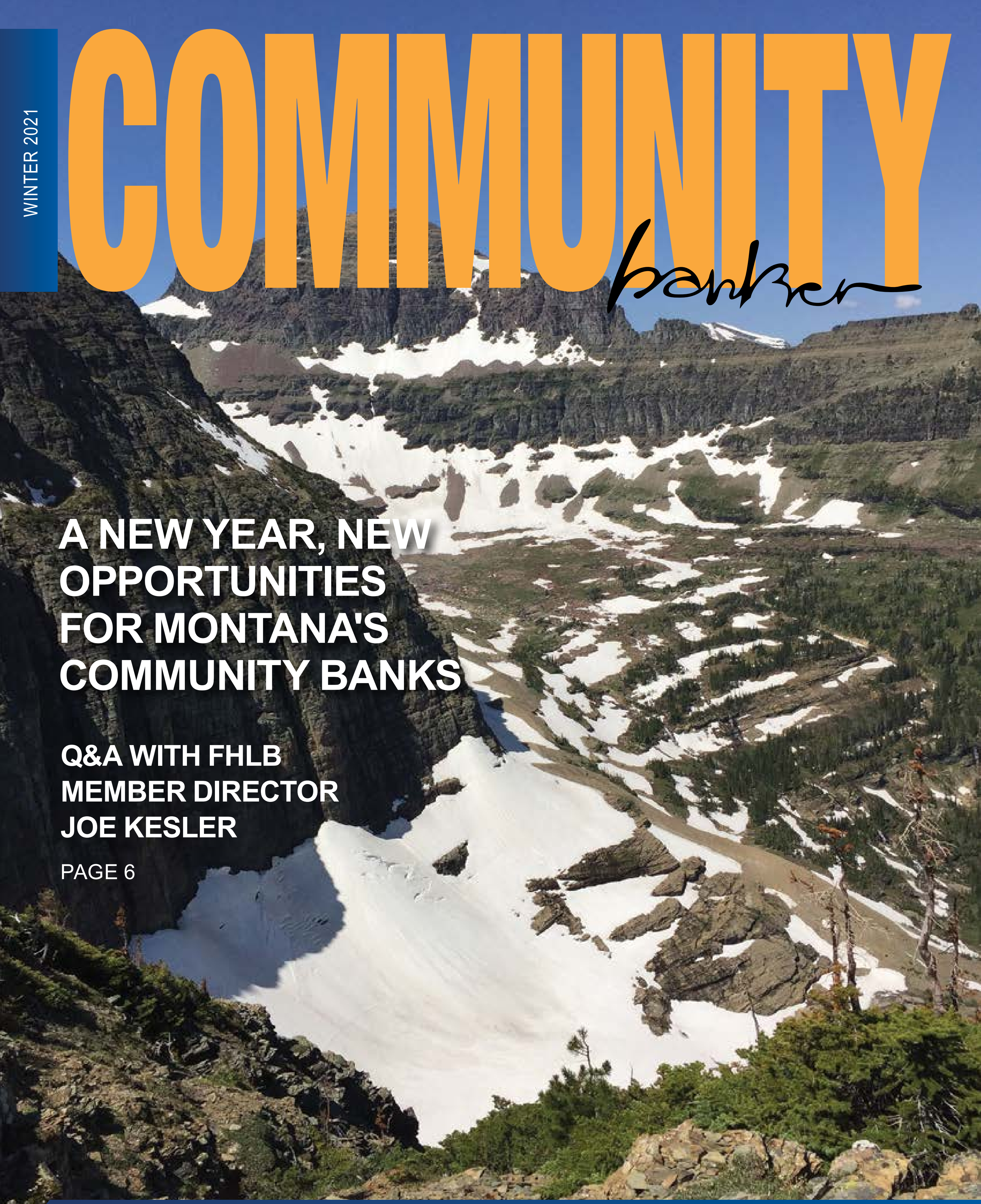
WINTER 2021

COMMUNITY banker



A NEW YEAR, NEW OPPORTUNITIES FOR MONTANA'S COMMUNITY BANKS

Q&A WITH FHLB MEMBER DIRECTOR JOE KESLER

PAGE 6

THE OFFICIAL PUBLICATION OF THE MONTANA INDEPENDENT BANKERS ASSOCIATION

Contents

Cover Photo
Mount Cannon, Glacier National Park©
Gail Downey Steele

Montana Independent Bankers
1812 11th Ave
P.O. Box 4893
Helena, MT 59604-4893

(406) 449-7444
jbrown@mibonline.org
www.mibonline.org

To say 2020 was a tumultuous year would be the understatement of the century. For bankers, it was an interesting year, to say the least. Most of us were flooded with the liquidity we desperately lacked just a few months prior. Real estate departments and title companies have wilted under the weight of non-stop re-finances and purchase money loans as real estate continued to trade at unprecedented levels. Interest rates hit rock bottom, and we are facing management decisions covering unfamiliar topics. Interesting times, indeed.

As I write this, we are 20 days from what I can only hope will be a peaceful transfer of power. We've lived through a contentious Presidential election and the nation remains divided. With the 24-hour news cycle, information bombardment never ends.

How, in times like these, do we keep our sanity? For me, it is simple. I worry about the things I can control and don't about those I cannot. Family, friends, customers and community are things we can influence directly. To stay sane, I spend my time focusing on these priorities. I do my best to engage those who mean the most to me and keep my world positive, even if it is on a micro-level.

Interestingly, if a large enough group focuses on bettering things locally, the collective benefits as well. We all have a lot of decisions to make within our banks in the coming months. There is so much uncertainty right now; it makes managing a community bank anything but an easy task. Sticking to safe and sound, time tested banking principals is probably a good place to start. The pressures on our bottom lines will likely be felt in 2021 as the re-finance boom wanes and interest rates remain low.

All we can do is roll with it and use innovation and efficiency to ensure our organizations continue to run well. For me, the fun of banking is the never-ending array of challenges. This is why I love getting up and going to work every day. It's always something new, keeping the little computer between my ears sharp and running well. Every day is a gift, and every day we get the opportunity to work and make a difference in our customers' and employees' lives is a great day.

Sooner or later, things will settle down, and we will all be sitting around having a drink telling our younger protégés how we survived 2020. We will regale them with "uphill both ways in the snow" stories and they will likely roll their eyes thinking us outlandish and exaggerating. You and I will know better, and in the end, we will all be better bankers for having survived 2020 — kind of like those of us who survived 2007 and the subsequent "fun" years in banking. Many valuable lessons were learned then and many are being learned now. Opportunity is always present with a crisis. Always.

The opportunity before us now may have yet to reveal itself fully, but I can think of a couple of examples. One is we had a chance to connect with and help many customers this year. From SBA PPP loans to the MBOI programs to helping customers get lower interest rates on their mortgages. They won't forget what you did for them. In the end, as we all know, banking is about relationships. I can think of no better example than the year 2020 for strengthening customer relationships. I know we have all worked hard to help our customers and friends who were in trouble because of the pandemic. This is a privilege we enjoy because of our unique position in the business community. I assure you this has not been unnoticed by many across Montana.

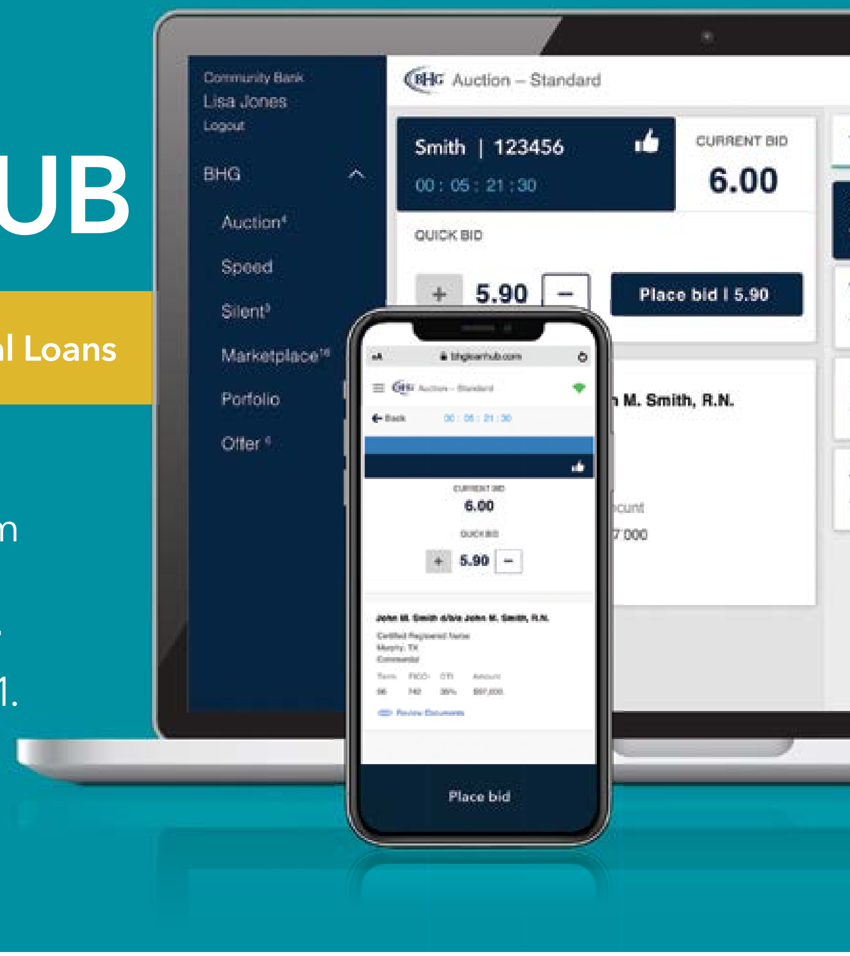
All of this is about so much more than bank performance and profitability. It is about doing the right thing, repeatedly, in the name of helping people. This is the definition of character and I know you all are of the highest order. It is special to be part of such an amazing industry in such an amazing state. Montana is one big small town, and the quality of life we enjoy here is unrivaled. Our relationships with our customers and our co-workers are unparalleled anywhere in this country. We are blessed in so many ways.

