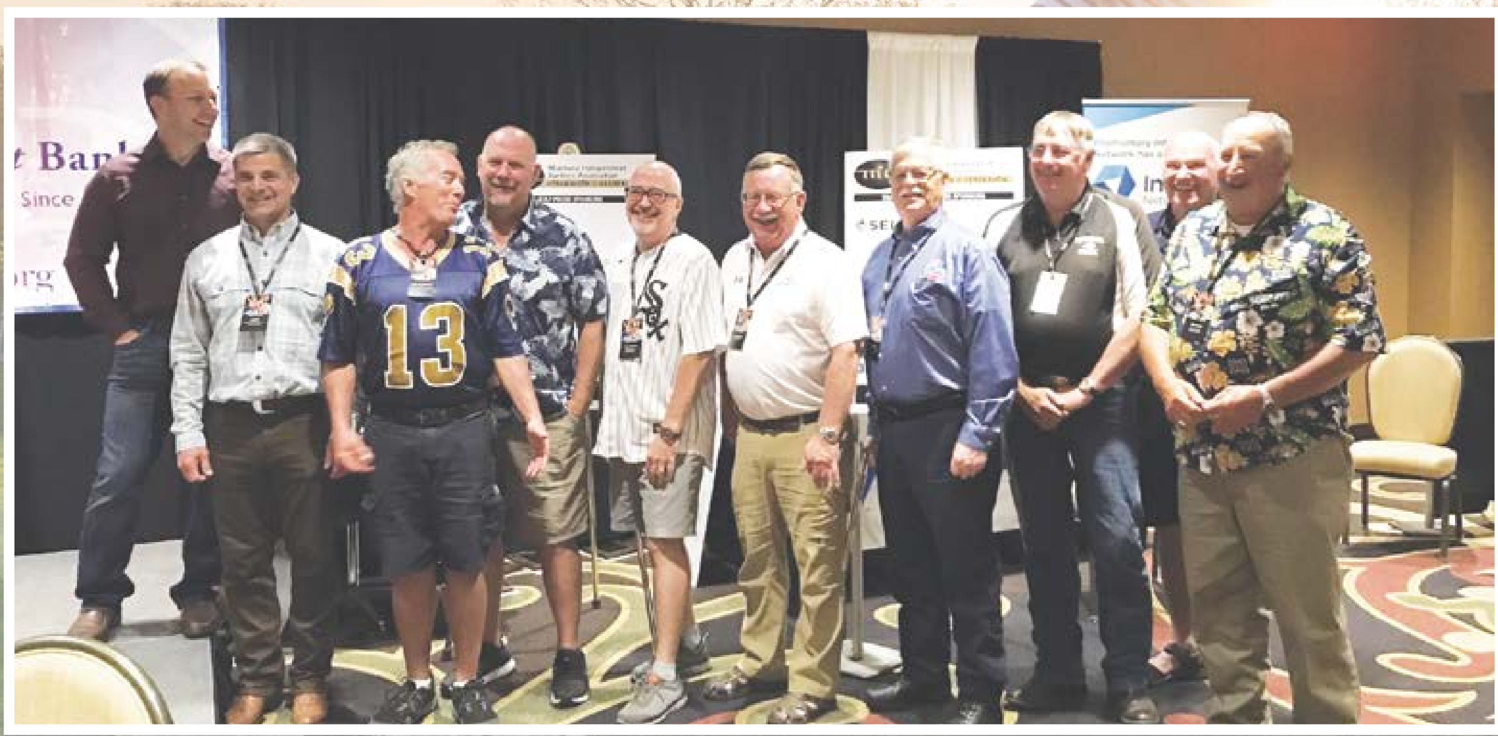
SUMMER 2021

COMMUNITY banker



BACK TOGETHER AGAIN! 2021 MIB CONVENTION IS A SUCCESS!

2021

THE SAFE ACT A DECADE ON

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THE OFFICIAL PUBLICATION OF THE MONTANA INDEPENDENT BANKERS ASSOCIATION

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Cover Photo
Current and former MIB Presidents; Left to right

Current MIB President Andrew West, A.J. King, Tom Christnacht, Kenny Martin, Pete Johnson, Martin Olsson, John King, Shawn Dutton, Kirk Sandquist, Ken Walsh

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Andrew West

I enjoyed my time at the convention, and I hope those of you who also made it had a good time as well and were able to enjoy your time away from your respective banks.

I began writing this article on the cusp of leaving for Billings, headed to the 2021 MIB Convention, so pleased we could finally get together to celebrate community banking in Montana. I was excited to renew old friendships, gain the opportunity to learn new things from our esteemed speakers, and reaffirm my spirit in banking in Montana.

The past year and a half have been trying for everyone in many ways. Montana's community bankers have worked harder than ever to help our customers during these trying times. I am always inspired by my colleagues who give so selflessly to their communities. The quality of people who work in the community banking industry is unbelievable. I honestly do not believe I have met a nicer group of people who care more sincerely about their customers. Our mission at MIB is to continue providing endless support for those who contribute so greatly to making Montana such an amazing place.

In that vein, MIB has recently launched a digital advertising campaign designed to spread the message that Montana's Independent Banks are working harder than ever to ensure we are here for our customers when they need us. These ads will appear throughout all markets in Montana to reach as many people as possible, including those in smaller areas. The digital ads directly link to an MIB web page to offer customers the necessary links to all member banks' websites and to remind folks we are here for them. It will also drive customers to your websites to bring them to your door.

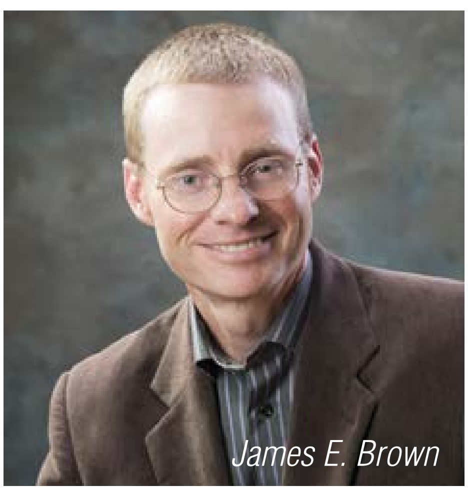
At MIB, we feel passionate about supporting independent community banks throughout Montana, and we are doing what we can to put our money where our mouth is. We sincerely hope to use this digital advertising platform to further enhance our member banks' benefits beyond MIB's excellent advocacy and education. The world is changing rapidly before our eyes, and we are changing along with it to benefit our industry and customers across Montana.

