UTAH BANKER

ISSUE 4 | 2022

REINING IN A REGULATOR GONE ROGUE

BANKS NEED A GAME PLAN FOR TODAY'S INTEREST RATE ENVIRONMENT

EXECUTIVE DEVELOPMENT PROGRAM CLASS OF 2022

OFFICIAL PUBLICATION OF THE UTAH BANKERS ASSOCIATION

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Emerging Bank Leaders
Utah Bankers Association

UTAH BANKERS ASSOCIATION

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The Bottom Line

Howard Headlee
President and CEO
Utah Bankers Association

Many people today have become so invested in political narratives that the reality right in front of them can become blurred. In some cases, the inability to focus on what is real is driven by innocent confusion. In others, it is the result of a conscious intent to deceive. Either way, when our policies are driven by narrative instead of reality, we inevitably experience pain.

Eventually, reality always prevails, and whatever distance we have put between ourselves and reality must be reconciled, at a cost.

I have a front-row seat at the intersection where the extreme ESG narrative and the markets collide, a collision I have seen coming for a while now. Even though people attribute different meanings to the letters ESG, most agree that a commitment to the environment, fair treatment of all people, and good governance are essential in a free society. However, some political advocates have used these principles to attempt to unilaterally impose their extreme agenda.

The narrative used to promote the extreme ESG agenda is complex, passionate, and powerful. Like all narratives, it contains just enough facts to drive its loyalists to demand a full and unqualified surrender from any and all opposition. For them, any dispute or denial is unacceptable.

As we enter the winter months, we all appreciate the fossil fuels that heat our homes. In Utah, this is mostly natural gas, and there is no cleaner alternative today for keeping our homes warm. Financing the exploration, recovery and transmission of natural gas today is essential and does not preclude better energy alternatives in the future. But apparently, those committed to the extreme ESG narrative disagree. Their commitment to their narrative would separate us from reality and lead to pain, or in this case, even death.

As with all political narratives, pushback, debate, and discovery are essential. The key here is to focus the debate on reality, and from various points of view. However, the debate becomes more dangerous when opponents fight the extreme ESG narrative by constructing their own passionate narrative. Combating a narrative with an opposing narrative instead of focusing the debate on the facts leads everyone further from reality and exacerbates societal pain.

Fortunately, many public officials and leaders of community and business remain committed to making decisions based on reality. Bankers are an important part of this group. Our job is to allocate our community's precious, limited capital to the best and highest good. Of course, there can be a healthy discussion about what is "best" and "highest," but that is ultimately determined by the realities of the market, not political narratives.

During a recent Congressional hearing, a promoter of the extreme ESG narrative confronted the leader of the largest bank in America, demanding his bank stop making loans to the oil and gas industry. His response was perfect: "That would be the road to Hell in America."

He was right! We live in a Democratic Republic, and if a member of Congress wants to starve the oil and gas industry of capital, she needs to draft legislation and get the votes to make it law. That's her job. Subverting that process by unilaterally pressuring banks to stop lending to legal businesses essential to our health and safety would indeed be the road to Hell for America.

As we fashion our responses to some of today's most dangerous political narratives, policymakers should de-escalate by focusing their efforts on facts, not fears, to ensure their remedies remain connected to reality and avoid unintended and unnecessary pain in the long run. ■

2023 EVENTS

UTAH BANKERS ASSOCIATION

January 26	***FDIC Community Bankers Workshop*** Wasatch Retreat Center Salt Lake City, UT
February 9-10	***Ag Outlook & Conference*** Dixie Event Center St. George, UT
March 9	***IT & Cybersecurity Conference*** Virtual Event
April 13	***Women in Banking Conference*** Radisson Hotel Salt Lake City, UT
June 25-28	***115th Annual UBA Convention*** Sun Valley, Idaho
September TBA	***7th Annual*** ***Utah Banks & Partners Golf Classic*** Old Mill Golf Course Salt Lake City, UT
September 26	***Community Reinvestment Conference*** Rice-Eccles Stadium Salt Lake City, UT
November 6-8	***Fall Compliance Conference*** Location TBA
November TBA	***Emerging Bank Leaders Conference*** Location TBA
December 1	***Bank Executive Winter Conference*** Little America Hotel Salt Lake City, UT

Mark your calendar! More information at UTAH.BANK.

Rob Nichols
President and CEO
American Bankers Association

REINING IN A REGULATOR GONE ROGUE

In an American Banker op-ed earlier this year, I called out the CFPB under the leadership of Rohit Chopra as a "regulator gone rogue." I'm not alone in my criticism: in September, 12 Republican lawmakers took the bureau to task over what they called a "radical and highly-politicized agenda unbounded by statutory limits."

Unfortunately, the bureau has continued to push legal boundaries on several different fronts in recent months.

First, the bureau has waged an aggressive PR campaign against so-called "junk fees" – using a term it coined to demonize the legitimate fees, including overdraft fees, that banks charge consumers for the products and services they offer. Throwing these fees in with things like concert ticket processing fees, resort fees and other surprise fees charged by retailers and hospitality businesses was a deliberate move to confuse the public about the well-disclosed fees they currently pay. (For the record, banks don't charge resort or ticket fees, nor does the CFPB have authority to regulate those types of fees.)

Another alarming step by the Chopra bureau was its decision to update the UDAAP section of its exam manual in a way that fundamentally upends the regulatory approach to fair

lending supervision and enforcement, without providing industry stakeholders or the public the opportunity to provide feedback through the notice and comment process under the Administrative Procedure Act. Instead, the CFPB chose to take a backdoor route to expand its authority – giving itself the ability to examine for alleged disparate treatment or impact across all areas of bank operations using the authorities granted by the Dodd-Frank Act under its authority to prevent "unfair, deceptive or abusive acts or practices."

In reality, the CFPB's authority to enforce anti-discrimination laws is limited to credit products. It's clear that this move is an attempt by the bureau to set itself up as a "super-regulator" of financial practices using authority Congress did not give it.

To be clear: ABA fully supports the fair enforcement of the nation's anti-discrimination laws. We simply believe these laws

> "To be clear: ABA fully supports the fair enforcement of the nation's anti-discrimination laws. We simply believe these laws should be enforced by regulators within the boundaries set by Congress."

should be enforced by regulators within the boundaries set by Congress. This updated manual does not qualify.

Given that the bureau has not seen fit to rescind the manual – despite previous calls from ABA and other trade groups – we were left with no choice but to pursue legal action. ABA's lawsuit – filed in late September jointly with the U.S. Chamber of Commerce, the Longview Chamber of Commerce, the Texas Bankers Association, the Independent Bankers Association of Texas, the Texas Association of Business and the Consumer Bankers Association – alleges violations of the APA in three ways.

First, the bureau is exceeding its statutory authority outlined in Dodd-Frank, which is clear that "unfairness" under UDAAP and discrimination are distinct concepts that should not be conflated. Second, the updated manual is "arbitrary and capricious," in violation of the APA. Finally, it violates the APA's procedural requirements because it constitutes a legislative rule that failed to go through notice and comment.

