UTAH BANKER

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Emerging Bank Leaders "Igniting Leadership" Conference Wrap-Up

UBA Fall Compliance Conference Recap

Executive Development Program CLASS OF 2023

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Why are bank regulators destroying the Community Reinvestment Act (CRA)? The unintended consequences remind me of one of my favorite quotes from *Star Wars*, in which my teenage crush, Princess Leia, schools Grand Moff Tarkin: "The more you tighten your grip … the more star systems will slip through your fingers."

Speaking of 1977, CRA was adopted that same year on the slimmest of margins. The law was repeatedly scaled back in order to win passage. In the end, it was written as a directive to regulators to "encourage" financial institutions "to help meet the credit needs of the *local* communities in which they are chartered." In large part, the law has been very effective in encouraging banks across the country to engage in community good. From most outward measures, the implementation of the law has been a success!

You would think that the focus of regulators attempting to modernize the CRA rule would be to expand on this success. But instead, their new rule creates massive disincentives by introducing risks, costs and uncertainty that will likely result in a massive pullback in credit in many communities across America. I dare say this rule may ultimately be recognized as the most arrogant failure yet of the current crop of unhinged bureaucrats striving to exercise unbridled legislative power. Congress required these agencies to use their power to encourage banks, and they have done the exact opposite!

Banks overwhelmingly support the Community Reinvestment Act. Every bank I know takes CRA seriously and works hard to serve the local community in which it is chartered. Regulators had the perfect opportunity to modernize the existing rule by refining what qualifies and clarifying how a bank would be evaluated. This predictability would have encouraged even more benefit in more communities.

Instead, they went way beyond the law to incentivize what banks should look like, how they should be structured and what products and services they should offer to which Americans. They dramatically increased the cost of compliance and adopted a grading regime where banks wouldn't know if they earned a passing grade until well after they could do anything about it. In other words, they significantly tightened their grip! And as Princess Leia suggested, the only thing that encourages is rebellion.

BY HOWARD HEADLEE,
President and CEO
Utah Bankers Association

Banks of all sizes and shapes will be forced to reduce compliance risk by walking away from certain types of loans for fear of triggering unrealistic compliance burdens. In some instances, banks will abandon the very lending products advocates were hoping to expand. Additionally, banks will be forced to manage compliance risk by backing away from any geographic area where they aren't confident they can compete for a good score. Isn't that exactly what Congress was trying to eliminate? I even predict that bank examiners are going to hate this new rule because it puts them in a terrible, no-win situation with those they regulate.

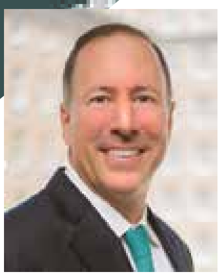
What is most troubling is that bankers made every effort to explain these consequences to those leading the drafting process, only to discover that several of the most fundamentally unresolvable problems we raised were never included in summaries prepared for those voting on the rule.

So I ask myself, "In what way does this new rule improve or enhance regulators' ability to 'encourage' banks 'to help meet the credit needs of the local communities in which they are chartered'?" It doesn't! It does the opposite, introducing risks, costs and uncertainty that will result in less CRA activity, not more. In short, the more they tightened their grip on this new rule, the more they betrayed the underlying statute and the public policy purpose of the Community Reinvestment Act.

In the end, I'm afraid that some banks will be forced to make a cost-benefit decision that the credit needs of the local communities in which they are chartered will be better served if they take all the money they would spend trying to comply with the new rule and simply spend that money on the actual needs of their community, effectively ignoring the arbitrary ratings of these dictatorial regulators. "But Howard, won't the agencies punish those banks?" I'm sure they will try, but in this case, the agencies actually betrayed themselves. Any future punishment based on the new ratings will likely be challenged in court, given the fact that the standards would have been established after the fact. That is simply un-American.

This new rule will destroy CRA as we know it. It doesn't encourage banks to expand financial services; it does the opposite. Regulators will boldly spin this as modernization. I call it an unmitigated disaster. ■

AGAINST A RISING TIDE OF REGULATION, BANKS MUST ROW TOGETHER



BY ROB NICHOLS,
President and CEO
American Bankers Association

Whenever a new election cycle comes along, it's not uncommon to hear pundits make mention of "red waves" or "blue waves," denoting potential power swings in Congress. But as bankers contemplate the future of our country and the policy environment that will shape the future of our industry, there's another wave that we need to talk about: a tsunami of complex regulation that is hitting the banking sector as we speak.

To be sure, the tide turned quickly: last year's turbulent spring ignited a rulemaking frenzy at the banking agencies. Suddenly, new proposals sprang up to increase bank capital levels, impose a new long-term debt requirement and make the resolution planning process more complex.

Simultaneously, the CFPB imposed long-awaited small business reporting requirements under Section 1071 of the Dodd-Frank Act — which went far above and beyond what was outlined in the statute. The Federal Reserve issued a proposal to cap interchange fees under Regulation II, and the FDIC is now pursuing significant changes to its corporate governance guidelines.

Against all that, the agencies finalized a long-awaited update to the Community Reinvestment Act framework — a staggeringly complex, 1,500-page final rule that creates significant new requirements that have the potential to fundamentally alter banks' business strategies.

