businesses.

WE'VE BEEN IN THE TRENCHES FIGHTING FOR OUR COMMUNITIES, AND WE'VE EMERGED TRIUMPHANT

By Noah Wilcox, ICBA Chairman

We shut our lobbies in late March due to COVID-19. In our community bank's history, the only other time we have closed was during the Great Depression, yet we were the first in Minnesota to voluntarily lock up because of the pandemic.

Making this decision was one of the hardest tasks of my career. Our business model is hugs and handshakes and, prior to the crisis, I spent a good portion of my day standing in the lobby talking to our customers about life and what was going on with their families. To decide to turn that off, well, it flies in the face of who we are. Was it the right thing to do? Yes, but it was not easy.

To be fair, nothing about this situation has been easy. Take the Paycheck Protection Program (PPP) as an example. The community banking industry essentially linked arms with the government and jumped off a cliff, not knowing if we were falling 2 feet or 2,000 feet. I can't think of any other time in business that I've taken a blind leap of faith like that, but we needed to get that money into the hands of our small business customers.

Looking at the deep trust we placed in the Small Business Administration (SBA), it wasn't encouraging that the rules changed between the first round of funding and the second. As I write this, we still don't have clarity on the details of loan forgiveness, and our collective advice to our customers is, "Be patient, and document, document, document." We want to do what we can to help our customers achieve forgiveness and to anticipate the reputation risk that may arise if it doesn't align with the spirit of the legislation.

Yet, despite our concerns about these and a multitude of other factors, we made it happen. We got loans to our customers. But that's not new; it's just what we do. We take care of our people and our communities; the PPP just raised that to a more visible level. As history reflects on this time, I hope it recognizes that without community bankers, those funds may not have made it to the small businesses for whom they were intended.

So, as we read this month's lending issue, let's do it with a sense of pride. We've been in the trenches fighting for our communities, and we've emerged triumphant in helping as many small businesses as possible.

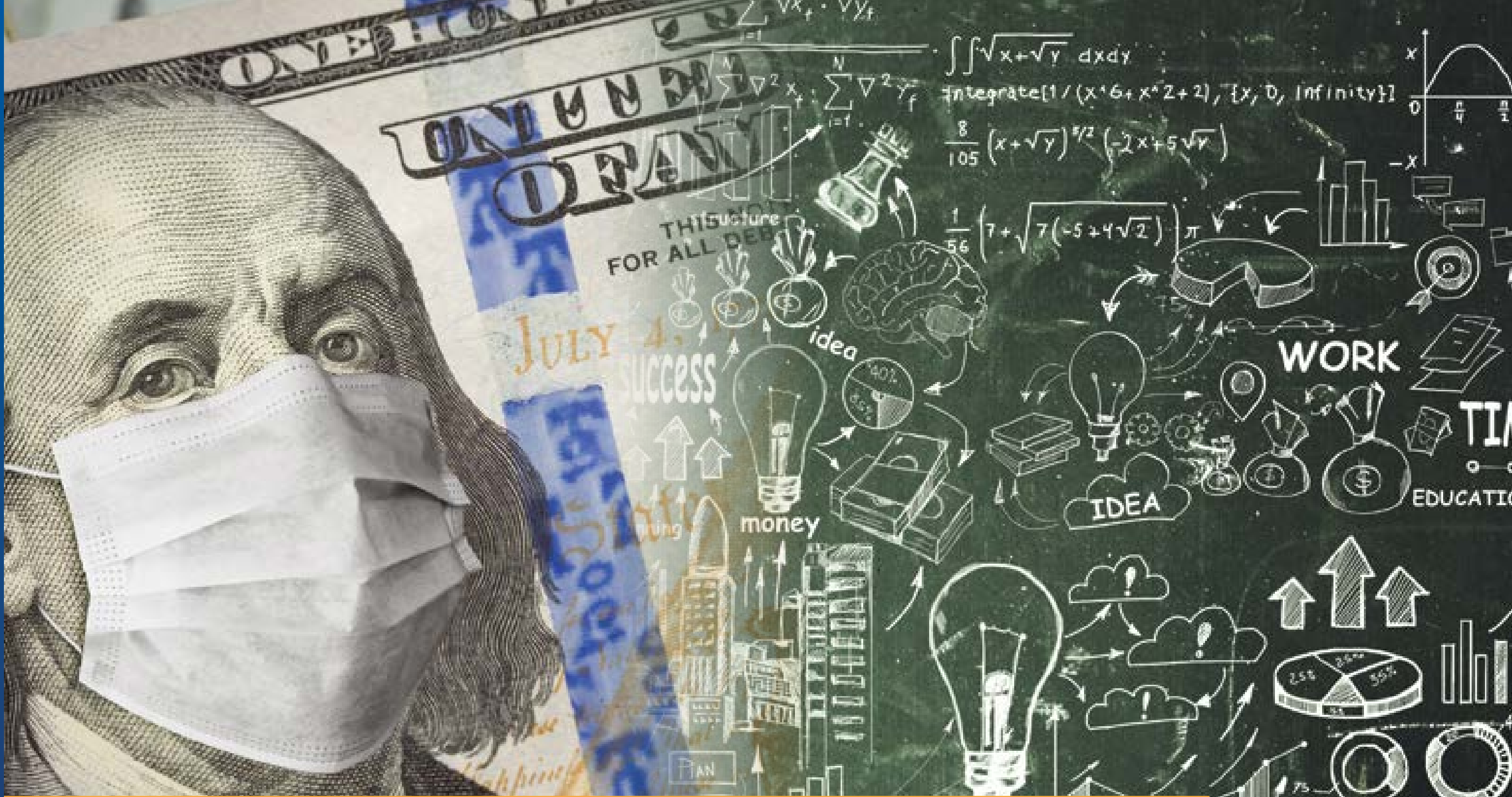
Let's take a minute to celebrate the small victories as we navigate our next phase of this new normal.

My Top Three

These news items celebrate our successes:

1. "Small businesses were at a breaking point. Small banks came to the rescue," Wall Street Journal
2. "Many coronavirus loans given to those turned away by major banks," Fox Business
3. "What Punch Pizza is learning while closed," Twin Cities Business

Connect with Pres @NWWilcox



DESPITE PANDEMIC, MSU BUSINESS STUDENT BEGINS SUMMER INTERNSHIP, LOOKS TO THE FUTURE

By Isabelle Ivankovich

BOZEMAN — From the beginning, Montana State University student Isabelle Ivankovich has been determined to make the most of her college experience. And this summer, despite the coronavirus pandemic, Ivankovich is continuing to do just that with a career-focused internship.

A student in the Jake Jabs College of Business and Entrepreneurship, Ivankovich is completing an internship at American Bank in Bozeman through the college's Community Banking Program.

"I am so fortunate to have an opportunity to work with an outstanding local business like American Bank," Ivankovich said. "American Bank, in conjunction with MSU, provides for an opportunity to learn from talented and experienced people as I apply my education to professional pursuits."

The Community Banking Program is a partnership between the Montana banking community and MSU's business college. It is intended to help meet the demand for well-trained graduates interested in careers in banking, according to Tim Harvey, an adviser for the program and an instructor in the business college. Students in the program complete coursework related to community banking, and then they complete a paid internship with one of the participating banks across the state of Montana. Students receive academic credit for their internship.

At American Bank, Ivankovich's work will focus on marketing efforts involving all of the bank's branches.

"I hope to learn how to market a company that has traditionally relied on word of mouth and referrals to bring them business," Ivankovich said.

Ivankovich, who is originally from Snohomish, Washington, chose to enroll at MSU after visiting the campus with her father, Dominic Ivankovich, who graduated from MSU in 1994 with a degree in chemical engineering, and who in 2017 was inducted into the MSU engineering college's Academy of Distinguished Alumni.

"During that tour, I fell in love with Jabs and chose it right away," Ivankovich said of her decision to major in business.

She got involved in campus right away, too.