It's never our preference to take legal action against a regulator. And this lawsuit doesn't mean we've given up on finding common ground with the bureau. In fact, on issues like the need to protect consumer data, the need to make sure nonbanks face the same regulatory requirements as banks for similar activities, or the importance of relationship banking, our goals are very much aligned.

But when a regulator – any regulator – takes a step like this to dramatically expand its regulatory reach without authorization from Congress or any opportunity for the public to weigh in, ABA will respond on behalf of our members and the industry we represent. ■

Email Rob at nichols@aba.com.

UBA DEVELOPMENT PROGRAMS

Utah Bankers Association

2023

EXECUTIVE DEVELOPMENT PROGRAM

A comprehensive 12-month course for aspiring executives to step up their career and for institutions to invest in the strong bank leaders of tomorrow.

Classes begin January 19

CREDIT ANALYST DEVELOPMENT PROGRAM

A six course program to further develop basic analytical and specialized skills necessary to effectively support the commercial or business lending functions in the bank.

Classes begin March 15

COMMERCIAL LENDING DEVELOPMENT PROGRAM

The CLDP course emphasizes the entire commercial loan life cycle, and provides participants with current lending approaches, as well as an updated focus on key analytics and regulatory issues.

Classes begin September 7

LEARN MORE AT UTAH.BANK/DEVELOPMENT

UBA FALL COMPLIANCE CONFERENCE

By Brian Comstock, Director of Communications & Marketing, Utah Bankers Association

The UBA Fall Compliance Conference took over the Doubletree Hotel in Park City for three cold and snowy days, Oct. 25-27, 2022. Over the course of the conference, attendees heard from several compliance and subject experts, including multiple sessions with David Dickinson from Banker's Compliance Consulting, Julia Gutierrez from Compliance Alliance, Monika McCarthy from CrossCheck Compliance, and Stephanie Lyon from Ncontracts.

The group also got the latest industry news and trends from a regulator panel and a UDAAP panel, as well as an economic overview from Robert Spendlove, a discussion of operational risk management by Terry Lee of Protecht, a political update from UBA President Howard Headlee, two different sessions on crypto-related topics, and more.

After the business sessions, attendees let their hair down with some fun networking activities, including a spirited Catapult Competition and a lively – and at times intense – Jeopardy! contest.

We look forward to seeing everyone again in 2023! ■

RECENT DEVELOPMENTS IN NSF REPRESENTMENTS

By Shaun Harms, Principal, FORVIS

Assessment of non-sufficient funds fees (NSF) on representments of items, such as Automated Clearing House (ACH) withdrawals and checks, have been a heightened risk issue for financial institutions. While this is not a new issue because checks have been represented for decades, the volume of electronic transactions over that same period has drastically increased. The lack of clarity around how much one bill hitting a consumer's account could cost them in a negative balance situation creates the heightened risk for unfair, deceptive, or abusive acts or practices (UDAAP). The FDIC noted this information in the March 2022 Supervisory Highlights; however, on Aug. 18, 2022, a Financial Institution Letter (FIL), Supervisory Guidance on Multiple Re-Presentment NSF Fees[1], was issued.

In the FIL, the FDIC notes the issuance of this guidance presents an elevated risk of violations of law and harm to customers. The guidance outlines the consumer compliance, third-party, and litigation risks associated with the handling of NSF and provides for several risk management procedures to assist institutions in minimizing the risks related to potential unfair or deceptive practices.

Based on these areas outlined, there are a few takeaways institutions need to be prepared for regarding representments:

1. Account Disclosures – Deposit account disclosures, such as terms and conditions, truth in savings disclosures, and fee schedules, must be updated to show that representments of items can occur and could result in multiple fees to the customer.

2. Unfair Practices – The FDIC specifically noted that while revising disclosures may address the risk of deception, doing so may not fully address the unfairness risk of assessing NSF fees on the same item represented multiple times. This means the disclosure change alone may not be the full solution for this issue, more of a bandage for now.

3. Third-Party Risk – Third parties, including core processors, often play significant roles in processing payments, such as identifying and tracking represented items and providing systems that determine when NSF fees are assessed. Such third-party arrangements may present heightened UDAAP risk if not properly managed. Institutions are expected to maintain adequate oversight of third-party activities and appropriate quality control over products and services provided through third-party arrangements.

When a utility bill payment, for example, is presented up to four times by the utility company's processor of batch ACH transactions, it could result in four charges to the customer.

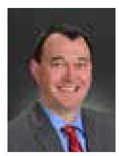
> In reviewing compliance management systems, the FDIC recognizes an institution's proactive efforts to self-identify and correct violations.

That could significantly impact the average consumer who does not understand or realize they can be charged multiple times for the same utility bill, and institutions need to identify any risks or controls they can put in place. Industry system providers in this space are not ready for the handling and discernment between items and when it is a representment instead of a newly presented item. Some vendors have reported updates will not be ready until 2023 for this issue; some could be as late as midyear. This is the immediate issue, and institutions cannot be expected to review each NSF manually. Until a solution is presented, there will continue to be a risk for the institutions.

The question is, what can you do now to help minimize the UDAAP risk? The FDIC addressed its approach in the guidance issued as follows:

> "*When exercising supervisory and enforcement responsibilities regarding multiple representment NSF fee practices, the FDIC will take appropriate action to address consumer harm and violations of law. The FDIC's supervisory response will focus on identifying representment-related issues and ensuring correction of deficiencies and remediation to harmed customers. In reviewing compliance management systems, the FDIC recognizes an institution's proactive efforts to self-identify and correct violations. Examiners will generally not cite UDAP violations that have been self-identified and fully corrected prior to the start of a consumer compliance examination. In addition, in determining the scope of restitution, the FDIC will consider an institution's record-keeping practices and any challenges an institution may have with retrieving, reviewing, and analyzing re-presentment data, on a case-by-case basis, when evaluating the time period institutions utilized for customer remediation. Failing to provide restitution for harmed customers when data on re-presentments is reasonably available will not be considered full corrective action. If examiners identify violations of law due to re-presentment NSF fee practices that have not been self-identified and fully corrected prior to a consumer compliance examination, the FDIC will evaluate appropriate supervisory or enforcement actions, including civil money penalties and restitution, where appropriate.*"

Therefore, if you are an FDIC-supervised institution, you need to be proactive and try to identify potentially harmed customers and develop a plan for corrective action. This may include a lookback for restitution. If you are not an FDIC-supervised institution, you should remain on high alert because this has escalated quickly and could with the other agencies as well.



Shaun Harms serves as the principal for the Financial Services Practice out of FORVIS' Little Rock office. His expertise is within the regulatory compliance area and focuses on community financial institutions. He has 19 years of consulting experience and has worked with more than 100 banks with their compliance and Bank Secrecy Act (BSA) programs and is a featured speaker at many events.

1. fdic.gov/news/financial-institution-letters/2022/fil22040.html

THE EDULOGUE:
BANK TRENDS FOR 2023

By Beth Parker, Director of Education, Utah Bankers Association

Banks want to attract and retain talent but cannot compete based on remuneration alone to motivate staff. They must create a cohesive team, a likable workplace culture, and a productive learning environment to support their employees' professional and financial development. Creating a cohesive environment that facilitates learning and development will be a top trend in the banking industry in 2023.