Thank you all for carrying on and masterfully handling the difficulty surrounding us. I've said it before, but it deserves saying again; I am proud to be among you and call you friends. I honestly cannot think of anyone who better illustrates what community banking is all about. You make banking great and you make your communities better places to live. Because you care and because your caring carries through in everything you do. Keep the faith, keep smiling and keep being a friend and hero to those you serve. It is appreciated more than you know.

Andrew West
MIB President

THE BHG LOAN HUB

The #1 Source for Medical & Professional Loans



Gain exclusive access to our secure, state-of-the-art loan delivery platform and learn how **more than 1,200+ community banks have earned over $680M in interest income** since 2001.

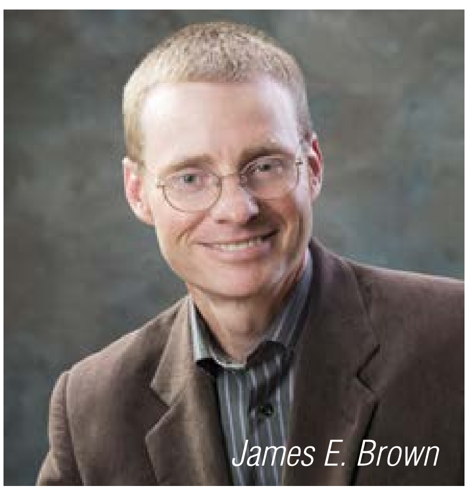
Quickly analyze complete credit files, and with consistent loan packages available every time, you can make informed purchasing decisions with ease.

HOW DOES IT WORK?

1. Log in to BHG's state-of-the-art loan delivery platform
2. Review and underwrite complete credit packages
3. Bid on or purchase loans with the click of a button

KEITH GRUEBELE
KGruebele@em.bhgbanks.com
D: 954.716.8251
or visit **bhgloanhub.com/MT**

BHG | BANK GROUP



James E. Brown

Happy new year, 2021. Thank goodness the calendar has flipped over, and thank goodness for new beginnings.

What a wild and strange year 2020 was. We experienced a global pandemic and associated travel restrictions, unprecedented federal economic stimulus programs, lobby closures, wildfires, a presidential election, and high national unemployment. To say the least, the outgoing year was challenging both professionally and personally for each of us.

As we move into this new year, we can be thankful for the opportunity the industry played in helping families and businesses in need and keeping America's economy afloat, if not humming, despite the national circumstances. The events of the past year demonstrated, more than ever, the value of community banking. The reality is that it was community banking that came to Main Street's rescue when the COVID-19 train came running down the tracks. While 2021 is sure to bring its share of challenges for Montana's community banks and our partners, "we" are now more prepared to meet those challenges due to changed (and more flexible) business models.

And, with a new year comes new opportunity. We here at the MIB are looking forward to the new opportunities 2021 will offer. While we are unable to meet in person for our biannual Montana legislative reception and dinner this January, the MIB staff and I are extremely hopeful, with the development and distribution of the COVID-19 vaccine, MIB can resume our annual state convention and trade show, as well as our live member programs. This is something to hope for, given that personal interaction with our banking peers and community is the highest member benefit MIB can provide.

Some things to note as we move into this new year.

First, MIB member and associate member renewal packets went out in early January. If you have not renewed your membership, what are you waiting for? Get those renewals back in. If you did not receive your 2021 membership packet, please contact me or our membership coordinator, Marie Stark, to get your membership information or if you would like more information about becoming a new member.

Second, as you likely know by now, I was fortunate to be elected to serve on the Montana Public Service Commission from the S.W. Montana seat in November. My four-year term of office kicked off on January 4th. With the MIB Board's agreement, I will continue as the Executive Director of the Association. However, because of the possibility of conflict with my PSC duties (real or perceived), the association has hired a lobbyist for the 2021 Legislative session. Chris Puyear, formerly of Senator Steve Daines' staff, will advocate on behalf of MIB's membership during the 64th Montana legislative session. Chris will be working under my and the board's supervision.

Third, again, due to my PSC election, I will be switching office locations. I will be keeping offices in Helena and Dillon. However, I will be moving into a much smaller Helena office location than my present legal office. Even so, all mail can still be directed to this association at P.O. Box 4893, Helena, 59604.

Fourth, and finally, in a very exciting development, MIB's very own Pete Johnson has been tapped to head up ICBA's 32nd Annual Silent Auction Fundraiser. ICBA has announced its annual convention will be held virtually in 2021. Let's all work with Pete and the rest of the ICBA PAC Team to raise some money for the national political action committee. With the great work performed by ICBA on our behalf in 2020, the importance of electing pro-banking candidates cannot be overstated. The contributions you make to the ICBA PAC are the lifeblood of our collective federal legislative advocacy efforts.

I trust you will enjoy this edition of the community banker. The MIB and the MIB staff are proud of this publication's continued quality. We encourage you to peruse the informative article written by Banking Commissioner Melanie Hall and Montana FHLB representative Joe Kessler's interview.

MIB will continue to work in 2021 on promoting community banking across Montana. That's why we have undertaken a digital marketing campaign this year on behalf of our member banks. We thank you for all you do on behalf of your communities, customers, and colleagues.

From our homes to yours — we wish you a happy, fun, and productive year.

James Brown, Esq.
MIB Executive Director

shield compliance
ShieldBanking.com

What will drive your core earnings growth?

Consider cannabis banking.

Is your financial institution seeking new sources of low-cost deposits and non-interest income? If so, it may be time to consider banking the booming cannabis industry.

As net interest margins compress, cannabis banking provides a low-cost funding engine, delivering service charge revenue with low-cost deposits.

Learn how your financial institution can unlock the benefits of a safe and scalable cannabis banking program and gain a first-mover advantage in this fast-growing industry.

Get started at ShieldBanking.com

Cannabis banking, simplified.

Shield Compliance transforms how financial institutions manage risk, comply with regulations, and address the operational demands of the legal cannabis industry.

shield
assure
BSA/AML compliance management to monitor, measure, and control your financial institution's cannabis banking program.

shield
engage
New client application and underwriting to accelerate speed to market.

shield
transact
Payment enablement for compliant cashless transactions.

Contact us to learn how Shield Compliance is helping financial institutions earn the benefits of a cannabis banking program.

Brian Storey
Business Development Officer
brian@shieldbanking.com
(425) 276-8238

Richard Drennen
Business Development Officer
richard.drennen@shieldbanking.com
(425) 249-7168

See a Demo

Featured Article

Q&A WITH FHLB MEMBER DIRECTOR JOE KESLER

Interview by MIB Executive Director Jim Brown

You have been a Montana community banker for many years. Tell us about your industry background, how you got into banking, and what Montana's community bankers may not know about you.

Thank you, Jim, for this opportunity to share a little about myself, so the Montana member banks know something about who is representing them on the FHLB.

I started my banking career in Illinois with the OCC in 1978, but I quickly realized I wasn't cut out to be a regulator for the next 40 years! I needed a profit and loss scorecard to know if I was winning or losing. I didn't want to just be looking over some banker's shoulder all day trying to catch a mistake, although I did appreciate the training it offered.

I was fortunate to get my first CEO job for a community bank in 1991 in a university town in southern Illinois. It was fulfilling in every way. We went from a bottom quartile bank to a top quartile high-performance bank very quickly. But in addition to the financial performance, I got hooked on the virtuous impact a community bank can have when everyone from the board on down knows we exist to help the community flourish.

That chapter of my career ended with a bang when our success captured the eyes of acquisition-minded banks in 1999. It was difficult to sell a bank that was doing so well by almost every measure, but we received some offers in the 4x book range that were difficult to turn down from a fiduciary point of view. Our investment banker's fairness opinion stated that the bank sold for the highest multiples in the history of the state of Illinois.

