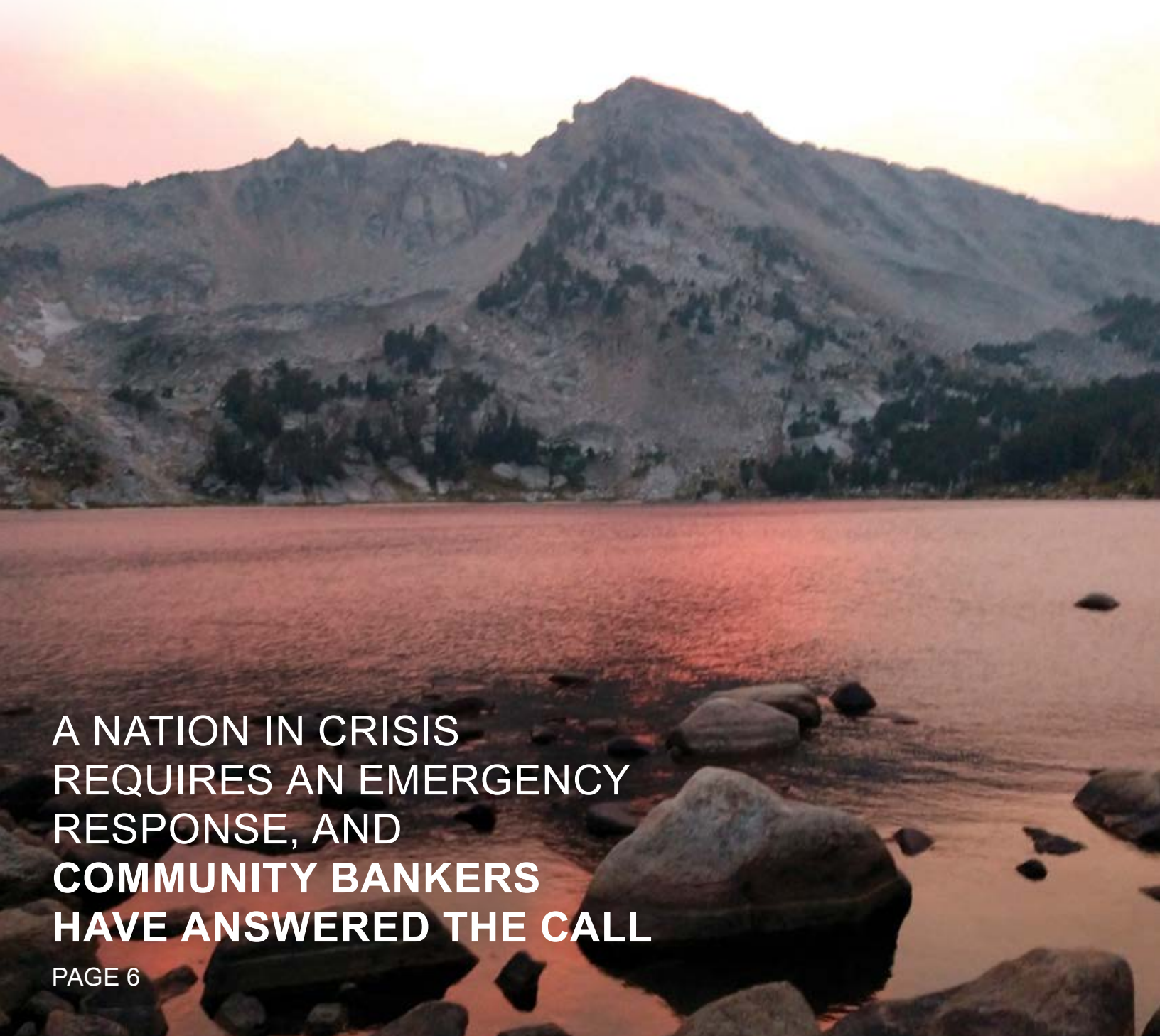


FALL 2020

COMMUNITY *banker*



A NATION IN CRISIS
REQUIRES AN EMERGENCY
RESPONSE, AND
**COMMUNITY BANKERS
HAVE ANSWERED THE CALL**

PAGE 6



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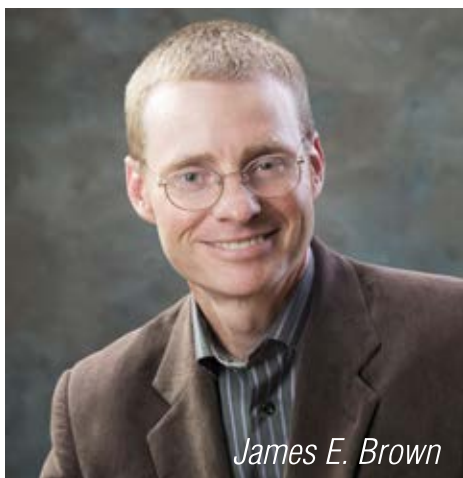


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James E. Brown

Welcome to the final 2020 edition of the Community Banker. What an extraordinary year this has been, though we have had few MIB in-person events due to the COVID-19 pandemic.

The MIB could not host the vast majority of our live programs this year. We canceled MIB's annual convention for the first time in MIB's history, and we switched MIB's two "live" Community Bankers for Compliance programs to an online format. Also, we canceled our annual MSU and U.M. football tailgate parties. The annual ICBA DC advocacy summit was canceled, and two of the association's board meetings were held via conference call. What a change from 2019, a year in which our in-person member programs reached some of the highest attendance levels ever from our members and associate members.

Not being able to meet in person did not stop the association from moving forward with its important events. For example, in early October, the MIB partnered with the Jake Jabs College of Business and Entrepreneurship to host a virtual community banking roundtable focusing on "home-ownership opportunities and challenges." The event had a stellar panel, namely Federal Reserve Governor Miki Bowman, Montana Banking Commissioner Melanie Hall, the CFPB Kathy Kraninger, and ICBA President Rebeca Romero Rainey. There was a most exciting development during that virtual meeting. Rebeca Rainey announced that the ICBA is joining with the Federal Reserve Board and the CFPB in launching a collaborative effort to test certain community bank-inspired improvements to the TILA-RESPA Integrated Disclosure Rule through the CFPB's Trial Disclosure Sandbox. It is the hope of ICBA, and the MIB, that using the "sandbox" will help to improve the TRID process for Montana's community banks so that they can make mortgage credit more available in Montana's small, rural communities.

Also, in early October, the MIB Board met for the final time in 2020. At that meeting, the board heard directly from Commissioner Melanie Hall and Tim Harvey, director of the Jake Jabs College of Business and Entrepreneurship. Melanie reported that the division does not have any legislative agenda going into the 2021 Montana Legislative session for the first time in many years. Further, she said that the division would also be waiving the January semiannual assessments

for community banks and other Montana financial institutions. Tim reported that, despite the challenging COVID-19 situation, the MSU Community Banking program still placed nine interns with our member banks this summer. Tim also noted that the MSU Community banking program continues to be a great success. It was such a success that other universities are exploring creating a similar program at their respective institutions. If your institution is interested in participating in the program in 2021, please feel free to reach out to either me or to Tim Harvey.