It is evident that the disruption caused by the pandemic has transformed how people's practices will be configured in the banking industry for a long time to come. From enabling remote working to focusing on human capital needs like reskilling the workforce and managing digital disruptions, training and development will be critical to building an agile, collaborative, and learning-focused organization.

Given how quickly the financial sector is entering the digital sphere, upskilling is essential. To function more effectively in the modern workplace, the banking professional's role must be adjusted to include digitalization and digitization skills.

"If digitization is a conversion of data and processes, digitalization is a transformation." More than just making existing data digital, digitalization embraces the ability of digital technology to collect data, establish trends and make better business decisions. The top goal for bank leadership and HR in the banking sector will be assisting managers and staff in managing data.

To be successful, the bank of the future will need to embrace emerging technology, remain flexible to adopt evolving business models, and put employees and customers at the center of every strategy.

The banking industry is positioned to witness a whirlwind of changes in the coming year. These trends will transform processes and systems and shape the future of the industry. Banking organizations in this fast-paced world of work will have to go beyond simply coping with change. They will need to face challenges head-on and learn to be agile in the face of disruptive changes.

> The banking industry is positioned to witness a whirlwind of changes in the coming year.

Utah Bankers Association partners with the American Bankers Association, OnCourse Learning, and SBS Cybersecurity to assist Utah banks with the training and development of staff. Go to the Education & Events tab at utah.bank to find the certification, webinar, and on-demand training programs you need to make 2023 the best training year yet. ■



EMERGING BANK LEADERS "IGNITING LEADERSHIP" CONFERENCE

By Brian Comstock, Director of Communications & Marketing, Utah Bankers Association

The "Igniting Leadership" Conference – held Nov. 16, 2022 – brought together nearly 100 Emerging Bank Leaders at the beautiful new Zions Tech Center in Midvale, UT, with another 50 or so joining via Zoom. Attendees heard from an impressive lineup of knowledgeable speakers, taking away practical and actionable lessons to apply at their banks today and into the future.

UBA Chairman Matt Bloye welcomed the group in the morning, advising everyone to outwork and "out-prepare" the competition and to think strategically about their careers by finding suitable mentors. Then Jeff Strong, former Global President of Johnson & Johnson, discussed leading through crisis. According to Strong, crisis is the best measure and test of a leader, but it's critical to be prepared by establishing the framework and tools before they are needed.

Emerging Bank Leaders Board Chair Hannah Packard gave an update about the EBL community and the exciting year ahead, leading into "Utah Bankers Ignite!", a fast-paced showcase of four colleagues – Valerie Morrison of Regions | EnerBank, Jessica Sorensen of Zions Bank, Jeff Meyer of Zions Bancorporation, and Becky Wilkes of the Utah Bankers Association. The "edutaining" session didn't disappoint, inspiring the audience by hitting on topics like gratitude, overcoming obstacles, the challenges of remote work, and living in the moment.

The next speaker was Brad Baldwin, President & CEO of First Utah Bank, and he offered several tips and ideas for successful leadership. Baldwin stressed the importance of understanding your company and the industry, and though leadership is very personal, doing simple and practical things will make people follow.

Mentoring Committee Chair Valerie Morrison shared information about EBL Mentor Match. Four EBL members shared their experiences with the program, reminding the audience to own their development and that using this tool is a great way to achieve it.

After lunch, James Hadlock from Blunovis talked about mental well-being. Leaders are key to creating a sense of value and belonging in the workplace, and they must foster a safe environment and provide resources for people who might need help. Next, Central Bank Chairman Matt Packard shared some leadership insights, recommending that everyone find an outlet to burn stress to remain calm and resilient in a crisis.

Author Mark Carpenter closed things out by discussing conflict and how determining motives and listening are imperative to develop understanding and building trust. He wrapped up the conference with a fun speed networking exercise, applying the numerous lessons learned throughout the day.

Keep up to date with Emerging Bank Leaders and learn more about the many program benefits at utah.bank/ebl.

RISK MANAGEMENT OF THIRD-PARTY RELATIONSHIPS

By Tracey Levandoski, CRCM, CrossCheck Compliance, LLC

On July 19, 2021, the regulatory agencies issued Proposed Interagency Guidance on Third-Party Relationships: Risk Management. The proposed guidance consolidates all prior guidance, offers a detailed framework covering all stages in the life cycle of third-party relationships, and takes into account the level of risk, complexity, and size of the bank, as well as the nature of the third-party relationship. While it is unclear when the proposal will be finalized, the principles of sound third-party risk management remain the same.

Governance and Oversight

Under current guidance, the bank's board of directors and senior management are ultimately responsible for managing activities conducted through third-party relationships to the same extent as if the activities were handled directly by the bank. The proposed guidance states that using third parties does not diminish the bank's responsibility to perform an activity in a safe and sound manner and in compliance with applicable laws and regulations. For evidence that the regulators will not allow a bank to outsource its accountability and responsibility to third-party providers, one only needs to read a few consent orders in which banks were held accountable for the actions of their third-party providers.

The Primary Focus of Third-Party Risk Management – Significant vs. Critical

Current guidance focuses the attention of third-party risk management on significant relationships and further defines what types of relationships should be considered significant, such as providers who:

- ✓ Introduce a new relationship or a new bank activity;
- ✓ Perform critical functions for the bank;
- ✓ Have access to sensitive customer information;
- ✓ Market bank products or services;
- ✓ Provide products or services involving subprime lending or card payment transactions; or
- ✓ Pose risks that could significantly affect earnings, capital, or the bank's reputation.

Additionally, the nature of risk in the context of the current or planned use of a third party should be understood in conjunction with the risk areas you consider in everything else you do:

- ➤ **Strategic Risk** – Does the use of the third-party's services align with the bank's strategic goals?
- ➤ **Reputation Risk** – What risk does using the third party contribute to the bank's good name in the community?
- ➤ **Operational Risk** – Do the third party's processes integrate compatibly with the bank's processes?
- ➤ **Transaction Risk** – What is the risk of the third party's failure to perform as expected?
- ➤ **Credit Risk** – What is the credit risk of the third party? What credit risk does the third party introduce when using proprietary credit models for underwriting loans on the bank's behalf (for example)?
- ➤ **Compliance Risk** – What is the exposure if the third party violates laws or fails to comply with the bank's internal policies?