As a freshman, she joined MSU's student chapter of the American Marketing Association. A highlight of that year, she said, was attending the association's annual International Collegiate Conference in New Orleans, where she reached the finals out of more than 350 entrants in the competition's Perfect Pitch competition, in which participants have 90 seconds to pitch themselves for a job at a specific company.

As a sophomore, she served as vice president of membership in the MSU AMA. Next year, as a junior, she'll serve as executive vice president.

"Some key takeaways from my time with AMA have been the ability to delegate to directors, how to properly participate in a board meeting and how to effectively communicate via email," Ivankovich said. "I absolutely think my work with AMA will help my career, as these are lifelong skills, regardless of the career path I end up choosing. My AMA colleagues have quickly become some of my great friends, and we have learned about business alongside each other."

In the spring of her freshman year, Ivankovich was confirmed as an associate justice of the ASMSU Supreme Court. In that position, Ivankovich and the other justices review student appeals, manage elections, grievances and other complaints, and review actions of the ASMSU Senate by interpreting the ASMSU Constitution, ASMSU governing documents and Montana law.

"I believe my experience working with ASMSU as a supreme court justice will be helpful as I pursue [my] career, as I have learned how different departments can work together to [achieve] a common goal," she said.

In addition, as a sophomore, Ivankovich volunteered to become a Jabs student ambassador.

"This position entails meeting with many people and hopefully making a positive impression for Jabs as a whole," Ivankovich said. "Through this, I met Jake Jabs himself, as well as countless other leaders and donors and many young students. Within that process of explaining how much I love the JJCBE, I have seen my own pride develop as a student and future alumni."

Academically, Ivankovich credits top-notch professors and smaller class sizes in the business college as important elements of her education.

"To have the opportunity to get to know my classmates and professors at a more intimate level has allowed me to comprehend and seek to understand the material more," she said.

"All my professors have cared about my classmates and me as individuals and want us to succeed," she added. "There are also many resources outside of classes, such as the [Bracken Business Communications Clinic] and our internship resources that give students the best chance of success."

Transitioning to remote classes partway through last semester because of the novel coronavirus was a challenge, Ivankovich admitted, but she also learned from it.

"I do feel that it was valuable to learn how to work remotely and ask people for help and clarity even over email," she said. "I learned that if you work hard at something, you will grow regardless of the circumstances."

Those in the business college who know her well say that her attitude and drive will take her far.

"Isabelle is the definition of the word 'go-getter,' and I knew that from the moment I met her," said Eric Van Steenburg, assistant professor of marketing and faculty adviser for the student chapter of the American Marketing Association at MSU. "She engaged early in her academic career, joining AMA as a freshman and winning our chapter's Perfect Pitch competition. As a sophomore, she was on the executive board and helped us earn a Top 10 chapter designation. I can't wait to see her in a leadership capacity next year when she serves as AMA's executive vice president."

Chelsey Wilson, director of academic and career engagement in the Jake Jabs College of Business and Entrepreneurship's Bracken Center for Excellence, said Ivankovich is eager to listen, learn and engage.

"Her whatever-it-takes mentality shines through in both her academics and co-curricular and is contagious," Wilson said. "Isabelle is one of those students who continually thanks her professors and support staff for all that they do, but what she does not realize is that we learn just as much from her as she learns from us. She positively represents herself, Jabs and MSU in all that she does both inside and outside of the classroom. We are proud she is part of the Jabs community."

In the future, Ivankovich hopes to work in marketing or consulting.

"I hope that this internship will give me a better idea of what path I would like to continue on after college, potentially marketing for banks," she said.

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SHORT, SHARP AND SPOTTY:

WHAT TO EXPECT FROM THE CORONAVIRUS RECESSION AND HOW COMMUNITY BANKS CAN HELP

By Noah Yosif

It's official — the U.S. economy is in full-swing recession. While formal confirmation by the National Bureau of Economic Research is always appreciated, the signs were pretty obvious: social distancing grinding business activity to a near halt, skyrocketing weekly unemployment claims at both a state and national level and, of course, market volatility erasing three years' worth of gains in a matter of weeks.

In fact, the NBER estimates this recession first started in February, making this newly reported contraction four months old.

With irrefutable evidence that the United States is in a recession, zealous market watchers are now searching for clues as to its size and scope. At ICBA, we took the liberty of crunching the numbers in search of some answers and our conclusions point to a short, sharp and spotty recession.

Figure 1 shows our forecast for economic growth in the near term, indicating a V-shaped trajectory for recovery. While we expect the second quarter GDP to contract by a record margin at 27.3%, we also anticipate a quick recovery that will enable the U.S. economy to expand once again by 2021.

These patterns are much different from what we saw in 2008, and in many recent financial crises to date, but for a good reason. This

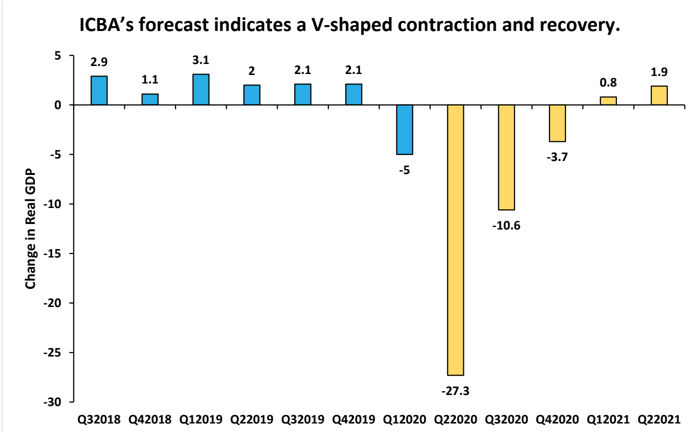

Figure 1: ICBA's U.S. Economic Growth Forecast (Source: ICBA)

recession, borne from the coronavirus pandemic, constituted an exogenous shock causing widespread financial disruption within every sector of the U.S. economy, as opposed to concentrated imbalances. As public health authorities continue to relax social distancing measures in the upcoming months, the U.S. economy is likely to rebound, with businesses and consumers once again free to operate with fewer restrictions.

The unique causal dynamics of this recession provide much credence to our calculations indicating a short recession and quick recovery, but they also hint at the probability of a more severe contraction as well. Because social distancing measures have pressured revenues via decreased business activity, employment has become the primary concern and consequence of this pandemic as companies seek to shore up additional capital.

Figure 2 demonstrates the severity of this recession as weekly unemployment claims filed within the first three months were 12 times higher than during the 2008 financial crisis. Because the coronavirus recession has caused financial disruptions in every sector of the economy, we can expect more severe declines in household income and consumer spending, given its acute effect on employment.

The expected extent of this pain is still ambiguous, in keeping with this year's theme of economic uncertainty, but will be unevenly distributed among localities, inducing a spotty recovery that varies between states and counties in timing, speed and effect. Two factors that will have an outsized influence on their recovery will be the ongoing public health threat posed by the coronavirus and localities' financial position prior to the recession. Counties and states that had a healthy circulation of income between consumers and businesses prior to the recession will be well-positioned to weather a protracted crisis and recover at a quicker pace.

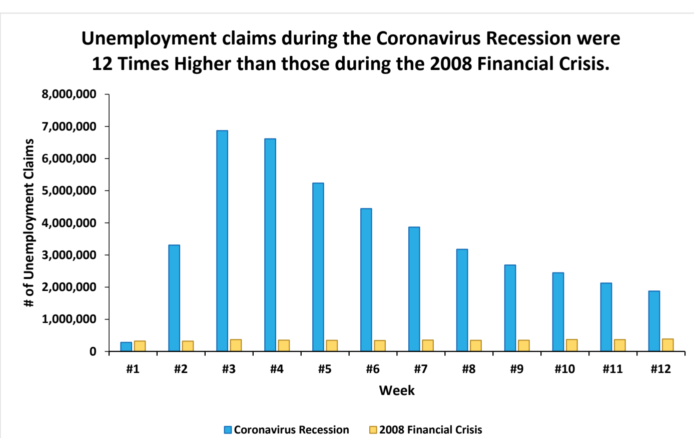

Figure 2: Weekly Unemployment Claims between the 2008 Financial Crisis and Coronavirus Recession (Source: U.S. Department of Labor)

Figure 3 examines the average monthly income deficit by state, calculated as the average monthly wages lost from rising unemployment offset by state and federal unemployment benefits in April. Despite robust protections for unemployed workers, 28 states experienced an income deficit, while extended unemployment provisions implemented by the CARES Act, which are set to expire by the end of next month, provided a vital lifeline to 34 states by enabling them to recoup more than 50% of the difference. Because each state is in a unique position concerning mitigation of the coronavirus pandemic and consequent economic injury, there will not be a synchronized national recovery, and certain states will need additional assistance to fully heal.