I enjoyed my time at the convention, and I hope those of you who also made it had a good time as well and were able to enjoy your time away from your respective banks. You all deserve a break now and then, and I am hopeful the convention provided you a nice reprieve from the daily stress of "holding down the fort." For those of you who did not make it, I hope you can make it next time. I would love to meet you and get to know more about you and your banks. I find the stories of each different independent bank to be endlessly fascinating. There is so much correlation between the history of many Montana banks and the history of Montana itself. Those of you who have been around a long time understand what I mean. The banks helped the towns develop. That was as true then as it is now and leaves an amazing legacy.

So, again, let me thank you all for everything you do to better your towns and better Montana. Through your patient and kind encouragement and assistance, many customers' dreams have come to fruition. Many 4H steers and heifers and lambs and hogs have been purchased, and many scholarships have been granted. We give back in so many ways, and I know all of us are proud to do so and are grateful for the people in our lives who make this all possible. Banking is a noble enterprise populated by some of the most charitable and giving people on earth. This is what makes me proud to be part of your tribe and grateful for the opportunity to do something significant in life. This, to me, is the essence of life. Give more than you receive and help those you can any way you can. We do this daily, and for that, we can hold our heads high, proud to be part of an amazing industry in a fantastic state. Have an excellent rest of your year, and keep up the good work!

Andrew West
MIB President

Late spring was a productive time for the Association. In April, the MIB Board held its second board meeting for the year. The entire Board met in person for the first time since the start of the COVID-19 pandemic. At that meeting, the Board gave its final approval for a new member benefit.


James E. Brown

Welcome to our summer edition of the Directors Digest.

With the start of summer 2021 and temperatures reaching nearly 100 degrees in late June and early July, it appears as if the "dog days of summer" will be hot ones in Montana. Speaking of the dog days of summer, did you know the term refers to the dates July 3 through Aug. 11 and that those date ranges are named after "Sirius," the dog star?

Late spring was a productive time for the Association. In April, the MIB Board held its second board meeting for the year. The entire Board met in person for the first time since the start of the COVID-19 pandemic. At that meeting, the Board gave its final approval for a new member benefit. Starting in May, the Association, working with the Blodgett Marketing group of Polson, kicked off a new digital marketing campaign on behalf of MIB's membership. The campaign began in the Billings and Glendive markets.

The member marketing campaign consists of digital ads that, when clicked on, take the user to a landing page on the MIB website. Once there, the consumer/user can find their local MIB community bank. (The MIB landing page can be found using this link: https://mibonline.org/find-a-community-bank.) The Association is very excited about this 21st-Century member benefit, and we believe the program will bring our members even more value for their dues dollar.

In April, the Association also locked in Dec. 1, 2021, to host its live agriculture lending seminar. The seminar will take place at the Northern Hotel in Billings, and the featured speaker will be Dr. David M. Kohl, Professor Emeritus at Virginia Tech University. MIB is pleased to bring Dr. Kohl to Montana, where he will give his keen insights into the state of the U.S. agriculture industry. The Association looks forward to seeing you in Billings in December for a deep dive into agricultural lending.

And, in May the CSBS announced that Montana's own Melanie Hall was elected as the new chair of the CSBS Board of Directors. What a tremendous and well-deserved honor for Commissioner Hall. All of us here at MIB congratulate Ms. Hall for her professional accomplishments, and we know the Treasure State will be represented on state banking matters.

In July, after being forced last year to cancel the convention, the Association renewed hosting its annual trade show and convention in Billings. The convention was held on the heels of Montana Governor Gianforte's announcement that he was issuing an executive order rescinding Montana's state of emergency precipitated by the pandemic.

I am pleased to write that, despite the forced year hiatus, the 2021 convention was bigger and better than ever. The convention had high attendance from membership and strong participation from MIB's associate members and vendors. We were fortunate to hear from a great lineup of speakers during the convention, including Robert Fisher, ICBA Chairman. Serving as the Association's keynote speaker, Mr. Fisher gave a great talk on the resiliency and importance of community banks and community banking. In addition, attendees heard from Melanie Hall, Vernon Tanner from Crescent Mortgage, Tom Keenan with Keenan and Partners, and Dory Wiley with Commerce Street Holdings. Bill Elliott with Young & Associates gave a timely presentation on cannabis banking as well.

During the 2021 annual membership meeting, the members voted to renew the terms of all current executive board members. As such, Andrew West will continue as MIB's president for one more year. He has shown outstanding leadership during what proved to be a very challenging year, and we are happy to have him steer our ship for another year through what we hope will be less choppy waters. Adam McQuiston was reelected as the Association's vice president; Loren Brown will continue as MIB's Secretary; Tim Schreiber will serve as MIB's Treasurer.

We here at the Association thank each of those individuals for their willingness to serve. We also commend them for their great voluntary performance on behalf of the Association to date.

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See a Demo

I have stated it many times – it is both an honor and a privilege to serve as MIB's Executive Director. Putting on the annual state convention is one of my favorite work tasks. The 2021 convention was the ninth convention I have hosted, and I always appreciate this unique opportunity to interact personally with professionals like you, who are dedicated to their business and their local community.

Continued from Page 4

As the reader likely knows, MIB purposefully holds its annual convention at a location within Montana because first, the Association wants to recognize the Montana Independent Bankers Association is just that – a Montana-based association for Montana banks. Second, in a similar manner to which our banks operate, MIB desires to reinvest our convention-generated dollars into a local Montana community. This latter situation results in a win-win scenario both for our organization and our Montana community banking partners. Therefore, I am pleased to announce that the 2022 MIB Annual Convention will be held in Whitefish, and in 2023, we are slated to return to Big Sky for the first time in many years. As such, I invite you and your banking colleagues to join us again next year – and in future years – for food, fun, and professional advancement.

I have stated it many times – it is both an honor and a privilege to serve as MIB's Executive Director. Putting on the annual state convention is one of my favorite work tasks. The 2021 convention was the ninth convention I have hosted, and I always appreciate this unique opportunity to interact personally with professionals like you, who are dedicated to their business and their local community.

I appreciate the trust the Association's members have placed in me and the MIB team, Terri and Marie. I hope we have repaid that trust by providing our membership with top-notch member services.

In closing, I would like to leave you with this thought. I know many of MIB's members worked extra hard during the pandemic to help individual customers and businesses survive the economic harm that followed. This dedication on your part demonstrates firsthand all the good that MIB members and associate members do. I encourage you to reflect on your role in making Montana the 'Last Best Place.'

James Brown, Esq.
MIB Executive Director

Flourish

A NEW CHAPTER

By Rebeca Romero Rainey, President and CEO, ICBA

"While we can't predict what the future holds, we can continue to shape the narrative with our customers and potential customers."