The proposed guidance is intended for all third-party relationships but is especially important for relationships that are relied on to a significant extent entail greater risk and complexity, and involve critical activities. Critical activities:

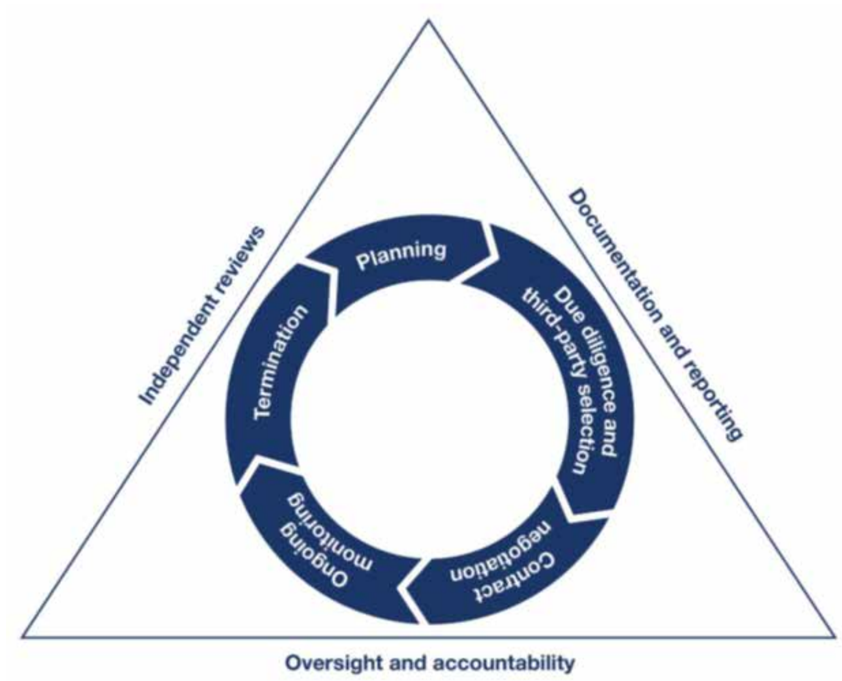
- ✓ Cause significant risks if the third party fails to meet expectations.
- ✓ Have significant customer impacts.
- ✓ Require significant investment in resources to implement the activity and manage the risk.
- ✓ Cause a major impact on the bank's operations if an alternative must be found or the activity must be brought in-house.

Regardless of the approach to defining significant or critical service providers, the bank should implement a sound methodology for designating which relationships receive more comprehensive oversight and risk management.

The Risk Management Process

Under the current guidance, the key to the effective use of a third party is to appropriately assess, measure, monitor, and control the risks associated with the relationship, which includes

The proposed guidance significantly expands upon risk management by introducing the Third-Party Relationship Life Cycle which is depicted in the following Stages of the Risk Management Life Cycle graphic.



Source: Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency. Proposed Interagency Guidance on Third-Party Relationships: Risk Management.

a risk assessment, due diligence, contract structuring and review, and ongoing oversight.

The proposed guidance significantly expands risk management by introducing the Third-Party Relationship Life Cycle. The Life Cycle starts with the first step of planning, which includes not only a risk assessment that, at a minimum, considers the risk areas described above; identifies performance criteria, internal controls, reporting needs, and necessary contractual requirements; assesses management's ability to provide adequate oversight; and contemplates the consequences of the provider's failure. In addition to the risk assessment, planning includes the commensurate steps for appropriate risk management. Planning should be a collaboration among members of management with the requisite expertise and may involve managers from across the bank's business lines, such as compliance, information technology, and legal counsel, in addition to the area directly impacted by the third party's product or service.

The next step of the Life Cycle is due diligence commensurate with the criticality of the proposed activity and level of risk identified in the risk assessment. Due diligence should include an assessment of the provider's ability to perform as expected considering its financial condition, business experience, and operational resilience; comply with the bank's policies as well as applicable federal and state laws; and operate in a safe and sound manner. In some cases, an onsite visit may be warranted.

After a provider has been selected, the contract negotiation considers service level agreements, required reporting,

> The use of subcontractors must be considered during all stages of the Life Cycle.

compliance with applicable laws and regulations, the bank's right to audit the provider, complaint and dispute resolution, and the use of subcontractors, among other provisions.

Following contract execution and provider onboarding, ongoing monitoring should be performed commensurate with the risk level determined during the planning stage. Ongoing monitoring may be similar to the initial due diligence, with an added focus on fulfilment of contract requirements, and should include an update to the risk assessment based on the results of the monitoring.

The final stage of the Life Cycle is the termination of the relationship, which should be handled efficiently to minimize the impact on operations and the bank's customers. However, termination should really be contemplated during the planning stage, including considering the implications if the provider fails to perform to expectations or, in the worst-case scenario, the provider ceases operations.

Woven into the proposed guidance is a focus on fourth parties – a third-party provider's subcontractors – and bank management

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must ensure that if a third-party provider uses subcontractors for any part of the bank's outsourced activities, the third party provides adequate oversight of its subcontractors. The use of subcontractors must be considered during all stages of the Life Cycle.

Oversight of the Third-Party Risk Management Program

The Third-Party Relationship Life Cycle also contemplates oversight of the third-party risk management program. While the regulators' compliance management system (CMS) examination procedures do not include provider oversight as a formal component of the CMS, they do state that compliance expectations extend to provider relationships. Therefore, third-party risk management should be incorporated into the bank's CMS, including:

- ✓ Policies and procedures that define risk/criticality, minimum due diligence and ongoing monitoring activities based on risk, and minimum contract provisions; and address oversight of and accountability for the program.
- ✓ Training for bank staff responsible for third-party oversight.
- ✓ Monitoring, testing, and audit of the program.
- ✓ Complaint management related to third-party providers.

Third-party risk management continues to be an increasing regulatory focus. Understanding the details of sound risk management outlined in the proposed guidance and enhancing your third-party risk management program commensurate with the risk level of your bank's service provider relationships will place the bank in a more favorable position for the next regulatory examination. ■

Tracey is a managing director at CrossCheck Compliance LLC and a regulatory compliance and risk management professional with over 30 years of experience in the financial services industry. Prior to joining CrossCheck, Tracey was Senior Vice President, Compliance at Standard Bank & Trust, now Old National Bank; and, before that, she was Assistant Vice President, Community Bank Examinations at the Federal Reserve Bank of Chicago. She also previously held positions in compliance, accounting, and operations at community banks. Having worked as both a prudential regulator and in banking institutions, Tracey has demonstrated expertise in compliance, including extensive knowledge of lending and deposit regulations, with a recent concentration on fintech. Tracey can be reached at tlevandoski@crosscheckcompliance.com.

UBA BANK EXECUTIVE WINTER CONFERENCE

By Brian Comstock, Director of Communications & Marketing , Utah Bankers Association

The UBA closed its conference year with the Bank Executive Winter Conference at the Little America Hotel in Salt Lake City on Dec. 2, 2022. Appropriately titled "The New Year Risk Radar," this year's event painted a clear picture of where we are as an industry and what lies ahead in 2023.

Wells Fargo Economist Charlie Dougherty kicked off the proceedings with an economic forecast. In his view, it is "more likely than not" that we will see a recession in the second half of next year, but Utah's population and job growth, among other factors, will hopefully mean a mild downturn.

The Regulator Panel is always a highly-anticipated session during this conference, and this year's group – Paul Dimapawi from the Federal Reserve Bank of San Francisco, Kurt Raney from the OCC, Darryle Rude from the Utah DFI, and Wade Walker from the FDIC – had many insights into their top-of-mind issues, including the "Cs" (cannabis, climate, cybersecurity, CRA, crypto, CRE) and labor force. And they advised the audience that ESG bills are coming from both sides, but their main concern will be risk management, not politics.