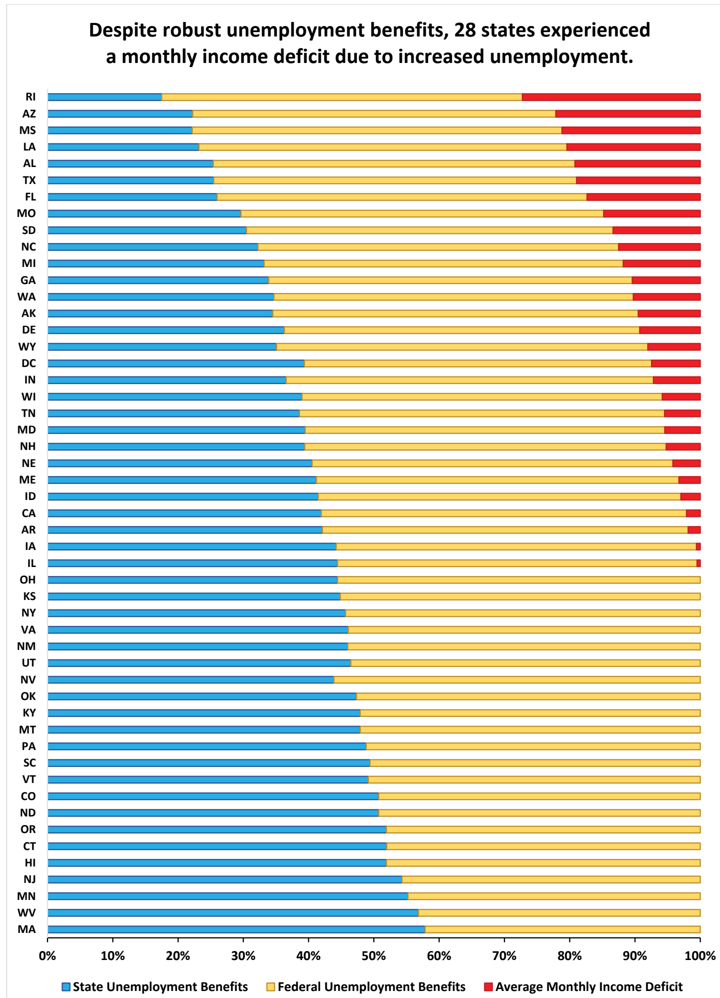

Figure 3: Net Average Monthly Income Deficit after State and Federal Unemployment Benefits (source: U.S. Bureau of Labor Statistics & U.S. Department of Labor)

As the Coronavirus Recession reaches its four-month mark, we continue to receive more data that provides greater clarity to the good, bad and ugly of this contraction. On one hand, this recession will likely be much shorter than its predecessors, given its origins as an exogenous, noneconomic shock. But the financial pain inflicted on consumers and businesses will also set records in severity, while the path to economic recovery is akin to geographic roulette, making for a disjointed and spotty return to normalcy. Many unknowns remain concerning the United States' eventual road to recovery, most of which depend on the ability of public health authorities to contain this outbreak via testing at a meaningful level until the development and distribution of a vaccine. In the meantime, we know that community banks continue to be a vital component to the recovery equation.

Community banks were the most prevalent conduit for small businesses seeking lifelines in operating capital via the Paycheck

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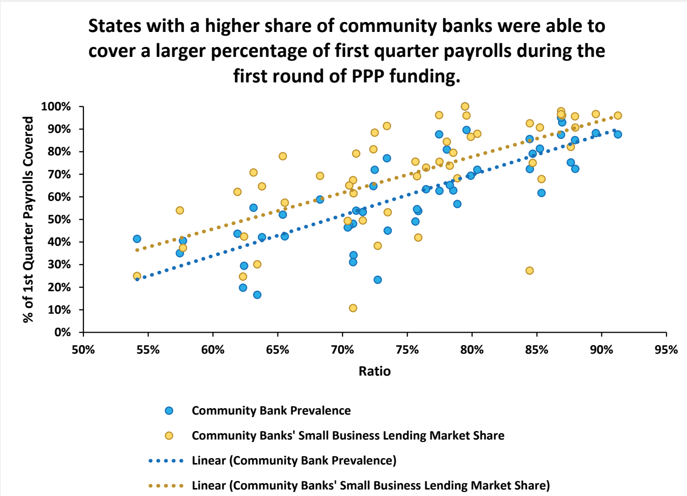

Figure 4: 1st Quarter Payroll Coverage via PPP Loans by State (source: United States Small Business Administration / Federal Deposit Insurance Corporation)

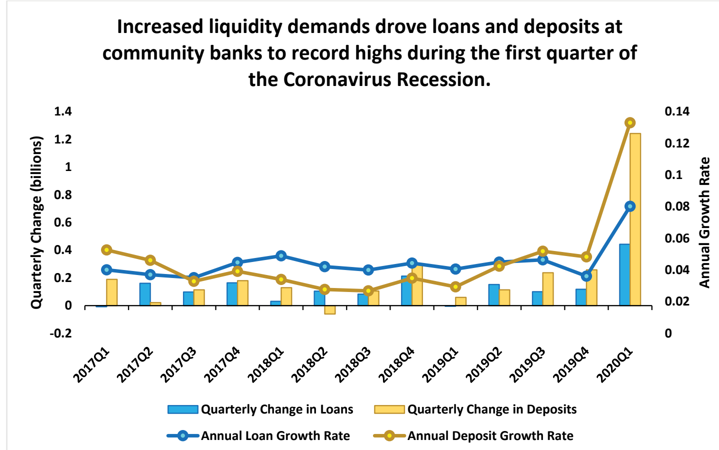

Figure 5: Loan and Deposit Balances at Community Banks (source: United States Federal Deposit Insurance Corporation)

Protection Program, issuing nearly two-thirds of PPP funds, which were critical for mitigating further increases in unemployment and supplying households with much-needed income to whether declines in liquidity due to decreased business activity.

As Figure 4 shows, states with a higher share of community banks received more PPP funding during the early stages of the current recession, with the top 10 states able to cover 20% more of their payrolls than the bottom 10 states. In addition, by performing their most basic functions, from accepting deposits to providing loans, community banks have been vital pillars of support to Main Street by facilitating a healthy circulation of capital to keep local economies in operation while social distancing measures have gone into effect. As shown in Figure 5, community banks posted major gains in deposits and loans during the first three months of this recession.

Upon closer examination of the data, it is clear that this current recession poses both significant economic threats, and concurrent opportunities, from which to make the most of an inevitable economic phenomenon and to rebound on stronger footing and shoulder another decade's worth of expansion. In particular, the dynamics of this recession present major opportunities for community banks to facilitate a speedy recovery and mitigate its potential severity while serving as an important resource for localities at different stages of the healing process.

While the current economic landscape may appear bleak at first sight, the data presents a strong case for cautious optimism as we press forward in these uncertain times in hopes of a brighter tomorrow.

Noah Yosif is ICBA assistant vice president of economic policy and research.

