WINTER 2022

COMMUNITY BANKER

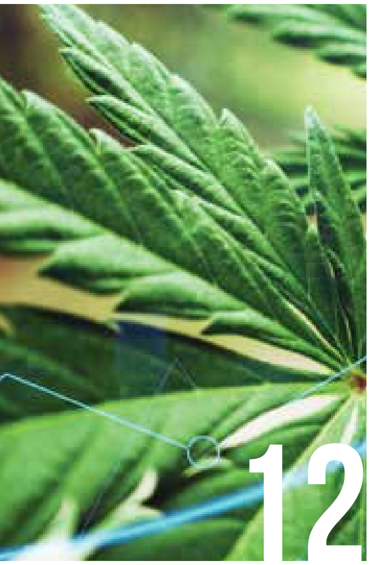
THE OFFICIAL PUBLICATION OF THE MONTANA INDEPENDENT BANKERS ASSOCIATION

WELCOME TO 2022

NEW YEAR WITH NEW OPPORTUNITIES

Contents

WINTER 2022



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Andrew West

I am writing this article shortly after the New Year, and as always, it is a good time to reflect on the past year and think about the upcoming year. Like most of us, I am somewhat surprised we are still mired in a pandemic with no sign of relief on the horizon. Maybe it was naivete on my part or possibly foolish optimism, but I certainly didn't initially think there would be such enormous and far-reaching impacts, or we would still be amid a global pandemic going on three years. I'm sure most of you, like me, are growing weary of it all.

So, I think about how life has changed for so many of us and how it has affected and will continue to affect our lives as bankers. Many of us have had a couple of pretty good years in terms of financial performance. Despite Net Interest Margins shrinking, our income statements have been bolstered by non-interest income from SBA PPP loan fees and fee income generated by extraordinary volumes of residential mortgage lending. It has not all been roses, however, as some of our colleagues in areas of high agricultural concentration were faced with a terrible drought and an epic grasshopper infestation. This unexpected turn created difficulty for everyone involved.

As bankers, it seems we must always be vigilant to keep the wolves at bay. We try to be proactive, but so many things come at us unexpectedly, and so many of these factors are out of our control. So, how do we continue to provide service to our communities while remaining safe and sound? No one knows the exact formula, but I think there are some universals good to keep in mind in both life and in banking.

First, we must be grateful for the opportunity to help our customers and friends. We have been uniquely positioned to powerfully help those in our communities. This is an honor, and, in my opinion, gratitude brings a mindset that opens doors to success. When you appreciate opportunities afforded, the universe has a way of rewarding you; often exceeding your expectations. I don't know why it works this way, but I have high confidence in the veracity of the philosophy.

Next, I believe we must be humble in our approach. No matter how brilliant you are, the people carrying forward your vision are the driving force behind your organization's success. Without them, none of us would be where we are today. Remembering the absolute value of your people and rewarding them for their support will take your bank to unprecedented heights. English poet John Donne wrote in the 17th century, "No man is an island." This is as remarkably true today as it was then. Without our people, we go nowhere.

I also think we must practice accountability. Do what we say we are going to do and if something goes wrong, accept responsibility. Only by taking ownership of our mistakes can we also take credit for our successes. A wise man once told me, "Nothing is ever anybody else's fault." I try to remember that and be accountable to my customers and employees. I don't believe you can be an effective leader without accountability.

Lastly, I would implore everyone to incorporate kindness into their repertoire of skills. It's amazing how much you can get out of people by treating them with kindness. Happy employees who feel respected and heard will work their hearts out for you. Similarly, customers who can feel your kindness will be customers for life and become your best advertising. This pillar may be the most important of all. With so much division in the world today, it is amazing what a little kindness will do to bridge these divides. With kindness, we become better versions of ourselves, and the improvement in our lives is tangible.

Of course, these four simple tenets are not the cure-all for every challenge we face in life or in banking. But they also aren't going to cause you any trouble either. Having gratitude along with being humble, accountable, and kind will help you reach good outcomes in your life and your bank. Sometimes, its easy to get mired in spreadsheets and performance metrics and forget we are all just riding around on this big blue ball together and most everyone is just doing their best to get by.

Banking is a vehicle we use to help people get by a little better, and if we do it right, we are lucky enough to have meaningful careers where we can be proud of who we are and what we do for our customers and friends. Somehow, I think this is probably the most important factor, even though it never shows up on any peer analysis or bank exam.

I want to wish everyone a safe and prosperous New Year, and I sincerely hope you reach all the goals you set and have a year that makes you feel good about all you have done. After all, when you close your eyes at night that is the one metric which will let you sleep peacefully with a smile on your face.

James E. Brown

Welcome to the first 2022 edition of the Community Banker magazine. I trust the start of this new year finds you well and prospering. As we move into this new year, it is important to reflect upon all the challenges we have collectively faced over the last two years. But, it is also important not to let the negatives of 2020 and 2021 keep us from looking forward and recognizing all the positives in our lives.

As it is January and an even-numbered year, that means one thing — the start of candidates filing to run for the Montana legislature and other political offices. Candidate filing opened on Jan. 13, 2022. A complete list of those persons who have filed for public office can be found on the Montana Secretary of State's website at app.mt.gov/filing. Please take time to determine who is running for office in your House and Senate districts. The MIB is always interested in hearing from our membership which candidates to support through the MIB PAC.

In addition to the state legislative seats up for election, as you are likely aware, due to the 2020 census, Montana regained a seat in the U.S. House of Representatives. Due to the addition of a congressional seat, Montana has been split into Eastern and Western Congressional Districts. Matt Rosendale, Montana's current U.S. House member, has indicated he will run for election in the Eastern District. That means there will be a new and open race for Montana's Western house seat.

This discussion of Montana's congressional representation leads into a discussion of one of the most important activities undertaken by MIB on behalf of Montana's community banks. That is legislative advocacy.

MIB supports candidates for office who understand the importance of community banking and "our" industry's positive impact on main street businesses. As demonstrated by the unprecedented events of the last two years, community banks were at the forefront of connecting struggling businesses with federal pandemic relief programs. In addition, the MIB itself took the lead in successfully opposing the Biden Administration's nomination of Saule Omarova to be the comptroller of the currency and in fighting the Administration's draconian IRS bank account reporting proposal.

MIB's member banks collectively express their support for community banking through our lobbying efforts and contributions from our political action committee – the MIB PAC. The contributions you make to the PAC are the lifeblood of our state legislative advocacy efforts. And as such, I strongly encourage you to contribute to the MIB PAC, so there are sufficient fiscal resources to effectively carry out those advocacy efforts on your behalf.