The association has been pushing Montana's congressional delegation to move a federal PPP loan forgiveness bill on the advocacy side. Like our national organization, MIB is pressing for the passage of Senate Bill 4117 and House Bill 7777. They contain provisions for (1) simplified forms and processes for the forgiveness of smaller PPP loans, (2) a broad presumption of forgiveness for all loans under \$150,000, and (3) lender safe harbor protection. We thank Senator Steve Daines for being a co-sponsor of SB 4117 already. Getting PPP loan forgiveness legislation enacted before the end of this year will be MIB's highest legislative priority for the remainder of 2020.

Speaking of legislation, we can hardly believe that the 2021 Montana Legislative session is only a few short weeks away from starting. The association will be hosting, if pandemic circumstances allow, the semiannual Bankers Day at the Capital, as well as the 2021 Banking Legislative Reception and Dinner. The events are presently set for January 6th and 7th in Helena at the Great Northern Hotel. MIB has secured an amazing guest speaker for the upcoming event, Montana resident Eduardo Garcia. Mr. Garcia has an inspiring story of survival and perseverance, shown in the documentary "Charged." We hope to see you in Helena come January for this great and informative occasion.

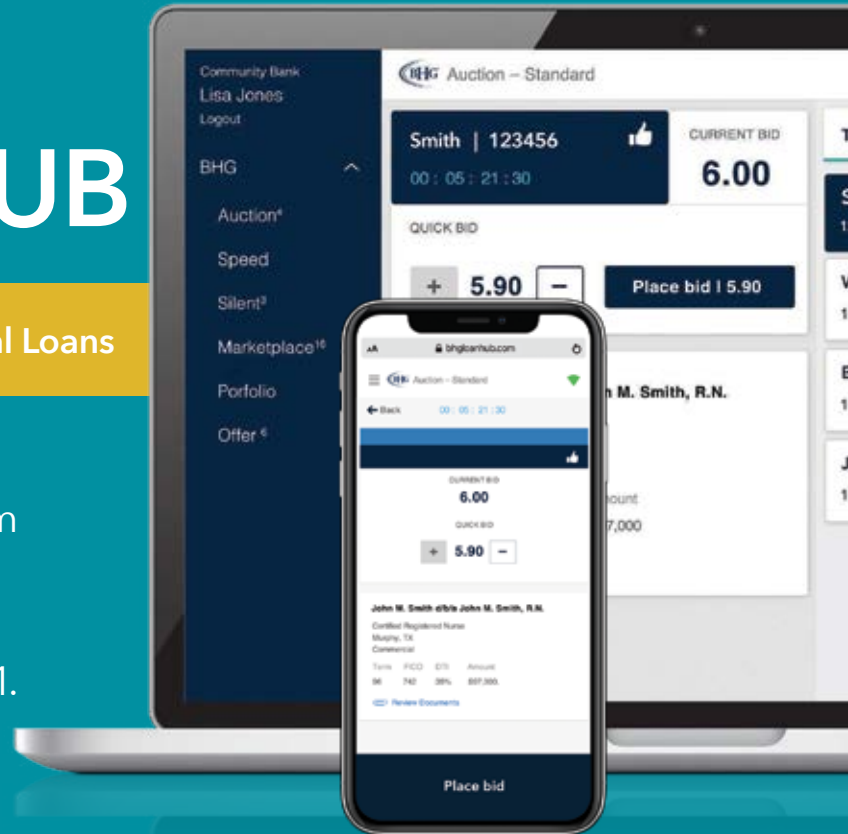
And, on a final, positive note: At the last board meeting of the year, the board voted, once again, to keep member dues the same in 2021. In January, when you see MIB's annual membership renewal packet in your mailbox, the board hopes that MIB's efforts over the last seven months to help our members participate in the Federal PPP program and the Montana Board of Investment Loan Forgiveness and Working Capital Programs will be foremost on your mind. The association does its very best to maximize your dues dollars and to advocate on your institution's behalf on both the state and national levels.

We look forward to you being a member again in 2021. Let's hope 2021 is a more "normal" year.

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AREAS OF OPPORTUNITY

By Rebeca Romero Rainey, President and CEO, ICBA



Just as we responded to the PPP loan curveball, so, too, have we been there to address the additional hurdles our customers face.”

When we flip our wall calendars to October, we’re regaled by images of pumpkins, ghosts and black cats. Halloween — the ultimate holiday of imagination — draws out the creative side in all of us.

But this year, as we suit up for Oct. 31, 2020, we do so under the blanket of COVID-19. The weight of that experience shifts the dynamic.

In fact, given what we’ve dealt with this year, we all should be donning our favorite superhero uniforms. The lengths to which community bankers have gone in support of their customers is nothing short of heroic.

Superpowers aside, the future remains uncertain. With so many unknowns in the wake of the pandemic, forecasting what will happen tomorrow or next week — let alone next month or in a year — feels nearly impossible.

Yet, that’s precisely what we’re doing for our customers. Just as we responded to the Paycheck Protection Program (PPP) loan curveball, so, too, have we been there to address the additional hurdles our customers face, from loan accommodations to financial literacy knowledge and beyond. It is a disorienting time, to say the least. Still, community bankers are excelling for our customers because we con-

tinuously ask: How can we use the current circumstances to become more resilient and strengthen our business model?

Community bankers do not stand idly by and contemplate what’s next. Instead, we act in support of immediate needs. Through thoughtful innovation, we persevere in addressing our customers’ top issues. Yet, as we innovate, we are also required to evaluate how new processes, procedures and solutions fit into the regulatory framework. In an environment where compliance accounts for upwards of \$4.9 billion of community bank expenses, what more can we expect from new programs like PPP?

These concerns have been bubbling up of late because the regulatory environment will dictate or limit what our future models may look like. So, as you dive into this month’s issue, I urge you to do so with an eye toward areas of opportunity. As an assembly of community bankers at ICBA, where can we address the places where regulation and compliance may hinder our natural business growth? What actions do we need to take to ensure we have room to evolve to meet future customer needs?

While we can’t predict the future, we can speak to one truth with absolute certainty: Community banking will not just survive but will thrive and flourish in the years to come. Because, despite the odds, in superhero sagas, the good guy always wins.

What you need to know

Virtual education is a turnkey way to support your staff’s ongoing professional development. Virtual Community Banker University courses provide education and training around timely topics, including emerging regulatory issues.

Connect with Rebeca @romerorainey



COMMUNITY INVESTMENT ADVANCES: A PERFECT FIT WITH YOUR FUNDING STRATEGY

By Eric Jensen, VP/Senior Relationship Manager

The needs of your borrowers and communities have certainly changed over the past year. As you take a closer look at your funding strategy to ensure your institution is set up for success through this economic cycle, remember to consider the benefits available to you as a member of the Federal Home Loan Bank of Des Moines.

Your current business strategies may already lend themselves to a beneficial solution:

- Does your institution lend on terms of more than a year and need solutions to manage interest rate risk?
- Does your lending portfolio include residential loans, small business loans or agriculture business loans?
- Does your institution analyze ways to reduce the cost of funds to provide competitive rates in your communities?

If your funding strategy includes any of these three elements, a Community Investment Advance (CIA) may fit perfectly with your *long-term liquidity and balance sheet management needs.

Managing Interest Rate Risk

With market interest rates at historic lows, a CIA provides an opportunity to

protect interest rate spread for the portion of your loan portfolio with fixed interest rates and longer terms by using duration-certain funding at highly competitive levels. The CIA is one of the lowest-cost forms of interest rate insurance. Another benefit of FHLB Des Moines membership is the activity stock dividend. The cash dividend feature is unique compared with other sources of wholesale funding. When combined with the low posted CIA rate, the dividend impact further decreases an already low level of funding on a net basis. Visit www.fhlbdm.com/dividend-calculator to evaluate the impact of the dividend on your funding using a CIA.