Meanwhile, in Congress, banks are facing the resurgent threat of the so-called "Credit Card Competition Act," which would apply Durbin Amendment-like provisions to credit cards — the equivalent of lawmakers taking money from banks and putting it into the cash registers of mega-retailers.

Taken together, these policies place a tremendous cost and compliance burden on banks of all sizes — at a time when they are already facing a tough operating environment due to a protracted period of high interest rates and ongoing geopolitical tensions.

These policies will also have devastating effects on consumers. Banking is, after all, a business — and in order for banks to offer the full range of financial products and services to meet the needs of communities, they need to be profitable and have an operating environment that supports growth.

The current regulatory landscape will do the opposite. Banks that are already considered well-capitalized by regulators' own admission will be forced to hold even more capital in reserve — which means less capital will be available to lend to the local small business looking to expand or to the young family looking to buy their first home. Simultaneously, changes to the fee income streams upon which banks have long depended could spell the end of free or low-cost checking products and popular rewards programs that consumers value.

What's perhaps most concerning, however, is the fact that regulators don't seem to understand the full impact of their actions. As we observed with the Reg II rulemaking and the so-called "Basel III endgame" proposal, regulators are failing to adequately assess the potential costs of the *individual* regulations on banks and consumers — let alone contemplate what the *cumulative* impact of all these rules would be.

ABA is sounding the alarm. We need to make sure policymakers in Washington — from members of the administration to lawmakers in Congress to the regulators holding the rule-writing pens — understand that the regulatory burden has a real-world cost, not just for banks, but for consumers, small businesses and the American economy.

If you're reading this, I urge you to help us tell that story. Join our Bank Ambassador program to rekindle relationships with your congressional delegation and help educate policymakers about banking. Stay informed and send a letter about an issue that will affect your bank through ABA's grassroots platform, SecureAmericanOpportunity.com. Make a plan to come to the nation's capital in March for the ABA Washington Summit and tap a colleague or two to come along.

The sobering reality for banks right now is that rougher seas are likely ahead — but our best hope is to row together.

Email Rob at nichols@aba.com. To learn more about the Bank Ambassador program, email ABA's Laura Lily at llily@aba.com.

"KEEP IT LONG ENOUGH, IT WILL COME BACK IN FASHION"

Buydown Program Considerations

BY ELIZABETH MADLEM, Vice President of Compliance Operations and Deputy General Counsel, Compliance Alliance

The early 2000s are re-emerging with their crop tops, low-rise jeans, flip phones and mortgage buydowns. Deja-vu! Pre-crisis teaser rates have been reborn into mortgage buydowns, both temporary and permanent. With the housing markets remaining pricey and rates still higher than they have been in years, many buyers are looking for assistance in any form. And as the refinancing market cools down, mortgage originators are becoming increasingly more creative in finding innovative ways to bring business through the door. And this has led to lender, builder and seller concessions to help close deals.

Buydowns generally are going to refer to when a borrower pays "points" upfront to reduce the mortgage rate to a level that places their monthly payments in a range they can afford. It is thought that the rate has been "bought down" from its original rate for the entirety of the mortgage by paying a lump sum upfront. The more recent trend has been for these to be seller-paid rate buydown concessions, with the seller offering to reduce the buyer's mortgage interest rate for either the first few years (temporary) or for the duration of the loan (permanent). The seller is either contributing to the buyer's closing costs or paying for a temporary rate buydown.

What the market is seeing now is an influx of temporary buydowns, with the most common ones being a "2-1" and "1-0," meaning a 2% interest rate reduction in the first year and a 1% interest rate reduction in the second year, or a 1% interest rate reduction in the first year only, respectively. Sellers, builders, lenders or a combination of all three put up money to cover the difference in interest rate payments between the original mortgage rate and the reduced mortgage rate. So, for a 2-1 example, the mortgage rate is reduced by 2% for the first year and then will step up by 1% in the second year and another 1% in the third year to reach the actual mortgage rate at origination. It essentially works as a subsidy for the first two years of the mortgage before reverting to the full monthly payment. And the benefits are there for consumers — it can make purchasing a home more affordable (even if temporarily) and can "buy time" for borrowers to refinance into a lower rate should interest rates fall.

With permanent rate buydowns, generally, it will be a seller paying a portion of the buyer's closing costs that are used towards buying mortgage discount points, with each point reducing the rate on average by about 0.25 percentage points, costing 1% of the loan amount. So, if a borrower bought a

$500,000 home with a 20% down payment, the mortgage amount would be $400,000, with each point costing $4,000. With permanent buydowns, borrowers are historically slower to refinance, given the cost/benefit decisions taking place with recouping upfront money put down for the loan versus refinancing costs associated with a new loan.

But one of the biggest issues with buydowns, either temporary or permanent, is proper disclosure on the Loan Estimate (LE) and Closing Disclosure (CD). For disclosure purposes, there are specific Regulation Z contemplated buydowns: third-party buydowns reflected in a credit contract; third-party buydowns not reflected in a credit contract; consumer buydowns; lender buydowns reflected in a credit contract; lender buydowns not reflected in a credit contract; and split buydowns (see 12 CFR 1026, Supp. I, Paragraph 17[c][1]—3 through 5).