READY TO RUN

AFTER A LAG, PREPAYMENTS ARE PRIMED TO TAKE OFF

By Jim Reber, President and CEO of ICBA Securities

If you are inclined to read bond analysts' research reports, eventually, you'll chance upon some commentary that addresses the performance of mortgage securities. To many of the uninitiated, which I pointedly state do not include community bankers, mortgage-backed securities (MBS) are an abstract collection of investments that have long maturities and a volatile series of principal paydowns. They seem to require a lot of effort and are only marginally tethered to the housing finance market in general.

But not so fast: Further analysis reveals that community banks have a higher weighting of their investments in the mortgage sector than at any time in the past. So, MBS must have some kind of appeal, and tellingly, it's with financial professionals. The qualitative features that are attractive to community banks include:

- Cash flows that complement the loan portfolio
- Ability to modify price risk profile efficiently
- High degree of liquidity
- Outstanding credit quality

What's not to like? Well, in the 2020 interest rate environment, the total lack of control over prepayments. In fact, this year may set new standards for refinance activity. Let's see what the near future for MBS may look like and try to develop a game plan to insulate against unwanted cash flow.

Where we've been

A good place to start is to look back a decade or so ago, to see if we've been to these current secondary market levels yield levels before. The answer is close, but no. The required rate for a new conforming mortgage to be worth par to Fannie Mae or Freddie Mac, also known as the Commitment Rate, is closely tracked by mortgage lenders. For example, if the Commitment Rate is 2.5%, a lender can make a 3.25% loan to a borrower, keep 25 basis points (0.25%) for servicing income, pay the agency about 50 basis points (0.5%) for its guarantee fee and deliver the net coupon at par.

Back in late 2012, the lowest the 15-year Commitment Rate hit was 2.07%. Not coincidentally, prepayments on all coupons of MBS spiked and peaked about 60 days later. The elevated refinancing activity continued throughout the first half of 2013. The second half of the decade saw some general stability in the mortgage market and reasonably steady cash flows from mortgage securities. Not so today.

Where we may be going

As of this writing, we are at truly historic required rates. The Fannie Mae 30-year Commitment Rate has been well south of 2.5% for several months, and its 15-year cohort has hovered in the 1.7% range. This means that 30- and 15-year loan rates around 3% and 2.375% respectively could be sold into the secondary market at or near par.

And here's the kicker: Mortgage lenders have not yet rushed to be the cheapest on the block. Lender surveys indicate that conforming loan rates have stayed at least 50 basis points (.5%) more than the Commitment Rates after accounting for servicing and guarantee fees. A combination of factors, including resource limitations and the — understandable — quest for fee income, have kept the loan rates relatively high compared to Fannie's secondary rates.

First in its class

In mid-June, there was a unicorn sighting in the MBS market: A 15-year Fannie Mae MBS with a 1.5% coupon. It was the first in history with a coupon that low. If Commitment Rates remain anchored where they are now, there will be more to follow. Given the rush by many community banks to remain more or less invested, since overnight rates appear to be destined to remain near zero for some time, the prices on these low coupon MBS are in the 102 range. While that may be a challenge for some investors, at least these pools should have relatively muted refinance profiles.

If the mortgage lending community eventually throws in the towel regarding pricing discipline, there will be a bunch of recently originated loans that will be in the "drop zone." At the end of the day, there are really only three strategies that provide much hope in the way of prepayment protection:

1. MBS with very low borrowers' rates,
2. Pools consisting of loans with low outstanding balances, and
3. Securities such as DUS (Delegated Underwriting and Servicing) bonds or Freddie Ks that have defined prepayment penalties.

Some combination of these can help stabilize the cash flows in your community bank's bond portfolio. Prepayments that walk, not run, will likely be a desirable trait for investors in 2020.

Jim Reber (jreber@icbasecurities.com) is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks.

Prepayment commentary

Vining Sparks, ICBA Securities' exclusive broker-dealer, publishes a monthly analysis on mortgage security refinance activity on a wide selection of MBS. To subscribe to the Mortgage Prepayment Summary, visit viningsparks.com or contact your Vining Sparks sales rep.

LEADERSHIP AT ALL LEVELS: A SUMMER READING LIST FOR LEADERS

By Lindsay LaNore

Summer is approaching rapidly, and it's often the best time to catch up on reading. So, here are some suggestions for great books to hone your leadership skills.

- **Start With Why by Simon Sinek.** Though it was first published back in 2009, this is still a must-read for any leader. Sinek asks why some people and organizations are more successful than others. He suggests we all start by asking why we do what we do and then share that sense of purpose with those around us.
- **The Curiosity Muscle by Diana Kander and Andy Fromm.** Kander was a keynote speaker at ICBA LIVE 2020, and this work of fiction, written in collaboration with Fromm, a businessman, is a revelation. A business fable about the rise of a gym franchise, it teaches an important lesson about why curiosity is essential in the business world, with an a-ha moment on page 25. Brilliant.
- **The Hero Effect by Kevin Brown.** Brown was another keynote speaker at ICBA LIVE, and this book is a feel-good, inspiring read about the importance of everyday heroes. It reminds us to be heroic, to show up and to make a difference in the world. Authentic and moving.
- **Dare to Lead by Brené Brown.** If you're not reading something Brown has written, you're missing out. This New York Times bestseller is based on research conducted among leaders, changemakers and culture shifters, and it recognizes that leadership is not about title, status or power. It encourages leaders to be daring and to develop the potential in their teams. Essential reading.
- **Grit by Angela Duckworth.** According to Duckworth, a psychologist, grit is a combination of passion and persistence that we can all learn, regardless of our IQ or circumstances. This engaging book offers diverse examples of grit throughout, including the stories of West Point cadets and Scripps National Spelling Bee contestants.
- **The Team Success Handbook by Shannon Waller.** This is a quick read but full of practical advice and good reminders. Waller outlines 12 strategies for highly productive entrepreneurial teams and invites us all to take the time to evaluate, explain, delegate, understand and, ultimately, grow.
- **ICBA NewsWatch Today.** ICBA's daily news bulletin is sent out every weekday morning. It covers breaking news, advocacy, innovation, education and much more. I'm biased, but if you're a community banker, this is a daily must-read.
- **Results That Last by Quint Studer.** Finally, this book, another business classic, was a recommendation from my colleague Prabhash Shrestha, ICBA's chief digital strategy officer, and is up next on my own reading list. Written in 2007 by Studer, a Florida entrepreneur, it outlines simple fixes that can help build a successful corporate culture.

Happy reading! And please feel free to send me any other recommendations you may have.

Lindsay LaNore (lindsay.lanore@icba.org), group executive VP, Community Banker University

TELEWORK IN 2020:
THE NEW REALITY

By Bob Greening

As the coronavirus (COVID-19) pandemic started to impact the U.S., banks were communicating to their customers that they will remain open for business, though with significant operational changes in place. For starters, banks closed their walk-in lobbies or established appointment-only policies for customers, reviewed headcount and lowered staffing levels by directing employees to work remotely (teleworking) to practice social distancing. Teleworking is a big change for community banks that normally rely on "face-to-face" business. As a result of COVID-19, the majority of community banks are making their initial foray into the concept of telework. From both an HR and manager's perspective, telework necessitates additional levels of oversight and concern, since this change in environment can lead people to change their work behaviors.

Tips for Managing and Engaging Employees Working Remotely

Communicate the goal of telework. During today's COVID-19 crisis, the goal should be to keep your employees and customers as safe as possible by following social distancing and other guidelines set by the CDC. While the rationale seems obvious, communicating this and making it relevant to your employees is an opportunity to reinforce your bank's values and expectations.

Over-communicate. Especially for banks whose employees are always in the office, the sudden change can feel jarring. Implementing practices to encourage employee communication as much as possible will help them feel connected to their team. Remind them of the various tools available to enhance communication; consider implementing weekly check-ins. Discuss the challenges of working remotely and what support the team or department members can provide each other.

Identify any new technology needed to accommodate remote work. The objective is to enable your employees to have as close to normal working conditions as possible during the current crisis. Provide monitors, headsets, webcams and other tools your employees are accustomed to having day-to-day. Consider adding things like an instant messaging service or video calling service (such as Skype or GoToMeeting) for virtual customer or staff meetings.