A Fit with Your Lending Portfolio

Many residential and commercial loans qualify for the use of CIA funding. Recent examples of loans and investments members have used to be eligible for CIA funds include: PPP-eligible loans, SBA-eligible loans, Fannie Mae Delegated and Underwriting and Servicing (DUS) bonds for eligible multifamily census tracts, and residential loans made in Area Median Income-designated target income areas.

Members are often surprised to learn that they can easily apply for these low-cost funds. Over the past year, the CIA application has become more streamlined to make it easier for members. Qualifying loans within the application is also easy as members can consider both anticipatory loans and use existing loans (within 90-days from the request of the advance) to meet the loan qualifications.

At the Federal Home Loan Bank of Des Moines, our mission is to help members meet their communities' housing, business, and economic needs. Helping your community thrive will pay back dividends by strengthening individuals' and families' well-being while growing future economic opportunities.

Visit our website: www.fhlbdm.com/CIA for current rates and information on Community Investment Advances.

Your relationship manager is available to answer any questions.

Eric Jensen, VP/Senior Relationship Manager, ejensen@fhlbdm.com, 206.434.0581

*Long-term advances are terms greater than one year.

CRISIS

[COVID-19]

A NATION IN CRISIS REQUIRES AN EMERGENCY RESPONSE, AND COMMUNITY BANKERS HAVE ANSWERED THE CALL

By Noah Wilcox, ICBA Chairman

“Community bankers have answered the call of duty to do what’s right by our customers. For this exam cycle, let’s make sure we’re covering our bases.”



This year, as turmoil arose from the COVID-19 pandemic, community bankers stepped in to respond to the needs of our communities. As this health crisis continues to wreak havoc on our economy, we fight on. We remain in the trenches for our customers, granting accommodation requests and helping them navigate changes to their business models.

As the pandemic persists, we have extended our efforts to both business and consumer clients.

We have identified ways to help, not for our banks’ gain, but because it’s in our DNA as community bankers to do what’s morally right. For this, we should be heralded, not penalized, but that’s precisely where the friction lies: How examiners interpret our actions may not align with the vision behind them.

Since August, I’ve participated in weekly calls with my regulator, and new issues arise in each one. For example, when we discussed Paycheck Protection Program loans, I argued that because the government backs them, they technically shouldn’t be treated as risky assets on our books, but I’m not certain our examiners will see it that way. The message from Washington — get the funds immediately into the hands of the businesses that need them — may get lost in translation when the field exam staff dive deeper into details.

Then, as we respond to consumer accommodation requests, we’re hearing cautionary counsel regarding consumer protection and

fair lending laws. Regulators want to see that we have a systematic process in place to evaluate every request and that we assess each one through a consistent lens. While fairness and consistency are the primary goals, we’re also relationship bankers who work to do what’s right by our customers. But given the regulator’s signals, it seems that doing what’s right needs to be documented.

So, as we explore regulation and compliance topics in this month’s issue, let’s consider the need to document as a constant theme. For example, how you approach accommodations, how you assess the accommodation request and how you evaluate the risk will be scrutinized. In short, we must have a standardized process that demonstrates that our decisions relative to these accommodations are safe, sound, prudent and appropriate.

Our actions speak for themselves, but documentation can back that up. Our hearts are in the right place, and community bankers have answered the call of duty to do what’s right by our customers. For this exam cycle, let’s make sure we’re covering our bases.

My Top Three

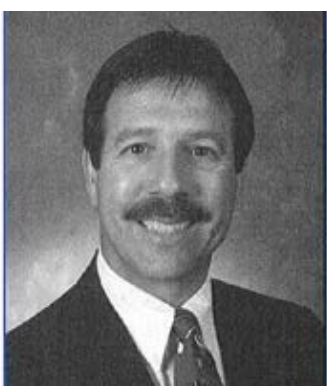
Here are my top three tips for bankers in preparing for this year’s exams:

1. Develop and follow a documented methodology for accommodations.
2. For consumer loan accommodations, be aware of consumer protection and fair lending laws.
3. Remember, you’re writing for the regulator. Keep it succinct and straightforward.

Connect with Pres @NWWilcox

USE A CONSULTANT TO NEGOTIATE MY OUTSOURCED IT CONTRACT WHY?

By Joe Chimera, President, BankServices1



At BankServices1, we have found that money is always left on the table when banks negotiate their own outsourced IT contract. This is true, regardless of the amount of savings realized. Bankers typically negotiate an outsourced contract once every five to seven years. The vendor, on the other hand, negotiates these contracts every day. Negotiating an outsourced contract should involve at a minimum:

- A detailed analysis of each line item to ensure the lowest possible price is achieved.
- A review and analysis of the contract terms and conditions to provide flexibility and avoid diminishing the savings in a year or two.

The bottom line is this; negotiating a contract of this complexity requires 30% negotiating skill and 70% database information.

The negotiated price is the foremost concern of most bankers, but that means only a small portion of other important results is achieved. In addition to price, the negotiation process must address the contract terms to ensure a bank has the flexibility needed to achieve its specific Strategic Business Intent and growth objectives. For example:

- All contracts contain a Service Level Agreement (SLA) that only addresses

the performance of the system. Nowhere in the SLA is *service* addressed (response time to issues). In addition, there should be a financial penalty associated with a vendor's lack of service performance.

- All contracts contain an annual adjustment of 3% or greater to cover the vendors' increased cost of doing business. Who covers the increased business costs for the bank?

We could go on, but hopefully, you get the idea.

BankServices1 is one of many consulting firms that negotiate outsourced IT contracts for the banking industry. Therefore, *why choose BankServices1?*

There exists a basic truism in all business that "Customers make decisions based on value." The amount of perceived value from any one company is truly the deciding factor in any business transaction.

The keyword here is *value* because if you do not perceive BankServices1 as adding value to your bank, then a relationship between our organizations will never be formed, and your decisions will not include us.

The value of being a BankServices1 Client is present in four areas.

First, at BankServices1, our only business is contract negotiations. As a result, we have the largest database of various systems and their market costs. The strength of this database enables us to negotiate a contract for you to provide for two (2) key components:

1. The best possible price.
2. A contract that supports your bank's strategic business intent.

We do not use the discipline of contract negotiation as an entry to your bank. We won't negotiate for a quick resolution to begin looking for other opportunities in your bank. That approach leaves a substantial

amount of money on the table; money you should save on your outsourced contract.

Second, at BankServices1, we work on a fixed price or contingency basis. This approach allows you to decide how you want to pay us and makes us a part of your staff. *We work for you!* Since our only business is contract negotiations and our database is so strong, we are the only firm in the industry that will *guarantee* results; results that *you* want or you don't pay our fee.

Third, in addition to the cost savings, BankServices1 will review the Contract Document set in its entirety, focusing on our 37 point contract analysis. This 37 point analysis examines specific sections and paragraphs where hidden clauses typically lie. The contract document set includes:

- Master Agreement
- Service Level Agreement
- Any schedules, exhibits or addendum

Last but not least, once you become a BankServices1 Client, you may call us at any time to answer a question, pick our brain or ask us to review a contract. Once a BankServices1 Client, always a BankServices1 Client. Of course, there is no additional fee associated with our ongoing relationship.