I stayed with the acquiring bank for a few years, but I deeply missed being in a community bank and having the chance to lead as a CEO. When I saw an opportunity advertised in the Wall Street Journal for a CEO position with First Montana Bank, I was smitten with the job and the prospect of living in Montana. After being offered the job, my wife and I, along with four shell-shocked kids, moved to Montana in 2005.

There were many wonderful similarities between running a bank in Illinois compared to Montana. I found the same independent spirit, dedication to serving a local community and great talent on both the board and management team. However, it hadn't dawned on me how challenging it would be to run a bank of about 250 million spread over 450 miles in seven different communities. That lack of population gave me a great respect for Montana's bankers, who overcome the inefficiencies that come with a lack of population. But, believe me, it was much more delightful traveling those miles in Montana through our mountain scenery than the shorter branch trips I took through the cornfields of Illinois!

In 2018, after 40 years in banking, I felt great about the deep bench strength at First Montana and felt the time was right to step out of the CEO position. However, I've stayed active as a consultant and outside board member at First Montana Bank. I also enjoy writing these days on various topics, but I have a particular interest in exploring how to connect our personal finances to a purposeful life.

You are presently the Montana Member Director for the FHLB Des Moines. When did you take on that role and how long is your term?

The timing of the FHLB board seat opportunity was perfect for me. I left my CEO position in February of 2018 and was appointed to serve out the unexpired term of Mick Blodnick in March of 2018. I was then elected to a new four-year term last year that will run through the end of 2023, when I hope to earn another four years.

What are the top goals for the FHLB Des Moines? What is the home loan bank working on or toward?

FHLB's top goal is to be a reliable source of liquidity for community financial institutions. Since the Great Depression, when the FHLB system was created, our cooperative has always been there when liquidity markets tightened. We shined particularly well in the 2008 financial crisis when many markets began to freeze up. Because community banks don't have the sources of liquidity large megabanks have, I find myself passionate about this goal because it is a key to the business model of those community banks that desire to remain independent.

Affordable housing support is the other cornerstone of what FHLBs offer. Montana banks and grants widely use the HomeStart down payment program for homeowners to large-scale affordable housing projects. By law, we must give 10% of our profits to encourage affordable housing.

In addition to these broad missional goals, I want to see our cooperative make it easier to pledge collateral for loan advances, including using electronic signature CRE loans rather than continuing to require wet signatures. I also love the dedication of our field representatives like Eric Jensen, who serves Montana bankers. I want to do all I can to encourage the high quality of service that comes with your membership.

What do you enjoy doing in your free time — when you have free time?

My kids were quite worried when we moved them to Montana, but now they look back at their time in the Midwest and wonder what they did there. We love all that Montana has to offer, but my favorite pastime is just hiking through our incredible mountains and enjoying all things outdoors.

If you had not gone into banking, what would you have done professionally?

That's a tough question because I feel like I had the career I was meant to live. I found purpose, deep friendships and lots of laughter in my banking career, but if I couldn't be a banker, I think I'd find a way to make a career out of writing and communicating with others.

What is the most rewarding aspect of working with Montana's community banks for you?

I have been so moved the last few months, listening to our bankers talk about how stressful but rewarding the whole PPP loan rollout was. I know many bankers who worked into the wee hours of the night seven days a week to get it done because our small businesses and communities were in desperate straits. I couldn't be prouder of the effort every Montana banker I know calls the "most stressful but rewarding experience" of their careers. Where can you find a job working with better people? I love it.

Montana has seen an increasing number of banks consolidate. What is your review of the future of Montana's community banks?

There are real economies of scale in banking, so the trend of consolidation will probably continue. However, I also think the local touch, especially with small businesses, is valued and can create a way for community banks to prosper as independent banks. The whole PPP event was a very visible show of how we can punch above our weight in our service to small businesses. I think we showed up the big banks, and many small businesses are still open today because of us. That kind of extraordinary effort by our bankers creates a lifetime of loyalty among our customers. As the FHLB provides a liquidity backstop and local lenders provide the high relationship touch, I would like to think that community banks will continue to earn their cost of capital to justify independence if they chose that course.

Banking marijuana is a very hot topic for Montana banks right now, given the recent vote to legalize recreational use of marijuana. Is there a safe path forward for Montana's community banks to bank marijuana proceeds or money?

I don't have much insight into this topic, but it seems to me we need federal legislation to give banks a safe harbor.

What is the single most important topic you have worked on as FHLB Montana Member Director?

As with any organization, leadership is the key to long term success. I am very pleased that when Mike Wilson retired in early 2020, we could attract Kris Williams from the Pittsburg FHLB to be our CEO. I have been very impressed with her leadership skills and the new team she has put together in a few short months in the middle of a pandemic. I believe the FHLB will become more responsive to member needs as we move forward under her leadership, and I'm proud that I was a director with a voice in that decision.

Featured Associate Member

BELL BANK

Bell Bank
Member FDIC

Headquartered in Fargo, North Dakota, Bell Bank is one of the largest independently owned banks in the nation, with assets of more than $8 billion. When Bell Bank opened its doors in 1966 with a single location in a north Fargo shopping center, our founders couldn't have dreamed of the growth the company would have. For decades, having happy employees and happy customers has been at the heart of the organization. Our values — being a family, treating our customers well and making our community a better place — are at the core of all we do.

Richard Solberg joined Bell Bank as its president in 1982 and continues as the company's chairman. In partnership with the Snortland family as a major shareholder with his son, Michael, he has helped guide the bank through tremendous growth while maintaining a people-focused culture among our more than 1,300 employees. Michael Solberg has served as Bell's president since 2009 and was named CEO in 2015. He was the driving force behind creating the bank's Pay It Forward program, which has empowered employees and others to give millions to those in need. Our continued growth means more opportunities for our employees and our customers and even greater community impact through volunteering and paying it forward. Bell's ownership remains solidly committed to growing as an independently owned bank for years to come.

As a privately held company, owned by several majority stockholders, about 140 additional stockholders and Bell employees through an employee stock ownership plan (ESOP), we don't have the pressure of next quarter's earnings. Instead, we focus on a healthy balance of profitability, growth and nurturing relationships.

Unlike a typical correspondent bank, Bell's focus is working as your partner. We have larger hold limits, so we won't resell your loan participation with us. We also have a team dedicated to correspondent banking and credit to provide flexible underwriting, competitive lending terms and prices, fast decision-making and consistent communication.

Having partnered with more than 300 other independent community banks across 16 states, we'll help you enhance your customer relationships through our experience-based expertise in participation loans, bank stock and ownership loans and equipment financing.

In providing these services, we become your behind-the-scenes partner, helping you work in a larger relationship without threatening your relationship with your customer. Call Craig McCandless at 406-850-3790 to learn how.

Associate Member News

UPGRADE IS A NEW ASSOCIATE MEMBER

We'd like to introduce our newest associate member who can offer the Montana banking community a great solution! Upgrade recently joined the Montana Independent Bankers as an associate member. Upgrade partners with community banks to provide access to prime credit quality consumer assets. Upgrade is a marketplace platform, founded in 2016. Upgrade currently employs 357 nationwide and has facilitated origination of ~$3 billion in loans since inception. Upgrade offers affordable and responsible credit products to mainstream consumers through personal loans, auto refi and lines/cards and will be launching a HELOC product next year. Their unsecured assets yield 5-6% NET returns to community banks for prime credit borrowers and allows the bank to customize their credit box in either a national or geo-targeted footprint. They also offer free credit monitoring, credit alerts and credit education to their user base through the Upgrade Credit Health product. Please contact Nik Vukovich at nvukovich@upgrade.com or 415-940-7688 for more information!

DAKOTA BUSINESS LENDING WELCOMES ANJIE MARTINS

DAKOTA BUSINESS LENDING'S NEWEST CREDIT AND ASSISTANT LOAN OFFICER IN MONTANA

Dakota Business Lending is pleased to welcome Anjie Martins to the team as a credit and assistant loan officer in Montana, working to develop and foster relationships with lenders, small businesses and economic professionals, promote loan programs, assemble loan information, and assist in the preparation, underwriting, and submission of loan packages. Overall, she will support the lending staff and operations throughout the corporation.

A lifelong resident of Montana, Martins has gained over 15 years of experience in the banking, financing, and small business industry. She has worked for several banks throughout her career, assisting them with credit analysis, underwriting for SBA 504 and 7(a) loans, and helping with SBA PPP loans during the COVID-19 pandemic. Martins' small business lending background and expertise will be a great asset to the Dakota Business Lending team, which she has joined to work alongside lenders to help small businesses. She was drawn to Dakota Business Lending due to their company culture and passion for small businesses, and looks forward to expanding their loan programs and services into Montana. In her free time, Martins enjoys traveling and outdoor adventures.

Founded in 1982, Dakota Business Lending is the oldest, largest and most experienced 504 CDC in North Dakota. With staff throughout North Dakota and in Lewistown, Montana, Dakota Business Lending serves North Dakota, Montana, and five counties in western Minnesota. This private, not-for-profit entity's mission is to provide small business financing solutions through collaborative partnerships in a supportive, creative environment that grows the economy and creates or preserves quality jobs. Since its inception, Dakota Business Lending has provided over $500 million in loans with a total project impact exceeding $1 billion to small businesses and local economies.