Regulation Z provides numerous scenarios that determine whether the terms of the buydown should be reflected in the LE and CD. Generally, the following buydowns are reflected in the disclosures: third-party buydowns reflected in a credit contract, consumer buydowns, lender buydowns reflected in a credit contract and split buydowns (consumer portion only). Otherwise, a third-party buydown not reflected in a credit contract, a lender buydown not reflected in a credit contract, and a split buydown (not third-party e.g., seller's portion) are not included.

With most of the criteria for determining whether a buydown is reflected on the LE and CD being dependent upon a credit contract, it is important to note that Regulation Z does not define a credit contract. But it is stated as being a contract that forms a legal obligation between the creditor and the consumer, as determined by applicable State law or other law. So whether or not a buydown agreement would be considered a credit contract or legal obligation between the creditor and consumer depends upon what "State law or other law" consider to be a legal obligation. Whether a buydown agreement is actually modifying the terms of a note or contract is going to depend on how it is structured and whether that note or contract ultimately reflects that lowered interest rate. Counsel should be included in any final determinations, as well as investor requirements.

So, where should the terms of the buydown be reflected in the LE and CD? Unfortunately, the commentary does not provide an "item-by-item" list of what parts of the LE and CD the buydown should be reflected in. The key requirement to remember is that if the buydown is required to be reflected, it must be reflected in the finance charge and all other disclosures affected by it. That includes the "Finance Charge" on page five of the CD (except for seller-paid buydown fees as those are considered seller's points); the "Annual Percentage Rate" on page three of the LE and page five of the CD; the "Projected Payments" table on the first page of the LE and CD; and the "Product" on the first page of the LE and CD reflecting a step rate.

There are different ways proper disclosure can be done, dependent upon the specific loan scenario. Sometimes a buydown is money going to the borrower from the seller, while other times, it is money going to the bank from the seller. These would be disclosed differently. So, the first question to ask: Who is giving money to whom, and for what purpose?

A more common scenario for temporary buydowns is where the buydown is seller paid and is not being reflected in the note or credit agreement as it is contracted for between the buyer and the seller. How is this properly disclosed? Well, the most common way to disclose this, since it is not reflected in the note or credit agreement, is to disclose this as a Seller Credit. Since this is not considered discount points that either the buyer or the seller are paying to the bank, the bank would not disclose them in Section A. The bank is not involved in the scenario where a buydown agreement is solely between the borrower and the seller. Rather, the regulation and commentary do not specify that this must be disclosed in any particular way, so it is viewed generally as just a concession from the seller, which has multiple ways of compliant disclosure. Disclosing as a Seller Credit, as noted above, is the more common. This would be found in the Calculating Cash to Close Tables (LE & CD) and also in Section L on the CD, as it is not a credit that is paying any specific fee listed on page two of the disclosure. It could also be disclosed in Section N of the CD as a seller credit due at closing.

If it is a situation where the buydown funds are from the seller to the bank, it would be disclosed in Section A in the Seller Paid column and not Section H because the recipient of Section H fees are third parties, and the bank is the one receiving the fee. In this instance, the money from the seller is specifically being used to buy down the rate, which is a Section A fee, since that is paid to the bank.

There are other arrangements in which the seller just gives the borrower some money to make up the difference in what the borrower is paying between Rate A and Rate B with no actual buydown of the rate taking place. This is a Section N disclosure. But in the instance in which the bank will actually be the recipient of the fee, and the fee from the seller is to pay for a specific loan cost, it should be disclosed in Section A.

The remix is happening — the early 2000s are repeating themselves. But even more so now with the increased examiner focus and scrutiny on consumer harm, it is important to make sure the bank is aggressively reviewing its buydown loan programs for the risks they can bring: reputational, compliance, legal, credit, and fair lending, and diligently documenting justifiable business decisions, reviewing investor requirements, and examining for proper disclosure and fair lending implications

Elizabeth is the Vice President of Compliance Operations and Deputy General Counsel at Compliance Alliance. As the Vice President of Compliance Operations, Elizabeth oversees C/A's Products and Services and plays an important part in all operational areas of C/A.

FEDERAL RESERVE GOVERNOR BOWMAN VISITS SALT LAKE CITY

Federal Reserve Governor Michelle Bowman addressed Utah bankers and business leaders at a special breakfast — hosted by the Utah Bankers Association and local business groups — at the Hyatt Regency in Salt Lake City on Nov. 29, 2023. Local and state dignitaries were in attendance, including Governor Spencer Cox, Congressman Blake Moore and numerous Utah State Senators and Representatives.

Following prepared remarks about the current state of the economy and what lies ahead, Governor Bowman answered questions from a panel of economists from the KEM C. Gardner Policy Institute, featuring Natalie Gochnour and Phil Dean.

ROI FOR LEARNING AND DEVELOPMENT

BY BETH PARKER,
Director of Education, Utah Bankers Association

There is no denying that training is directly proportional to business outcomes, but training isn't cheap! Organizations must invest in learning and development wisely by measuring the return on investment (ROI) of training initiatives.