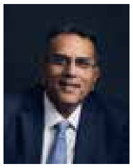
Next, ABA President Rob Nichols sat down with Howard Headlee to discuss the recent midterm elections and how they might impact banking. Nichols laid out areas where the ABA is on the offensive (SAFE Act), where they are playing defense (Durbin/Marshall Bill), and where they are monitoring (FDIC nominees, House and Senate committees, and the regulatory environment). He also had very firm words about the "misguided" assault on fees – "We should be able to charge fees for services" – and in opposition to the creation of a CBDC – "Let banks be banks."

During lunch, Nichols addressed the UBA Executive Development Program Class of 2022, and the conference concluded with the presentation of the graduates. See page 17 for more.

BANKERS ON THE MOVE

Altabank

Altabank welcomed **Rebecca Chavez-Houck** to their board of directors in October. Known throughout Utah for her contributions to the nonprofit and governmental sectors, she is a managing member of Aspira Public Affairs, an organization providing community outreach planning, media relations, constituent services development, and women's leadership training, with a particular focus on underrepresented groups.



JR Vera has been promoted to Senior Vice President and named manager of the bank's Northern Region, where he will oversee branches in Salt Lake County, from Riverton to Salt Lake City. JR joined Altabank in early 2022 as a Commercial Loan Officer. He was previously with Chase Bank.

Russ Packer has been promoted to Branch Manager in the Altabank Draper branch. Russ joined Altabank 10 months ago from Intercap Lending and has experience as a commercial loan officer with Wells Fargo.

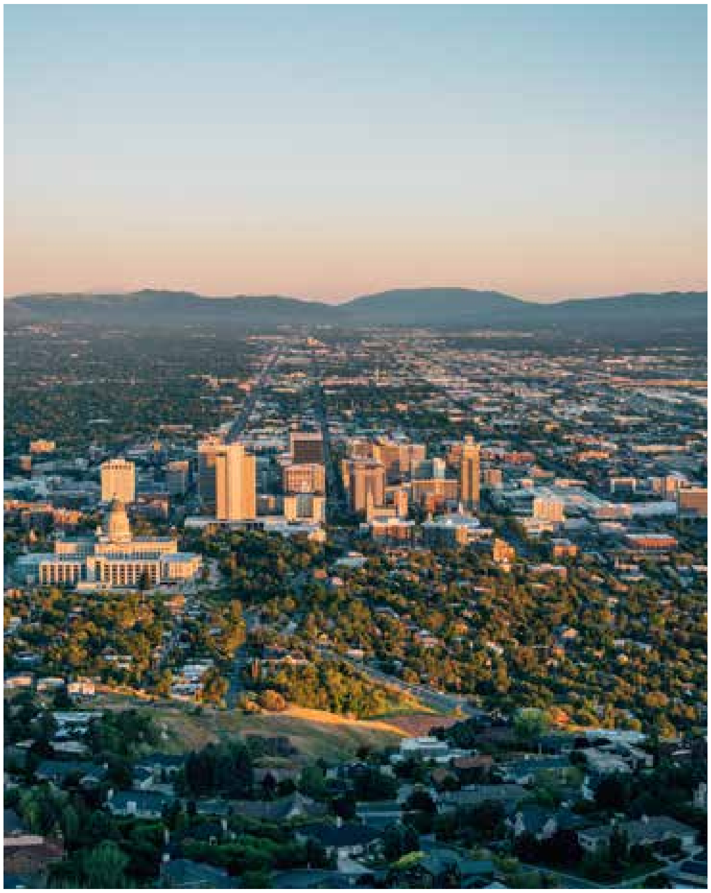
First Community Bank

Mike Padovich has been promoted to Senior Vice President, Business Development Officer at First Community Bank Utah, Division of Glacier Bank. Mike's skills and talents have led to extreme growth in the branch he previously managed, and he will be able to use those skills to help other branches in our communities.

KeyBank

Tyler Blout has been promoted to Utah Market Retail Leader for KeyBank, overseeing 30 branches in Utah, including the new American Fork branch that opened in May 2022. Blout has served in retail banking roles at KeyBank for more than 15 years, most recently as a Senior Area Retail Leader for KeyBank's Utah South region.

Amanda Wiscomb joins Key Private Bank as a Senior Financial Planner for Utah. She has more than 15 years of experience in financial services, previously working for Goldman Sachs, Zions Bank, and Silicon Valley Bank. ■



EXECUTIVE DEVELOPMENT PROGRAM CLASS OF 2022

Congratulations to the 2022 graduates of UBA's Executive Development Program, honored this year at the Bank Executive Winter Conference at the Little America Hotel on Dec. 2, 2022. This was the 10th group to go through the program, and this year's class of 41 joins an elite group of 299 EDP alumni throughout the state. We are excited to watch them lead the industry into a very bright future!

→

2022 GRADUATES

Steve Alsup
Regional Banking Senior Manager, Wells Fargo

Destinee Anderson
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There are limited seats remaining for the 2023 Executive Development Program. Classes start on Jan. 19, 2023. For more information on the program and how to register, visit utah.bank.

BANKS NEED A GAME PLAN FOR TODAY'S INTEREST RATE ENVIRONMENT

By Rob Blackwell, Chief Content Officer, IntraFi

As the Federal Reserve aggressively hikes interest rates to tamp down inflation, depositors are starting to demand more for their money.

Results from IntraFi's most recent quarterly survey of bank executives indicate the trend is likely to continue. Ninety-five percent of respondents expect funding costs to go up, and 71% said deposit competition will increase. But this doesn't mean banks have to let macroeconomic forces or competitors dictate their strategies.

Matt Pieniazek, president and CEO of Darling Consulting Group, recently joined me on the Banking with Interest podcast to discuss how banks should think about their balance sheets in the current interest-rate environment. He explains why all institutions need clearly documented game plans, how to extricate rate from the value proposition, why rising rates are a good thing, and much more.

What follows is our conversation, edited for length and clarity:

What are you seeing right now vis-a-vis banks and bank balance sheets?

The majority of banks aren't overly concerned about losing relationships. They're facing deposit pressures in a few areas, but the funds they've lost have been mostly discretionary. However, things are about to get interesting.

That sounds ominous. What do you mean?

During the last rising-rate environment, the Fed took nearly two years to increase rates by 200-225 basis points, and deposit-rate changes were nearly three times as responsive to the second hundred basis points as they were to the first. Similarly, during the period leading up to the Great Recession, we had a 425-basis-point move. Things were pretty tame during the first 200 basis points, but by the third and fourth hundred, the proverbial gloves came off.

Rates have now risen uncharacteristically aggressively in a short period of time – in fact, the delta between market rates and what banks are paying has never gotten this wide this fast. Even if depositors aren't looking to move their money, it's hard for them to ignore what's happening.