In addition, the MIB always welcomes your suggestions as to which candidates deserve the community banking industry's support. You know your community as well as or better than we do. Thus, your input on the candidates helps us make sound decisions during the decision-making process.

Speaking of regulatory burdens and public advocacy efforts, during the last half of 2021, the MIB closely tracked the Biden Administration's OSHA-issued Emergency Temporary Standard (ETS) that requires employers with 100 or more employees to get vaccinated or to test negative on a weekly basis. In late December, the Sixth Circuit Court of Appeals reversed the Fifth Circuit Court of Appeals decision staying that OSHA TDS. The mandate was set to go back into effect in early January. However, fortunately, the U.S. Supreme Court had the last word on this matter. On Jan. 13, 2022, the Supreme Court blocked the Biden Administration from further implementing and enforcing the ETS.

The ETS is another example of the challenges community bankers have faced due to the COVID-19 pandemic and the government's response. While the outcome of that litigation was ultimately out of "our" hands, Montana's community banks can continue to control the positive manner in which you help your customers and communities. One industry that is well-positioned for a positive 2022 is the agriculture community.

In December, the MIB hosted an ag-lenders conference in Billings for members. The event garnered more than 25 attendees, and those who attended heard a great presentation from Dr. David Kohl. After more than five years of struggles, Dr. Kohl noted that ag prices are rebounding, and markets are improving. As such, Dr. Kohl advised MIB's member banks to work with their agriculture customers now to get those balance sheets in order.

You may have seen that the MIB sent out its membership renewal notices in January. We strongly encourage you to renew your membership or, if you have not previously been a member, to join our association.

Legislative advocacy efforts are only one of several benefits you receive as a MIB member bank. Other benefits include this community banking trade magazine, a forum by which we provide coverage to MIB members of industry trends and developments, new and proposed legislation, regulatory issues, and association events and updates. In both hardcopy and electronic formats, our publication is sent to over 1,500 individuals and organizations involved in the community banking industry, and it is a great way to make your bank and its services known.

Another important benefit is discounted access to the Community Bankers for Compliance Program. We have included detailed information about that beneficial program in our membership renewal packets. And you can find more information online at mibonline.org/cbc-program/. Please contact the association if you have not received your membership renewal documents or would like more information about becoming a new member.

Finally, we encourage you to attend the ICBA National Convention & Tradeshow, held February 27th through March 3rd, 2022, in San Antonio. The MIB will be hosting its annual reception at the ICBA convention on the evening of Monday, February 28th. If you will be attending the upcoming convention, you are more than welcome to join your Montana community banking colleagues at the MIB reception, partaking in good food, good spirits, and good conversation.

I hope you enjoy this edition of The Community Banker. The MIB Board of Directors and the MIB staff are proud of the quality of this publication. And we thank those of you who continue to be members of the MIB and for all you do on behalf of the industry.

Best wishes for a fun and productive winter and spring.

Jim Brown,
MIB Executive Director

AG LENDERS SEMINAR

The MIB Ag Lenders Seminar jointly sponsored by MIB and Bell Bank was a great success.

> Let's collectively commit to being more present in all of our interactions. It won't be long until we recognize what a true gift that is to ourselves and those we serve.

With the holiday season behind us, the concept of "present" takes on a frantic connotation. The quest for the right item can become a daunting task that takes away from its intended spirit of connection. That realization got me thinking about a book, *The Present*, which argues that the act of being in the moment is a gift unto itself.

A friend of mine sent me *The Present, by Spencer Johnson* a few years back, precisely because I was going here, there and everywhere. In reading it, I recognized that in my hurry to get the next thing done, I wasn't present for my family or those at work in the way I wanted to be. Its message resonated with me, reminding me of the importance of being in the moment with the people in my life.

While not a complicated theory, it can be difficult to practice. As business leaders, we're focused on planning for the future, and it can be hard to see what's happening in the now. But little choices can make all the difference. For example, in team meetings, we've instituted a policy of checking our devices at the door. We're more focused on each other as a result.

But a business can't thrive by only living moment to moment; you also need to learn from the past and prepare for the future. Think of it as a coach. On the field, you have to focus on the play at hand because points are scored in the present. On the other hand, your calls are informed by past mistakes and future opportunities, so the key is to consider the past and future in light of what's right in the moment.

That's where we need to be as community bankers, listening to our communities' and customers' needs and interests in this moment. That active presence will help us uncover issues and truly hear from them in a way that sets us up, not only to address concerns but to prepare for future products and services, too.

Lucky for us, this concept of being present speaks to our missions as community bankers. I can think of no better way of building relationships than to fully engage with our customers and teams. So, let's collectively commit to being more present in all of our interactions. It won't be long until we recognize what a true gift it is to ourselves and those we serve.

Best wishes for a truly present New Year!

My Top Three

My top three takeaways from Spencer Johnson's The Present are:

1. Learn from the past, but don't dwell in it.
2. Enjoy the moment you're in.
3. Plan for the future but be content with the now.

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

> While our decisions over the past year have been driven even more by our mission than by our bottom lines, we've also achieved good results.

Winter is upon us. Dec. 21 marked the solstice, the official start of winter and the shortest, darkest day of the year. But as I see it, that milestone also signals a transition to light, as days grow longer from there.

It's a fitting analogy for community banking in 2021. With all that has happened — from continued uncertainty to the politicization of our world to increased competition — we could have been tempted to look around and see only darkness. But we haven't. Despite the intense environment, we've chosen to not only focus on the light; we've helped bring it, too.

In fact, as I look back on this year, I'm struck by how much we were able to make a difference in the lives of our customers. We didn't allow ourselves to be pulled down. Instead, we rose to the challenge of supporting those who needed us in three critical ways:

1. We prioritized our communities. When times looked difficult over the past year, community banks upped their game. For example, community bank engagement in programs like the Paycheck Protection Program (PPP) helped small businesses navigate the continued ripple effects of COVID-19. Businesses and consumers were able to rely on the stability of their local community bank to support them in uncertain times.

2. We strove to support our work families, our teams. With uncertainty about branch openings and in-person staffing, we came up with new and creative ways to think about bank work environments. We also explored new ways to recruit and retain with benefits we had never previously thought possible, including flexible and remote work opportunities. We focused our efforts on ensuring employees felt safe, connected and supported.

3. We outperformed as businesses. While our decisions over the past year have been driven even more by our mission than by our bottom lines, we've also achieved good results. For community banks, earnings have been strong and balance sheets solid. We've been in a place of continued growth and development. As it turns out, doing good is just good all around.