Recently at the dinner table, my family had a fascinating conversation about the merits of short stories versus novels. My daughter, an avid reader, made the case that the novel is the superior form of storytelling because it allows the piece to deepen and evolve. My husband, on the other hand, argued that with a short story, every word counts, and that critical focus creates a vivid snapshot of an experience.

As they bantered back and forth, I was struck by how much the conversation reflected the nature of community banking. Relationships drive all that we do, so community bankers are in it for the long haul, sitting with our customers as they write each page of their stories. Community banking isn't driven by a finite moment or a single transaction. Instead, it's a journey where today's efforts are only one chapter of the larger narrative.

Yet, we do have these intense moments in time, events that happen in spurts and unfold like parts of the larger story. Consider the Paycheck Protection Program (PPP). Community banks became the heroes of that particular tale by responding quickly and serving both customers and noncustomers at a much greater rate than megabanks or credit unions. We saw a need and determined a course of action, resulting in a positive experience for our customers.

I have been struck by the way the PPP opened a new chapter for community banks. As we think about what's next for the new relationships we made through the PPP, we have an opportunity to grow and expand our relationship base. We were able to take what was a short-term, crisis-mode response and translate it into long-term customer potential.

That spirit of opportunity in relationship building enables community banks to thrive. This month's issue explores the topics of lending best practices, growth strategies and the digital customer experience. These stories can help you think about your community bank in new ways to meet market fluctuations and customer needs.

Because while we can't predict what the future holds, we can continue to shape the narrative with our customers and potential customers. Leading with the relationship and keeping the focus on a deeper, more meaningful dynamic while readying ourselves to respond to market changes as they arise prepares us for what's to come. And with this expertise as our background, we're well-positioned to continue writing new stories with our customers, now and into the future.

What you need to know

The Fourth of July celebrates independence and for 91 years, ICBA has been advocating for independent community banks. We have been and will continue to be here for you. We hope you all had a Happy Independence Day!

Connect with Rebeca @romerorainey.

CHALLENGES AHEAD

By Robert M. Fisher, ICBA Chairman President & CEO of Tioga State Bank, Spencer, N.Y.

In today's marketplace, we can't be afraid to experiment and fail. Let's embrace some out-of-the-box, entrepreneurial thinking to attack our problem areas.

When it comes to implementing new technology, community banks have been faced with challenges. For one, we often don't have the internal bandwidth to build the solutions we want, so we must seek products that exist in the marketplace – and that can feel like searching for a needle in a haystack. Once we find the right product, it has to integrate into our core systems. And when a product or service doesn't perform, we may let it limp along instead of sunsetting it.

While these issues present challenges, we are entering a new era, one with much more potential on the horizon. My optimism stems from participating in the ICBA ThinkTECH Accelerator program, which delivers best-of-the-best solutions directly to community banks.

The accelerator companies understand community banks and how to work with us because the program directly connects them with community bankers who guide how to make their products stronger. ICBA evaluates participants with community banking needs in mind, making it easier for community banks looking to partner with them. By the time the companies complete the accelerator, they are ready to go to market with community banks.

While not every accelerator solution is relevant to every bank, the offerings are designed to address our specific pain points. In fact, my bank signed on multiple companies from the latest cohort to support our efforts. Because of the detailed insights from ICBA, the onboarding process was nominal, and these companies were able to get up and running quickly within our organization.

At Tioga State Bank, we have never been bleeding edge, but we are leading edge. For example, we implemented online banking in 1997 with Jack Henry & Associates, and we've always tried to be first to market with the technology that customers want. Over the years, our tech philosophy has evolved. We've come to terms with the fact that not every solution we implement will be a forever product.

In today's marketplace, we can't be afraid to experiment and fail. So, as we dive deeper into the digital customer experience in this issue, let's embrace some out-of-the-box, entrepreneurial thinking to attack our problem areas. To remain competitive, we have to step up and try different things to meet burgeoning expectations. Sure, not every solution will work. But if we don't try, we'll never know just how far we can go.

Robert Fisher is president, CEO and chairman of Tioga State Bank in Spencer, N.Y. To connect with him, go to Robert @RobertMFisher.com.

PICK AND ROLL — MULTIPLE INSTITUTIONAL RELATIONSHIPS INFLUENCE BOND YIELDS

By Jim Reber, President and CEO of ICBA Securities

Multiple institutional relationships influence bond yields.

Bond yields have risen, and the interest rate curve has steepened thus far in 2021. For all the discourse about cause and effect, the most popular and logical explanation is that the Federal Reserve's insistence on maintaining an easy money policy, coupled with record fiscal stimulus, is likely to unleash a torrent of inflation sometime soon. Therefore, longer-term investors have demanded a higher return to compensate them for the perceived greater exposure to purchasing power erosion.

As it relates to community bank bond portfolios, there is a lot more at play. We have talked about tight spreads and supply shortages in specific investment sectors in this column very recently, but we've not – yet – mentioned the impact that non-depository investors have had. It may be a bit difficult to quantify precisely how much our bond yields are influenced by nonbank buyers, but it is worth a look into global demand for the securities that your bank quite possibly owns. At a minimum, they form a baseline from which virtually all of your assets and liabilities are priced.

In our court

The relationship between an issuer and investor with the most significant impact on domestic bond yields is probably also the most visible. As the Treasury's borrowing needs have skyrocketed since 2019 – and really since 2008 – it is a good thing for you and me as obligors that we have had a deep-pocketed buyer at the ready. That would be the Federal Reserve. In the current economic environment, the two entities are acting independently yet cohesively.

This two-player game evokes the basketball strategy known as the pick-and-roll. The pick-and-roll was perfected by Hall of Famers John Stockton and Karl "The Mailman" Malone in the 1980s. Executed properly, it is impossible to stop. In shorthand, this entails the player with the ball receiving a block, or "pick," from a teammate, who then "rolls" to the basket to get a pass – unguarded – for an easy hoop. In our world, the Treasury Department has the ball. The Fed sets the pick, goes to the basket and scores.

Plenty of participation

To be sure, several entities roll à la Karl Malone. The Fed is, by far, the single biggest investor in Treasury securities but by no means owns the majority of our debt. In fact, as of Dec. 2020, the Federal Reserve owned about 19% of Treasury's borrowings. Five years before that, the number was about 16%, so while the Fed's balance sheet is at an all-time high, it does not own much more of the total pie than it did in 2015.

What that means is that other buyers have stepped up their "roll" as well. What may surprise you to learn is that it is not other foreign governments. Those central banks, which are popularly believed to own record amounts of dollar-denominated bonds, have actually shrunk their share of our debt from 41% in 2015 to 29% today. And the two largest sovereign owners, Japan and China, amazingly hold fewer treasuries in absolute amounts than they did six years ago.