Provide continuous feedback. Take the opportunity to ensure employees feel empowered to be as productive as they are in the office. Actively look for service or operational gaps resulting from telework, then be responsive and creative with solutions.

Set expectations for work hours. Even if your company is usually flexible with work hours, communicate the expectations for teleworkers during this time. Some employees may have a hard time resisting the urge to multitask with personal obligations while working remotely.

Share ideas on how to best communicate with customers. Someone may come up with a good idea but needs a way to share it, or the positive impact could be negated. In these situations, you may want to assign someone in each department the responsibility to gather/disseminate work improvement ideas. For example, this could include tips on how to stay in contact with customers so they don't feel a shift in the level of service you're providing.

Support individual needs as much as possible. Encourage team members to communicate any special situations they might be facing as they work from home that require flexibility or schedule revisions. This may include providing care for children or assisting them with various online school activities. If bank operations won't be negatively impacted, banks should consider providing flexible options to lead to a "win-win" situation.

Check with your benefits providers about free resources and services. Benefit companies are in a unique position to offer support as employers and employees deal with questions and concerns over healthcare coverage, financial wellness and more. Wellness videos, financial classes and even meditation apps are potentially available … just ask!

Ideas to help teleworkers retain sanity and a sense of purpose. Dedicate one specific quiet area for working from home. Not everyone has a home office! If possible, try to make it look like a professional space by furnishing it with things from your onsite desk. Maintain a routine similar to your regular work schedule. Start and end your workday at the same times you normally would, and schedule time for breaks and lunches by putting them on your calendar.

Finally, it is important to continually communicate (and over-communicate) both internally and externally. Revisit your company's mission and values, and reiterate the importance of maintaining productivity and the level of service your bank customers have come to expect. The way to ensure successful implementation of remote work during this difficult time is for employers, with the support of management and HR leaders, to cultivate a culture of trust and compassion. These things are always important, but all the more so now in a world that is so upended. The pandemic will end eventually, and remote work will be around much longer, so employers need to be willing to learn from this experience.

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IMMENSE REGRET OR GRATITUDE?

By Conor Smith, CEO First Call

We all know why things have been strange. But it is another level of strange when you are helping your banking clients manage a crisis as critical infrastructure workers (IT) while they are helping you manage a crisis as essential workers of infrastructure (bankers).

If that doesn't make sense, I understand. What does right now?

As a customer of an independent bank, we needed advice, hand-holding and a lot of trust given all the unknowns. We also needed bankers to pull together and push through during a critical time on our behalf.

As an IT, phone system and cybersecurity vendor for our banking clients, they needed us to ensure they didn't have any disruption in services. We also had to make sure their IT and Voice systems flexed based on the rolling needs of their staff and the variables involved.

It was a pressure cooker. The results?

1. New levels of customer satisfaction and confidence
2. Stronger relationships
3. Appreciation for the decisions made (and advice given) before the crisis that made it possible for people to navigate unfolding events

Not everyone had that same experience. I participate in a national organization of IT Service Providers, and during the weekly status calls, some people vented frustrations about their big bank "relationships." Eventually, the outcomes were achieved, but the experience led to weaker relationships, low confidence and, ultimately, regret in the decision to partner with their chosen banker.

Many financial institutions ran into roadblocks with their IT and phone systems. They got by, sure. But getting by isn't how you want to characterize your tech systems, given the level of dependence banks have on them and the forces that are in play:

- Mobility
- Workplace Norms
- Changing mechanics around teamwork and working with customers.
- Cybersecurity
- Modernization in banking

Over the last several months, banking customers and employees (even compliance folks) have shown patience. But as things settle and people begin to pick up the pace, everyone will be looking to the leaders of the bank. Where are we going, and what's our IT strategy? How will we modernize, improve and grow?

Some words of advice and caution: COVID should not drive the answer to those questions. Solutions should be driven by the needs of your customers, your employees, operational alignment and risk management. If you are like most independent banks, you will need advice, hand-holding and a willingness to place a lot of trust in your partner. Sound familiar?

You have options on where you turn to, just as I do when considering who my organization of 30+ IT professionals should bank with.

There are big shops and their one-sided contracts, where you will be treated as a number and asked to get in line (crisis or not). Then there are a small number of qualified IT firms in Montana that have deep experience, long-standing relationships and an excellent service record meeting the needs of Montana Independent Banks.

If you are revisiting your partner and approach, it's a great time to ask questions: *How did you handle the COVID crisis for your existing banking customers? Can I see the satisfaction scores from your help desk as you helped customers reconfigure? What advanced security options did you implement to help them? What ways did you help them flex? How did you handle their after-hours calls when they were working evenings and weekends trying to help their clients process loans? Did you help them with just IT? What about printing? Phones and call flow?*

We knew the stakes for the independent banks, rural hospitals, food banks and other critical infrastructure industries we serve. Our experience with our banking customers was that they knew the stakes too. We were alike in that it was going to be a time where we were going to strengthen our relationship and value significantly, or we were going to diminish it significantly.

COVID has been many things, but it has undoubtedly been a time of immense pride and gratitude for the good work people do in their efforts to help others succeed in their work. We've seen it in our people and the people hard at work for our clients.

Montana Independent Bankers, pat yourselves on the back! And If you are happy with your IT partner, be sure to pat them on the back too. They were a critical part of the outcome. If you are not satisfied, my advice is simple: find a capable, independent IT service provider in Montana. You won't regret it during regular or critical times.

FINQUANT, NOT FINTECH: WHY BANKERS HEALTHCARE GROUP PRIORITIZES DATA TO CREATE A BETTER BANK LOAN OFFERING

In the months since the COVID-19 outbreak erupted in the United States, the lending market has seen a significant amount of disruption. At a time when banks would have been focused on loan volume and building their income streams, many shifted their attention to the Paycheck Protection Program (PPP) to support local business owners.

Paired with the recent news that mortgage rates have reached a record low, many banks are considering new ways to build and diversify their loan portfolio. Historically, community banks would consider alternative lenders or FinTech's competition, but now they're looking at these partnerships as a way to strengthen their bottom line.

While partnering with nontraditional lenders has its benefits, it's important to note that not all lenders who claim the "fintech" title have the same impact financially. These companies can originate loans with ease, but their real differentiator — and the ROI for your bank — is in their historical data.

Loans Backed by Data and Insights

One well-established alternative lender, Bankers Healthcare Group (BHG), sets itself apart from FinTechs by carving its niche as a financial quantitative service company, or FinQuant for short. The company has been originating loans for community banks for nearly two decades, targeting licensed health care practitioners and highly-skilled professionals — some of the highest-earning borrowers with top-tier credit scores in the country.

But BHG doesn't stop there. The lender has built proprietary quantitative analysis models that leverage 19 years' worth of its historical borrower data to uncover variables that dictate the risk associated with each borrower. Utilizing some of the brightest minds in analytics from top universities and companies, as well as 30 data vendors, BHG has gained unmatched insight into its borrower characteristics and performance by industry, and can quickly determine the performance potential and the price risk.

Not only does this data help inform future decision-making into who BHG lends to, but it's also leveraged by BHG's full-service, in-house marketing agency to execute highly targeted campaigns to millions of professionals every day. Even within these industries, BHG is extremely selective: the company targets the top 20% of the strongest-credit quality health care and other highly-skilled professionals. This attention to detail originating on the front-side of their business gives BHG an unbelievable advantage to ensure they're only lending to top-rated borrowers, which has resulted in over $6 billion in financial solutions to date.

Now more than ever, community banks are in a unique position to diversify their commercial loan portfolio and strengthen their bottom line. By choosing an established partner like Bankers Healthcare Group and joining the BHG Bank Network, they have peace of mind and can quickly put a growth plan into action.

FinQuant-Driven Results

Today, BHG works with more than 15,000 of these coveted borrowers each month, with a record of $429 million funding in Q1 of 2020. That trend continued into Q2, with phenomenal loan volume sold through the BHG Loan Hub, a state-of-the-art loan delivery platform for community banks.