Now we're heading into the new year positioned well amid continued change. By staying focused on who we are as community bankers, we have flourished. I'm certain that our collective mission of putting community first has helped us weather this year's storms and will be our guiding light in 2022.

I wish you and yours a very happy, healthy and prosperous New Year!

Rebeca Romero Rainey, President and CEO, ICBA

Montana Banks Must Offer Quality Wealth Management

If you've ever seen a fish out of water, then you know exactly what it looks and feels like for a client when they are managing their investments through chaotic and volatile markets. When the fish is flopping around aimlessly trying to find safety in a cold Montana fishing stream, it's like a client trying to find some form of protection while their account values are falling, and the media is melting down. As all this is happening, imagine a fish somewhere singing, "... take me to the river ... put me in the water!" And that's exactly where we come in: We can help!

Clients often look for help after they experience financial pain, whether it's self-induced, market-driven, or most commonly both. And when a client starts their search, they are often clueless about what to look for. This is a significant problem because it reduces the odds of finding a quality long-term solution. But in their pursuit of finding a good fit, they often start with their bank and take their guidance under serious consideration. And this is where the rubber meets the road: If the bank sells the client an expensive product that produces lackluster results, it may negatively impact the relationship. On the other hand, if the bank does a wonderful job of presenting a quality and long-term solution, the client not only sticks around but becomes even more valuable to the bank! And the cherry on top is client advocacy and the stream of future clients and revenue that can often follow.

To put it bluntly, the investment advice universe consists of commissioned salespeople and fiduciaries. Everything being equal, 100% of discerning clients would choose to work with a fiduciary and avoid the inherent conflicts of interest that exist when there is an incentive to sell products that may not be the most suitable: Insurance, Annuities, Loaded Funds, even Timeshares?! These investments often have high initial and ongoing expenses, plus occasionally a few other undesirable things like illiquidity, tax problems, and other nasty gotchas. Investors are becoming more educated and aware, but so are the companies that sell these terrible products. For this reason, we always advocate working with an advisor that is legally bound to act in their best interest 100% of the time, and frankly, there is absolutely no reason not to do this!

Many firms claim they are "comprehensive," but any claim should be both clarified and verified. At Creative Planning, we strive for the best rate of return on a risk, fee, and after-tax basis. We have CFP® professionals, CPA's, CFA's, and JD's working on a client's behalf, with the assigned wealth manager acting as a single point of contact to coordinate everything. This means the client can rest easy knowing they are getting recommendations from a team that's deeply invested in their financial well-being. And this team is backed by our own law firm, accounting firm, trust company, P&C division, and other specialty groups. So, when we say we are comprehensive, we mean it from beginning to end, which a client can clarify, verify, and experience firsthand.

Some firms still use model or age-based portfolios which are not always best suited for a client. A model portfolio is used after a client fills out a survey of sorts, and the "score" determines which portfolio they go into. An age-based formula might take 100 and subtract a client's age from it to determine the percentage they should invest in stocks and the rest in fixed-income. Both ideologies are not only archaic but don't allow for depth, sophistication, or customization. And if the goal is the best risk-adjusted return based on fees, volatility, diversification, and taxes, a model may not be up to the challenge.

Our solution is a financial planning-led approach where we identify a rate of return needed to meet the specific client goals while mitigating risk, taxes, and any legacy goals the client may have. We act as fiduciaries 100% of the time and have the tools and resources for flawless execution. A client getting this type of depth and sophistication is not only willing to pay the annual advisory cost but, what's more, often becomes an advocate. This leads to greater client satisfaction, additional business, and growing streams of ongoing revenue.

There is a lot of social proof regarding our track record of delivering on our promise to clients. We've been recognized by outlets such as Barron's, CNBC, Worth, Financial Times, as the #1 firm in the country. We have a long track record of very successful and long-term partnerships, so we understand how to be a value added without taking anything away from our partners. We currently have $100 billion in assets (as of November 2021), with advisors serving clients in all 50 states and worldwide.

Here are some of the services available:

- **Investment Management** — Always customized, comprehensive, and fully optimized
- **Tax Planning and Preparation** — Strategies to mitigate current and future tax liabilities
- **Trust & Estate Planning** — Preserving and transferring wealth while mitigating fees, risk, and taxes
- **Retirement Plans** — Establish and/or maintain company retirement plans at all sizes
- **Institutions** — Operations, governance, and portfolio management for various nonprofits
- **Businesses** — Valuations, dispositions, succession planning, and other needs
- **International** — Helping Americans living abroad manage their global financial nuances

For our Montana bank partners, we can help establish and/or enhance your wealth management program in a way that adds value, increases client satisfaction, and grows your business on your terms. If you want to explore ways we can help your bank grow in the wealth management space, please call Clay Baker at 314-882-6940 or email at clay.baker@creativeplanning.com.

TREASURIES FOR THE WIN!

Low yield spreads send community banks back to the basics

By Jim Reber, ICBA

I'll let you in on a secret: sometimes your columnist runs out of new ideas to cover. A dearth of new products, no new regs, a stable rate environment – all of these can cause a writer to run aground while sailing the financial seas in search of material.

Then it dawns on me: I've never covered Treasury securities! For the most part, you should be glad. Over the last quarter century, this sector has gradually receded into the background of bank portfolio management as community bankers everywhere have been on the hunt for higher returns. For all of Treasuries' built-in benefits, there's the fact that they yield less than anything else on your brokers' offering menus. While the Treasury yield curve is the basis from which your entire balance sheet is priced, as investments, they've been, at best, an afterthought.

United States Treasuries historical role

So why am I bothering to cover a sector that community banks don't own? There's more to this story than meets the eye, and besides, it's possible the readers have forgotten some of the more salient points. Being the master of the obvious, I'll point out that Treasuries have unmatched credit quality and liquidity. There are other features that portfolio managers like, such as the fact that an investor can pick virtually any maturity out to 30 years and that small block sizes trade at virtually the same prices as large blocks. There was also a time and place when bank investment portfolios regularly contained Treasuries.

If we were to look back a generation, we'd see that mortgage-backed securities (MBS) in particular weren't highly represented. Several factors working in concert have changed the attitudes and objectives of portfolio managers. First, the long-term trend toward lower interest rates since the 1980s has contributed to smaller net interest margins, hence the urgency for incremental yield. Secondly, investors of all stripes, and community banks, in particular, have made it their business to be more sophisticated in their understanding of available options. Thirdly, MBS underwriters have continued to bring new products to market, many of which are coveted by bank portfolio managers. Two examples are Collateralized Mortgage Obligations (CMOs) and "prepayment friction" MBS. The typical community bank's bond portfolio now has the majority of its investments in the mortgage security category.