Positive returns

So who's growing their stockpiles of our debt? Bloomberg reports that it's a variety of institutional buyers other than central banks. Large, diversified investors, state and private pension funds, mutual funds and insurance companies are examples. In aggregate, they have been entrusted with investing vast amounts of money, and in the first half of 2021, the allure of treasury securities, particularly those with positive real returns, has been difficult to ignore.

As of this writing, the yield on the 10-year Treasury note is higher than inflation for the first time in several years. Among G8 economies, U.S. debt securities are not only the highest yielding, they are easily the most liquid, not to mention the most available. So, while it is understandable for bond buyers to be attuned to the possibility of inflation being "loosed," we have some things working in our favor to keep bond prices at least theoretically supported.

Huge sums of institutional money are likely to be looking for safe havens for the foreseeable future. Aging global populations, higher national savings rates, and a Fed policy that subsidizes short interest rates and invests in longer-duration securities are part of this dialogue. Ultimately, community banks stand to benefit from modestly higher rates, with some likely price protection from institutional investors. The Mailman going to the basket for a score off the pick-and-roll is part of portfolio management dynamics in 2021.

Jim Reber, CPA, CFA, is president and CEO of ICBA Securities, ICBA's institutional, fixed-income broker-dealer for community banks. He can be reached at jreber@icbasecurities.com.

AMERICAN JOBS PLAN

On March 31, 2021, President Biden announced his proposal for a $2.3 trillion infrastructure and jobs plan entitled the American Jobs Plan. Many investors regard this plan with mixed emotions. Although we may benefit from jobs being created and investing in our infrastructure, the sticker shock of a multi-trillion dollar spend has some people concerned about what this could mean for taxes and inflation.

The United States of America is the wealthiest country globally, yet we rank 13 when it comes to the overall quality of our infrastructure. Total public spending on infrastructure as a share of GDP peaked in the late 1950s in the U.S. during the initial stages of construction of the Interstate Highway System. Since the mid-1980s, however, total public spending as a share of GDP has remained relatively flat.

Certainly, infrastructure spending has historically been suitable for markets. Until the great bull market of the aughts, the 1950s was the best decade ever for the Dow, which climbed 239.5% from 1950 to 1959. Low inflation and low interest rates provided an ideal environment in which stocks could thrive. The brand-new interstate highway system helped ship goods from place to place, and the new medium of television helped create an appetite for those goods.

In the United States, about 85-90% of public infrastructure activity is accounted for by state and local governments. The American Jobs Plan consists principally of one-time capital investments in our nation's productivity and long-term growth. It will invest about 1% of GDP per year over eight years to upgrade America's infrastructure, revitalize manufacturing, invest in basic research and science, and shore up supply chains. Of course, this could all change once it goes through Congress (On Aug. 10, 2021, it was passed by the Senate. It still has to be passed by the House.)

From an investment standpoint, several points need to be taken into consideration. First, the proposal by the Biden Administration is just that, a proposal. There is a long journey ahead before we know what the final product will be or even get passed. Any comments at this point are pure speculation. Many presidents have had some version of an infrastructure plan – and these plans have largely gone nowhere.

Secondly, the massive stimulus we have observed from both Federal Reserve and Washington, coupled with the proposed stimulus in the form of the "American Jobs Plan," suggests a reasonable basis for expecting ongoing recovery of the economy as the pandemic subsides, with a potentially healthy pace of economic expansion post-pandemic.

Third, in general, massive spending along the lines of what is proposed could give the markets a boost as surplus liquidity finds its way to riskier assets. This might impact making already expensive assets (stocks, real estate, etc.) even more costly.

Lastly, as factor-based investors, we know factor risk premia ebb and flow over various business and economic cycles. However, recent research suggests that quality tends to do well at the peak of the cycle and continues to do so into a contraction. When the market hits its trough, value, size and momentum tend to be the best performing factors; subsequently, value recedes, but size and momentum continue to do well into an expansion.

Anytime you change taxes and invest in specific industries, there will be winners and losers. Knowing who the winners and losers will be and what this will mean for certain sectors is impossible to determine in advance.

There is not any substantial evidence of a successful methodology to identify and time these cyclical shifts, and the premia associated with various characteristics of factor risk change over time with a degree of unpredictability. We recommend maintaining a strategic allocation across multiple factors to successfully harvest the average risk premia across economic cycles over time in a controlled, cost-effective manner.

Dive Deeper: Visit EideBailly.com for an in-depth look at the American Jobs Plan.

SAFE ACT A DECADE ON

By William J. Showalter, CRCM, CRP Senior Consultant; Young & Associates, Inc.; Kent, Ohio

We have been dealing with the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) since 2010. Still, questions surface or confusion exists over SAFE Act requirements.

- "A loan clerk quotes loan rates from a non-public rate schedule, along with payment amounts for inquiring consumers. Should she be registered?" (Maybe, she is performing a function of a mortgage loan originator, MLO.)
- "Our head of lending is our SAFE Act Officer. He also handles some mortgage loans, with his name on loan documents. However, his background is in commercial lending, and he has never registered with the NMLSR. Do we have a problem?" (Yes, if he is involved in more than five mortgage loans per year, he must be registered.)
- "How often do we have to get criminal background checks for our MLOs? How about when their fingerprints expire?" (Criminal background checks are required only on initial registration. The fingerprint expiration date is only relevant for existing MLOs coming into the bank as new employees. No updating of fingerprints for ongoing MLOs is required.)

These queries reveal that confusion still exists over the requirements and how they impact banks and thrifts.

A little background

Congress enacted the SAFE Act in July 2008 to require states to establish minimum standards for the licensing and registration of state-licensed mortgage loan originators and provide for the establishment of a nationwide mortgage licensing system and registry for the residential mortgage industry.

The SAFE Act required all states provide a licensing and registration regime for mortgage loan originators not employed by federal agency-regulated institutions within one year of enactment (or two years for states whose legislatures meet biennially).

In addition, the SAFE Act required the federal banking agencies, through the Federal Financial Institutions Examination Council (FFIEC) and the Farm Credit Administration (FCA) develop and maintain a system for registering mortgage loan originators employed by agency-regulated institutions.

The Dodd-Frank Act moved responsibility for the SAFE Act rules to the Consumer Financial Protection Bureau (CFPB), which rolled these rules into Regulation G (12 CFR 1007).

Licensing vs. registration

Most of the confusion at the outset seemed to center on licensing versus registration of mortgage loan originators (MLOs). The issue is deceptively simple.