Additionally, during the pandemic, we made it easier to do things electronically and conditioned customers to avoid branches. Today, banking practices are very different than they were three or four years ago. So the dynamics are about to get really interesting, notwithstanding the excess liquidity still out there.

What's your advice to banks?

Have a clearly documented game plan. (Many banks don't.) Start by figuring out how much money you can, or are willing to, let leave; then determine which deposits are most valuable and prioritize those.

Next, divide your deposit base into manageable pieces. Start by rank-ordering your largest-balance relationships; this will help with one-off conversations. Second, review your mass-market, traditional banking relationships. Third, review the "tweeners," or those that aren't quite whales but larger discretionary balances that could be at risk (mid-tier balances comingled with operating balances in those traditional accounts).

Get your people in a room to assess the elasticity of deposits in each sector and your value proposition for those different consumer types, specifically, whether it's driven by rate or other factors. Figure out your pricing strategy for each and how much outflow you're willing to accept in each area and why.

You recently wrote that all banks have what appear to be core deposits but are actually Trojan Horses. What did you mean?

Monies that look like core deposits but have a high potential for disintermediation. Municipal deposits are one kind of Trojan Horse. Large commercial balances are another – many businesses have funds sitting in their banks that dwarf what they need for operations, but they're also facing cost pressures, and it's hard to ignore the opportunity to pick up notably incremental yield on their excess cash. If they do need money, many will "borrow" from themselves. The third kind is CDs. CD balances have contracted notably through this cycle, but much of that is CD-mentality money sitting in savings accounts, now accounts, or money markets that's going to move back into CDs.

What should banks be thinking about if rates keep rising?

Everyone seems to get overly fixated on rising rates and how high they might go, but no matter what a bank's interest rate risk profile is, the worst scenario for this industry would be for rates to do an about-face and head lower for three reasons: 1) Funding costs can only go so low, but assets will keep pounding down until eventually everybody's margins get squeezed – it's just a matter of how quickly and to what degree; 2) declining rate environments are highly correlated with declining economic environments, which are highly correlated with asset-quality challenges, delinquencies, and elevated reserves; and 3) when economic activity slows, the outlook for loan growth darkens.

How is social media adding to deposit pressures?

It's definitely having an effect. But banks need to remember that there's always somebody paying more than them. If rate were the most important variable, every other bank would go out of business, and you'd have one big bank paying the highest rates. The point I'm making is that if banks fuel conversations about rate to where it becomes the main topic of discussion, they're communicating that their value proposition is mainly tied to rate instead of the other things they bring to the table. Conversely, depository institutions that believe in their value propositions will do well during this cycle because they'll know where they can be proactive. They'll experiment more, try more things.

What are your thoughts on strategies for banks that aren't dealing with excess liquidity?

I'll start by saying there are many banks with concentrations of large balances that don't want pricing on these to upset the apple cart. They don't want a handful of accounts messing up their core deposit strategies, so they've been paying higher rates than usual. Then they've been going and selling the money into a deposit network, such as IntraFi's, through its One-Way Sell program. This enables them to effectively lower their deposit costs and keep the money out of their deposit expenses by moving it off the balance sheet, knowing they can bring it back on if necessary.

Public banks with valuations that reflect a highly inelastic core-deposit base through prior cycles don't want to change the Street's perception with beta moves that have nothing to do with their true base of core deposits. They'd prefer to move all their discretionary monies into repos, so they become a borrowing cost, or just sweep them off so they can actually generate some fee income and, in effect, slow the rise in their deposit costs. They're also starting to worry about reputation risk, which is a first for me (and I've been doing this for a long time).

Coming back to your question, banks that are borrowing money are actually pushing local market pricing up. They don't match wholesale, but they've got a long runway given the delta between

> When we talk to banks about forecasts, many anticipate making half as many loans next year as they will make this year.

market rates and what other banks are paying. They'll pay a lot more than other institutions, but they'll also save a lot. Right now, borrowing banks are facing high opportunity costs, so if they're dealing with a larger account, they're more apt to pay up or negotiate. Otherwise, they'll just have to replace them with something substantially more expensive.

Loan growth was good in the second quarter, but in the third quarter, there were signs of it faltering. What have you been hearing?

There's a clear consensus that pipelines have peaked. When we talk to banks about forecasts, many anticipate making half as many loans next year as they will make this year. Hurdle rates are up because of interest rates, there's lots of uncertainty surrounding any kind of real estate, and businesses aren't as comfortable making investments right now. Banks themselves are pulling back on some concentrations, asking tougher questions.

We've seen a lot of disruption in the past two years from COVID and other factors. How should banks be thinking about ALCOs right now?

Way too many ALCOs tend to be more of a reporting function that spends too much time creating detailed decks that do little more than give people headaches. Then, toward the end of meetings, they'll shoehorn in conversations on what to do. Those institutions have it backward. ALCO should feed strategy. It should be a profit center, not the cost center it tends to be.

What are the biggest mistakes banks are making today?

One is that they're not changing loan pricing to levels that represent fair, risk-adjusted returns. They're letting the liquidity overhang get in the way. The majority of banks – not all – are knowingly doing deals at perhaps the tightest spreads ever. But their business models don't support FHLB plus 150 to 200. They don't support SOFR plus 150 to 175. They don't support prime minus 100 or more. Banks have to get away from all that. They can't let irrational/desperate competition dictate their ongoing lending strategies. They need to improve their balancing act.

Another is that many banks don't socialize the logic underpinning their value propositions. They don't explain how to deflect objections to those who work on the front lines. They don't institute formal feedback loops, either. Banks should never underestimate the importance of communication, coaching, and guidance. ■

BANK KUDOS

Altabank™ Conducts Yearly Book Drive for Intermountain Healthcare's Reach Out and Read Program

Reach Out and Read is all about unleashing the joy and potential of each child," says Dr. Neal Davis, a pediatrician with Intermountain Healthcare. "The program includes giving an age-appropriate book to children during all well-child visits from six months of age to five years old; a total of nine visits as a child grows and develops through those critical early years."

Altabank shares IHC's passion for helping children grow and thrive, so in 2020, Altabank made a five-year, $500,000 funding commitment to ROR. In addition, Altabank further supports ROR by conducting an annual holiday book drive, inviting members of the community to purchase and donate books at any of Altabank's 24 branches. This year's book drive runs from November 28 to December 30.

Bank of Utah Delivers Over 450 Bags of Warm Clothes to Charity for the Holidays

Bank of Utah and their partners Arctic Circle Restaurants and Red Hanger conducted the tenth annual Warm Bodies, Warm Souls clothing drive from October 17 thru November 11, collecting 460 bags and barrels of winter clothing and $5,400 that was distributed to 12 Utah charities. "This year, with a tightening economy and people worried about expenses, we feel extra grateful for those people from Tremonton to St. George, who gave all they could and then some to help those in need," said Roger Christensen, SVP, Business Development and Communications at Bank of Utah.

First Community Bank

Congratulations to Bryan Jack, EVP CFO, and Brady Stratton, SVP Marketing Officer, from First Community Bank Utah, Division of Glacier Bank, for graduating from the Pacific Coast Banking School in Seattle, WA. Stratton graduated with honors and had his senior management paper published in the PCBS/University of Washington library.