What changed in 2021?

So why now are community banks reverting to old practices at a time when nominal rates are still low and loan demand is tepid at best? As you may have heard, yield spreads on traditional investments are at an all-time low. For example, if a banker purchases a simple five-year agency bond, they can expect to get three basis points (0.03%) more yield than the five-year Treasury note. In the not-too-distant past, that spread would have been 15 to 20 basis points.

As to why the incremental yield is so hard to come by, the simple explanation is that supply/demand is at work. The still-massive amounts of uninvested cash in the banking system, chasing supplies of bank-suitable bonds that aren't growing much, if at all, have resulted in narrowing spreads. I, for one, certainly wouldn't relish the notion of buying an agency bond versus a Treasury at these levels. In 2021, around 40% of the government-backed bonds which community banks purchased were Treasuries, according to Vining Sparks. That is by far the highest amount in decades.

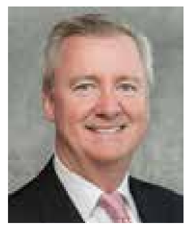
Hoped-for outcomes

So what is the endgame for this strategy? Certainly, a bond portfolio stuffed full of zero-percent risk-weighted bonds that have no optionality really isn't a recipe for outperforming one's peers.

There are several possibilities. One is that yield spreads widen, if not to 1990s levels, then at least to 2010s. When that happens, the most efficient bonds swaps of all time can be executed: sell a Treasury, and buy an identical-duration agency, MBS, or municipal bond. Another outcome is that the Treasury yield curve flattens (which nearly always happens when the Fed hikes rates), and the total returns on the longer Treasuries in the portfolio actually hold up very well. Most optimistically, loan demand shows up, and the investor can dump the Treasuries in short order and turn them into much higher-yielding credits.

So there you have it. If you have recently considered buying Treasuries in lieu of the more traditional sectors, given the paltry incremental rewards, just know that you'd be in good company. And with any luck, you are finished reading about the wonders of U.S. Treasury securities for the next 20 years.

2022 webinar series will commence soon
ICBA Securities and its exclusive broker Vining Sparks will again present a seven-part webinar series, Community Banking Matters. The first event is February 22 at 10 a.m. Central. CPE credit of one hour is offered for each webinar. For more information, visit viningsparks.com.



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

Montana's Adult-Use Cannabis Program: What to Expect and How to Prepare

By Tony Repanich

Retail sales of adult-use cannabis began in Montana Jan. 1, topping $1.5 million in sales the first weekend alone. Looking at the experience of states that have previously implemented legal adult-use cannabis programs, we can predict fairly well what will happen next: a surge of investment, new businesses, and demand for capital.

Growth in Montana's cannabis industry will be limited to existing medical marijuana operations until the state begins issuing new licenses to cultivate or sell marijuana in July 2023, which means a handful of businesses will need to scale rapidly to meet statewide demand. Existing cannabis retailers estimate their sales could triple, and future industry growth is inevitable as pandemic-driven sales gains hold steady and access to new capital increases.

A study from the University of Montana Bureau of Business and Economic Research estimates adult-use cannabis sales could reach over $215 million in 2022 and grow to nearly $260 million in just four years. For financial institutions interested in serving cannabis-related businesses (CRBs), the time to act is now.

Compliant banking operations require continuous enhanced due diligence to guard against inherent risks in a tightly regulated industry. Fortunately, a playbook exists to help banks capitalize on new low-cost deposit growth, non-interest income revenue streams, and the potential for earning assets.

There are steps banks interested in serving this market should take right away:

- **Present a Business Case for Cannabis Banking**
  Entrepreneurs are not the only ones in need of a cannabis business plan. Financial institutions and their boards must also be grounded in the realities of the cannabis industry and the business problem cannabis banking solves. While many financial institutions want to help local entrepreneurs and improve public safety, they must also have a financial objective to justify taking on the additional risk and effort.

- **Develop Policies and Procedures**
  Banks need to be prepared to invest resources into developing the policies and processes necessary to mitigate the risks and meet this industry's compliance and regulatory requirements. This involves being explicit about the financial institution's expectations for serving this unique set of customers.

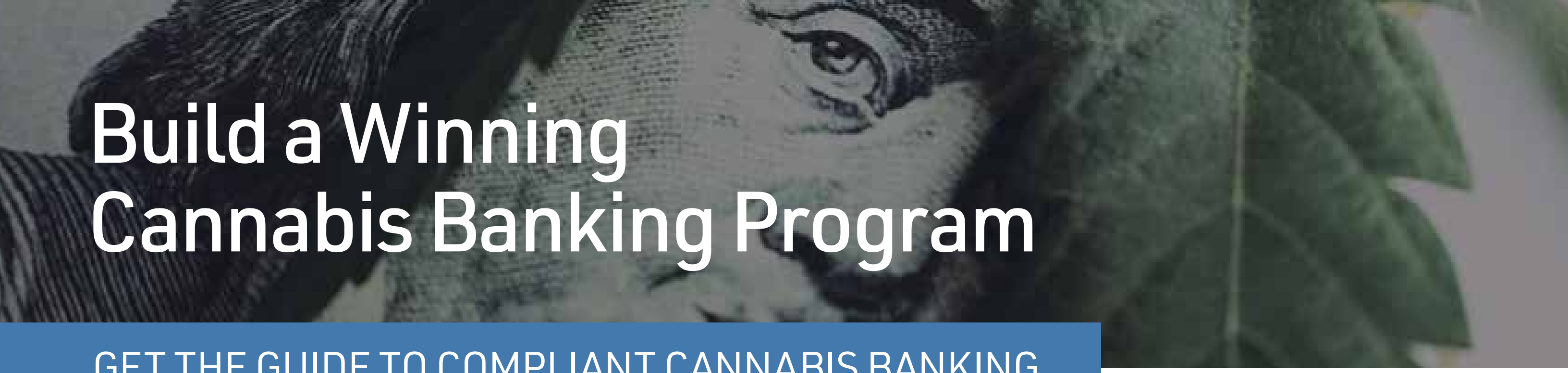
  It also includes developing the systems, applications, and processes to vet and onboard potential customers and access critical customer and transaction data. This will help financial institutions ensure funds coming through their doors are from legal channels, and they have a clear line of sight for their CRB customers and associated beneficial owners.

- **Invest in Compliance Technology and Staff Training**
  Investing in specialized compliance technology can help banks automate their processes and operate more efficiently. It also allows bank staff to focus their efforts on the highest value activities, such as judgmental decision making, analysis, and customer service.