- MLOs that work for federally supervised banks, thrifts and credit unions (and FCA lenders) must register with the national registry (NMLSR).
- MLOs employed by other mortgage lenders (mortgage companies, etc.) must navigate the state licensing and registry system, a much more time-consuming, expensive, and burdensome process that also carries a continuing education requirement.

Coverage

A "mortgage loan originator" is an individual who both takes residential mortgage loan applications and offers or negotiates the terms of a residential mortgage loan for compensation or gain.

The term "mortgage loan originator" does not include individuals who perform purely "administrative or clerical tasks" (the receipt, collection, and distribution of information standard for the processing or underwriting of a loan in the mortgage industry). Nor does a "mortgage loan originator" obtain the information necessary to process or underwrite a residential mortgage loan. Also excluded are individuals who perform only real estate brokerage activities. These are duly licensed individuals or entities solely involved in extensions of credit related to timeshare plans, employees engaged in loan modifications or assumptions, and employees involved in mortgage loan servicing.

"Compensation or gain" includes salaries, commissions or other incentives, or any combination of these types of payments.

MLO registration

An MLO must be federally registered if the individual is: 1) an employee of a depository institution; 2) an employee of any subsidiary owned and controlled by a depository institution and regulated by a federal banking agency: or 3) an institution regulated by the FCA.

The final rule, as required by the SAFE Act, prohibits an individual who is an employee of an agency-regulated institution from engaging in the business of a loan originator without registering as a loan originator with the national registry, maintaining that registration annually, and obtaining a unique identifier through the registry. Employer financial institutions must require adherence to this rule by their employee MLOs.

The final rule, as required by the SAFE Act, prohibits an individual who is an employee of an agency-regulated institution from engaging in the business of a loan originator without registering as a loan originator with the national registry, maintaining that registration annually, and obtaining a unique identifier through the registry.

MLOs may submit their registration information individually, or their employer institution may do it for them (by a non-MLO employee). Management should decide which approach will ensure consistency within the institution, especially since prescribed institution information must be submitted to the registry.

This MLO information must include financial services-related employment history for the 10 years before the date of registration or renewal, including the date the employee became an employee of the bank – not just the time they have worked for their current employer.

Employers of MLOs must remember to renew registrations annually for as long as an individual operates as an MLO. The renewal period opens November 1 and ends December 31 each year. If an MLO or bank registration lapses, it may be reinstated during a reinstatement period that begins January 2 and closes February 28 each year.

Other requirements

Bank and thrift managers also should remember that there are specific requirements in this rule for the institution to have policies and procedures to implement SAFE Act requirements and the use of a unique identifier (NMLS number) by MLOs.

At a minimum, the bank's SAFE Act policies and procedures must:

- Establish a process for identifying which employees have to be registered MLOs
- Inform all MLOs of SAFE Act registration requirements and instruct how to comply with those requirements and procedures
- Establish procedures to comply with the unique identifier requirements
- Establish reasonable procedures for confirming the adequacy and accuracy of employee registrations, including updates and renewals, by comparisons with its records
- Establish reasonable procedures and tracking systems for monitoring compliance with registration and renewal requirements and procedures
- Provide independent testing for compliance with this part conducted at least annually by covered financial institution personnel or by an outside party
- Provide for appropriate action in the case of any employee who fails to comply with SAFE Act registration requirements or the bank's related policies and procedures, including prohibiting such employees from acting as MLOs or other appropriate disciplinary action
- Establish a process for reviewing SAFE Act employee criminal history background reports, taking appropriate action consistent with applicable federal law, and maintaining records of these reports and actions taken concerning relevant employees, and
- Establish procedures designed to ensure that any third party with which the bank has arrangements related to mortgage loan origination has policies and procedures to comply with the SAFE Act, including appropriate licensing and registration of individuals acting as MLOs

The bank or thrift also must make the unique identifiers (NMLS numbers) of its registered MLOs available to consumers "in a manner and method practicable to the institution." The bank has the latitude to implement this requirement. It may choose to make the identifiers available in one or more of the following ways:

- Directing consumers to a listing of registered MLOs and their unique identifiers on its website
- Posting this information prominently in a publicly accessible place, such as a branch office lobby or lending office reception area, and
- Establishing a process to ensure that bank personnel provide the unique identifier of a registered MLO to consumers who request it from employees other than the MLO

In addition, a registered MLO must provide his or her unique identifier to a consumer:

- Upon request
- Before acting as a mortgage loan originator, and
- Through the MLO's initial written communication with a consumer, if any, whether on paper or electronically (often by incorporating it into the signature information for standard letter and email formats)

Banks, thrifts, and their registered MLOs often also make their NMLS numbers available in other ways – such as including them in advertising or on business cards.

As with any compliance rule, banks and thrifts need to ensure they have systems in place to maintain compliance with SAFE Act requirements, including appropriate training for employees involved in the mortgage origination process.

William J. Showalter, CRCM, CRP, is a Senior Consultant with Young & Associates, Inc. (younginc.com), with over 35 years of experience in compliance consulting, advising and assisting financial institutions on consumer compliance and compliance management issues. He has authored or co-authored numerous compliance publications and articles and developed and conducted compliance training programs for individual banks and their trade associations. Bill can be reached at (330) 678-0524 or wshowalter@younginc.com.

SUMMER 2021

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

TILA. Q: We have a loan that had the right to rescind. The borrower signed the rescission notice that he wished to confirm the loan. However, the co-borrower said they both wanted to cancel the loan. We have a copy of the borrower's signature wishing to confirm the loan but no copies with signatures that they both wanted to cancel the loan. Is this an issue? Would it matter if the confirmation was signed after the cancellation?

A: First, the "confirmation" signature is not required or even acknowledged by Regulation Z. (It is a common method lenders use to document that rescission has expired and the customer has not canceled.)

Everything is pretty much driven by timing. The rescission period begins when the last of three things (consummation, provision of the "material disclosures," and provision of the rescission notices) occurs and ends at midnight of the third business day following that last occurrence. (Usually, all three happen simultaneously, at a loan closing, but they can occur at different times in some situations.)

Then, there is the issue of how a consumer may exercise their right to rescind. That also is time-sensitive. Their notice must be in writing and be postmarked or delivered (if other than by mail) to the lender by the midnight deadline. So, there could be a valid, effective notice of cancellation that the lender does not receive until after the midnight deadline because of mail handling/delivery time.

And, yes, one consumer may cancel a transaction even if another (or others) does not wish to do so. This part is not swayed by majority rule. It is a way to allow each consumer involved to protect their home.