KeyBank Honored as a Military-Friendly Organization

KeyBank was recently honored as a 2023 Military Friendly Employer from Military Friendly. The designation measures the standards of an organization's commitment, effort and success in creating sustainable and meaningful career opportunities for the military community. KeyBank fosters a diverse, equitable and inclusive workplace and has a longstanding tradition of supporting military employees, families and veterans.

KeyBank Provides $68.3M Refinancing for Seniors Housing Property in Salt Lake City

KeyBank Real Estate Capital has arranged a $68.3 million permanent loan through Freddie Mac for The Woodbury

Corp., Colmena Group and Western States Lodging. The loan refinances existing debt on Legacy Village of Sugar House, a senior housing property within the master-planned Sugar House neighborhood of Salt Lake City. The 10-story Legacy Village of Sugar House features independent living, assisted living, and memory care units, as well as retail space, parking and commercial space. Morgin Morris of KeyBank structured the 10-year, fixed-rate loan with an initial five years of interest-only payments.

State Bank of Southern Utah Builds in Gunnison Valley

State Bank of Southern Utah built a beautiful new branch on Gunnison's Main Street and celebrated its Grand Opening on Nov. 22, 2022. State Bank of Southern Utah acquired Gunnison Valley Bank in 2019, operating in the same building since 1909. This new 9,600-square-foot building will improve the Gunnison Valley banking experience with enhanced technology throughout the building, including a fingerprint scanner that allows access to safe deposit boxes without a key. The building includes a large conference room and an outdoor pavilion available for community use.

"State Bank was founded with a mission to provide community banking that helps individuals and businesses grow and succeed," said Eric Schmutz, CEO of State Bank of Southern Utah. "We are excited to continue expanding our services in the Gunnison Valley."

Zions Bank Recognized as a Top Employer

Zions Bank was honored among 90 of the Best Banks to Work For in the November 2022 issue of American Banker magazine. Zions Bank is listed as No. 4 among large banks and No. 58 overall. Honorees were selected through surveys measuring employee satisfaction, policies and employee benefits.

Additionally, Zions Bank was recognized in October with The Salt Lake Tribune's "Top Workplaces 2022" designation. Zions Bank is listed as No. 20 among Large Businesses. According to The Tribune, employee feedback is the only criterion to determine which employers make the list.

Zions Bancorporation Named Regional Bank 504 Lender of the Year

Zions Bancorporation ranked second in the U.S. for the number of U.S. Small Business Administration 504 third-party loans approved during the fiscal year 2022. Through its affiliate banks and branches in 11 Western states and its National Real Estate division, Zions provided $189.6 million in third-party approvals for 185 loans across the country.

For its lending achievements, Zions has been named 2022 Regional Bank 504 Lender of the Year, the National Association of Development Companies announced on October 27. Zions' National Real Estate division was recognized with a 504 Community Impact Award on November 16.

Zions' National Real Estate division uses referral sources from more than 300 banks and other lenders to originate or purchase commercial real estate loans – including SBA 504 loans – that may be outside their lending parameters or capacity. The division has seven experienced business development officers, with locations in Atlanta, Brooklyn, Dallas, Los Angeles, New York, Reno, Salt Lake City and Seattle.

"In the early 1990s, Zions Bank's National Real Estate Department became a pioneer in originating loans through local banks nationwide," said Harris Simmons, chairman and CEO of Zions Bancorporation. "Today, we're proud to be a leading nationwide small business commercial real estate lender."

Vericast's New Market Intelligence Platform Helps Financial Institutions Grow with Unprecedented Access to Real-Time Data and Insights

Gathering data is not a concern for most financial institutions. Making sense of it is.

To solve this challenge, Vericast announced the debut of its Market Intelligence Platform, a financial industry-first data visualization dashboard that delivers real-time insights to enable smarter marketing decisions and optimize spend.

The first-of-its-kind Market Intelligence Platform leverages multiple data sources, artificial intelligence, and advanced proprietary technology to provide unmatched insights into real-time consumer behavior at the household and neighborhood level.

Insights are fueled by the combination of consumer credit activity, competitor interest rates, marketing channel spend, among other demographic data. Additionally, Vericast's proprietary Consumer Graph technology powered by billions of data signals across millions of households provides insights and predictions on consumer intent to purchase. Combining data elements into a single view of the market allows marketers to optimize marketing spend based on their business objectives.

"This new enablement tool opens the door for financial institutions in America to realize their full potential," said Lisa Nicholas, vice president, Financial Services at Vericast. "With the Vericast Market Intelligence Platform, we drive a focus on measurable impact to conversion and profitability by helping our clients better understand and activate their data to determine the best audiences for marketing and personalized engagement."

VERICAST

INDUSTRY-FIRST FINANCIAL TECHNOLOGY THAT DRIVES SMARTER MARKETING DECISIONS

- Online and offline consumer behavior of financial products and services
- Consumer categories searched by markets and how they can personalize the experience
- Market activity, saturation, and potential
- Investment opportunities
- Competitor penetration and spending

Thousands of financial institutions have relied on Vericast to deliver the intelligence they need to amplify their marketing efforts and ROI for decades. "With the Market Intelligence Platform, for the first-time, financial institutions can focus strategies on market profiles versus a blanketed campaign, see actual results, and invest in locations where there is the greatest impact," said Nicholas.

"Vericast's Market Intelligence Platform empowers financial institutions to make data-driven decisions and determine return on investment of valuable marketing dollars," said Sara Becker, Senior Vice President, Director of Marketing and Communications at First Interstate Bank. "The intuitive, easy-to-understand dashboard provides meaningful insights that are critical to bank marketing in this highly competitive landscape. The fact it is provided to clients at no cost is just another way Vericast demonstrates its commitment to the financial industry as a whole—by arming banks and credit unions with relevant tools and information to be the best we can be."

Sara Becker,
Senior Vice President, Director of Marketing and Communications at First Interstate Bank.

VERICAST

CLIMATE CHANGE AND CLIMATE RISK MANAGEMENT FOR BANKS

By Julia A. Gutierrez, Director of Education, Compliance Alliance

Climate change and risk management have become a hot-button topic for financial institutions in recent years because of rising concerns from policymakers, international organizations, financial regulators, and many others. This push for a more environmentally friendly world is leading to changes in organizational resources and operations, investor expectations, environmental activists, and even the expectations of the current administration. With all this focus on environmental safety, it is inevitable for financial institutions to consider the impacts and learn how to manage the risk.

What is Climate Change?

Climate change is a change in global or regional climate patterns, specifically, a change in global or regional climate patterns from the mid-20th century through today, largely attributed to increases in atmospheric carbon dioxide levels produced by fossil fuel usage. It can be controversial, but whatever side of the fence you stand on, there are climate-related financial risks faced by banks, and managing that risk can be critical.

What Type of Risk Should Financial Institutions Consider?