FLOURISH

By Rebeca Romero Rainey, President and CEO, ICBA

"We can find consistency in what we know to be true in this rapidly changing world: Community banks serve the needs of their communities."

As the calendar flipped to 2021, we didn't magically return to a simpler, pre-pandemic era, unfortunately. We are still grappling with a global health crisis and a hefty amount of ambiguity around what comes next. Amid such uncertainty, it's easy to focus on what we don't know. But, as community bankers, we have a North Star in our mission, and we can find consistency in what we know to be true in this rapidly changing world: Community banks serve the needs of their communities.

Our goal at ICBA is to pave the way for you to do just that by creating and promoting an environment where community banks can flourish. With a new administration in the White House and a new Congress, know that we'll continue to fight on your behalf in Washington in 2021. We'll work toward a level playing field, advocate for regulatory flexibility as we manage the impact of COVID-19 on communities and portfolios, and continue to promote and differentiate the business model of community banking and its importance to this country.

In today's landscape, our business model is more important than ever. Based on personal connections and relationships, it speaks to the needs of our society today. And, while relationships may look different in a virtual world, the links they create between people hold firm. No matter if you're serving your customers in a lobby, on the phone or via a web chat feature, you are working hard to exceed their expectations.

And ICBA walks beside you on that journey. For example, we know that innovation — both for your customer experience and your internal processes — allows your bank to introduce new products and services. On Jan. 6, 2021, we launched the ICBA ThinkTECH Accelerator 3.0 to present you with community bank-centered fintech offerings.

Beyond innovation, ICBA strives to support you and your teams as you expand your knowledge and connection with one another. To that point, we will be offering a new virtual event called ICBA Connect this year. While we won't be able to come together in person, we've reimagined our annual convention to bring you new opportunities to learn, network and engage with colleagues. This program will allow for the same relationship building and knowledge sharing as ICBA LIVE, and we're excited to engage with you and your entire team in this new way.

So, while this early 2021 environment remains tumultuous, I encourage you to focus on the stability in your continuous attention to your communities' needs. You have an unwavering dedication to those you serve, and that remains true no matter the circumstances.

What you need to know

This year's convention has a new name and format. The all-virtual ICBA Connect on March 9 and 10 will offer a dynamic community experience. Visit icba.org/connect to register and to sign up to receive updates.

Connect with Rebeca at rebeca.romerorainey@icba.org.

FROM THE TOP

By Noah Wilcox, ICBA Chairman, President, CEO and Chairman, Grand Rapids State Bank

“To succeed in this environment, we must focus on the things we can control and remain positive, and that’s become my daily mantra.”

The new year brings with it a fresh start. We continue to face no shortage of challenges in 2021, from a divided nation to an ongoing health crisis. Yet, as community bank leaders, we need to flip our perspectives and find the potential in the moment. I recognize that's easier said than done, and that's precisely why we must lead by example, inspiring our teams and communities to keep moving forward. It's our job to raise spirits so we can keep advancing in support of our communities.

While 2020 introduced new and difficult dynamics, community banks have always adapted to external events by evolving to serve our customers better. Last year, we just faced different variables and outside forces driving change — and we responded accordingly. From creating new electronic delivery channels to introducing more robust mobile offerings, new solutions emerged to meet customer needs. And as time marches forward, we can anticipate that same level of expectation around our continued support.

No matter what's going on in the world around us, we are in the politics of community banking. Regardless of party preference, congressional majority or any number of politicized topics, it's up to us to advocate on behalf of Main Street America and what's right for them from a financial services perspective.

That's why we're working on ICBA's Wake Up campaign to create a more level playing field with credit unions. It's why we push for greater public awareness of the importance of community banks to local and national economies. It's why we continue to advocate for regulatory relief to help community banks do what we do best: serve our communities.

To succeed in this environment, we must focus on the things we can control and remain positive, and that's become my daily mantra. It's a universal message: No matter the obstacles you face, you have to look for the good. This mentality pervades how you live your life, run your bank, take care of your community, treat your staff and more. As community bankers, we're here to positively affect our communities, and we need to concentrate on the places where we have an impact.

Now more than ever, it's time for us to knuckle under for community banking. Let's focus on strengthening our industry, communities and teams and putting our shoulders to the wheel to move forward. Together, we can do our part to make the world a better place, one positive development at a time.

My top three fresh start ideas for 2021:

1. **Inspire your team.** Remind them what they do matters.
2. **Live your beliefs.** Emphasize your values-based plans in 2021.
3. **Have some fun.** Bring needed levity to the community.

Noah Wilcox, ICBA Chairman, President, CEO and Chairman, Grand Rapids State Bank, Grand Rapids, Minnesota. Connect with Noah at Pres@NWWilcox

QUESTIONS TO ANSWERS

NET INTEREST MARGIN IN JEOPARDY? HERE ARE SOME SOLUTIONS

By Jim Reber, President and CEO of ICBA Securities

To start the year, I'd like to both properly memorialize the late, great Alex Trebek and provide some helpful suggestions for investment management in this challenging rate environment in which we find ourselves. And I'd like to do it in the space of this column, so let's pick up our signaling devices and see what answers we have in front of us.

Answer: Community banks are embracing this segment of the municipal bond market after being shunned for the last three decades.

Question: What are general market munis?

General market munis are differentiated from bank qualified (BQ) munis in two ways. First, there is no limit on the size of the issue (BQs are limited to $10 million per issuer per year). Secondly, the uses of the proceeds in general market munis are virtually limitless; BQs must be for essential services. As to why BQ issues have been favorites of community banks since 1986, they qualify for beneficial tax treatment related to an institution's cost of funds. This TEFRA application normally creates higher tax-equivalent yields for bank-qualified issues. However, this advantage begins to shrink when tax rates and the cost of deposits decline, and both of these conditions have been in play since 2017. The result? Community banks have been buying roughly twice the volume of general market issues vis-à-vis BQs lately. We'll see if that trend continues if cost-of-funds levels — or marginal tax rates — ever rise again.

Answer: Community bank bond strategies have recently begun including these types of mortgage-backed securities (MBS).

Question: What are multifamily MBS?

All three of the major housing agencies, GNMA, FNMA and FHLMC, have stepped up their issuance of multifamily MBS in the past five years. The main reason for the growth is that more of us live in 5+ family dwellings than ever before. Another is that they can offer some structural advantages over generic pass-throughs. For example, many multifamily pools have short state final maturities of seven to 10 years. Another is that they almost all have some prepayment penalty baked into the structure. While penalties (or "yield maintenance" provisions) are common in commercial real estate lending, they're almost non-existent for single-family loans. The prepayment protection they afford is especially attractive in yield environments like we have at present.

Answer: These three factors can each help limit prepayment risk on amortizing securities.

Question: What are the borrowers' rate, loan size and geography?

At the end of the day, only a few criteria can provide tangible protection against wholesale refinancing (read: prepayment risk) in generic MBS. The most causal relationship is the borrowers' rate (in bond speak, the "gross WAC"). The lower the current rate, the harder it is for a homeowner to economically benefit from refinancing. There is a high correlation between note rate and prepayment speeds. Similarly, the more a borrower owes on their dwelling, the more likely the math works in favor of a refinancing. What isn't quite as universally known is that certain states (e.g., New York and Florida) have punitive taxes and fees that make the prospects of cutting the debt service costs much more difficult. As an investor, you can ask for "prepayment friction" pools containing some specific collateral that can significantly reduce prepayment risk.

Answer: This is by far the most popular month for municipal bond maturities and calls.

Question: What is January?

Given that we're embarking on a new calendar year, and, generally speaking, community banks have more cash and liquidity than they prefer, it's worthwhile to mention in the near term, there will be a lot of money being turned over in muni land. It's possible that the "January effect" could play out in all its glory this year.

That is the outcome of a lot of money chasing a limited supply of bonds. Many municipal borrowers, including BQ issuers, don't tap the market until later in the year. So, it's entirely plausible that combining the wave of redemptions coupled with scant early-year supply will put a heavy lid on yields. Many community banks forward purchase in January and February once they identify which bonds in their portfolio will be maturing or will be called away.

Answer: This financial services sector punched above its weight in extending credit to small businesses at the height of the COVID-19 pandemic.

Question: What are community banks?

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

TACTICS FOR NAVIGATING TECTONIC SHIFTS IN LIQUIDITY

By Scott Hildenbrand, Managing Director Head of Balance Sheet Analysis and Strategy, Head of Piper Sandler Hedging Services

This year has presented bank management teams with many issues to juggle, many of which seemingly pull in opposing directions, and most of which were not firmly on the radar to start the year. Such was life in 2020. Some banks' primary concerns stem from the fact that the industry has seen a shift in liquidity. Balance sheets are flush with deposits relative to recent periods, while securities holdings have come down relative to assets. The build-in balance sheet liquidity has come in the form of cash, with an unusually high 7.6% of assets held in cash and equivalents as of June 30.