The negotiation process involves pricing, legal language, additional terms and service level agreements. None of these exist in a vacuum, nor can they be taken out of the negotiation context as a whole. BankServices1 will work with your bank to ensure the best combination of these contractual elements is achieved according to your institution's priorities.

Our clients are our most valuable asset and our reputation in the marketplace is our most valued possession. It is our goal to provide unparalleled expertise, knowledge and experience to our clients. At BankServices1, we negotiate the best possible contract with the lowest possible monthly cost for our clients.



STRESS TESTING



TOP SIX STRESS TESTING TIPS DURING THE PANDEMIC

By Matt Helsing, SVP, Regional Manager — Northwest



While there are still routine things to look for when stress testing in today's world, there are also some new areas to address. To help you with this, we provide you with our six stress-testing tips for the pandemic.

1. Sensitivity Testing.

The pandemic is an example of the need to do sensitivity testing as well as scenario testing. For instance, can my portfolio withstand an event that

is one, two or three standard deviations (that the far outer edges of normal might be), regardless of where the pressure comes from? Consider sensitivity back-testing to document how specific actions, by your institution and the government, remediated events.

2. **NAICS.** Conventional stress testing of loan types may be useful, but does it capture the difference between essential and non-essential businesses? You may find it more valuable to test by NAICS (North American Industry Classification System). That is, specifically testing for hotels, restaurants, bars, gaming, etc. rather than CRE or C&I. Understanding which industry segments have been more affected than others is critical to ensuring that your detailed bottom-up stress tests reflect your local issues.
3. **Supply Chain Relationships.** Remember to look at your supply chain relationships, especially in Agriculture and C&I. Just-in-time supply chain businesses are hit hard, and some continue to struggle as different parts of the economy move forward. As the economy returns to "normal" in some vertical markets, others remain stressed. Continued disruptions in the supply chain are likely to happen.
4. **Dig Deeper.** After looking at the direct impact from supply chain relationships, dig a little deeper. How many of your landlords

have received requests for rent reductions, less space or lease non-renewal notices? On the other hand, how many of your small businesses have retooled and opened new lines of business that create opportunities with new verticals or suppliers?

5. **Loan Structures.** Finally, pay attention to loan structures. Balloons that are coming due have a greater chance of becoming a Troubled Debt Restructure with charge-offs. Borrowers may not be able to qualify for refinancing due to lost revenue to cover debt service or falling values because of CRE demand shifting as a result of work-from-home practices.
6. **Liquidity.** In addition to credit, don't forget liquidity. Depositor balances are moving in ways that you may not expect, depending on your local economy. Many businesses that have reopened are finding expenses higher than expected, due to cleaning and extra protective equipment for staff combined with lower revenues due to physical distancing. Don't forget government sector balances as taxable activities have been reduced, and new taxes are being considered. Think about how these may affect customer behavior.

Bankers entered the pandemic with greater capital than the last recession. Further, individuals and businesses have received significant government assistance, and most have had time to adjust. With adequate stress testing, you can be prepared to understand where potential risks may be in your portfolio and how these impact liquidity and capital.

For additional information or to continue this discussion, please contact Matt Helsing.

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Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes cash management, international services, lending solutions and risk management advisory services.



JAKE JABS ROUNDTABLE

What effect is the pandemic having on homeowners and lenders? Why are very few new community banks being chartered each year? With vacation rentals reducing available home inventory, what can be done to ensure homeownership is still an option for people? And with homeownership rates differing across demographic groups, how can the banking industry facilitate more equitable homeownership?

Students at Montana State University had the opportunity to hear national leaders address these and other questions during a roundtable held online Thursday, Oct. 1.

“Opportunities and Challenges for Home Ownership: A Virtual Roundtable Discussion” was presented to students, area bankers and others as part of the MSU Jake Jabs College of Business and Entrepreneurship’s Community Banking Program. Panelists included Michelle “Miki” Bowman, Federal Reserve governor and voting member of the Federal Open Market Committee; Kathy Kraninger, director of the Consumer Financial Protection Bureau; Rebeca Romero-Rainey, president and CEO of the Independent Community Bankers of America; and Melanie Hall, commissioner of the Montana Division of Banking and Financial Institutions.

“This roundtable featured an extraordinarily impressive panel of speakers, including national leaders in the banking industry,” said Mark Ranalli, dean of the Jake Jabs College of Business and Entrepreneurship.

During the roundtable, each panelist shared homeownership information related to their area of expertise. The majority of the hourlong discussion was reserved for answering student questions.

“This roundtable discussion gave our students unique insights into the community banking industry,” Ranalli said. “It’s a great example of the sorts of opportunities that are available to Jabs’ students through our Community Banking Program.”

The Community Banking Program is a partnership between the Montana banking community and MSU’s business college. The program, which launched in 2017, 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 complete a paid internship with one of the participating banks across the state of Montana. Students receive academic credit for their internship. The program also arranges opportunities to listen to guest speakers and participate in industry events.

“The program’s strengths are that it provides a pipeline of trained and experienced graduates to fill positions in Montana banks and an opportunity for MSU students and graduates to have professional-level careers without leaving Montana,” Harvey said. He added that the program is



MSU students in Jabs Hall listen to a leader in the banking industry address questions related to homeownership during a virtual roundtable discussion held online Thursday, Oct. 1. The discussion was presented to students, area bankers and others as part of the MSU Jake Jabs College of Business and Entrepreneurship’s Community Banking Program. Submitted photo.

guided by an advisory committee of Montana bankers who help ensure MSU delivers training and experience to graduates that will make them as marketable and competitive as possible after their graduation.

“We have placed our students and graduates in banking positions ranging from consumer and commercial lending to audit, marketing, data analysis, agricultural lending, regulatory compliance, mortgage lending, bank operations and wealth management,” Harvey said. “There are certainly career opportunities in banking beyond finance and accounting jobs that we associate with the industry. And banks are hiring right now and are hungry for new talent.”

An information night is set for Thursday, Nov. 5, for students who would like to learn more about the Community Banking Program. More information is also available at montana.edu/business/finance/community-banking.html. A recording of the roundtable discussion is also available on the Community Banking Program website.

NEIGHBORWORKS MONTANA

NeighborWorks Montana and the board of directors are excited to welcome new board members:



Bruce Brensdal has served on the NeighborWorks Montana Board of Directors as an ex officio member for some time, but with his recent retirement as executive director of Montana Housing, he will now serve as a voting member of the board.



Ian Ullman is joining us for an initial one-year term. Ian is a mortgage loan officer with First Interstate Bank in Billings.



Cheryl Cohen is now the executive director of Montana Housing and will serve on the NeighborWorks Montana Board of Directors as an ex officio member.



Hanna Warhank is joining us for a three-year term. Hanna is an attorney with Church, Harris, Johnson, & Williams, based in Helena.



Penny Doak is joining us for a three-year term. Penny is a trust officer with US Bank in Billings.