  Banks and their customers should expect to provide a high level of transparency in their interactions. While technology can help improve compliance outcomes, training staff as specialized cannabis bankers is essential to understanding and evaluating customers' business activity and helping them achieve their business goals.

- **Be Ready to Scale**
  As an emerging industry, banks should anticipate ongoing market changes and adapt to remain competitive. The cannabis market has grown significantly since 2020, and more financial institutions will enter the market in the coming years. As cannabis laws change and competition grows, banks should structure their programs to scale with the industry, take advantage of new customer acquisition opportunities, and implement new revenue streams.

As President and Chief Operating Officer of Shield Compliance, Tony Repanich leads day-to-day operations and is the company's principal product architect. Having served as a senior executive at a Washington State-based community bank for over 25 years, Repanich has in-depth knowledge of the banking industry and the regulatory and compliance requirements for high-risk industries. Today he brings that knowledge to financial institutions serving and considering serving the legal cannabis industry.



Build a Winning Cannabis Banking Program

GET THE GUIDE TO COMPLIANT CANNABIS BANKING

The emerging legal cannabis industry brings significant growth potential, along with challenging operational demands and complex regulations. But cannabis banking does not have to mean high-risk banking.

To ensure the processes, procedures, technology, and trained staff are in place to serve this industry, bankers need to start with a plan. Having a clear understanding of what is required to serve cannabis businesses and minimize risk to the financial institution will help bankers prepare for the upfront costs associated with cannabis banking and develop the policies and procedures needed to hit the ground running. With regulations varying from state to state, it's a complex industry with high costs, requiring a considerable investment of time and energy.

Compliant banking operations require continuous enhanced due diligence to help guard against risks such as:

A Robust Illegal Market. According to New Frontier Data, the legal cannabis market in the U.S. is expected to reach $41 billion by 2025. Unfortunately, the illicit market, valued at $65 billion by some estimates, is shrinking at a slower pace. Financial institutions must ensure that funds coming through their doors are from legal channels.

Bad Actors. To ensure bad actors are not attaching themselves to good businesses, enhanced due diligence conducted around underlining beneficial owners will continue to be at a heightened level for the foreseeable future.

Legacy Cash. Because the cannabis market existed as a cash business long before legalization and because the industry continues to operate largely as a cash business, a strong BSA/AML program will help ensure that funds coming into the financial institution are from legal cannabis operations.

While the added burden and cost associated with serving this industry may limit the total number of participants in the short term, we expect competition from financial institutions to steadily increase as more states launch legal programs and we get closer to federal recognition.

Financial institutions that invest in technology to improve efficiencies and lower costs today will be able to scale as the industry grows and have a competitive advantage when the economics of the industry change over time and new banks and credit unions enter the market.

Informed by the experiences of pioneering bankers across a growing number of states with legal medical and adult-use programs, the Shield cannabis banking playbook defines a path forward for financial institutions to serve cannabis-related businesses compliantly while benefiting from the financial rewards of this market.

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

Compliance management for financial institution daily operations, including case management and automated reporting.

shield engage

Informed account application process for underwriting and onboarding cannabis business accounts.

shield transact

Compliant mobile payment and payroll solutions to reduce cash transaction dependency.

See how Shield Compliance is helping financial institutions earn the benefits of a compliant cannabis banking program.

info@shieldbanking.com

(425) 276-8235

GET IT TODAY

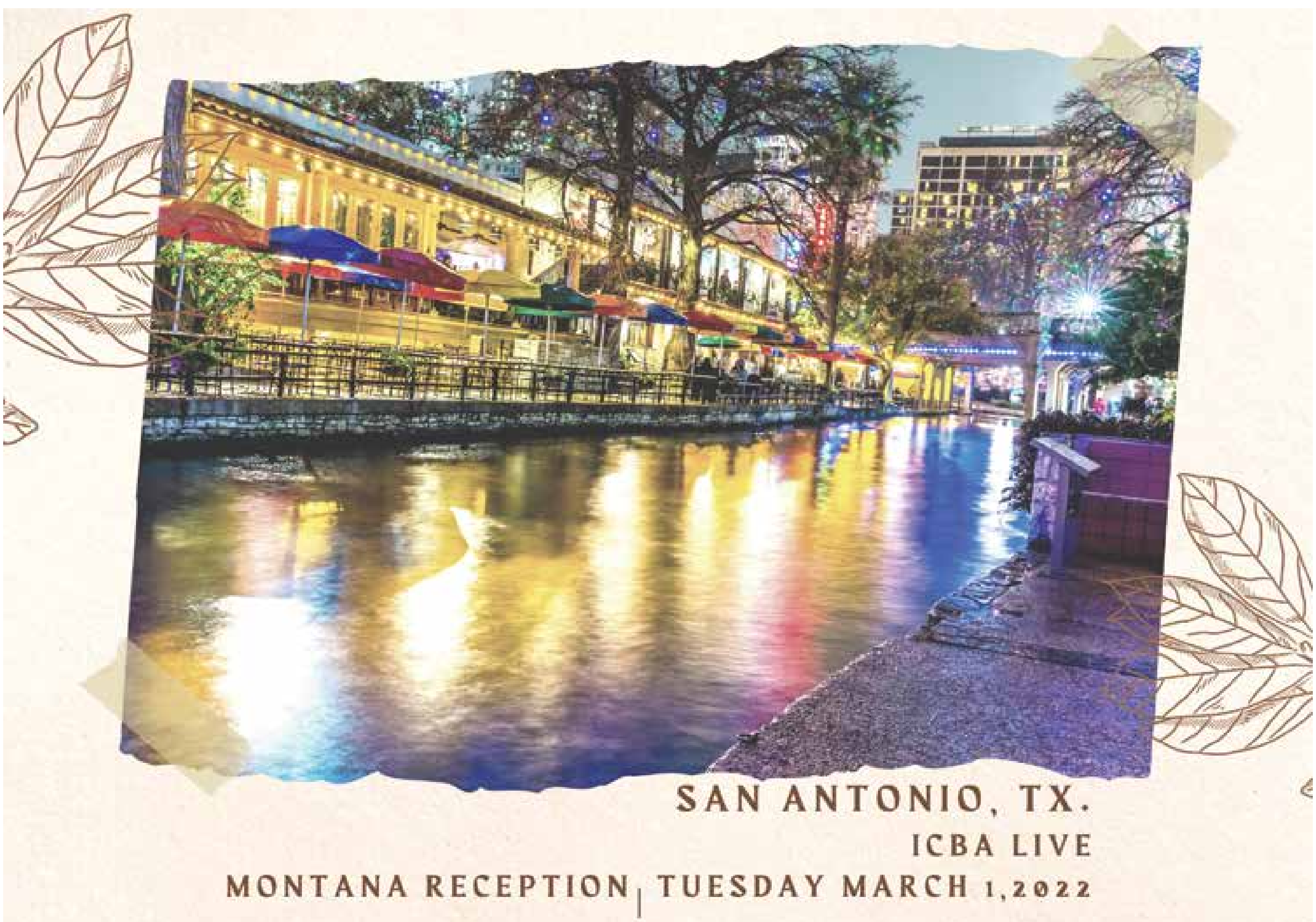
GET THE SHIELD CANNABIS BANKING PLAYBOOK:
ShieldBanking.com/cannabis-banking-playbook