This secure online system allows for daily sales and delivery of medical and professional loans while helping BHG service the growing loan demand from community banks. The platform includes various methods whereby a single loan or portfolio of loans can be purchased. It has been a highly effective distribution channel where a bank can approve the loan program and purchase loans according to its underwriting standards the very next day. New loans are posted each day, and, as with all BHG loans, a consistent, complete credit file is available for review prior to purchase.

Across the country, a network of more than 1,100 community banks get access to high-quality medical and professional loans — earning a solid 3-6.5% return — and over 19 years, no bank has ever taken a loss on the BHG Core Loan portfolio.

Characteristics of a Credible Alternative Lender

BHG prioritizes data, analytics, technology, sales, marketing, underwriting, compliance, speed and customer service to originate quality loans and, as a result, has become the No. 1 source for medical and professional loans. For community banks considering a partnership with an alternative lender, BHG emulates the characteristics to look for:

Track record of success

BHG has built a network of more than 1,100 community banks, providing access to the No. 1 source for medical and professional loans, which has resulted in over $600 million in interest earned since 2001.

Endless borrower data

With over $25 billion in underwritten loans, BHG can better predict through quantitative analysis the performance of borrowers, providing a stronger return on your portfolio.

Origination expertise

BHG has established a name for itself among top-rated borrowers through innovative and comprehensive marketing tactics, resulting in thousands of new loans originated each month.

Streamlined process

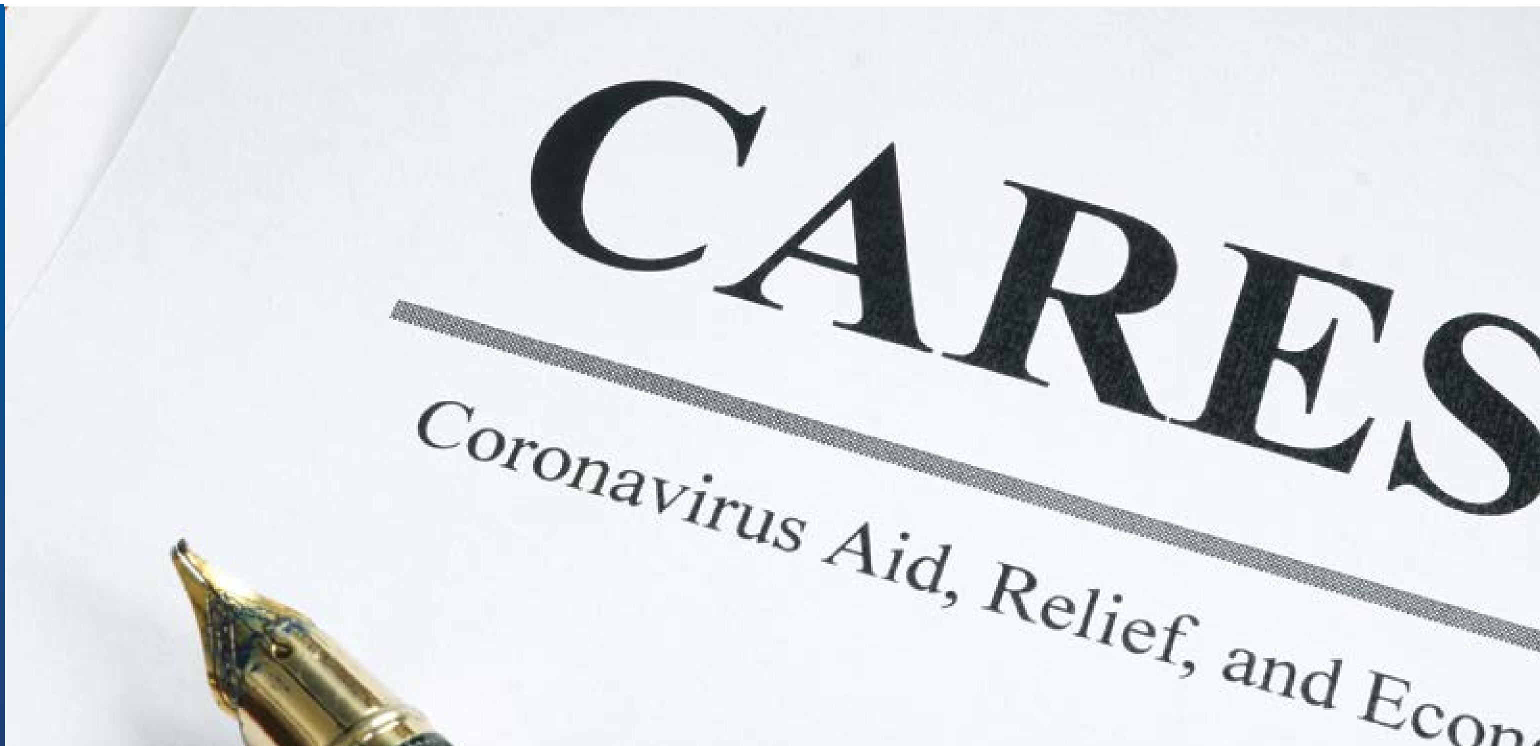
BHG offers consistent loan packages so you can quickly analyze complete credit files and make informed purchasing decisions with ease.

Innovative technology, concierge service

With a lending process driven by the right mix of technology and customer service, BHG offers an experience no other alternative lender can compare to.

Are you interested in learning more? BHG believes in the power of great relationships and encourages you to ask your partner banks if they have joined the BHG Bank Network, and if so, how much interest income they earned on their BHG loan portfolio. BHG is also happy to connect you directly with any of its partners in your specific state.

More information can also be found at bhgloanhub.com/Brian, or you can contact Brian Mullett directly at BMullett@em.bhgbanks.com to request references in Montana.



SBA 504 AND PROGRAM ADVANTAGES DURING COVID-19 AND BEYOND

By Braden Berger, Director Business Finance, Big Sky Finance

The current situation with COVID-19 is creating challenges, and business owners are looking for ways to best support their business during this time. The U.S. Small Business Administration has several loan programs to help small businesses get the funds they need. The CARES Act established several new temporary programs to address COVID-19, but the traditional programs are still available. One of the largest traditional SBA programs, used to purchase real estate or large equipment, is the 504. The SBA 504 Loan program is a powerful economic development loan program.

Purpose of the SBA 504 Loan Program

The purpose of the SBA 504 Loan program is to stimulate growth, expansion and modernization of small businesses. With the SBA 504 Loan program, a small business can borrow money to purchase real estate or equipment for their operations with long terms, low down payments and fixed-rate financing. While the perception in the past may have been the SBA 504 Loan program was one of last resort, it is now viewed as a structuring advantage. The program enables businesses to retain needed capital while lenders can limit their credit exposure and retain good collateral coverage for their loans.

Financing Options

The standard SBA 504 Loan financing comes from a partnership with a lender, Big Sky Finance and a small business. The source of funds is typically 50% from the lender, 40% from Big Sky Finance and 10% from the small business. The small business contribution increases to 15% in the case of a new business or special purpose building or 20% if both apply. The combination of the two loans provides highly leveraged, long-term financing. There is no upper limit to the total project size, but there is a minimum of $100 million.

In addition to the standard 504 financings, there are two debt refinancing options. The first option allows debt refinance if the project includes expansion of the small business, and the amount to be refinanced does not exceed 50% of the cost for the expansion. The second option allows debt refinancing without expansion, and equity may be used for other business expenses.