MONTANA BASED ANDERSON ZURMUEHLEN ANNOUNCES INCOMING CEO



Rick Reisig, CPA and shareholder, will serve as the new CEO of Anderson ZurMuehlen & Co. (AZ). He began his position as chief executive officer on Oct. 1, 2020. Reisig replaces Don Laine. "Rick is dedicated to our profession and this firm, and he has a clear vision as to where he wants to take AZ. I'm confident he will do a fantastic job of leading the firm forward as the world rapidly changes. He has a wide breadth of business acumen and is a national leader in our profession," stated Don Laine. Laine served as CEO for the past 10 years and was with the firm for over 34 years.

Retiring CEO Don Laine, right, congratulates Rick Reisig as the new Anderson ZurMuehlen CEO.

BIG SKY FINANCE NAMED CDC OF THE YEAR

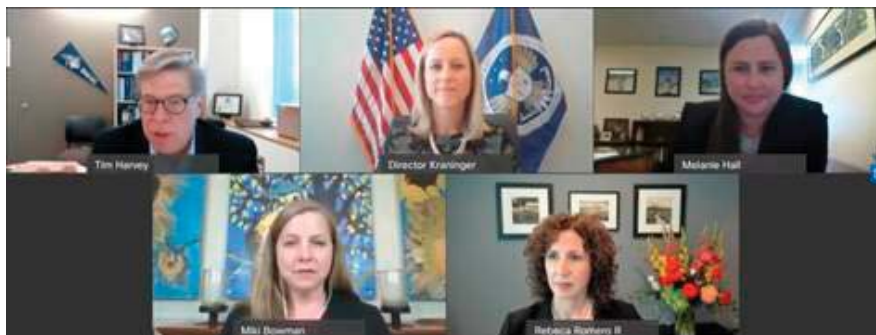


The U.S. Small Business Administration named Big Sky Finance (BSF), powered by Big Sky Economic Development Corporation, as Montana's Certified Development Company (CDC) for Fiscal Year (FY) 2019. On Sept. 10, 2020, BSF was presented with the SBA award at its monthly board meeting. In attendance, besides board members and staff, were Brent Donnelly and Martin DeWitt of Montana's SBA District Office and representatives from Jon Tester, Steve Daines and Greg Gianforte's offices. Montana SBA District Director Brent Donnelly commended BSF for its commitment to small business lending.

BSF approved 16 loans totaling over \$14.6MM to small businesses in Montana during SBA's FY 2019 to get this award. These loans assisted various business types in Flathead, Gallatin, Lake, Missoula and Yellowstone counties. Projects included straight building and equipment purchases, minor and major improvements, and ground-up construction.

Small business is critical to economic development. The SBA supports individuals who wish to start, build and grow businesses. As part of this effort, Big Sky Finance works on behalf of the SBA to partner with financial institutions and businesses to purchase their buildings or large equipment through the SBA 504 Loan Program.

JJCBE COMMUNITY BANKING PROGRAM ADVISORY COMMITTEE MINUTES OCT. 1, 2020



The Community Banking Program Advisory Committee convened at 8:30 a.m. via WebEx. In attendance were Joe Atwood, Bert Bartle, Jim Brown, Tom Christnacht, Clinton Gerst, Tim Harvey, Cary Hegreberg, Gordon Johnson, Jim Ness, Scott Nicholson, Mark Ranalli, Robin Roush, Tim Schreiber, Justin Skillman, Phil Willett, Chelsey Wilson and Travis Wright.

Tim Harvey updated the committee on upcoming events. The Roundtable Panel later that afternoon had four high-profile banking officials, as announced separately. Tim said the event was garnering some nationwide attention, as the Federal Reserve published it on their main calendar.

The next event will be the November 5th Bank Internship Information night. Tim said it will be virtual this year, due to COVID, but the overall format will still be the same. He also noted that the format centers around approximately three bankers and several past interns to answer students' questions. Tim asked for volunteers for the panel. (After the meeting, Bert Bartle, Clinton Gerst and Tim Schreiber volunteered. Thank you!)

Tim gave an update on the summer 2020 interns. Banks hired nine interns this past summer, despite the COVID restrictions. Reviews on all interns were good again. All successfully completed their internships.

Tim gave an overview of an upcoming banking research project.

The project will study the positives and negatives of the Paycheck Protection Program, which involved many Montana banks. Tim will send out a survey through MIB and MBA channels.

Tim updated the committee about 2021 program events:

- The internship application window will close on Jan. 31, 2021.
- The mentorship dinner will tentatively take place on Feb. 9, 2021. This may be a virtual event, due to COVID restrictions.
- The Boot Camp for 2021 is planned for May 4-6, 2021.
- Internships will generally begin May 10 for most banks.

Tim discussed the CSBS case competition that is central to the Commercial Bank Management course. Tim thanked the banks that have volunteered in the past: American Bank, Bank of Bozeman and Yellowstone Bank. Tim also asked for a volunteer bank for the upcoming year.

Dean Mark Ranalli gave an update about the college. He said that overall enrollment for MSU was down slightly due to COVID, and there are some indications that there could be further declines if the crisis continues. However, he pointed to bright spots in the College of Business enrollment, particularly a long-term increasing trend in Finance option students.

The meeting adjourned at 9:10 a.m. The next meeting is tentatively set for the morning of Feb. 10, 2020.

ACCELERATED TAX BENEFITS IN THE CARES ACT

By Steven Johnson, CPA, Shareholder A Z, Helena, MT



In response to the novel coronavirus, 2020 has been a momentous year for federal tax legislation that created programs and provisions to help small businesses weather the global pandemic storm. The response has been extensively reported on. Most lenders are familiar with the most popular programs, such as the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) programs. While these programs are the most widely understood, the Corona-

virus Aid, Relief and Economic Security (CARES) Act contains several items to accelerate tax benefits for individuals and corporations. This article discusses three less known tax-related items from the CARES Act that lenders can look for when reviewing the tax returns of current or potential borrowers. Lenders should refer taxpayers to a qualified tax professional for further assistance.

Net Operating Losses

The Tax Cuts and Jobs (TCJA) Act, passed in December 2017, contained legislation that limited taxpayers' ability to carry back and deduct net operating loss (NOL). Specifically, NOL carrybacks were eliminated for losses incurred in businesses other than farming and farm businesses were given a two-year carryback instead of their historical five-year carryback. In addition, losses could be carried forward indefinitely, but deductions for NOLs carried forward were limited to 80% of taxable income before the NOL deduction. These provisions delayed and limited tax benefits from losses.

The CARES Act amends the laws that govern the taxpayer's ability to carry back net operating losses. Under the CARES Act, taxpayers can carry back NOLs generated in 2018, 2019 and 2020 for up to five years, and it applies to all businesses. The Act also allows for simplified filing with Form 1045, Application for Tentative Refund, or Form 1139, Corporation Application for Tentative Refund. These forms can be filed via fax, and taxpayers could see a refund in as little as two weeks. Lenders should review borrowers' individual or corporate income tax returns for net losses in 2018, 2019 or 2020 to see if they can seek these added benefits. It is expected these provisions will be widely utilized during the 2021 filing season for tax years ending December 2020.

Corporate Alternative Minimum Tax (AMT) Credits

TCJA repealed AMT tax for corporations. Corporations with unused AMT tax credits could claim them over the four years between 2018 and 2021.

The CARES Act now allows corporations to claim the balance of unused AMT tax credits in 2018 and 2019. Lenders should look for Form 8827, Credit for Prior Year Minimum Tax — Corporations, for unused AMT credits. Taxpayers can amend or file Form 1139, Corporation Application for Tentative Refund, to claim unused AMT tax credits.