This drastic change in the liquidity picture is best encapsulated by the Cash and Unencumbered Securities-to-Assets Ratio's significant uptick. The ratio has surpassed the average over the past 14 years of 20.6%, steadily climbing toward the high of 24.7% last seen in 1Q13. (Source: S&P Financial, Banks and thrifts with assets between $250 million and $25 billion.)

While every institution is unique, many banks have responded to the shift in liquidity by asking two questions: how does this affect the asset side? What are the options on the liability side? On the asset side, management teams wonder what to do with excess cash in a world where most bond yields are disappointingly low. Even though liquidity profiles appear strong and are trending stronger, economic uncertainty creates unpredictability in depositor behavior.

As such, some institutions feel more comfortable with investments that maintain maximum flexibility in the future — sale-ability and pledge-ability — with lower yield as a tradeoff. Other institutions have looked to extend their investment portfolios further out on the curve to increase yield while mitigating tail risk by match funding with 5+ year structures at historically low rates. For instance, banks have worked with some firms to utilize their inexpensive, longer-dated funding mechanisms at attractive rates.

Many corners of the banking industry are concerned that low rates, slower loan origination and excess liquidity trends are here to stay for the foreseeable future and have begun searching for loan surrogates. Allowing these banks to extend their liability portfolio's duration at a scalable level opens the door to more asset purchase strategies. We have seen two specific asset strategies gain momentum: exploring community and regional bank subordinated debt as an investment option and analyzing how to invest in municipals without ruining their interest rate plan. As an alternative to extending the liability portfolio, some institutions have swapped fixed rate municipals to floating, thus obtaining an attractive yield with reduced duration risk and protecting Tangible Common Equity. Exploring risk/reward profiles of earning assets is nothing new to balance sheet managers, but the environment has certainly evolved since the start of 2020.

Managing excess liquidity while planning for interest rate risk management has also become slightly more complicated on the liability side. How does a bank choose from the various funding options and hedging strategies available? The decision-making process must consider balance sheet composition (i.e., the availability of liabilities to hedge), impact to earnings and capital (in addition to liquidity) from the strategy, and practical applications, such as hedge accounting.

It's generally recommended for accounting simplicity and hedging flexibility to first evaluate liability hedges when attempting a shift in interest rate risk profile. Many institutions took advantage of both spot-starting and forward-starting cash flow hedges over the past year. Forward-starting swaps on forecasted borrowings allow the bank to purchase longer duration assets today and know they will maintain the future's attractive spread. For example, offerings like IntraFi Network's (formerly Promontory Interfinancial Network) IntraFi Network Deposits give banks the ability to launch these funding contracts six months to one year in the future while locking in their rate now to hedge against any increase in funding costs before the launch date. This allows the bank maximum flexibility in planning its liquidity now and well into the future.

But what about banks flush with liquidity with no future funding needs anticipated? Part of the answer arose from a surprising place: dealing with yet another stress source — the LIBOR transition. The FASB released ASC 848 Reference Rate Reform in March 2020 to address potential concerns about the impact of the upcoming LIBOR transition on hedge accounting. Although LIBOR fallback is expected at year-end 2021, guidance is applied immediately to help users explore potential alternative contracts and rates. It allows banks to be proactive in dealing with LIBOR cessation and identify a new hedged exposure. The bank can then modify the hedge to match the new (non-LIBOR) exposure, adjusting the fixed-rate or adding a floating rate spread to keep the transaction NPV-neutral. Finally, the bank can amend their hedging memo to reflect the new exposure, and the hedge relationship continues without de-designation.

There is a positive balance sheet strategy development that comes from this guidance. By allowing banks to consider a change to a non-LIBOR hedged item, it essentially provides added flexibility to banks that have implemented strategies using wholesale funding paired with swaps, a strategy that many banks smartly continue to explore. The guidance allows those banks to consider replacing the existing funding with other sources for cheaper and more customizable wholesale borrowings or even deposit products, without impacting hedge accounting. These products allow a bank to replicate the previous funding instruments' details, but at a considerably discounted cost. Banks can leverage the new accounting guidance to change the hedged exposure from wholesale funding to deposits without a re-designation event, allowing the bank to pay down wholesale borrowings. For banks that now have many more deposits than when they first implemented the strategy, reducing their current need for wholesale funding, this is a welcome change in funding source that maintains the interest rate protection they continue to need.

This rule can be applied in a variety of different ways. Banks can make changes to the interest rate index, the spread to that index, the reset period, pay frequency, business day conventions, payment and reset dates, the strike price of an existing option, the repricing calculation, and may even add an interest rate cap or floor that is out-of-the-money on a spot basis. On the other hand, some aspects of the hedge are unrelated to the reference rate reform: an institution cannot effect a change to the notional amount, maturity date, change from an interest rate to a stated fixed rate, or add a variable unrelated to LIBOR.

Ultimately, none of these options single-handedly solve the problem of too much liquidity with too few safe places to deploy them while earning an attractive yield and protecting against the eventuality of rising rates. Like life in 2020, the key is to deploy various creative tactics to weather the storm and emerge a stronger institution.

COMMUNITY BANKERS FOR COMPLIANCE

THE CBC PROGRAM, PRESENTED BY YOUNG & ASSOCIATES AND SPONSORED BY MIB, IS THE MOST SUCCESSFUL AND LONGEST RUNNING COMPLIANCE TRAINING PROGRAM IN THE COUNTRY.

February 18, 2021, 9:00 a.m.
Quarterly CBC Webinar

February 19, 2021, 10:00 a.m.
Regulatory Update Webinar

May 20, 2021, 9:00 a.m.
Quarterly CBC Webinar

May 21, 2021, 10:00 a.m.
Regulatory Update Webinar

August 13, 2021, 10:00 a.m.
Regulatory Update Webinar

September 9, 2021, 9:00 a.m.
Quarterly CBC Webinar

October 28, 2021, 9:00 a.m.
Quarterly CBC Webinar

November 19, 2021, 10:00 a.m.
Regulatory Update Webinar

SOFR TAKES THE SPOTLIGHT AS LIBOR'S DAYS ARE NUMBERED

By Matt Helsing, SVP, Regional Manager — Northwest

With LIBOR's days being numbered, financial institutions have the option of choosing their new interest-rate benchmarks, including fed funds. Yet, the Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as the best option. Any widely used interest-rate benchmark should have three key qualities, according to ARRC:

1. A benchmark needs a reliable administrator, one with robust, durable production and oversight.
2. The financial world needs to understand what market the rate represents and how it measures that market.
3. Any benchmark must be based on a market with enough transaction volume and diversity to survive times of stress. It needs to show resiliency over time and prove difficult to manipulate.

SOFR checks off all three of these.

Strong backing. Changing a widely used interest-rate benchmark is a challenge for everyone involved and not an experience that anyone, from regulators to traders, is eager to repeat. It makes sense to choose a strong benchmark. SOFR broadly measures the cost of overnight cash loans across three parts of the U.S. Treasury repo market. U.S. Treasury securities back the loans.

Robust market. The U.S. Treasury repo market sees about $1T in daily transactions made by banks, pension funds, corporations, asset managers, insurance companies, and every other contender on a list of thousands of eligible borrowers. It's in a good spot to stay liquid, even as markets evolve.

Diverse participants. It also attracts a diverse set of participants. One-third of SOFR involves trades cleared through the Fixed Income Clearing Corporation; about 2K entities are eligible to trade there. Around 120 firms lend money, and another 40 to 50 borrow in the repo market's tri-party segment. This is a diverse group much likelier than LIBOR to weather shocks and changes.

Regardless of the benchmark you choose, the transition away from LIBOR is imminent. While you work out the details, here is a list of **important dates** to help.

- By **Jan. 25, 2021,** ISDA's IBOR Fallbacks Protocol to update legacy contracts will go into effect for adhering participants.
- **June 30, 2021,** is the ARRC's recommended date to stop the issuance of new LIBOR indexed business loans.
- **Dec. 31, 2021,** is currently slated as the last publication date for LIBOR and final stoppage date for all new LIBOR indexed transactions.
- **June 2023** is the publication extension (excluding 1-week and 2-month LIBOR) currently proposed by the ICE Benchmark Administration.

If you would like to continue the discussion or need additional information, please contact Matt Helsing.

pcbb.com
http://www.pcbb.com/?utm_source=MIB(MT)utm_content=Article-SOFR-21

Matt Helsing
SVP and Northwest Regional Manager for PCBB
pcbb.com | mhelsing@pcbb.com

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

AVOID COMMON MISTAKES WITH IRA BENEFICIARY DESIGNATIONS

By Dennis Zuehlke, CISP, Ascensus

"The best surprise is no surprise." Holiday Inn adopted this famous tagline in the 1970s to reassure guests that staying at one of their hotels would ensure that there were no surprises. After all, nobody likes unwelcome surprises, whether it be a lumpy pillow in a hotel room, an October surprise in a Presidential election, or the surprise a family receives when an IRA beneficiary designation — or lack thereof — results in the intended recipient not receiving the IRA assets.