shield compliance

Pictured: Haley Garrison

Stockman Bank

Stockman Bank has been a long-time supporter of collegiate rodeo. Like Stockman, rodeos have deep Montana roots and exemplify the western values that make our state so great. We are proud of Montana's collegiate barrel racers, wranglers, rough riders and rodeo stars.



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Who Should Attend:
This conference is ideal for HR professionals and individuals who are looking to hone their skills and learn from the best.

Montana Independent Bankers presents

HUMAN RESOURCES CONFERENCE April 7, 2022

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WINTER 2022

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

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

BSA. Q: For resident and nonresident alien accounts, are we required to have a current, unexpired passport or alien identification card on file when opening a new account for such an existing customer?

A: This comes down to the bank's customer identification policy (CIP) and how the bank handles expired identification. The BSA regulation carves out existing customers, provided that the bank has a reasonable belief that it knows the true identity of the person.

The interagency BSA/AML Examination Manual provides more information on this issue, particularly in a section on risks associated with nonresident aliens and foreign individuals.

ECOA. Q: Regulation B states that for unsecured credit, a creditor may not inquire about an applicant's marital status unless they reside in a community property state. However, most consumer loan applications have a section that asks for marital status with boxes for Married/Separated/Unmarried.

What is a bank to do with this data when an applicant fills in the appropriate box to their circumstance in an online application or via mail when they are applying for unsecured credit?

A: The bank should have procedures in place to address scenarios where applicants improperly provide marital status on applications they complete and submit to the bank.

Regulation B has this provision because the first two "prohibited bases" in the original ECOA and Regulation B were sex and marital status – because of discrimination against women. This prohibition is in there because marital status is irrelevant for individual, unsecured credit. For any other type of credit, the marital status might be relevant for some aspect of creditworthiness and/or access to collateral. The Official Staff Commentary states that it is permissible for the applicant to provide prohibited information so long as the lender does not use it when prohibited. One way to make it clear in a case such as this is to notate that the information was "completed by applicant" (or similar).

TILA. Q: We sometimes make loans with private mortgage insurance (PMI). This should be reflected on the Loan Estimate (LE) and Closing Disclosure (CD), right?

A: Yes. In the "Projected Payments" section on the first page, there is a line item for "Mortgage Insurance." However, it will not be included with taxes and property insurance in the "Estimated Taxes, Insurance & Assessment" section on page one.

On the second page of both the LE and CD, PMI will appear section F, "Prepaids," in the "Mortgage Insurance Premium" space for any PMI to be paid before the first scheduled payment. Also, on the second page, PMI will be shown in section G, "Initial Escrow Payment at Closing," in the "Mortgage Insurance" space for any PMI that the consumer will be expected to place into a reserve or escrow account at consummation to be applied to recurring periodic charges. (Be sure that these amounts do not double-count any PMI premiums.)

FCRA. Q: I am currently performing an FCRA Audit, and our Commercial Department states we have verbiage on our personal financial statement (PFS) form about pulling credit. However, I notice that some of the PFS's we acquire from other banks do not have this verbiage. I am trying to find guidance on whether we indeed need that for consumer loans made in the Commercial

area. On the Retail side, we have the borrower sign the Borrower's Authorization form for us to pull credit. Is permission required?

A: No, not for consumer (personal, household, or family) purpose loans. The FCRA does not require that a signature be obtained by the financial institution before obtaining the credit report. A lender may obtain a credit report when it intends to use the information in connection with a credit transaction involving the consumer on whom the information is to be furnished and involving the extension of credit to, or review or collection of an account of, the consumer.

However, the "permissible purpose" to pull a credit report in relation to a loan is only for consumer purpose credit. For business or agricultural purpose credit, the lender would indeed have to obtain permission from individuals involved in the transaction before pulling their credit reports.

Regulation D. Q: Is a for-profit LLC permitted to hold a negotiable order of withdrawal (NOW) account or money market deposit account (MMDA)?

A: No and yes. No, an LLC is a corporation, so a for-profit LLC is prohibited from holding a NOW account. However, there is no similar prohibition against a corporation holding an MMDA (or other savings deposit). This treatment based in what seems like distant history, from back in the days of interest rate limits on savings deposits and a prohibition against paying interest on demand deposits. The NOW account was initially an experiment that was ultimately extended nationwide, but was limited to individuals, governmental units, non-profits, and a few other entities. For-profit corporations were prohibited from holding these savings accounts (depositories have to reserve the right to require advance notice of withdrawals) with unlimited transaction capabilities.

The Dodd-Frank Act (2010) rescinded the statutory prohibition against paying interest on demand deposit accounts (DDA) but left the NOW account provision in Regulation D untouched. Therefore, any entity may hold an interest-bearing DDA, while NOW account ownership remains limited.

MMDAs are a savings deposit that initially had transaction limitations, so a NOW-like restriction on ownership was never imposed on MMDAs. For-profit businesses are free to hold MMDAs, as well as other savings deposits.

Continued on page 18

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Continued from page 17

TILA. Q: We are beginning to use a vendor to electronically file our mortgages/deeds of trust. Are we correct that the fee for this service is not an APR fee, and that it goes in Section B on the LE and CD?

A: You are half right. The vendor is a private company that provides the e-filing services, so their fee does not fit into the finance charge exclusion in Regulation Z for "security interest charges" (filing fees, in plain English) because it is not a fee "prescribed by law that actually are or will be paid to public officials" to file/perfect the security interest.

Therefore, their fee is an "APR fee," one that is a finance charge – and likely a prepaid finance charge since it is presumably paid at settlement.

You are correct on where the fee should go. It belongs in section B since the bank is requiring this particular provider be used.

EFTA. Q: For EFT error resolutions, how many days after a customer notifies us of an error do we have to give provisional credit? Is that business days or actual days?