Bonus Depreciation Available for Qualified Improvement Property

The TCJA inadvertently excluded bonus depreciation for Qualified Improvement Property (QIP) by designating it as 39-year property instead of 15-year property. Since the TJCA, tax preparers have been waiting for a technical correction to allow QIP to be deducted through bonus depreciation. This correction was included in the CARES Act.

In March 2020, the IRS updated Publication 946, How to Depreciate Property, in response to the CARES Act. Generally, QIP includes any improvements to an interior portion of a nonresidential real property building if the improvements were placed in service after the date the



building was placed in service. QIP does not include the enlargement of a building, elevators or escalators, or the building's internal structural framework.

Until late March of the 2020 tax filing season, taxpayers treated QIP placed in service during 2018 and 2019 as 39-year property available for expensing through Section 179. Although Section 179 could allow certain taxpayers to expense 100% of QIP, limitations apply to Section 179 that do not apply to bonus depreciation. Namely, Section 179 is not available for rental activities, is limited to business income, and cannot create a net loss. These limitations could delay the tax benefit of QIP.

The CARES Act retroactively corrects the eligibility of QIP for bonus depreciation to Jan. 1, 2018. QIP placed in service after this date is 15-year property available for bonus depreciation. Lenders should discuss the tax deduction of improvements to nonresidential buildings with borrowers. Lenders should review Form 4562, Depreciation and Amortization, for QIP.

The number of programs and provisions created in 2020 to mitigate the economic impact of COVID-19 can be overwhelming. Changes related to net operating losses, unused AMT credits, and the eligibility of QIP for bonus depreciation are three lesser-known items that could accelerate tax relief for your borrowers.

For more information on these lesser-known programs and benefits, see "Tentative refunds under the CARES Act in 2020" in the July 2020 issue of the Journal of Accountancy or "Tax Practice & Procedures: Liquidity and Cash Management Strategies During a Pandemic" in the July 2020 issue of The Tax Advisor.

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FALL 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.

EFAA. Q: We have an existing customer who is depositing a large check into their account and we would like to place a five-day hold on the check because the customer does not have the funds on deposit. I was under the impression that we are required to make \$5,525 available to them the next business day per Regulation CC. Is this incorrect? Can we hold the entire amount for five business days?

A: There are a couple of ways to handle this one. First, suppose the customer deposits the check into their savings account. In that case, that is not subject to Regulation CC, so you would be able to impose pretty much any reasonable hold on the deposit.

If deposited into a transaction account (DDA, NOW, etc.), Regulation CC does come into play.

- Of course, a case-by-case hold is always available to hold the amount over \$225 for up to two business days. But, that is limited relief.
- Suppose an exception hold (other than large deposit) can be applied (reasonable cause to doubt collectibility, etc.). In that case, the entire deposit may be held until the seventh business day after the banking day of deposit.
- If no other exception hold will apply but the large deposit exception, then \$225 must still be made available by the first business day after the banking day of deposit. The next \$4,800 must be made available by the second business day after the banking day of deposit. Any remaining funds may be held until the seventh business day after the banking day of deposit.

HMDA. Q: We have a current loan in which a husband and wife are purchasing their current home (buying home from the estate) but cannot qualify for the loan without their son's income. We are counting the son as a second co-borrower. My question stems from how this should look on the HMDA-LAR. We are currently listing only mom and dad's HMDA information on the Loan/Application Register (LAR) but are listing the son's income on the

LAR. Is this correct? It seems odd that we are not including the son's race, etc. information on the LAR but are using his income.

A: As odd as it may seem, that looks like how you should report it. Regulation C says to record/report the income you rely on making your credit decision, without any restrictions related to the source, etc.

And, for each of the applicant information categories (race/national origin, sex, age), the HMDA Reference Chart in the Getting It Right guide says, "If there is more than one co-applicant or co-borrower, provide the required information only for the first co-applicant or co-borrower listed on the collection form."

If the parents are listed before the son, it would be their "monitoring information" that gets recorded/reported — and the son's income, if that is what is relied on in making the credit decision.

BSA. Q: While completing a Currency Transaction Report (CTR) for a multiple-transaction situation, I realized that one of the withdrawals conducted for one son (a minor) is actually made out of an OTMA account (Mom is the custodian). Assuming a Part I is required for the minor, should occupation be listed as "unknown" or "minor"? Should the Form of Identification be marked "unknown"?

A: Part I will be completed for the minor since the OTMA funds are for the child's benefit; list the child's occupation as "None — minor." Some banks identify a parent when they open an account for a minor, so if the bank did that for this account, you would select "Unknown" for the child's ID. If the bank accepted a birth certificate or Social Security Card for the child when the account was opened, you can select "other" and enter that information.

Record Retention. Q: After a loan is paid off, we scan the loan papers from the file and save them to a disk. Currently, we have been storing the actual paper for three years and then shredding it. Since we scan the paperwork and save it to a disk, there is no reason to keep the paper. Am I correct, or am I overlooking something?

A: The federal consumer rules allow for record retention in pretty much any form that allows you to retrieve the records readily and



recreate what was given to customers, etc. So, scanned documents that can be viewed on electronic devices and printed out on paper, if needed, fit nicely into this flexible requirement.

As far as any retention requirements for legal documents like notes, mortgages, security agreements, etc., you will need to consult with the bank's legal counsel since they are governed by state law.

ECOA. Q: If our Commercial Loan Area has a potential customer inquiring about a loan and sending preliminary information, but does not complete a full application, does this still require an adverse action to be sent when there is no origination?

A: If the potential applicant is inquiring about a type of credit the bank does not offer, such as SBA lending when the bank does not participate with SBA, then no adverse action is taken under Regulation B, and no notice is required.

However, if the potential applicant sent enough information for the lender to make a credit decision, it is considered an application and some notice of adverse action is required. A "full application" (or "completed application") is not needed to trigger this. What notice is required depends on the size of the business. Regulation B has relaxed notification requirements for business credit, but lenders are free to give business applicants the same adverse action notices given to consumer applicants.

Flood Insurance. Q: What do we have to do about discrepancies between flood zone determinations and flood insurance policies, particularly when the flood zone on the

flood insurance policy comes back as something less hazardous than the flood zone on the flood hazard determination from our flood hazard determination vendor?

A: What you do is remind the flood insurance agent of Memorandum W-08021 released by the Federal Emergency Management Agency (FEMA) in April 2008 that requires the flood insurance provider to use the more hazardous flood determination when presented with two different flood hazard determinations.

TISA. Q: When calculating an annual percentage yield (APY) for a savings account, does the formula include the frequency of how often the interest is paid? For example, in one year, interest compounded daily and paid monthly to the account will earn much more than compounded daily and paid annually.

A: The APY formula does not calculate the interest paid on an account — that is, an independent computation performed by the financial institution with whatever tools it uses. The APY formula takes the interest amount and other figures the bank inputs and computes the annual percentage yield — an annualized measure of the return paid on a deposit account. The interest amount the bank calculates should, of course, take into account all relevant factors — interest rate, compounding frequency, etc.

For more detail on APY calculations, see Appendix A in Regulation DD.

Insider Credit. Q: We have an executive officer who wants to refinance his personal residence (allowable under Regulation O) and two investment properties,

each of which exceeds the \$100,000 limit (\$150,000 and \$131,250), which I believe applies to him. However, the loans will be sold, but we will retain servicing so his payments will be made to us and remitted to Freddie Mac, and if there is a problem, the loan could come back on our books. Regulation O seems to prohibit these loans, but perhaps the fact that they will be sold changes that.