The Utah Bankers Association understands the challenges of navigating a shifting economy. Your banks are constantly adjusting to new market conditions, from consumer behavior shifts to advancing technology. One of the most critical aspects of this adaptation is ensuring that employees have the skills and knowledge needed to succeed in the changing landscape.

The impact of a shifting economy can be significant, with businesses experiencing changes in customer demand, supply chain disruptions and revenue and cash flow fluctuations. Businesses today need resources to respond swiftly to changes, making it crucial that they adapt with the help of a comprehensive training program. This program should include identifying skill gaps, designing targeted training and providing ongoing support to seamlessly integrate new knowledge and skills. By embracing the idea of a comprehensive training program, enterprises can foster agility and innovation as well as gain a competitive edge in these dynamic times. Now is the time to double down on your training efforts, not shy away from them.

To feel assured that continuing with your training efforts and related costs is necessary and effective, measuring training ROI is of paramount importance. It offers a quantifiable understanding of the tangible value that training initiatives bring to your organization. It provides a strategic framework to evaluate the effectiveness of training programs, enabling data-driven decisions. Moreover, measuring training ROI fosters a culture of continuous improvement, encouraging organizations to evolve their training methodologies based on concrete evidence of impact.

The Utah Bankers Association understands the challenges of navigating a shifting economy.

By showcasing how training contributes to improved employee performance, increased productivity and overall organizational success, ROI measurement offers a compelling case for continued investment in learning and development initiatives. When calculating ROI, remember to also consider the intangible benefits — these include improved employee morale, increased engagement, enhanced teamwork, and reduced turnover. These benefits contribute to the overall success of the training program and ultimately the business.

Need help in understanding how to build a more successful training program, finding targeted training programs or learning how to calculate learning and development ROI? Let us know, and we can help! Email me at beth@utah.bank. ■

EXECUTIVE DEVELOPMENT PROGRAM

CLASS OF 2023

Congratulations to the 2023 graduates of UBA's Executive Development Program (EDP), who were honored at a special luncheon at the Hyatt Regency in downtown Salt Lake City on November 28. The event also featured the return of alumni from the previous 10 EDP classes, as well as a fireside chat with Federal Reserve Governor Michelle Bowman and former Fed Vice Chair Randy Quarles.

We are excited to watch this group lead the industry into a very bright future!

2023 GRADUATES

TODD AINSWORTH
VP, Assistant Division Manager, Regions
EnerBank

BRENT ALLSOP
VP, Sr. Treasury Management Officer
Zions Bank

WADE BARBER
Senior Manager, Financial Planning and Analysis
CCBank

JAMIE BLACK
AVP, Customer Experience Manager
TAB Bank

ROB BURGESS
Assistant Manager/Officer
Central Bank

TOKER BURNINGHAM
AVP Facilities Manager
First Community Bank

HAGEN BUTLER
Director of Financial Planning and Analysis
Novva

KAMI CAMPBELL
Assistant Manager/Officer
Central Bank

MIKE CHILD
VP Residential Construction Manager
Bank of Utah

ANDY COLEMAN
SBA Underwriter
Utah CDC

JON CROASMUN
Senior Vice President
Bank of Utah

MALLORI CUTLIP
Branch Manager
Zions Bank

MIKE EDWARDS
Strategic Partnership Advisory Compliance Officer
First Electronic Bank

PHILIPPE ESSEBA
VP of Compliance Testing
FinWise Bank

MATT FANKHAUSER
Relationship Manager
Optum Bank

CHRIS FOWLKS
Senior Associate of Business Development
CCBank

CYNTHIA HARWARD
Office Manager
Central Bank

BRANDON HAYES
Audit Services Director
State Bank of Southern Utah

DAN JACOBS
Sr. Credit Manager
WEX Bank

DANE JENSEN
Commercial Loan Officer, VP
First Utah Bank

KRIS JEX
Private Banking Regional Director
Zions Bank

MELISSA JOHNSON
Vice President, Loan Operations Manager
First Community Bank

KIRK JOLLY
Controller
Bank of Utah

CHELSEA KASHIMA
Assistant Controller
First Electronic Bank

SHANNON KELLER
Credit Analyst
Brighton Bank

JOEL KENNY
Vice President I Closing Department Manager
First Utah Bank

JEREMYN KITCHEN
VP Working Capital Finance
TAB Bank

MICHELLE LEONARD
AVP, Branch Manager
First Utah Bank

RYAN LEWIS
Vice President/Commercial Loan Officer
Altabank

JACK MANGUM
Vice President
Bank of Utah

DAVID MANNING
Quality Assurance Officer
Central Bank

KENZIE MEXICAN
BSA/AML Officer
FinWise Bank

TEEJAY MILLAR
Controller
CCBank

SONG MOM
District Senior Manager
Wells Fargo

MARIA MONTOYA-ELDER
Vice President of Audit & Regulatory Exam Management
FinWise Bank