Lastly, the timing of confirmation does not overrule a valid cancellation. If the cancellation/rescission is timely (by the midnight deadline), a confirmation has no effect – it does not cancel out the loan cancellation.

BSA. Q: We are extending a loan in which the borrowers are natural persons (they sign the note and application), but the mortgage is in the name of their business (which is holding title to the property). It seems that no beneficial ownership form is required, correct?

A: You are correct since the legal entity is not the "customer" opening this account/loan.

Flood Insurance. Q: We have a current loan in process in which the borrower is contesting the flood determination on his property. The situation is a bit unusual because the house itself is not located in the flood area, but other structures on the property are. The flood determination shows the house just out of the flood zone. We are leaning on the side of caution. If we are going to make the loan, flood insurance is required. Is there an exception that we might be missing?

A: The lender has the responsibility to make a flood hazard determination (using a third party that guarantees its results works fine) and is permitted to be "cautious." From your description, it sounds like the outbuildings are clearly in Zone A, so flood insurance is not optional for them. The house is barely out of Zone A, so flood insurance coverage is not mandated by law/regulation – but the bank is not prohibited from requiring it in such a case.

For the house, it is up to the lender. For the outbuildings, there is no option (unless you can find some way to exclude them from the security interest; check with the bank's legal counsel).

Overdraft Privilege. Q: Do banks need to have an overdraft privilege/service policy vs. having procedures? If so, could you direct me to the regulation or commentary requiring it? I am trying to sort out some details of our overdraft privilege policy and struggle to find much information.

A: Actually, a bank may have both policy and procedure. Policy sets the high-level goals of what the bank wants to achieve (in a case such as this, comply with regulatory requirements, etc.). Procedure sets out what the bank will do to accomplish those goals, with some appropriate level of detail. Policy can be seen as the "what we want to accomplish" and procedure as the "how we will accomplish it."

Overdraft "privilege" regulatory requirements are found in both Regulation E (for the opt-in requirement before charging fees) and Regulation DD (advertising, etc.). Besides those regulations and their commentaries, you can get information from the banking supervisors' exam procedures, particularly (for this subject) the Electronic Fund Transfer Act section and the Truth in Savings section.

Having an appropriate (for your bank) level of policy and procedure helps ensure that staff is aware of what is expected of them, how they should accomplish what is expected, as well as helping ensure consistent treatment of and service to bank customers. You end up with happy staff because they know what is expected of them and how to accomplish it, and satisfied customers because they receive a superior level of consistent service.

BSA. Q: I have a Suspicious Activity Report to give to our Board, and I wondered how much I should disclose or need to disclose to them? Also, should the actual SAR filing be included in the board package?

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

We see variety in how SAR filings are reported to the board (or applicable board committee). A standard method of reporting seems to be to report that a SAR was filed about a person(s) structuring or regarding elder financial abuse or some other general description. Providing a copy of the actual SAR to board members is not required and is probably not a good idea, given the strict confidentiality requirements surrounding SARs – doing so opens up security issues, etc.

Truth in Lending. Q: We had a customer who rescinded his mortgage loan. Will the loan now be considered as withdrawn, and no fees can be collected from him?

A: Regarding whether the loan will be considered "withdrawn" (presumably for HMDA reporting purposes) – No. An action code of "withdrawn" requires that the applicant expressly withdraw the application before the lender makes a credit decision. In the case of a rescinded loan, the lender has already approved and closed the loan. The Official Staff Commentary on Regulation C provides that the action taken for such a transaction should be recorded as "approved not accepted."

Recharging fees – No, no fees may be charged to the customer for a loan they have rescinded. In fact, the lender must refund to the borrower all loan-related fees it has collected (even for third-party charges), as provided in the Official Staff Commentary on Regulation Z.

Remember also, the lender must promptly release its security interest – and it must absorb the costs of both the original filing and the release of that mortgage/deed of trust.

One thing to note: Regulation B requires the lender to provide the borrower with a copy of any appraisal related to a home loan. Regulation B also allows the lender to pass the cost of that appraisal on to the borrower and is silent on the issue of a rescinded loan. However, Regulation Z clearly states that the borrower cannot be required to pay any amount – which appears to override the Regulation B provision. So, be sure the borrower gets their copy of the appraisal (free to them).

RESPA. Q: If our annual escrow analysis shows a shortage greater than one month's escrow payment, our notice states, "The shortage will be collected over a period of 12 months. If you prefer, you can pay the shortage before DD/MM/YYYY." There is also an escrow shortage payment notice attached that the customer can send in with the shortage payment. Would this be a violation of Regulation X?

A: You need to remove the statement advising the borrower that, if they choose, they may pay the entire shortage amount by some set date. The bank may accept such lump-sum payments from borrowers but is prohibited from stating anything to "provide the option" to the borrower; it must be their idea. The latest update of the Escrow Accounts: Deficiencies, Shortages, and Surpluses section of the CFPB's Mortgage Servicing FAQs includes a question and answer exactly on point with this question.

ECOA. Q: We have a loan applicant who qualifies for the requested loan but is involved in a romance scheme. They want money for their "fiancée." Can the bank deny the loan and provide a reason that the bank believes the loan proceeds are being used for a fraudulent romance scheme?

A: There is nothing in consumer regulations that requires lenders to extend just any old credit. If they have reason to believe that there is some fraud involved, they are free to deny the application and may cite the reason as something like "suspect transaction involved" (or words to a similar effect). But the bank will want to be reasonably sure of this conclusion.

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.

PIONEER FEDERAL SAVINGS & LOAN EARNS TOP RECOGNITION

Montana Independent Bankers Association held its 54th annual Convention and Trade Show in Billings July 22-24 with independent community bankers and vendors. Jim Brown, Executive Director of the Association and a Dillon native, presented Pioneer Federal Savings and Loan of Dillon and Deer Lodge the MVP award in recognition of their team leadership in serving Montana for over 100 years in banking and their dedication to Montana Independent Bankers.

Brown stated, "Pioneer Federal has repeatedly brought the most attendees to the convention from their bank than any other bank in the state. Their President and CEO, Phil Willett, serves on the board of directors of MIB. Any activities put on by the association either for education or for fun, such as association-sponsored tailgate parties, you will always find someone from Pioneer representing their bank in attendance."

Montana Independent Bankers represents community or independent banks that are locally owned, often by multiple generations of the same family, just like other Montana local businesses. While community banks often have more than one branch, they all remain small enough to emphasize the small-town values of frugality, responsibility, quality personal service, and intentional investment of both time and resources back into their local communities.

For more information and to see if your bank is a community bank, visit our website for a list of members at mibonline.org.