A: When the loans are sold, there would no longer be a problem — other than having made/extended a prohibited loan. But they have to go through the bank's books to get there, and that is where the problem lies. You are correct that the portion of the loan attributable to the investment properties falls in Regulation O's "other purposes" bucket for executive officers — which is limited to a total of no more than \$100,000 outstanding at any one time. The bank would not be able to buy back the loan once sold unless the "other purposes" balance (when aggregated with any other "other purposes" credit that might be outstanding at that time) is no more than \$100,000.

So, the bank really cannot make this loan, even though it is to be sold, because the "other purposes" amount exceeds Regulation O's limit for such credit. It does not appear as though the bank will be able to accommodate its EO's credit needs regarding the investment properties. The EO should find an alternative lender for that credit, or come up with other collateral that could cover it (e.g., a segregated deposit account, securities, etc.).



KICKOFF!

A FOOTBALL FAN'S GUIDE TO PORTFOLIO MANAGEMENT

By Jim Reber, President and CEO of ICBA Securities



As the calendar turns to the fall, millions of Americans gear up for their favorite sport — football. Of course, we're still trying to figure out what it will look like with this being a year unlike any other. Nonetheless, what better way to usher in the new football season than to relate common gridiron phraseology to its investment portfolio equivalent? Some of this may sound like a stretch for the sticks, but perhaps you can find a loose ball in the pileup.

If so, hopefully, you can convert the takeaway into a visit to the sweet land of six.

Weight room

Many footballers prepare themselves for the season with frequent trips to the gym. There, they can make good use of barbells. Community bankers often utilize “barbells” to hedge their bets against rate movements. This strategy entails buying roughly equal amounts of very short-duration bonds and long-duration bonds. The definitions of “short” and “long” will vary from buyer to buyer, but in the end, the investor will be pleased with at least half of the holdings, regardless of whether rates rise or fall.

Run-pass option

This recent innovation of play-calling gives the quarterback the ability to decide on the fly whether to run the ball or throw downfield. In a similar sense, investors can do the same with a do-it-yourself floater. Most municipal bonds in community bank portfolios have a longer-than-average duration. Often, that is precisely the portfolio manager's intention, as it may sync with

the bank's interest rate risk posture. However, sometimes the manager decides the portfolio is longer than desired, in which case the DIY is called. This entails executing a pay-fixed interest rate swap to turn the asset into a receive-floating adjustable rate bond.

Lockdown corner

The best way to explain this is to lift the definition from Wikipedia: "These elite defenders cover an offensive receiver so effectively on either side of the field that the quarterback does not target the receiver being covered." To the community banker, this means owning assets that cannot be called away or converted to cash when interest rates are not favorable (e.g., now). The way to lock down your assets is to buy "bullets," which have no call features, or securities such as multifamily mortgage-backed securities (MBS) with prepayment penalties or yield-maintenance provisions.

Man in motion

This entails sending one or more offensive players running parallel to the scrimmage line before the snap to better position them for the play. In investment management, its equivalent is the purchase of newly issued bonds with extended original settlement dates, which further coincide with upcoming maturities of bonds currently in the portfolio. This play has been especially beneficial in recent months, as the amount of maturities and calls have outpaced new issuances, creating something of a scrum among investors.

Nickel back

Sometimes a team will insert a fifth defensive back into the lineup on obvious passing downs to give it a better chance of covering the potential pass receivers. This "nickel package" appears in balance sheet management in the form of match-funding assets and liabilities. If a community bank strategically adds

assets through an acquisition or outright leverage, it must balance the altered interest rate risk. Tools such as Vining Sparks' Performance Architect can quantify the balance sheet's new dynamics, including the impact on capital, margins, and earnings.

Fourth-quarter rally

The third quarter of the calendar year for broker-dealers is often a period of low volume. Some of it has to do with portfolio managers not taking time to identify beneficial portfolio opportunities until the figurative two-minute warning. This year especially, there are plenty of good reasons to be distracted. The bad news is that there are a lot of community bankers who operate in a last-second mode. Late December is rarely a good time to sell securities; it can, however, be a buyers' market. Make decisions early — 10 minutes to go in the game is still relatively early. Late fourth-quarter comebacks are hard to pull off.

Go team!

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

Webinar series continues

ICBA Securities and its exclusive broker-dealer Vining Sparks are hosting three webinars covering a range of topics in September, October and November to conclude its 2020 Community Banking Matters series. One free hour of CPE for each event is offered. To register, visit viningsparks.com or contact your Vining Sparks sales rep.



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COUNTERING WORKPLACE BIAS

By Bob Greening, Vice President, USource, United Bankers' Bank

Whether we want to admit it or not, we all have implicit biases that affect how we live and work in the world. When most people think of bias, they probably think of an adverse action taken deliberately; however, unconscious biases can affect your behavior or decisions. Unconscious biases are often based on mistaken or incomplete information and may negatively affect your team and your organization's bottom line. If you're hiring based on "gut feeling," your decision may be based on an unconscious (or implicit) bias. The best way to prevent yourself from succumbing to unconscious biases is to become aware of what they are, where they may pop up when recruiting, hiring and retaining employees, and how to prevent them.

Similarity or Affinity Bias is the tendency of people to connect with others with similar interests, experiences, and backgrounds. When companies hire for "culture fit," they could be falling prey to similarity bias.

Prevention measures: Take note of any similarities you share with the candidate or employee and differentiate between attributes that may cloud your judgment. Then, concentrate on concrete skills, experiences, and unique qualities that would contribute to your team as a "culture add" rather than "culture fit."

Age Bias is discriminating against someone based on their age or an assumption of age.

Prevention measures: Remove graduation dates from application forms. Realize that older workers may bring skills and experiences to the table that younger workers don't — and vice versa.

Attribution Bias creates judgment regarding a person's behavior based on observations and interactions from your past, not necessarily with that specific person. For example, viewing others of a particular group (such as gender, race, ethnicity, etc.) as less competent, and undervaluing their accomplishments or overvaluing their mistakes because of it.

Prevention measures: Give honest, detailed feedback to everyone by tying it to concrete business goals and outcomes.

Appearance Bias is when those perceived as attractive (looks, weight, height, etc.) are viewed more positively and treated more favorably.

Prevention measures: Be aware of judgmental thoughts during interviews and promotional opportunities. Focus on their work, not their look.

Confirmation Bias is the tendency to look for or favor information that confirms the beliefs you already hold. During the



hiring process, it might involve forming an initial opinion of the candidate based on inconsequential attributes like their name, hometown/country or even where they went to school.

Prevention measures: Build your awareness of unconscious bias. It's important to ask standardized, skills-based questions that provide each candidate with a fair chance to stand out.

Conformity Bias, similar to groupthink or peer pressure, is very common in group settings. This type of bias occurs when your views are swayed or influenced by the opinions of others.

Prevention measures: Consider using structured interviews and wait to share your thoughts with coworkers until the process is over.

The Contrast Effect refers to distorting your perception of one person's performance by comparing them to another.

Prevention measures: If you find yourself comparing two people, especially in the hiring process, write down why you are leaning toward one over the other. Be sure your assessment of each is based on individual credentials, not compared to the other candidate.