KEVIN MULVEY
Financial Reporting Manager, AVP
TAB Bank

TANNER NORTON
AVP, Senior Commercial Underwriter
Altabank

MICHAEL OLSON
Corporate Banking Portfolio Manager
Zions Bank

NATINA PITCHER
VP, Director of Project Management Office
FinWise Bank

JAMESON POULTON
Analytics Manager
Medallion Bank

KIM REEDER
Branch Manager
First Community Bank

RYAN SHELLEY
Lead Credit Instructor
Zions Bancorporation

MARIELA SUELDO
SVP Loan Operations
Celtic Bank

CHARLOTTE THOMPSON
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First Community Bank

RENEE VALERINO
Asst. Treasurer Banking & Trust
Optum Bank

WELLS WILKINSON
Finance and Strategy Senior Manager
Zions Bank

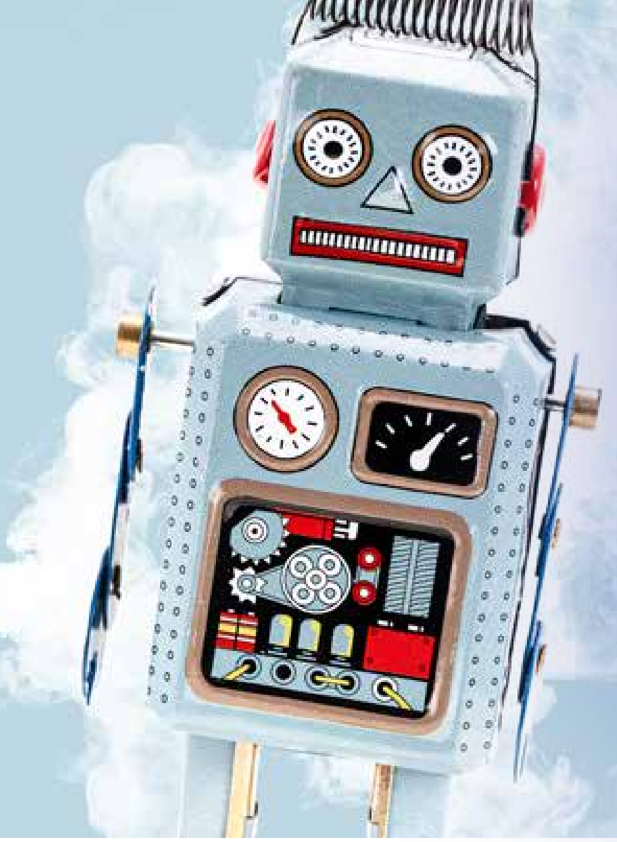
SARAH WILLARDSON
Credit Analyst Manager
Altabank

BRADY WILLIAMS
VP — Area Operations Manager
State Bank of Southern Utah

DAN WOMACK
Controller
WEX Bank

RYAN WRIGHT
Vice President Risk Management
FinWise Bank

Limited seats remain for next year's Executive Development Program, with classes starting Jan. 25, 2024. Visit utah.bank for more information and to register.



THE FUTURE OF BANKING

How AI Is Revolutionizing Operations

BY BRANDON KOESER, Financial Services Senior Analyst, RSM, and
ANGELA KRAMER, Financial Services Senior Analyst, RSM

Financial Institutions Should Focus AI Efforts on 4 Key Areas

This article was originally published on RSMUS.com.

Artificial intelligence tools such as ChatGPT — though many are still nascent — are rapidly shifting the landscape in numerous industries, including the financial institutions space. The hype around these technologies may have some organizations prepared to run full speed toward implementing them across the entire business, but four areas stand out as transformational opportunities for financial institutions.

Loan application processing, compliance and risk management, fraud detection and customer service each tend to depend heavily on human capital. Stringent standards and increasing regulations for institutions mean individual employees often spend hours on repetitive tasks. AI will not only streamline those areas and create operational efficiencies but also help free up those employees to focus on higher-value responsibilities, which will further promote a successful organizational culture and aid employee retention.

1. Loan Application Processing

AI can play an integral role in loan application processing, both internally at the bank and in customer-facing functions. Such tools can answer customers' questions in the initial loan application stage and provide helpful guidance throughout the application process.

During underwriting, AI can also add value by automating tedious tasks while underwriters address more nuanced aspects of the process. Given that the approval process is normally performed by various individuals, AI can also analyze predetermined key metrics to identify risk factors potentially overlooked by a human.

2. Compliance and Risk Management

A significant area where institutions can leverage AI is compliance and risk management. To ensure that employees obtain a thorough understanding of the compliance requirements, laws and regulations governing financial institutions, AI can provide the proper training and education.

Further, since most financial institutions follow a manual process to collect data and create regulatory reports, AI can help automate this process and provide report templates. Once an AI tool is trained to understand the data and the activity, it can identify transactions that violate regulations, alleviating employees from performing this process manually.

3. Fraud Detection

Using AI to analyze customer data and transactions can help pinpoint unusual, suspicious or fraudulent activity that may be overlooked by a human. AI can automate the data collection process and significantly improve the speed of response to any of these detected activities. The moment a suspicious transaction occurs, AI will sound the alarm and notify the appropriate financial institution personnel.

This detection can also provide visibility into the more common types of bank fraud, such as credit card abuse, account-opening fraud, overdraft abuse, payer-payee collusion and account takeover. Using AI to simultaneously mitigate and prevent fraudulent activity can help alleviate not only the oversight burden but the financial loss as well.