A: For an electronic fund transfer (EFT) "error," provisional credit must be given if the bank will need more than 10 business days to investigate and resolve an alleged error. This gives the bank up to 45 calendar days to finish its investigation for many errors. The 10 business day time period is doubled if the "error" involves a new account (within 30 days after opening) and the 45 calendar day limit is doubled if the "error" involves a point-of-sale debit card transaction (because, no doubt, of the extra time needed when communicating with merchants and processors).

To take advantage of the 45 (or 90) calendar day extended time limit, the bank must provisionally credit the customer's account with the amount of the alleged "error" by the 10th business day (or 20th business day for a new account).

BSA. Q: Is a beneficial ownership form required for a loan/account involving a trust?

A: It depends. The Certification of Beneficial Ownership form is required only for a statutory trust, not a garden variety trust. The Financial Crimes Enforcement Network (FinCEN) specified this distinction in its 2016 Frequently Asked Questions release on this rule. FinCEN clearly stated that only a statutory trust (one created by a filing with the state's Secretary of State) would require the form.

TILA. Q: Would a late fee on a loan be considered a prepaid finance charge?

A: No, a fee triggered by a late payment is not a prepaid finance charge for two reasons: (1) a late payment fee is not a finance charge and (2) such a fee is not collected before or at closing (which is needed to be "prepaid" for Regulation Z purposes).

EFAA. Q: Can a hold be placed on a Cashier's Check that is payable to a non-customer and signed by our customer, and deposited in our customer's account, which does not have enough money in the account to cover the check?

A: Yes. Next-day availability for cashier's checks is required only when the cashier's check is deposited into an account of a payee named on the check, not into the account of a transferee/endorsee. The Official Staff Commentary on Regulation CC specifically provides that one statutory condition for next-day availability for these checks is "that the check must be 'endorsed only by the person to whom it was issued.'"

So, a cashier's check deposited into someone other than a payee's account may be treated as just any other local check, including having holds placed on the availability of its funds.

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Navigating Today's Evolving Regulatory Landscape

By Matt Ondus and Keith Gruebele, Bankers Healthcare Group

The current financial industry is innovative, but as banking organizations have expanded their activities, they have also faced an increasingly complex regulatory environment. Plus, COVID-19 complications have exposed several high-profile compliance breakdowns. Federal and state regulatory agencies, legislators, and the general public are working to protect banking customers like never before. They are rigorously examining consumer and small business banking customer practices and regulatory compliance performance.

Banking organizations understand that a heightened risk of compliance failure can result in litigation. Consequences may include damaged reputations, financial penalties, and regulatory constraints. Nobody wants that, but compliance has a price tag, and it isn't cheap.

Kroll Institute commissions an annual study conducted by Duff & Phelps, a financial consultancy firm. The most recent study is called Global Regulatory Outlook 2021. It includes analysis based on survey results from 250 senior executives in the U.S., United Kingdom, Europe, China, and India. All respondents work in a broad range of businesses that provide financial services.
One fascinating graphic in the report was about compliance costs. A full 32.9% of the respondents did not know how much of their 2020 revenues went to regulatory compliance. Worse, 32.8% did not know how much they would be spending on regulatory compliance from 2021 revenues.

The remaining companies had a better idea about compliance costs, but they spent or planned to spend widely varying amounts of money.

Percentage Spent or Budgeted (%)	2020 (%)	2021 (%)
<1	14.3	11.6
1-5	23.9	23.3
6-10	13.8	12.2
11-20	7.9	10.6
20-25	1.6	3.7
>25	5.9	5.8

For any company that spends more than a small percentage of its revenue on compliance, making sure compliance takes place is a big expense, but it is a core cost of doing business. You cannot be successful as a bank or financial services firm without implementing governance, risk, and effective regulatory compliance. The report contains additional information, but one important conclusion concerns the pandemic. The Great Recession still affects finances more than 10 years later, and the COVID-19 pandemic will have long-lasting consequences, too. Therefore, community banks should expect to see a continuation of problems related to the pandemic. The accompanying regulatory risks are

> Financial services organizations are heavily regulated to ensure consumer protection, transparent business dealings, and ethical marketplace conduct.

bigger for some companies than others; although 36.4% saw no significant effect, 62% percent reported effects they classified as significant (11.3%) or moderate (50.3%).

The biggest risk during the coming year will be volatility, according to 38.7% of the respondents. The second most popular pick, at 19%, was compliance. That's almost one out of every five people.

Only 15% of the respondents expected the U.S. to add stricter financial regulations. The report notes that existing regulations could be more strictly enforced since two tough regulators — and veterans of the Great Recession — are in key spots: Rep. Maxine Waters is the U.S. House Committee on Financial Services Chair, and Gary Gensler, a former investment banker, has been the U.S. Securities and Exchange Commission Chair since April 17, 2021.

The report also includes the following:

- New York is the global financial leader, displacing London, but 64.1% think China will eventually be the next major financial hub.

- Environmental, social, and governance policies are increasingly important. Only 48% of those surveyed had comprehensive policies and procedures, but 6% will have something soon. Therefore, the number of firms with ESG policies will pass 50%.

Financial services organizations are heavily regulated to ensure consumer protection, transparent business dealings, and ethical marketplace conduct. Federal and state regulators constantly demand robust compliance departments and substantive policies and procedures with routine internal auditing, third-party due diligence, fraud monitoring and identification, and many other best business practices.

Community banks, like other financial organizations, need to comply with regulations. There's a lot involved, and that might mean hiring outside expertise.

Risk Management Solutions Group (RMSG) is a wholly-owned subsidiary of Bankers Healthcare Group (BHG). BHG is one of the largest U.S. community bank loan and product networks.

RMSG's compliance consulting team helps financial institutions of all sizes solve their challenges and stay current on changing regulatory requirements, expectations, and industry practices. It has experts from private and public sectors, with a combined 500+ years of industry experience as commissioned examiners at all major supervising agencies, such as:

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- *Community Reinvestment Act Performance*
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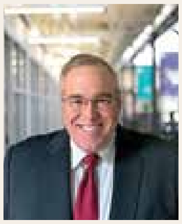

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How to Get More From Your Business Development Efforts

By Joe Chimera, BankServices1

We find most banks have a high level of concern for the costs, the performance and the productivity of their business development efforts.

Business development reps and loan reps today face many obstacles. Clients are indecisive or apprehensive with a reliance on the internet for their information. They want supporting infrastructures and products flexible enough to provide options and answers to their specific situation. The old loyalties of the past have all but disappeared. It used to be that if you had a client, you could count on them for additional business over a period of time.