BEARTOOTH BANK OPENS NEW BRANCH

Beartooth Bank, a division of American Bank Center, celebrated the grand opening of its newest location in downtown Billings with a ribbon-cutting Monday, May 17. This is Beartooth Bank's second location in Billings, located at 123 N. Broadway Avenue.

The community was invited and encouraged to tour the new 7,000 square-foot bank and register for prizes during the grand opening celebration May 17-20.

In addition to personal banking services, this new downtown location is focused on offering effective and efficient banking solutions for businesses. Services provided here include commercial lending, agricultural banking, retail, digital services, consumer lending, and home mortgage. There will be an opportunity for future expansion to also meet customers' trust and insurance needs.

Additionally, the bank features American's Branch of Tomorrow concept, which includes industry-leading technology and a model of service that provides more convenience by having one point of contact for all of a customer's banking needs.

Beartooth Bank's other location is at 4130 King Avenue W., Billings.

To learn more about Beartooth Bank, visit BeartoothBank.com. For more on American Bank Center, visit WeAreAmerican.bank.

WELCOME

UNITED BANKERS' BANK WELCOMES JENNIFER SEVERSON AS NEW CHIEF FINANCIAL OFFICER

Dwight Larsen, President and CEO of United Bankers' Bank (UBB), is pleased to announce the appointment of Jennifer Severson as Executive Vice President and Chief Financial Officer. Severson has over 19 years of experience in community banking. Before joining UBB, Severson was the Chief Financial Officer and Chief Operating Officer at Stonebridge Bank. In her role, she managed the bank's accounting, finance, HR, IT, compliance, and operations areas before its acquisition by American National Bank, where she was most recently Senior Vice President and Senior Director of Minnesota Credit Strategy. Her banking career has also included roles in Credit and Client Service at M&I Bank in Minneapolis, Commercial Lending at FisTier Bank in Boulder, CO, and Commercial Real Estate Lending at Citizens Bank of Massachusetts in Boston, MA.

"I am excited to serve the UBB team and look forward to partnering with fellow Senior Managers and the Board of Directors to achieve the company's strategic goals," Severson commented. "The reputation United Bankers' Bank has built by putting the success of their customers first truly speaks to the heart of the community banking industry."

"Jennifer's community banking background and broad range of work experience set her apart and demonstrated her fit to the professionalism and culture of UBB," states Larsen. "Her wealth of knowledge will prove to be a great asset to our organization."

Severson received her undergraduate degree in business and psychology from Augustana University in Sioux Falls, SD, and her MBA with a concentration in finance from the University of Colorado at Boulder.

For more information, please visit ubb.com.

MONTANA INDEPENDENT BANKERS 2021 OUTSTANDING YOUNG BANKER

To recognize upcoming leaders in Montana's banking community, MIB honors an exceptional young banker each year. This award is based on the community banking values of good citizenship, community service, and sound banking skills. This award recognizes the impact the candidate has on his or her business each day and the difference he or she makes by investing in their community. Eligible candidates are under 35 years of age and work for a MIB member bank. The winner receives free convention registration and three nights lodging at the 2021 MIB Annual Convention, $100 in travel expenses, an honor plaque to display in his or her office, and prominent mention in the MIB magazine and website.

This year MIB had two recipients:

ZACH BYMASTER
First Security Bank, Roundup


Zach Bymaster and family

Zach has worked in nearly all areas of the bank, and he currently performs the role of both lender and bank compliance officer. In 2021, at the age of 28, Zach was promoted to Vice President.

Zach believes in giving back to the community, and since he was a basketball player in college, he decided to use his skills and has served as the Junior High School basketball head coach since 2017.

In addition to coaching, Zach started a free basketball program called the Little Panthers for grades K-6. The program has grown from 30 children in 2017 to over 100 in 2019. Zach also serves as Vice President of the Musselshell Valley Community Foundation, a nonprofit organization that uses endowments to fund local grants to the community. Zach also volunteers with the Business Professionals of America since 2010 at the local and state level and has served as a judge at regional and state competitions and assisted several students with their presentations.

Lastly, Zach has served on the Pine Ridge Golf Course board since 2017, running the men's league for the course. In 2021, he stepped up as the role of manager.

"Zach and his wife have quickly become active members of our small community. He understands and appreciates what being a Community Banker means." – Shawn W. Dutton, CEO First Security Bank of Roundup

"As a longtime resident of Roundup, I would also like to compliment Zach for his commitment to making our community a better place to live. I highly recommend this servant leader for any opportunity he seeks." – Dan Eiselein Roundup Junior/Senior High School

BRANDON WALTER
First Montana Bank, Bozeman


Brandon Walter
First Montana Bank, Bozeman, MT

Brandon serves as the Portfolio Assistant at First Montana Bank in Bozeman. "Brandon exhibits outstanding community banking values and top-level customer service to both clients and associates," as quoted by Market President Steven King, FMB. During 2020-2021, PPL Loan Program Brandon took ownership of the program. While learning the process, he remained calm in assisting the bank clients with the application process, documentation, and forgiveness process. The bank clients appreciated his knowledge of the program and prompt responses to their questions. Brandon volunteered to train the Helena branch's new Loan Portfolio Assistant, helping that office grow quickly. Brandon volunteers for the Thrive Cap Mentor Program. He meets with local students who struggle with school and home life, making an impact on young adult lives. He also volunteers to pick up trash along the rivers and trail system.

"Brandon is an excellent choice for the MIB Outstanding Young Banker Award. I look forward to him continuing to make a positive impact on our bank and our community for many years to come." – Steven King, First Montana Bank Market President

"In this past year, our restaurants faced pressures we never imagined could exist. We most likely would never have made it without the loans and loan programs that we accessed with Brandon's direct assistance." – Albert McDonald, Owner, Backcountry Burger Bar, Bozeman, Pizza Campania, Bozeman, The Mint, Belgrade


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HOW COMMUNITY BANKS CAN PREPARE FOR CECL CHANGES

The FASB's new credit loss model is one of the most significant accounting changes in recent history. The time to act is now – here is how you can prepare and comply.

In June 2016, the Financial Accounting Standards Board (FASB) issued a new expected credit loss accounting standard, which introduced an updated method for estimating allowances for credit losses. The Current Expected Credit Losses methodology (CECL) applies to all banks, savings associations, credit unions and holding companies.

If your institution has not yet adopted CECL, now is the time to refresh yourself on the fundamental changes and – most importantly – to start planning.

What is CECL?

The impairment model introduced by the CECL standard is based on expected losses rather than incurred losses. With that, an entity recognizes its estimate of lifetime expected credit losses as an allowance. CECL also strives to reduce complexity by decreasing the amount of credit loss models available to account for debt instruments.