4. Customer Service

When dealing with customers, AI can take over some of the simpler tasks, ultimately reducing the number of customer representatives needed. Such tasks can include providing customers with account or loan details, answering routine questions and providing automated responses to online reviews. With more complex functions, AI can also analyze customer complaints and feedback in a quick and efficient way and summarize the key metrics of the data. This will enable financial institutions to understand trends and pinpoint areas of emerging risk, ultimately allowing them to serve customers better.

While implementing these cutting-edge advancements will almost surely reshape the ecosystem, it is important to be cognizant of AI's limitations. Crucial concerns include ethical considerations and algorithm bias. AI potentially producing a wrong or inaccurate response poses another risk that institutions will need to address.

Acting Now

It has been some time since AI capabilities were merely a daydream; a handful of institutions have already implemented these types of tools. To avoid falling behind the competition, management teams will need to consider their internal strategies and their short- and long-term goals to determine the best and most efficient areas in which to implement AI. Key topics for brainstorming include:

- What areas in your institution can benefit the most from development and improvement? Which of the more contentious issues might AI be able to address?
- Who are the right people to help address a given problem? Building a team to create the AI solution will require diverse skill sets, some of which are not commonly found at financial institutions. Business analysts will need to collaborate with engineers and data scientists to develop and/or implement the right solution.
- What data does your institution have that an AI tool might be able to harness? AI teams build solutions based on a treasure trove of data. The more data available, the more effective the tool will be.

Once management has formulated a plan in response to these three main questions, the selected team can dig further into the details and generate a powerful tool that will propel their institution forward as a differentiator in the marketplace. ■

Brandon Koeser is a Senior Analyst in RSM's cutting-edge Industry Eminence Program, positioning him to understand, forecast and communicate economic, business and technology trends shaping the industries RSM serves. Brandon's focus is on advising financial institution and capital markets leaders and clients on business conditions, industry trends and regulatory developments influencing their ecosystems across North America.

Angela Kramer is a Certified Public Accountant and Senior Assurance Manager at RSM US, LLP, where she serves companies in the financial services industry. As a Senior Analyst, Angela focuses on the financial institutions sector of the financial services industry. She works alongside the firm's chief economist and other program participants to analyze trends and themes shaping the landscape for middle-market businesses.

UBA FALL COMPLIANCE CONFERENCE RECAP

BY BRIAN COMSTOCK, Director of Communications & Marketing, Utah Bankers Association

More than 100 compliance officers and attorneys gathered for the UBA Fall Compliance Conference, a three-day conference to explore "Building the Culture of Compliance," at the Zermatt Resort in Midway on Nov. 1-3, 2023. Attendees heard from several compliance and subject experts, including multiple sessions with David Dickinson from Banker's Compliance Consulting, Stephanie Lyon and Robert Brosh from Ncontracts, and Carl Pry from Treliant.

The group also got the latest industry news and trends from a regulator panel, as well as an economic overview from Robert Spendlove, a discussion of cannabis banking with former U.S. Congressman Ed Perlmutter and more.

It wasn't all business as attendees also participated in a lively compliance-themed Jeopardy game and worked together to complete a Lego building challenge.

See you next year! ■

EMERGING BANK LEADERS “IGNITING LEADERSHIP” CONFERENCE WRAP-UP

BY BRIAN COMSTOCK, Director of Communications & Marketing, Utah Bankers Association

Nearly 60 Emerging Bank Leaders convened at the Zions Tech Center in Midvale on Nov. 16, 2023, for the “Igniting Leadership” Conference, with another 150 attendees joining via Zoom. An impressive lineup of speakers offered diverse perspectives on leadership, many providing specific examples that have served them well in their careers.

UBA Chair Andrea Moss welcomed the group in the morning with her leadership insights, followed by an economic update from Mark Knold, Chief Economist from the Utah Department of Workforce Services, and then a discussion of AI impacts on banking and fintech with Ryan Christiansen from the University of Utah Center for Financial Technology.

Emerging Bank Leaders Board Chair Tyson Broderick provided an EBL community update, highlighting a successful year gone by while encouraging everyone to engage with EBL in the year ahead. Next up was “Utah Bankers Ignite!”, a fast-paced showcase of four colleagues — Maximillian Hanak of Regions | EnerBank, Heidi Maestas of Umpqua Bank, Jeff Meyer of Zions Bancorporation and Michelle Smith of Brighton Bank. At times enlightening, funny and touching, this session didn’t disappoint, hitting a wide range of topics like teamwork through a first-generation American lens, finding your personal leadership style, ethics and overcoming adversity.

After lunch, Brian Garrett, Chief Master Sergeant of the Utah Air National Guard, provided insights to lead through volatility and emboldened the audience to “fail forward” — mistakes will happen, but your response to adversity is what counts.

Zions Bank’s Tom Morgan followed with a discussion of his five favorite leadership attributes: Vision, Effective Communication, Emotional Intelligence, Adaptability/ Innovation and Decisiveness.

The group in attendance at the ZTC then participated in the Marshmallow Challenge, in which they had to build a tower to support a single marshmallow using only spaghetti, string and tape. Competition was fierce, with the winning tower reaching over 24 inches.