Lender Advantages

The SBA 504 Loan program has advantages for lenders and helps them retain an active role in their local business's long-term needs. When partnering with Big Sky Finance through the SBA 504 Loan program, the lender can overcome some of the following lending challenges:

- Low loan to cost (generally 50%). No SBA guarantee is needed, and the lender's final exposure is reduced.
- Collateral is project-specific. The lender has a first lien position, and the SBA 504 loan has a second lien position on the collateral. This structure leaves assets available to support other loans.
- No restrictions on lender's pricing, except a reasonable interest rate and a term of at least seven years for equipment and 10 years for real estate. A reasonable maximum interest rate is set by SBA and is currently 6% over the New York Prime Rate.
- There are no monthly fees to Colson Services. A lender retains all the fee income! No guaranty fee or annual servicing fees are paid to SBA as part of their loan.
- SBA approval process and paperwork are handled entirely by Big Sky Finance. Big Sky Finance works with the SBA to process the 504 loans. The lender makes its own credit decision and uses its own loan documentation.

Business Owner Advantages

There are advantages for lenders and for the business owner too.

- Low down payment — just 10%. This low percentage lets the business owner preserve cash for working capital. (The 10% rate increases to 15% in the case of a new business or special-purpose building, or 20% if both apply.)
- Low fixed rate for the term of the loan; these are currently at historic lows.
- Long term loan, which means a lower monthly payment. Terms for real estate loans can be 10, 20 or 25 years. For equipment, machinery, or both, the loan term is 10 years.

Community Advantages

The SBA 504 Loan program stimulates private sector investment in long-term fixed assets to:

- Increase productivity
- Create and retain jobs
- Increase the local tax base

COVID-19 Response

As part of the CARES Act, the U.S. Small Business Administration arranged for the federal payment of current SBA 504 loan payments for six months. When implemented, our borrowers were very grateful, with responses like:

"While we were deciding about using the SBA to help us with our new building two years ago, a good friend of mine told me, 'if things get rough, the SBA will look after their customers.' Boy, was he right!"

"Thank you! This is a huge relief."

"WOW, thank goodness, that's what I was needing, I know I am only one company in need; we all need the help at this time."

"WOW! This is so great I could just cry. Thank you. Thank you. Thank you."

"I would like to send a huge THANK YOU to all of you for making this happen and helping all us small businesses out! For me, I wake up every day saying a prayer for help, and you guys have answered that prayer tremendously!"

Also, during this unprecedented time, some of our borrowers become innovative; for example:

- West Paw pivoted its operation, from making dog toys and leashes to making masks and PPE.
- Simms Fishing Products shifted its focus from fishing gear to design, develop and begin manufacturing medical gowns for hospital personnel and staff.
- Headframes Spirits started distilling hand sanitizer in addition to distilling their spirits.

Why Use Big Sky Finance?

Big Sky Economic Development Corporation, dba Big Sky Finance, is certified and regulated by SBA to package, process, close and service the SBA 504 Loan program anywhere in the state of Montana. Our four-person team has over 55 years of combined experience in making SBA 504 loans and working hard to guide you thru the SBA 504 Loan process.

The SBA 504 Loan program represents an investment that creates positive returns many times over, and it's a WIN-WIN for ALL. For additional information, check out our website at www.bigskyfinance.org

PARTNER IN A CRISIS

By Eric Jensen

2020 has certainly been an unexpected and turbulent year. The Federal Home Loan Bank of Des Moines has proudly remained a stable and reliable source of funding for our nearly 1,350 member financial institutions, with 2020 being no exception. The bank is no stranger to crisis. In fact, the Federal Home Loan Bank System was created in 1932 during the Great Depression. We've been tested several times over our 88-year existence, and we've consistently demonstrated our ability to provide liquidity through all economic cycles.

SERVING YOU DURING COVID-19

We're proud of the way you have adapted your business to address the urgent needs of the communities you serve. As your trusted partner, it's also been our job to make adjustments to better support you during this time.

As you've implemented loan forbearance or loan modification agreements for your borrowers, we've made modifications to our collateral eligibility guidelines to better align with those practices.

Additionally, as credit is extended on a secured basis, we've expanded our collateral menu. Shortly after the passing of the CARES Act, we began to accept SBA Paycheck Protection Program (PPP) loans as collateral. As technology evolves (with or without the necessity of social distancing), so has the desire for borrowers to conduct transactions electronically. As a result, we are now able to accept residential mortgage eNotes (electronic promissory notes) as collateral.

For members participating in the Mortgage Partnership Finance® Program, up to 12 months of forbearance relief is available under the MPF Traditional Program. The addition of payment deferment as another viable post-forbearance repayment option for participating financial institution servicers to assist impacted borrowers.

In April, we began offering special relief funding on three-month or six-month advances to help you fund your PPP loans and other short-term funding needs. These discounted advances are available until Oct. 15, 2020, or until the allocated funds are exhausted, whichever occurs first.

For long-term funding needs, all members have access to $10 million in low-cost funds through our Community Investment Advances (CIA). These discounted advances are specifically designed to support small business lending, economic development and housing needs. Recently, we expanded CIA discount advance rate eligible loans to include members providing financing to PPP eligible entities, whether or not the entities are PPP participants.

Like many of you, the current environment has moved some of our offices closer to home. When the decision was made in March for 90% of our employees to work from home, the transition happened seamlessly with no disruption in service to our members. As previously mentioned, we've been tested over the years, most recently with the flood of our Des Moines headquarters in 2017. That experience resulted in a sound business continuity plan that has functioned well.

This migration to dining rooms and basements also affected our 16 annual regional member meetings. In response, we quickly adapted and moved our programming to a four-part webinar series, now available on-demand for you to access at your convenience here: www.fhlbdm.com/2020-webinar-series.

Our Affordable Housing Program (AHP) is turning 30 in 2020! Participation in AHP, Home$tart® or the Native American Homeownership Initiative (NAHI) has had a profound impact on communities across Montana and throughout our district. In Montana alone, more than $31 million in grant funding has been disbursed, impacting over 4,900 homes. Funding for AHP wouldn't be possible without the business you do with us each and every day. It's because of this that we are able to reinvest 10% of our net income through our members back into communities they serve.

To better accommodate our housing organization partners and our members during this time, we extended the application period for the Competitive AHP, which provides up to $1,000,000 in grant funding to housing organizations.

We also remain committed to providing over $8 million in grants for down payment assistance through Home$tart and the Native American Housing Initiative.

STRENGTHENING OUR FOUNDATION

This year we've also seen significant change within our own walls. In January, Kristina "Kris" Williams began her role as CEO, taking the helm after the retirement of former CEO Mike Wilson.

Kris has more than 15 years of experience within the FHLBank System, most recently as the chief operating officer (COO) at FHLB Pittsburgh. While her first few months have certainly been different from expected, it hasn't changed her commitment to ensuring the bank remains financially strong and ready to serve our members. Passionate about the work our members do within their communities, Kris is looking forward to being able to safely connect with you all in the future.

To ensure the bank remains a strong partner for our members, Kris has made some changes to our executive team. New to the bank are Chief Information Officer Kevin Larkin, Chief Risk and Compliance Officer George Collins and Chief Business Officer Wil Osborn. All three of these new executives bring extensive FHLBank System experience and will be instrumental in making the bank even stronger and positioning us well for the future. Also joining the bank as part of a new role on the executive team is Chief Diversity and Inclusion Officer Deb Baldwin, who will oversee all aspects of our diversity and inclusion efforts.

YOUR PARTNER ALWAYS

We know this year has presented both ups and downs for all of us. You can rest assured that we are financially strong despite all of the unknowns this pandemic has presented. Being a reliable partner in a time of crisis is in our blood and we remain dedicated to helping you meet your affordable housing, lending and economic development needs.

Though meeting face-to-face may not be feasible for the time being, we are always available via phone, video call or email with tools and strategies to help you and your institutions take advantage of these historically low rates. Visit our website, www.fhlbdm.com, for current rates and information on COVID-19 related changes.

Please don't hesitate to contact me with any questions you have, my "door" and ears are always open. I wish you and yours a safe and healthy summer and I look forward to seeing you again soon!