The trouble with an IRA beneficiary designation mistake is that it's often not discovered until the IRA owner has died and it's too late to correct it. Beneficiary designation mistakes can result in payment of the IRA assets to an unintended beneficiary, additional tax and legal expenses, delays in distributing the IRA assets, and reputational risk to you as the IRA trustee or custodian.

Following are some of the most common IRA beneficiary designation mistakes and best practices to help avoid them.

Missing Beneficiary Designations

More than one-third of all IRA death claims processed by Ascensus are submitted for processing without a beneficiary being identified, either on the IRA document itself or on a separate beneficiary form. In these cases, payment of the IRA proceeds is made to the deceased IRA owner's estate under the Ascensus IRA agreement's default provision. From a tax standpoint, payment to the IRA owner's estate generally is the least desirable option. It often requires the IRA owner's family to incur additional expense in estate processing procedures to collect the IRA proceeds. It also increases processing time and delays payment of the IRA assets to the IRA owner's family. Just as important, the IRA assets' distribution under a state's probate laws may not reflect the deceased IRA owner's wishes.

As an IRA trustee or custodian, you should make it a practice to have beneficiary information for every IRA you hold, which can be gathered on the IRA application when the account is opened. IRA applications and initial and subsequent beneficiary designations should be permanently retained. However, there are several reasons why you may not be able to locate a beneficiary designation form at the time of the IRA owner's death. Perhaps your organization merged with another entity, and you may not have received beneficiary information as part of the merger. Perhaps your organization moved to an electronic record system and older beneficiary forms may not be available electronically, and — if stored in a paper format offsite — may not be readily available or retrievable.

As a best practice, your organization should have a robust record retention system for its IRA program. If older beneficiary designation forms are still retained in paper format, they should be readily accessible, with backup copies stored offsite. Electronic records should be indexed properly so that forms can be found and accessed when needed. You should periodically review accounts for beneficiary information and proactively reach out to IRA owners to obtain beneficiary information in cases where a beneficiary form is not on file.

Outdated Beneficiary Designations

IRA owners often name a beneficiary when they open the account and then they forget about it. In the interim, they may get married, have children, get divorced, remarry, and never take the time to update their IRA beneficiary information. The omission is often not discovered until the IRA owner dies, with consequences that can be emotionally devastating to the family. In many cases of remarriage, the IRA owner's former spouse remains the beneficiary of the IRA. While more than half the states revoke a former spouse's right to inherit, other states do not, so the IRA assets often end up being paid to a former spouse, which is likely not what the IRA owner intended. In other cases, when the original beneficiary was a parent or sibling who is now deceased, payment is then made to the IRA owner's (or beneficiary's) estate absent the naming of a contingent beneficiary. This often forces the family to incur the expense of probating the estate for the sole purpose of collecting the IRA assets.

As a best practice, you should periodically remind your IRA owners to review and update their IRA beneficiary information. Some IRA trustees and custodians ask IRA owners to review their beneficiary information whenever they make other changes to their accounts or as part of an amendment mailing.

Incomplete or Incorrectly Completed Beneficiary Designations

Paying IRA assets to an incorrect beneficiary can be costly for an IRA trustee or custodian — both in terms of financial liability and reputational risk — so it is crucial to obtain complete information for each beneficiary; not only to identify the beneficiary at the time of death but to assist in locating them. It is also critical that the beneficiary form is properly completed. Make certain that the percentages for each level of beneficiary — unless they are to be divided pro rata — add up to 100%, that the form is signed by the IRA owner (and a witness if required by your organization), and a consent of spouse is obtained if needed when naming a non-spouse beneficiary.

Obtain complete information for each beneficiary, including full legal name, address and date of birth. Many IRA trustees and custodians also require the beneficiary's Social Security number. Avoid vague or ambiguous designations such as "all my children" or "trust." All My Children was an American television soap opera, but it is not appropriate for an IRA beneficiary form. Instead, the IRA owner should list the full legal name of each child. Likewise, if naming a trust, make sure the trust's complete name is listed on the form — for example, Joe Smith Revocable Living Trust, dated July 20, 2014. Finally, if the IRA owner makes a mistake when completing a beneficiary designation form, discard the form and start over, or at a minimum, have the IRA owner sign and date any hand-written changes.

You should review beneficiary designation forms for completeness and accuracy before accepting them. If an error is later discovered, the IRA owner should be contacted and asked to complete a new beneficiary form. In cases where an IRA owner chooses not to name a beneficiary, ask her to check the box on the beneficiary designation form to indicate that she has elected not to name a beneficiary at the time. You may also want to remind her that the IRA's terms — not her will — generally govern the distribution of assets from her IRA and encourage her to complete a beneficiary form.

Incorporate Best Practices

Incorporating best practices for obtaining and retaining IRA beneficiary designations will ensure that IRA assets are paid following the IRA owner's wishes and reduce the chances of paying out IRA assets to an incorrect beneficiary, along with the legal, financial and reputational risks of doing so.

WINTER 2021

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

TILA. Q: We are doing a mortgage to pay off a land contract. We treat these as refinancings, but we have a lender who prefers not to use a title company. The bank orders the deed and we do a seller-side-only Closing Disclosure (CD). My question is relating to the issue date. The borrowers' CD will show 12-21-20 for the issue with a closing date of 12-24-20 and disbursement of 12-31-20. As to the sellers, should the dates match the CD for our borrower? They will not come in till the 31st to get their monies.

A: The key dates — "Closing Date" and "Disbursement Date" — on the seller's CD should match those on the borrower's/buyer's CD. The "Date Issued" on each of these documents must reflect when the applicable disclosure is "delivered" to the appropriate consumer/party — e.g., if both are put in the mail the same day, these dates will match; if they are hand-delivered on different dates, the two documents will each reflect when each was hand-delivered (even if after "closing," in the case of the seller).

ECOA. Q: If members of an LLC (husband and wife) sign individually on a loan (as co-borrowers), is evidence of their intent to apply jointly (e.g., signatures/initials on such a statement) required? I know that if they sign as guarantors, such joint intent evidence is not required.

A: Yes, just like some owners/senior officers or their spouses in any other corporation signing as individuals would trigger the requirement.

EFTA. Q: If a customer opts into ATM/one-time debit card transactions, we have to deliver a notice or letter to the consumer, acknowledging that they have opted for this service.

If a customer chooses to opt-out later, are we required to also send a letter or notice at that time acknowledging that they have opted out?

If a customer elects to opt-out or is removed from the whole overdraft program, are we required to send a letter acknowledging this? This occasionally happens when we remove someone from the program if they have filed bankruptcy (this is stated in our disclosure as a reason they would not be eligible to be in the program). Occasionally, a customer requests to be removed. We have always provided notice to the customer in these situations where they are removed from the overdraft program. An officer of the bank is questioning if this notice of removal is required even if the customer requests removal.

A: No, Regulation E has no requirement for any notice related to a customer opting out of ATM/one-time debit card coverage under an overdraft program. In the confirmation notice sent when someone opts in, the bank may disclose the customer's right to revoke their consent (but is not required to do so).

However, your state law may have some requirement for a notice regarding the end of any banking service, whether initiated by the bank or by the customer. You will need to check with the bank's legal counsel about any state requirement for such good customer service.

Privacy. Q: We received a letter from the Attorney General's Illinois office (we are based in Ohio but do national lending). They want information about an identity theft case involving a loan application; we discovered the fraud and declined the loan before funding. Do privacy regulations allow us to give out information to a state AG? I know there's an exception allowing us to give out customer information in instances of elder abuse, but this isn't an elder abuse case (just garden-variety ID theft).

A: There is an exception in Regulation P that allows sharing consumer/customer information in a situation like this. The "Other exceptions" section of Regulation P [§1016.15(a)(7)], the regulation's requirements to give notice and opt-out, etc. "do not apply when you disclose nonpublic personal information ... [to] comply with Federal, state, or local laws, rules and other applicable legal requirements" or "[to] comply with a properly authorized civil, criminal, or regulatory investigation, or subpoena or summons by Federal, state, or local authorities."

TISA. Q: May the bank have a link in an online advertisement with "triggering terms" to the required additional TISA disclosures. For instance, the bank has an online ad saying, "Earn up to 3.00% APY each statement cycle during the first 12 months of opening your account when you meet our minimum cycle requirements. Click HERE to learn more." The "HERE" link directs them to the required information. Is this compliant?

A: Yes, that would be permitted as long as the "HERE" link takes the viewer directly to the required additional information. This is spelled out in the Official Staff Commentary on Regulation DD at Comment 9 to 12 CFR 1030.8(a).

HMDA. Q: The bank owns an insurance company. Would an insurance company employee be considered an employee of the bank, allowing the income field to be "N/A"?

A: Only if the insurance company is the equivalent of a department of the bank. If it is set up as a separate company (owned by the bank or by the bank's holding company), then the actual income relied on may not be excluded.