The final speaker of the day was Nate Orchard, former Ute and NFL Defensive End, to share his amazing journey. His message was simple yet impactful: “You Matter.” Nate overcame humble and homeless beginnings and several twists and turns before finding himself, overcoming obstacles to star at the University of Utah on his way to being a 2nd Round Draft Pick of the Cleveland Browns.

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

MEETING THE CREDIT NEEDS OF THE COMMUNITY THROUGH SPECIAL PURPOSE CREDIT PROGRAMS

BY KEENAN NEAL, Manager, CrossCheck Compliance, LLC

Meeting the credit needs of the communities a bank serves is an ever-evolving challenge. Even financial institutions with strong fair lending compliance management programs can have lending disparities in minority communities when compared to non-minority communities. For decades, discrimination in mortgage lending has led to unequal access to credit for minorities. As financial institutions look for innovative ways to meet the credit needs of minority communities, focusing on recent interagency statements and enforcement actions could prove beneficial in addressing current lending disparities. In 2021, the Department of Justice (DOJ) launched a Combatting Redlining Initiative aimed at addressing modern-day redlining by aggressively enforcing fair lending laws.[1] In the majority of redlining consent orders brought forward by the DOJ, financial institutions have been required to conduct a credit needs assessment to inform management of specific credit needs in Black and Hispanic communities. In concert with the Combatting Redlining Initiative, federal regulators recently issued an interagency statement[2] encouraging financial institutions to explore opportunities to develop Special Purpose Credit Programs (SPCPs) to meet the credit needs of the communities they serve. Both actions — the requirement of a credit needs assessment and the encouragement of SPCPs — can be construed as what federal regulators perceive are the best solutions to address the reverberating effects of historical discrimination in minority communities.

SPCPs are programs established and administered to extend credit to a class of persons who, under the organization's customary standards of creditworthiness, probably would not receive such credit or would receive it on less favorable terms than are ordinarily available to other applicants.[3] Through careful planning, institutions can proactively evaluate the need for SPCPs in their market areas and implement programs to meet the community credit needs. To establish an SPCP, Regulation B requires financial institutions to produce a written plan that outlines the implementation of the program. The written plan requires financial institutions to identify the demographic characteristics of the population the SPCP intends to serve, as well as conduct needs assessments to understand the barriers keeping underserved groups from accessing credit. Using publicly available market data as well as internal mortgage lending data, financial institutions can identify the demographic groups that would benefit the most from an SPCP, the barriers to credit access for these demographics, and the best way to market the SPCP to the community. The challenges financial institutions face when developing an SPCP program are many. Understanding the groundwork and the intricacies is paramount. Below are key steps to ensure an SPCP meets the credit needs of the community.

Setting Up a Special Purpose Credit Program

1. **Identify the Need**
   Conduct thorough market research to identify the special needs within the community. Through internal research or the use of a third party to conduct a research-based market study, financial institutions can better understand the demographic and socio-economic conditions of the market area, what barriers residents face in accessing credit, other lending products in the market and what government programs are available, and then develop strategies to provide residential mortgage services to the community.

2. **Engage Legal Counsel**
   Involving legal experts early in the process is important to ensure full compliance with applicable laws and

regulations. Although the legality of an SPCP is confirmed under the Equal Credit Opportunity Act (ECOA) and Regulation B, institutions should still ensure fair lending and Unfair Deceptive and Abusive Acts or Practices (UDAAP) compliance are followed for all aspects of program development.

3. **Draft a Written Plan**
   Based on the identified needs, draft a clear and concise objective for the program. It should articulate the intended beneficiaries and the desired outcomes. This objective will be foundational in shaping the program's parameters and guidelines. ECOA and Regulation B provide specific details that should be included in the written plan:

   a. The class of persons that the program is designed to benefit;
   b. The procedures and standards for extending credit pursuant to the program;
   c. Either (i) the time period during which the program will last, or (ii) when the program will be re-evaluated to determine if there is a continuing need for it; and
   d. A description of the analysis the organization conducted to determine the need for the program.

   Items four through six below should be included in the written plan as well.

4. **Develop Assessment Criteria**
   While SPCPs aim to make credit available to a class of persons who, under the organization's customary credit underwriting criteria, probably would not be approved for credit, it does not mean institutions should make loans that are counter to safe and sound lending practices. Developing tailored underwriting criteria that account for unique circumstances while still ensuring creditworthiness is key.

5. **Determine Funding Sources**
   Determine if the program will be funded through the institution or if partnerships with other financial entities or government bodies are appropriate. Some cities and states have established SPCPs that allow financial institution participation. Clearly defining the funding source ensures the program's financial sustainability.

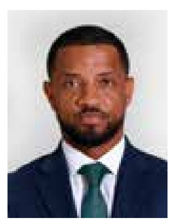
6. **Establish Monitoring and Determine Program Duration**
   Continuous oversight is essential for the success of an SPCP. Establish a mechanism to monitor loan distribution, repayment rates and overall program impact. As mentioned in Regulation B, there should be a defined timeframe for which the program is intended to last. This will aid in iterative refinement over time and allow management to evaluate program success.