This change was under discussion for many years before its issuance, with the impacts of the global economic crisis highlighting the shortcomings of the Allowance for Loan and Lease Losses (ALLL) framework. FASB concluded that the ALLL approach delayed recognizing credit losses on loans and resulted in insufficient loan loss allowances.

"There are a lot of decisions that need to be made. By starting as early as you can, you avoid any roadblocks in getting CECL implemented by the deadline." – Brian Lewis, RMSG Senior Risk Advisor

Differences between the previous and the new standards

Previous	New
Loans/leases (could be other valuation reserves)	All debt instruments carried at amortized cost (not those at fair value like AFS securities)
Does not apply to HTM investments	Applies to HTM investments
Threshold = probable loss	Threshold = expected loss
Reporting period focused ("incurred")	Reporting period + forecast ("life of the asset")
Individual assets (specific reserves) + pools at historical loss	Pools of assets with similar risk characteristics + historical loss adjusted for reasonable/supportable forecast period
Quantitative (data-driven) and qualitative (Q-factors)	Shifts focus to qualitative (adjustments based on reasonable forecasts) + quantitative

How will CECL impact my institution?

Adopting the new standard will influence internal controls and information likely not previously integrated into financial reporting efforts. In other words, the scope of CECL is far-reaching—spanning corporate governance, modeling, credit analysis, technology and others. Additionally, CECL affects all entities holding loans, debt securities, trade receivables and off-balance-sheet credit exposures. In short, it will have significant implications for operations at most financial institutions.

How to proceed toward CECL transition

The time to get started – if you have not already – is now. This is a significant change with extensive effects and potential risks. Careful – and early – planning is critical. Here are nine key steps institutions can take to take to achieve CECL compliance:

1. Identify functional areas (such as lending, credit review, audit, management, and board) that need to participate in the transition project/implementation and ensure those working in these areas are familiar with the new standard
2. Determine your effective date and whether to adopt early
3. Make a project plan and timeline
4. Discuss the plan and progress with all stakeholders as well as your regulator
5. Determine the ACL estimation method/methods that may be used
6. Identify available data and any other data that may be needed
7. Identify potential system changes
8. Evaluate and plan for the potential impact on regulatory capital
9. Have a straightforward, well-understood process

Finally, it's necessary to take a holistic view to ensure a smooth transition, including:

- Built-in testing for data integrity and method estimation validation
- Update other bank policies and reports so they are consistent with processes
- Consider running parallel with the ALLL to evaluate risks
- Back-test as part of supporting modifications and improvements

What are the implementation timelines?

This standard was effective for many institutions by Dec. 2019, and all others will need to comply by March 2023. These dates are based on the Public Business Entity (PBE) status for institutions. Early adoption was allowed for any institution after Dec. 2018.

Contact us for a complimentary and confidential risk management consultation at 866.825.6793 or riskmsg.com.

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BANKERS' BANK OF THE WEST BANCORP, INC. FORMS CIVITAS BANK SOLUTIONS, LLC – A CYBERSECURITY SOLUTIONS SERVICE BASED ON COMMUNITY BANK NEEDS

The Granite Tower, Bankers' Bank of the West Headquarters, Denver, Colorado

In 1980, a group of visionary community bankers founded Bankers' Bank of the West (BBW) for one purpose: to establish a service provider chartered to do business only with community financial institutions. Our holding company is owned entirely by more than 140 community banks, and our board of directors includes seasoned executive officers from shareholder banks across our service area.

This mutually beneficial relationship with community banks ensures that BBW will never compete with our customers for their customers – a promise many other correspondent service providers cannot make.

BBW adapted its competitive correspondent solutions over the decades to meet community banks' needs in a dynamic environment. They offer loan participation for overline, share-the-risk and concentration management, as well as bank stock and direct loans to bankers, banks, and their directors and holding companies.

We provide cash letter processing and settlement for your bank's operations area, agent-fed funds and fed funds lines, wire transfers, and international services. Our well-established bank card department provides ATM and debit processing, merchant services and mobile payment solutions, and credit and debit card programs. BBW's knowledgeable safekeeping professionals perform clearance and custody services with attention to detail.

In recent years, BBW's holding company added two subsidiary companies that provide increasingly vital high-demand services. Bank Strategies LLC, under the leadership of Jim Swanson, brings decades of financial industry experience and balanced perspective to consulting projects in the areas of loan review, strategic planning, enterprise risk management and governance, and regulatory safety and soundness consultation, to name just a few.

The 2020 launch of the second Bankers' Bank of the West subsidiary, CivITas Bank Solutions, has given community banks access to real-world technology and information security services at reasonable prices. Every member of the CivITas team has experience in community banking from the technology, security or compliance side. Their firsthand awareness of the challenges community banks face makes CivITas uniquely qualified to serve those highly regulated institutions.

One platform CivITas has leveraged to support and enrich the education of community banks effectively is the webinar. Free to attend, these webinars have been held within a few days following significant information technology- and security-related events to discuss them, their likely ramifications, pertinent risk mitigation strategies, and other applicable technology and security issues. In 2021 alone, three CivITas-led webinars drew 208 attendees from community banks. Typically, each focused webinar session draws attendees with a cross-section of roles such as senior management, audit, compliance, finance, risk management, and information security.

The lead presenter at those webinars has been the president of CivITas Bank Solutions, Anne Benigsen, whose certifications include CISSP (Certified Information Systems Security Professional) and CISO (Chief Information Security Officer). It is worth mentioning that Anne's interest in helping community banks operate securely, efficiently, and profitably runs deep, as reflected in her support of education for professionals who support the security and technology side of the bank. She has spoken and facilitated panel discussions at trade group events, industry conferences, Federal Reserve Bank meetings, and the Western States Director Education Foundation annual symposium.

Bankers' Bank of the West, together with CivITas Bank Solutions, will hold an April 27-29, 2022 conference for community bankers in Denver. All community bankers and directors are welcome to attend the educational event; the schedule and program topics are in development. If you'd like to receive conference details when registration opens, please send your name and email address – indicating "2022 Convention" in the subject line – to conferences@bbwest.com.

If you want to be notified of future complimentary webinars on IT and IS topics, include your name, the name of your bank and your email address in an email to training@bbwest.com using "complimentary IT/IS webinar" as the subject line.

We champion community banking. Today your community bank competes against ever-growing regional and national entities in a fast-changing, complex environment. Our objective is to provide community banks with specialized expertise and a spectrum of solutions that enable them to compete effectively in their markets. To learn more, visit us at bbwest.com or email info@bbwest.com.

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