MLA/SCRA. Q: We have a former active-duty member who just got out of the service last week. The loan is to purchase a vehicle. Do we have to do the Military Lending rate or is this exempt? We thought of asking for his discharge papers to show he is no longer in the service.

A: If the "Military Lending rate" you refer to is the 6% limit set by the Servicemembers Civil Relief Act (SCRA), then it does not apply in this case because the SCRA applies to pre-service debt when a service member enters active duty.

If you refer to the Military APR (MAPR) limit of 36% set by the Military Lending Act (MLA), it also does not apply in this case since the customer is no longer on active duty. However, under the MLA rule, you will still need to verify the customer's active duty status — which can be accomplished by inquiring of the Department of Defense (DoD) database or getting a credit bureau report that includes a check of the DoD database.

BSA. Q: We have an account titled ABC Rentals LLC Jane Smith Sole Member. John and Jane Smith are both authorized signers on the account. John comes into the branch and withdraws $21,000.00 in cash from this account, and Jane is not present. How many Part I's should be completed on the Currency Transaction Report (CTR)? My thoughts were only two, one for the LLC and one for John. But now I'm not sure.

A separate question — We have a new account titled John Smith DBA Smith Construction. The account is held under Smith's Construction Employer Identification Number (EIN), and when I look on the state website, I do see Trade Name Registration documentation. Would this warrant a Beneficial Ownership form? The DBA is throwing me off.

A: Re: ABC Rentals — Just the two Part I's, for ABC Rentals LLC and for John. Jane's role as an LLC member is analogous to that of a stockholder for another corporation.

Re: Smith Construction — No, no CDD/BO form is necessary. This is a sole proprietorship, operating under a DBA/"fictitious name," but that does not make it a "legal entity" requiring all the CDD/BO documentation.

ECOA/TILA. Q: Our borrowers applied for secondary market financing. We know right away after pulling a credit report that it will not qualify to go that route. However, we can do it as a portfolio loan. Can we now initially disclose a portfolio loan with a "variable condition commitment" that they did not qualify for the original request and qualify for a portfolio loan? Or, do we have to disclose it as an FHLB loan, then turn around and disclose it as a portfolio loan?

A: Regulation B allows for pretty much whatever back-and-forth that goes on in the application process during the 30-day countdown between "completed application" and when notice of action must be given. So, you have some flexibility in how to handle this.

If you are using their original application as an application for a mortgage loan — secondary market or portfolio, whichever they qualify for — then a notice of action taken is not required for the change from secondary to portfolio, as long as Regulation B's timing is met. Of course, the file should be documented (e.g., a memo) as to what happened. You could send them a notice of counteroffer, if you want, as a way to document the file — and proceed with the portfolio processing.

If you require separate applications — a secondary market one that is denied, followed by a portfolio one you proceed with — you will have to have some written notice of action taken on the secondary one.

With TRID disclosures (the Loan Estimate, LE), if the decision to switch and any notice to the borrower occurs within the three business days after the original application, only one LE need be provided (presumably for the portfolio loan). If the decision, etc., occurs after that third business day, an LE for the second option better have been provided within the required time. From your description, it sounds like another LE will follow it for the portfolio loan within three business days after the switch/new application (with changed circumstances documentation if a secondary loan LE has been provided before the switch in the switch scenario).

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

BANKING NEWS FROM THE STATE CAPITAL

By Melanie G. Hall, Montana Commissioner of Banking and Financial Institutions

Happy 2021! I am hopeful this year will be full of the perfect amounts of capital, earnings and liquidity for all of you and that we soon get to resume seeing each other in person. Drinks are on me.

Big things are happening nationally in the financial services arena that may seem distant from our world, but could have a significant impact on community banks. The OCC has issued a charter to a fintech that doesn't take traditional, insured deposits and has also issued the first national crypto bank charter to a trust company. This expansion of the OCC's authority is being challenged by the national banking trades, the Conference of State Bank Supervisors, and numerous states because it is outside of the OCC's congressionally granted authority. The Division is concerned about this for a number of reasons, not the least of which is that a national charter could allow these non-bank companies to circumvent individual state's consumer protection, licensing and interest rate laws. State supervisory authority in this area is critical to protecting Montanans and has allowed the Division to assist citizens that have had challenges with nationally operating companies that don't have a physical presence in the state.

At a more local level, although the Division does not have any agency sponsored legislation this session, we are paying close attention to all of the activity over at the Capitol. The Division has been helping to draft a bill modernizing the building and loan association act so that it will be possible for mutual banks to operate as a state-charter in Montana. We are also watching a number of bill requests that have been turned in that could impact banks and other financial service providers, including a possible state-owned bank bill. Deja vu all over again…

The Gianforte Administration has finalized all Cabinet-level appointments and has announced the Director of the Department of Administration (my boss), Misty Ann Giles. Director Giles previously served as the Chief of Staff at Rural Development within the USDA. In that position, she oversaw Rural Development's $250 billion loan portfolio making her incredibly familiar with issues concerning credit risk and banking. She firmly subscribes to the tenet that "Better is Always Possible" and all of us at the Division look forward to her energetic, innovative and inclusive leadership. (Thanks so much to Don Bennett for serving on the Director selection team for the Department of Administration!)

As most of you know, the Division's primary focus on the bank side of the office is on maintaining and improving our offsite examination program so that we can continue to do our jobs while causing as little disruption to you doing your jobs as possible. We are contemplating how best to do this given the ongoing cybersecurity challenges with vendors as a result of recent events. We are hopeful to be able to return to a more normal exam process by mid-year, but expect that some parts of the remote examination program are here to stay as they make for a more efficient exam process overall. We are also paying attention to continued balance sheet growth and its impact on capital levels. Paycheck Protection Program forgiveness has been a slow process and additional PPP loans are now being made under the recent stimulus bill. Although we appreciate and encourage the hard work that our banks are doing to assist their customers and manage the challenges that come with this balance sheet growth, it will be interesting to see how long these balance sheet issues persist. We are looking forward to hearing from bankers during exams how you are planning for dealing with these challenges in the short-run, but also in the long-run in the event this temporary(?) growth does not abate.

The Division is, as always, keeping a close eye on asset quality at our banks. Our Montana bankers spent significant time in 2020 working with the customers to make loan modifications in a time of financial strain in the economy. While loan quality has remained satisfactory and government programs have provided tremendous support to many industries, there continues to be concern that 2021 will see increased business bankruptcies or closings that will strain loan portfolios.

Mostly though, I have been so impressed with the dedication, resilience and energy you and all of your teams brought to the debacle that was 2020. We have worked to stay in close contact with all of you and have appreciated your willingness to engage with us about everything from foreclosures, to lending programs, to daily operations. We look forward to continued communication and partnership in 2021 and are hopeful it will be less eventful and significantly less stressful than 2020.

advertiser INDEX

2021 MIB MEMBERSHIP DIRECTORY

American Bank
Livingston, MT 406.222.2265
www.americanbankmontana.com

Ascent Bank
Helena, MT 406.442.8870
www.ascentbank.com

Bank of Bozeman
Bozeman, MT 406.587.5626
www.bankofbozeman.com

Bank of Montana
Missoula, MT 406.829.2662
www.bankofmontana.com

Beartooth Bank
Billings, MT 406.294.6500
www.beartoothbank.com

Belt Valley Bank
Belt, MT 406.277.3314
www.beltvalleybank.com

Citizens Bank & Trust Co. of Big Timber
Big Timber, MT 406.932.5311
www.ctznsbank.com

Eagle Bank
Polson, MT 406.883.2940
www.eaglebankmt.com

Farmers State Bank
Victor, MT 406.642.3231
www.farmersebank.com

First Citizens Bank of Butte
Butte, MT 406.494.4400
www.fcbob.com

First Montana Bank
Missoula, MT 800.824.2692
www.firstmontanabank.com

First Security Bank of Deer Lodge
Deer Lodge, MT 406.846.2300
www.1stsecuritydl.com

First Security Bank of Roundup
Roundup, MT 406.323.1100
www.1stsecurityroundup.com

First State Bank of Shelby
Shelby, MT 406.434.5567
www.fsbshelby.com

Freedom Bank
Columbia Falls, MT 406.892.1776
www.freedombankmt.com

Garfield County Bank
Jordan, MT 406.557.2201
www.garfieldcountybank.com

Granite Mountain Bank
Butte, MT 406.533.0600
www.granitemountainbank.com

Opportunity Bank
Helena, MT 406.442.3080
www.opportunitybank.com

Peoples Bank of Deer Lodge
Deer Lodge, MT 406.846.2400
www.pbdl.net

Pioneer Federal Savings and Loan
Dillon, MT 406.683.5191
www.pioneerfed.com

Stockman Bank
Miles City, MT 406.234.8420
www.stockmanbank.com

Stockmens Bank
Cascade, MT 406.468.2232
www.stockmens.net

Three Rivers Bank of Montana
Kalispell, MT 406.755.4271
www.threeriversbankmontana.com

Valley Bank of Ronan
Ronan, MT 866.676.2055
www.valleybankronan.com

Valley Bank of Kalispell
Kalispell, MT 406.752.7123
www.valleybankmt.com

Yellowstone Bank
Billings, MT 406.294.9400
www.yellowstonebank.com

***Ascent Bank**
***Belt Valley Bank**
***Eagle Bank**
***Farmers State Bank**
***First Security Bank Deer Lodge**
***First Security Bank Roundup**
***Opportunity Bank**
***Pioneer Federal Savings and Loan**
***Three Rivers Bank**
***Valley Bank of Kalispell**

Be sure to check out member benefits with MIB at http://mibonline.org/membership/benefits/

** 2021 CBC Program*

MIB ASSOCIATE MEMBER RESOURCE GUIDE

MIB Associate Members support your association with annual dues, sponsorships, discounted services and royalty agreements. Please use these dedicated companies to meet your banking needs.