Eric Jensen, VP/senior relationship manager, ejensen@fhlbdm.com, 206.434.0581

UPCOMING MIB EVENTS

September

September 5, 2020
Tailgate Party
Griz V Central
Washington University
Missoula, MT

CANCELED

October

October 3, 2020
Tailgate Party
Bobcats V Northern
Colorado
Bozeman, Montana

CANCELED

October 13 and 14, 2020
CBC Webinar

DON'T FORGET TO MARK YOUR CALENDAR FOR UPCOMING MIB EVENTS

advertiser INDEX

Upcoming Webinars

Jul 30 2020	Handling Consumer Complaints & Disputes
Aug 4 2020	Maximizing Recoveries on Charged-Off Loans
Aug 5 2020	Advanced CTR Training: Beyond the "Textbook"
Aug 6 2020	Fundamentals of IRA Beneficiary Designations & Distributions, Including SECURE & CARES Act Implications
Aug 11 2020	Fair Lending & COVID-19: Strategies for Maintaining Compliance
Aug 12 2020	Growth & Transformation Series: Leveraging LinkedIn for Lenders
Aug 13 2020	Cyber Series: Layered Cybersecurity: Finding the Best Strategy for Your Bank
Aug 18 2020	Effective & Compliant Pre-Employment Background Checks
Aug 19 2020	Collections & Right of Set Off in Commercial Lending
Aug 20 2020	Opening Business Accounts: Entities, Documentation, Authority & Regulatory Requirements
Aug 25 2020	Advanced IRA Beneficiary Issues: Death Distributions, Trusts & Successors, Including SECURE & CARES Act Implications
Aug 26 2020	Cutting-Edge Consumer Payments: Beyond PayPal & Venmo
Aug 27 2020	Liability with ACH Death Notification Entries (DNEs) & Reclamations
Sep 2 2020	SAFE Act Compliance for Mortgage Loan Originators (MLOs)
Sep 9 2020	Cyber Series: Cybersecurity Assessment Tool 2.0 & GLBA Privacy
Sep 10 2020	10 Lessons Learned When a Depositor Dies
Sep 15 2020	Call Report Regulatory Capital: Standards, Ratios, Risk Weighting
Sep 16 2020	Building the Best Possible Board Meeting: From Agenda to Action
Sep 17 2020	Risk Officer Series: The 15 Worst Security Mistakes
Sep 22 2020	UCC-1 & UCC-3 Financing Statements Line-by-Line: Filing, Amending & Renewing
Sep 23 2020	Ag Lending Compliance, Including Industrial Hemp
Sep 24 2020	Avoiding Costly Mistakes in Calculating Debt Service Coverage
Sep 29 2020	FFIEC Requirements for a Remote Deposit Capture Risk Assessment
Sep 30 2020	Mastering Escrow: Analysis, Rules, Forms & Compliance
Oct 6 2020	Managing Vendors: Due Diligence, Contracts, Tips & Tools
Oct 7 2020	Compliance with E-SIGN, E-Statements & E-Disclosures
Oct 8 2020	Risk Officer Series: A Year in the Life of a Compliance Officer: Tips, Tools & Annual Requirements
Oct 14 2020	Cyber Series: GLBA Security Expectations, Internal Controls & the Human Factor
Oct 15 2020	Regulatory Requirements for the Board: A Comprehensive Checklist
Oct 20 2020	Regulator Update for the Credit Analyst
Oct 21 2020	Banking & Lending to Cannabis Businesses: Clarifying the Confusion & Avoiding Pitfalls
Oct 22 2020	Legally Handling ATM & Debit Card Claims Under Regulation E
Oct 27 2020	Risk Officer Series: Advanced BSA Officer Training: Risk, Compliance & Real-Life Scenarios
Oct 28 2020	Cyber Series: Building & Sustaining a Cyber Intelligence Unit (CIU)
Oct 29 2020	New URLA for a New Year! Prepare Now for a Smooth Transition

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** 2021 CBC Program*

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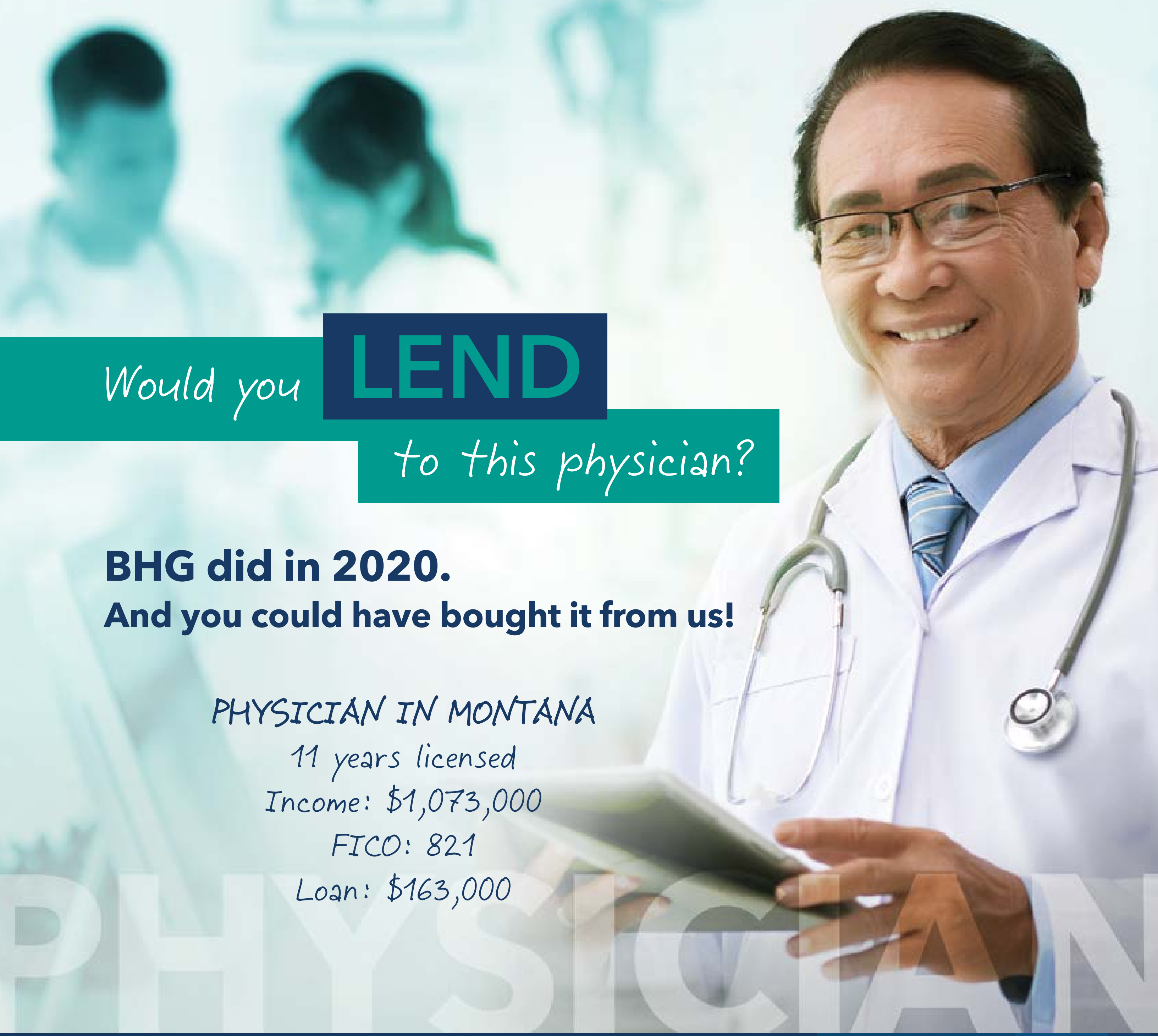

Our 19 years of relationships and multiple industry-leading partners bring more than 15,000 coveted borrowers to BHG each month. Our borrowers have stunning credentials and the majority are considered essential in this economy. That's why BHG is the number one place for a bank to buy the best professional and medical loans in the U.S.

- Record volume: $429M funded in Q1 2020
- 3–6.5% return for your bank
- $0 bank loss on BHG Core loan portfolio
- State-of-the-art loan delivery platform

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*Loan characteristics from BHG borrower. Photograph is not actual BHG borrower.

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