Gender Bias assumes that someone is better for the job based on their gender or preference to a specific gender.

Prevention measures: Try to use gender-neutral language in job descriptions to not resonate with one gender more than another.

When thinking about development opportunities or promotions, try switching the gender of the person you're considering to see if it changes your perception of their readiness.

The Halo/Horns Effect tends to think more highly of someone after learning something impressive about them or, conversely, perceive someone negatively after learning something unfavorable about them.

Prevention measures: Consider why you have this perception. Ask yourself if it stems from unconscious stereotyping based on race, gender, ethnicity, etc.

Name Bias is when you judge a person based on their name and perceived background. Be aware of this bias, especially when reviewing resumes and selecting which candidates to interview.

Prevention measures: Remove candidates' names from resumes to ensure your choice is based on skills and experience versus perceived background.

Awareness of the different kinds of unconscious bias is the first step toward putting processes in place to prevent them from interfering in recruiting, hiring, and retaining employees. Doing so will help your team build a more diverse and inclusive workplace.



TRAVELERS HELOC

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Home Equity Line of Credit (HELOC) scams continue to be costly and challenging for financial institutions. Wire transfer fraud can easily reach millions of dollars. With advancements in technology, such as online databases for county clerk records, online banking, and online title searching, financial institutions commonly use data to verify that customer identity for wire transactions is routinely and easily proven.

Several financial institutions have fallen victim to losses arising out of wire transfer and check forgery schemes targeting HELOC accounts and have taken action to mitigate future loss experience risk. Institutions that place a high value on their customer service and customer confidence in the institution's security against wire transfer fraud have implemented risk mitigation upgrades to their operations to solidify customer confidence. According to Travelers, the following steps are initiatives that can help to eliminate, or at least significantly reduce, losses arising out of HELOC fraud scams:

- Place greater emphasis on getting full account numbers from callers;
- Phrase verification questions so that the caller is providing the information, rather than merely confirming what the financial institution has on file;
- Remove items from the list of authentication options (such as mother's maiden name and date of birth) that have become "public information" through social media websites and venues;
- Train employees who field calls to verify authentication items in a specific order and not skip to other items if the caller cannot verify the requested information;
- Train personnel with an updated full fraud-awareness module to help employees identify warning signs of fraud;
- Encourage customers to set up PIN numbers if the automated phone system allows it;
- Update customer account files with driver's license numbers, if not copies of the entire driver's license (or other government-issued ID if there is no driver's license);
- Utilize a mandatory callback procedure for all customer-not-present wire transfer requests;
- Use a password to authenticate customers rather than commonly compromised information and only allow in-person modification of passwords and key account information;
- Consider requiring full balance transfers (or transfers up to a certain percentage of the available funds) to be made in person while placing a reasonable monetary limit (or percentage limit) on customer-not-present wire transfer requests;
- Establish a reporting procedure which refers all suspicious wire transfer requests to a higher level of authority for confirmation/processing;
- Require a dual telephone confirmation procedure where the financial institution calls the home phone of the customer as well as an alternate number, such as a mobile phone or work phone;
- Establish an automatic two-day holding pattern anytime a request is made to initiate a wire transfer from a HELOC account to a foreign bank account within which time the financial institution ensures accurate verification and deters fraudsters seeking immediate processing;
- Verify change of address or phone number requests with a call to the customer's phone number on file;
- Customize specific and unique verification questions and procedures with an account holder/customer that can only be modified in-person.

Technology has made it easier than ever for bad actors to obtain data that financial institutions commonly use to verify their customers' identities. That's why financial institutions must utilize robust authentication procedures to protect their customers — and themselves — from wire transfer fraud. This includes greater awareness, updated and vigilant policies, procedures and training, and implementing imaginative and unique verification procedures to reduce the risk of sustaining losses arising out of wire transfer fraud targeting HELOC accounts.

Travelers is committed to managing and mitigating risks and exposures and does so backed by financial stability and a dedicated team — from underwriters to claim professionals — whose mission is to ensure and protect a company's assets. For more information, visit www.travelers.com.

MIB SENDS CONDOLENCES TO MIB PRESIDENT ANDREW WEST AND SHANDICE KERR FOR YOUR LOSS



Rick Allen Kerr went to be with his Savior and sons suddenly on Oct.1, 2020. He was born April 22, 1953, in St. Ignatius, Montana to Ralph and Jane Kerr. Rick grew up in Charlo, Montana, with his four sisters. He graduated from Charlo High School in 1971.

Rick could build anything with his hands. He was quite handy at fixing anything and enjoyed tinkering in his shop building wood projects. His yard always looked immaculate as he loved having a nice yard. He eagerly anticipated mowing and often mowed several times per week, always changing up the pattern. He also appreciated a nice-looking, fast running hot rod. The last hot rod Rick and the family completed was his late son Daryl's '57 Chevy, a labor of love and most cherished!

Rick was endlessly patient with his wife, daughter, and granddaughter, as their shopping companion/chauffeur. He also very much enjoyed watching his granddaughter's sporting events.

Although Rick could appear reserved, his character would come out when you got him going. You always knew you could stop in for a chat and a smile. He always had a good story to tell, which would leave you laughing.

Rick retired as a foreman with the Lake County Bridge Crew after 39 years. There was not a job to do that Rick and Richard did not take on. He also served as a volunteer firefighter for 20+ years.

He was preceded in death by his parents Ralph and Jane Kerr, his two sons Daren and Daryl Kerr and his sister, Shelly Kerr.

He is survived by the love of his life of 45 years, Punk Kerr, daughter, Shandice (Andrew) Kerr, three sisters, granddaughter Shalayne Ostler and grandson Gage Kerr.

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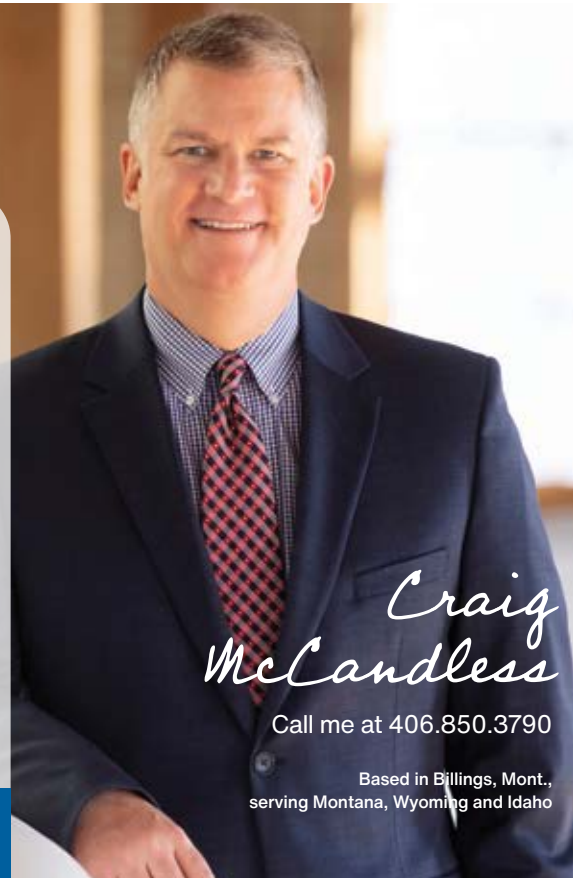
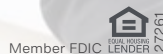
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