The current environment requires a new level of involvement for business development. As measured by client actions, this involvement promises to be anything but an extrapolation of the past. As a result, business development must be placed in a more holistic, solution-oriented context. No longer can the business development function simply make pre-defined offers to a client with the anticipation that the client will see value in the offerings. Rather, what must happen is solid relationships need to be built utilizing a strategic approach that examines problems/needs and allows for the development of a bank-related, situation-improving solution.

We have found three basic types of reps tasked with growing the bank's business:

- **Product reps** who competently offer a product or service. Clients look to get a low-interest rate and/or add-on features at no extra cost. Loyalty is to whoever meets their price expectations today.
- **Benefit reps** who translate features into client benefits. Clients still look for a lower interest rate but tend to see more value in the offering by a "features to benefits" rep.
- **Program reps** who present a scenario that addresses a client's situation. Clients see this rep as a valued, knowledgeable person who offers solutions

that solve their problems. The interest rate is seldom a consideration because the decision to use a bank's services is based on a solution surrounded by improvement to the client's situation.

DEFINING THE PROBLEM

We believe most business development efforts that falter are because the wrong person was called on and/or the wrong message was delivered. Somehow the idea has invaded the land that growing a bank's business is a game of luck. Some reps are lucky and get the business, and others are not. Regardless of the type of business development reps who may dominate your organization, underneath it all, is the concept of delivering the right message to the right person.

NAVIGATING A NEW DIRECTION IN BUSINESS DEVELOPMENT

Delivering the right message to the right person, if it is to drive success and grow your bank's business, must be part of a consistent, repeatable business development process, and business development skills are the key.

Reps must be equipped with the necessary skills to identify problems and provide a banking solution to improve a client's situation or be in an interest rate battle with the loser winning the contract.

To improve this situation, a bank should look at the two factors that control the results you will derive from your business development efforts.

On the skills side, you must identify and improve the factors that govern the message your reps deliver.

On the process side, you must examine and repair the activities that govern who your reps call upon to deliver their message.

When you examine both of these factors, on the one hand, reps get agreements quicker and with a higher spread because they are improving their client's situation. On the other hand, they make fewer wasted client calls because they call on the right person, which inevitably increases the productivity of your business development efforts.

By implementing this approach, you will find that each of your reps is eminently more productive, the profitability of your business development efforts has gone up, the number and size of your accounts have increased, and you will be able to beat your competition consistently and predictably. The value of this business development approach will be measured by how quickly you get extraordinary results from ordinary people.

To contact Joe Chimera, call him directly at 623-236-2511 or at the office, 858-205-0088.

Know Thy Enemy

By First Call Computer Solutions

When I started my IT career over 20 years ago, the threat landscape wasn't quite threatening.

The world experienced a handful of viruses a year. They had pleasant names like "I LOVE YOU," "HAPPY 99," and even "ANNA KOURNIKOVA." They were inviting.

Don't get me wrong. These attacks weren't benign; they did damage. Some even drove up costs estimated into the billions of dollars in lost time and productivity worldwide.

Back then, it seemed so distant. We knew what to do, had time to do it, and could get it done for those of us managing the risk – some antivirus here, some patches there, a firewall, a file backup system.

Today, when I am engaging leaders of organizations, both technical and non, I get the sense that they haven't fully grasped the enemy's current state.

Who are these people? How do they work? Why would they attack us? How would they attack us? What do they do? Why do they do it?

I don't think these questions, or their answers, were all that important 20 years ago. Today I think they are critical, and not just for us in banking.

These critical questions are being overlooked in large part because we, like bankers, are focused on our controls, our cyber security framework, alignment, and readiness.

> Cybersecurity articles often create fear. Maybe that's not a bad thing. However, it is not my intent. Too many leaders have defined this problem as too technical, complex and expensive, and possibly too scary. This definition leads to avoidance of the problem. This approach isn't acceptable in banking, obviously.

We are thinking about our ability to identify, protect, detect, respond and recover. We are doing this from the viewpoint of an administrator. What do the standards say? Do we have the right boxes checked? Are we compliant?

I am not critical of this approach. It is necessary and valuable. It drives less risk and greater readiness.

I am simply advocating that leaders get to know their enemy better before they find themselves facing off with them.

Five enemy attributes all banking leaders should understand:

1. The enemy has an attack framework. No different than we have a security framework.

2. If you understand this framework, you'll work better strategically to prepare and better tactically during an attack.

3. We aren't dealing with a single attacker or even a group. The enemy is made up of many different organizations, businesses, and areas of specialty. They don't all get paid the same way or at the same time. It is a professional outsourcing marketplace at a sophisticated, industrial scale. There is an entire industry around recon – finding organizations that fit specific criteria – and then selling that information – another industry that works to gain access using the recon information purchased. They sell that access to the next group, who are experts at gathering intelligence within the environment that could be leveraged for true profits in the right hands. This approach has made the enemy diverse in its skills, motives, tools, best practices, etc. It has also made their business very commercially viable while managing the risk of getting caught and apprehended. The majority of the perpetrators are in the research and development business, not conducting the actual dirty work and making it all the more palatable for their workforce.

4. Eventually, the enemy must create leverage and maximize profits. Leverage isn't simply encrypting some essential files and then requesting a payment. The enemy has a playbook for turning up the heat. They are willing to be an anonymous whistleblower to the media, call customers directly to inform them of what's going on, notify regulators before you may be prepared to address their questions, leak internal documents and emails, leverage your insurance coverages by reading your policy before they alert you to their presence, halt your technical operations through other forms of attack keeping you from conducting day to day business.

5. The enemy is using your tools against you. Why use a malicious tool that could be easily detected when you could use a safe tool already ready for malicious purposes? This change in tactics is making legacy detection methods less useful in the fight.

6. The enemy does not target you or your organization specifically. It isn't personal. You are a transaction to the enemy, nothing more. Reconnaissance showed a technical vulnerability that was exploitable. That's what created the target for the enemy. Nothing more. Montana organizations have a false sense of security because we think we are off the map. We are not!

Cybersecurity articles often create fear. Maybe that's not a bad thing. However, it is not my intent. Too many leaders have defined this problem as too technical, complex and expensive, and possibly too scary. This definition leads to avoidance of the problem. This approach isn't acceptable in banking, obviously.

Montana Independent Bankers need acceptance and action that is not only preventative but also helpful in the event of a response. Knowing thy enemy should help on both fronts of this escalating battle.

For more information on First Call Computer Solutions please visit firstsolution.com.

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