According to various regulatory agencies, climate change and the transition to a low-carbon economy have been identified as contributing to emerging risks facing financial institutions and the overall financial system of the United States. The agencies indicate that banks will likely be impacted by physical and transition risks associated with climate change. Physical risks are considered harmful to people and property arising from acute, climate-related events: flooding, hurricanes, heatwaves, etc. Transition risks are considered stresses to financial institutions because of shifts in policy, consumer or business sentiments, or technological changes to limit the impact of climate change. Basically, transition risk is the risk due to the transition to a more environmentally friendly process or way of conducting business and operations. Financial institutions should also consider credit risk, market risk, liquidity risk, operational risk, and reputational risk, especially as they relate to the safety and soundness of their institutions.

Principles for Managing Climate-Related Risk

While there isn't currently specific regulatory guidance for achieving compliance and managing the risk related to climate, we will likely see this type of guidance in the near future. Regulatory agencies have addressed the issues, requested feedback for managing the risk, and are looking at implanting regulatory requirements for large financial institutions, including banks with over $1 billion in assets. The OCC (Office

The development of climate-related scenario analysis is an important approach for identifying, measuring, and managing climate-related risks.

of the Comptroller of Currency), along with other regulatory agencies, has released guidance, requests for information, and a set of principles financial institutions should consider in managing climate-related risks. The information released by the OCC includes a set of general principles as well as specific areas of risk management.

The general principles touch on governance – policies, procedures, and limits; strategic planning; risk management; data, risk measurement, and reporting; and scenario analysis. These principles provide guidance for developing an effective framework essential to the bank's safe and sound operations. The principles outline expectations for board and senior management oversight, guidance for developing a written program, and the areas of consideration for planning, which should consider the bank's overall business strategy, risk appetite, and financial, capital, and operational plans. It is also important that management is involved in overseeing the development and implementation process for identifying, measuring, monitoring, and controlling climate-related financial risk exposure within the bank's management framework. Sound climate risk management is dependent upon the availability of relevant, accurate, and timely data; therefore, management should incorporate climate-related financial risk information into the bank's internal reporting, monitoring, and escalation processes to facilitate timely and sound decision-making across the bank. The development of climate-related scenario analysis is an important approach for identifying, measuring, and managing climate-related risks.

To ensure this framework is effective and successful, financial institutions should consider a risk assessment process as part of their sound risk governance framework. This will ensure that the board and senior management can identify emerging risks to develop and implement the appropriate strategies to mitigate and manage the risks. The guidance issued by the OCC suggests that financial institutions should consider incorporating climate-related financial risks when identifying and mitigating all types of risk. While the agencies will eventually elaborate on risk assessment principles, it is suggested that financial institutions consider credit risk, liquidity risk, other financial risk, operational risk, legal/compliance risk, and other nonfinancial risk.

Conclusion

While there is no specific set of guidelines for financial institutions to follow for climate risk, compliance, and management, this is an area that all banks should begin considering from a safe and sound banking standpoint. Future guidance will likely apply or be required of larger financial institutions; however, the guidance and risk considerations should be contemplated by institutions of all sizes. Risks can impact even smaller institutions, so taking a proactive approach rather than making a reactive response is the best plan of action. It is important that financial institutions stay abreast of the hot-button area of climate change and climate risk from a compliance and risk management perspective, as the society in which we are living continues to set a higher standard for an environmentally friendly world. ■

Julia A. Gutierrez serves as the Director of Education for Compliance Alliance, developing curriculum and presentations, as well as presenting at various schools and seminars, both live and in a Livestream/hybrid format. Julia brings over 20 years of financial industry experience to the Compliance Alliance team.

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MANAGING CRE EXPOSURE IN AN UNCERTAIN MARKET

By Jay Kenney, SVP & Southwest Regional Manager, PCBB

CRE has boomed in the last two years. In 2021, CRE sales totaled a record-breaking $809B, and by the end of the year, the value of CRE loans exceeded $2.7T. In its mid-year review of the CRE market, JPMorgan expects a continued positive outlook for the remainder of the year, with forecasts varying depending on the asset class. While strip malls in remote areas and office properties struggle, industrial and multifamily properties are current bright spots in the market

Community banks perform very well in CRE loans thanks to their focus on relationships, flexibility, and local market knowledge. According to Globe St., community banks held almost $800B in CRE loans in 2021 – roughly 30% of the total CRE market's value, despite having only 12% of the banking industry's total assets. As such, they are especially vulnerable to fluctuations in the CRE market.

Nevertheless, rising inflation, interest rates, construction costs, and fears of a recession – combined with the post-pandemic trend towards hybrid working – are generating uncertainty in the CRE market. There are signs that values are dipping, with the Green Street Commercial Property Price Index declining 4.7% this year. This is leading to concern for community banks with high CRE loan concentrations.

The FDIC recently announced that it would scrutinize financial institutions with large CRE exposure more closely. One FDIC regulator noted that while most banks with CRE loan concentrations are "satisfactorily rated," those concentrations add "dimensions of risk that necessitate continued attention from banks and their regulators, especially as the pandemic lingers and uncertainties remain." Previously, the Federal Reserve included a 40% downturn in CRE market values in this year's stress testing scenarios, indicating that it, too, is keeping a watchful eye on this area of potential concern.

Here are five essential strategies for community banks to manage the current CRE market uncertainty:

1. Monitor CRE market data very closely. Community banks need to be able to gauge the level of activity in the market to stay ahead of any turbulence. Regularly collecting data on demand and price points by property type and geographic location should be an essential part of determining an institution's lending strategy. Whether to increase, maintain, or reduce its exposure to a particular market or product.

2. Actively manage your CRE portfolio. Maintaining a diversified portfolio with concentration limits for specific products and markets is critical to managing risk. This requires community banks to develop a

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> All community banks should develop and maintain a capital plan to ensure sufficient reserves to withstand potential turmoil in the CRE market and beyond.

comprehensive view of their exposure by geography, property type (pre-sold, speculative, etc.), underwriting characteristics –loan-to-value (LTV) ratios – and portfolio liquidity.

3. Strengthen risk management strategies. Community banks should review their risk rating systems and ensure they are appropriate for the size and complexity of the institution. They should also establish reasonable LTV limits for different property types and adhere to those limits. Finally, stress testing to model the impact of a market downturn enables community banks to take appropriate action to mitigate against significant losses.

4. Plan for capital adequacy. All community banks should develop and maintain a capital plan to ensure sufficient reserves to withstand potential turmoil in the CRE market and beyond.

5. Diversify your portfolio. One opportunity to further protect your community bank from CRE concentration risk is to diversify your portfolio with C&I loans. This investment will balance your exposure to a high volume of CRE loans.

So far, CRE delinquency rates have remained low, and losses have been minimal — partly due to government stimulus and low-interest rates. As market conditions toughen, community banks would do well to revisit their risk management policies to ensure they are prepared for a potential market downturn. ■

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

They've developed their C&I Loan (Shared National Credit) program to allow banks to grow their portfolios with loans from nationally recognized borrowers that provide interest income quickly while reducing your overall interest rate risk. To learn more about their C&I Loan opportunities or add one to your portfolio, contact Jay Kenney at jkenney@pcbb.com.

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