Allegra Marketing Print/Mail/Montana Marketing
www.allegrahelena.com 406.449.2847

Anderson ZurMuehlen & Company
Helena, MT 406.442.1040
www.azworld.com

Ascensus
Brainerd, MN 800.346.3860
www.ascensus.com

Bankers' Bank of the West
Denver, CO 303.291.3700
www.bbwest.com

Bank Financial Services Group
Bozeman, MT 406.587.2066
www.bfsgroup.com

BankServices1
Phoenix, AZ 858.205.088
bankservices1.com

Bankers Health Care Group
Syracuse, NY 315.217.5593
www.bhgloanhub.com/brian

Bell Bank
Fargo, ND 701.298.1500
www.bellbanks.com

Big Sky Economic Development Corp.
Helena, MT 406.256.6871
www.bigskydevelopment.org

Big Sky Finance
Billings and Helena, MT 406.869.8403
www.bigskyfinance.org

***Bison Mountain Financial**
Chandler, AZ 224.406.1187
www.bisonmountain.com

Citizens Alliance Bank
Lincoln, MT 406.362.4248
www.cabankmn.com

Creative Planning
Overland Park, KS 314.882.6940
www.Creativeplanning.com

Crescent Mortgage Company
Atlanta, GA 800.851.0263
www.crescentmortgage.com

Cummins-Allison Corporation
MT Prospect, IL 206.763.3900
www.cumminsallison.com

Cushing Terrell
Billings, MT 406.248.7455
http://www.cushingterrell.com
www.cushingterrell.com

CWG Architects
Helena, MT 406.794.8922
www.cwg-architects.com

Dakota Business Lending
Lewistown, MT 406.760.1002
dakotabusinesslending.com

DLS Consulting
Ulm, MT 406.781.5288
www.dlsconsulting.net

Eide Bailly, LLP
Billings, MT 406.896.7112
www.eidebailly.com

Elucidate, LLC
Bozeman, MT 406.581.6494
www.elucidatecompliance.com

Federal Home Loan Bank of Des Moines
Seattle, WA 206.434.0581
www.fhlbdm.com

Federal Reserve Bank Minneapolis
Minneapolis, MN 612.209.9031
www.manta.com

***Financial Education & Development**
Helena, MT 406.442.2585
www.manta.com

FirstCall Computer Solutions
Missoula, MT 406.721.6462
www.firstsolution.com

First Interstate Bank
Billings, MT 406.255.5000
www.firstinterstatebank.com

Fiserv
Brookfield, WI 262.879.5000
www.fiserv.com

FPS Gold
Provo, UT 801.344.6449
www.fps-gold.com

Frontline Processing Corp.
Bozeman, MT 406.585.7443
www.frontline processing.com

Grizzly Security Armored Express, Inc.
Kalispell, MT 406.257.1636
www.grizzlysecurity.com

***Holtmeyer & Monson**
Memphis, TN 901.748.1902
www.holtandmon.com

ICBA
Washington, D.C. 800.422.8439
www.icba.org

***ICBA Bancard & TCM Bank**
Washington D.C. 800.242.4770
icbabancard.org

ICBA Northwest Regional Office
Sartell, MN 320.352.7320
brandy.smallbrock@icba.org

***ICBA Securities**
Memphis, TN 800.422.6442
www.icbasecurities.com

IntraFi
Arlington, VA 703.292.3422
www.IntraFi.com

James Brown Law Office, PLLC
Helena, MT 406.449.7444
www.thunderdomelaw.com

Keenan & Partners
Portland, OR 503.705.6393

Leavitt Group
Bozeman, MT 406.551.4167
www.leavitt.com/greatwest/

Modern Banking Systems
Ralston, NE 800.592.7500
www.modernbanking.com

MoFi
Missoula, MT 406.994.4421
www.montana.edu/business/index

Montana Board of Housing
Helena, MT 406.841.2840
www.housing.mt.gov

Montana Board of Investments
Helena, MT 406.444.0001
www.investmentmt.com

MSU College of Business
Bozeman, MT 406.994.4421
www.montana.edu/business/index

NeighborWorks Montana
Great Falls, MT 406.761.5861
www.nwmt.org

NFP Executive Benefits
Vancover, WA 503.539.8777
www.executivebenefits.nfp.vom

PCBB
Walnut Creek, CA 888.399.1930
www.pcbb.com

***PayneWest Insurance**
Helena, MT 406.442.5360
www.paynewest.com

Select Bankcard
Lehi, UT 855.943.5763
www.selectbankcard.com

Shazam
Lino Lakes, MN 763.250.3741
www.shazam.net

Small Business Administration
Helena, MT 406.441.1081
www.sba.gov

TIB (The Independent Bankers Bank)
Dallas, TX 972.444.3500
www.mybankersbank.com

Travelers Insurance Company
Spokane, WA 509.448.2427
www.travelers.com

Unitas
Johnstown, OH 800.461.9224 Ext 3424
www.unitasfinancial.com

***United Bankers' Bank**
Billings, MT 406.656.7400/800.752.8140
www.ubb.com

Upgrade, Inc.
San Francisco, CA 94111 415.940.7688
www.upgrade.com

USDA-Rural Development
Bozeman, MT 406.585.2580
www.rurdev.usda.gov/mt

Wipfli LLP
Helena, MT 406.442.5520
www.wipfli.com

Young & Associates, Inc.
Kent, OH 800.525.9775
www.younginc.com

***Preferred Provider**

IS YOUR COMPANY LISTED HERE? Become an associate member today! www.mibonline.org

UPCOMING WEBINARS | COMMUNITY BANKERS Webinar network

Feb 2 2021	Red Flags in Residential Appraisal Compliance
Feb 3 2021	Flood Series: Flood Compliance Beyond the Basics
Feb 4 2021	Calculating Cash Flow from S-Corporation & Partnership Tax Returns
Feb 9 2021	Remote Workforce Series: Work from Home Risks: How Compliance Can Limit Liability
Feb 10 2021	Overdraft Hotspots Including Regulations, Lawsuits & Guidance
Feb 11 2021	E-SIGN Series: 'No-Contact' Account Opening: E-SIGN Compliance
Feb 12 2021	New ATR & QM Rule Changes Effective July 1, 2021
Feb 17 2021	New Security Officer Training: Your Bank Protection Act Responsibilities
Feb 18 2021	Determining Cash Flow from Personal Tax Returns Part 1: Form 1040, Schedules B & C
Feb 23 2021	Remote Workforce Series: Security Compliance for Work from Home Staff
Feb 24 2021	The Top 10 ACH Exception Handling Questions
Feb 25 2021	The Board's Role in Cyber Security Risk
Mar 2 2021	Advanced BSA Officer Training: In-Depth Risk Issues & Difficult Situations
Mar 3 2021	Determining Cash Flow from Personal Tax Returns Part 2: Schedules D, E & F
Mar 4 2021	Flood Series: Flood Forms Line-by-Line
Mar 8 2021	SBA Lending Update 2021: Rule Changes & PPP FAQs
Mar 9 2021	ACH Rules Update 2021
Mar 10 2021	Safe Deposit Issues: Delinquency, Death & Abandonment
Mar 11 2021	Remote Workforce Series: Making Work from Home Effective
Mar 15 2021	The Top 10 Reasons Consumers Leave Their Bank
Mar 16 2021	E-SIGN Series: Virtual Loan Document Delivery & E-SIGN Compliance
Mar 17 2021	Federal Requirements for Tech-Based Marketing: Websites, Social Media, Robo Calls & More
Mar 18 2021	Flood Series: Commercial Flood Insurance Regulations & Compliance
Mar 23 2021	Business Accounts: Who is Authorized to Open, Close, Transact?
Mar 24 2021	Deposit Operations Update 2021
Mar 25 2021	Legal Issues for Right of Setoff on Deposit Accounts & Loans

COMMUNITY BANKERS Webinar network x MIB

Montana *independent* Bankers

bit.ly/mibwebinars

Montana Independent Bankers
30 South Ewing Street
Suite 100
P.O. Box 4893
Helena, MT 59604-4893

This magazine is designed and published by The newsLINK Group, LLC | 1.855.747.4003