7. **Train Staff and Engage Stakeholders**
   Key stakeholders within the organization should be informed and trained on the requirements of the SPCP. In addition, engaging community leaders, potential beneficiaries and other stakeholders, such as your prudential regulator, provide invaluable feedback. Their input can shed light on potential blind spots and ensure the program truly meets the community's needs.

8. **Marketing and Financial Education**
   Ensuring the intended applicants are made aware of the program and its benefits is crucial to the success of the program. Offering financial literacy alongside the SPCP allows applicants to make informed decisions, thus reducing default risks.

9. **Launch a Pilot**
   Before rolling out the program on a large scale, consider launching a pilot. This trial phase will provide insights into the effectiveness of the program and offer an opportunity to adjust based on actual outcomes. At the conclusion of the pilot, gather feedback from all stakeholders. Analyze the data, understand the successes and challenges and refine your approach for the full-scale launch.

Establishing an SPCP requires thoughtful planning and an understanding of community needs. With the right approach, institutions can develop SPCPs that truly bridge socio-economic disparities, fostering a more inclusive financial landscape. Homeownership can provide pathways to upward mobility through home equity, credit and asset-building.[4] Purchasing a home is often the main way American families can build wealth, experience upward mobility, invest in their children's well-being and long-term outcomes and improve mental and physical health. All are byproducts associated with increased homeownership. This issue is especially important for Black families, who, because of decades of discrimination in the housing market, now have homeownership rates that are 30 percentage points lower than white families.[5] Slight adjustments to underwriting criteria or creating a down-payment assistance program for first-time homebuyers could help hundreds of thousands of families buy their first home.[6] Proactively assessing the need for an SPCP in the community can strengthen your financial institution's fair lending compliance management program and, ultimately, meet the credit needs of the community.



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DEPOSIT GROWTH STRATEGIES FOR BANKS

Building Lasting Customer Relationships with Treasury Management

BY JORDAN STERNLIEB, Senior Partner, West Monroe

Looking to Drive Deposit Growth? Start With Data-Driven Strategies in Treasury Management

In an environment characterized by increasing interest rates and economic uncertainty, banks must address the interconnected threats of deposit runoff and uncertain loan portfolio returns to meet performance expectations. The recent run on deposits at both Silicon Valley Bank and Signature Bank only crystallized the urgency for banks to attract and retain deposits by demonstrating the ease and pace of a bank-run in the digital age.

Given the outflow of deposits to both the largest banks and fintechs, the question now becomes how to ensure you're keeping your existing deposit base?

Treasury management is often looked to as a viable option for institutions to take on added deposits by creating "stickiness" with existing customers. The embedded question that lies therein becomes: How can banks create deeper relationships with their depositors via treasury services to protect their longevity and durability? By focusing on enhancing customer experience, fostering relationship longevity and leveraging data analytics, banks can create a compelling value proposition that empowers the treasury management function to drive deposit growth — meaning a focus on the following areas:

Developing Data-Driven Segmentation and Executing for Tangible Results

Unlocking deposit growth and retention requires financial institutions to harness the power of data analytics and adopt an execution strategy that encompasses a comprehensive change management framework. Banks possess significant — often untapped — portfolio and customer data that can be leveraged to target available segments and customer bases ripe for deposit acquisition. By targeting the right long-lasting relationships and directing efforts toward targeted client needs, banks can optimize their efforts and success rates in increasing customer wallet share — rather than over-investing in low-opportunities and under-investing in key opportunity areas.

This data-driven segmentation approach — which considers factors such as retention profile, usage patterns, profitability, and propensity to use other bank products — enables banks to deliver an experience for its customers that minimizes attrition and run-off. It also empowers banks to tailor targeted marketing efforts, personalized fit-for-purpose solutions and value-added services to specific customer segments.

By leveraging technology, optimizing onboarding, maintenance, servicing and customer engagement processes to create an "ease of doing business" experience — while simultaneously fostering an internal culture of innovation — banks can drive organizational transformation and facilitate the adoption of solutions that increase deposit growth.

Establishing clear key performance indicators, building internal relationship manager (RM) sales effectiveness competencies, monitoring progress and implementing feedback loops enable banks to measure success, make necessary adjustments and realize the full potential of their initiatives in deposit growth.

Targeting Operating Accounts

Examining operating accounts within your portfolio reveals a significant number of low-margin deposits that are often overlooked. Operating accounts, with their tie to treasury services and various financial flows, possess a high level of stickiness. But it's important to note that a customer's payables, receivables and merchant services are often distributed across multiple banks. This makes targeting operating accounts critical as they're the most entrenched in a bank's ecosystem and are very challenging to move.

Banks can identify opportunities to consolidate funds and improve deposit stickiness by proactively engaging these account types — and can be done by investing efforts to deepen relationships identified from data-driven segmentation, supported by a clear and focused sales enablement function, and supported by an execution change management strategy. This strategy aims to increase the stickiness of operating accounts and organically improve the overall deposit mix and volume.

Banks can strengthen and expand their deposit base by focusing on targeted customer relationship building, addressing potential product imbalances and encouraging customers to allocate deposits that align with their treasury and credit needs.

Making Banking Easier Via Enhanced Account Opening

To effectively target the identified segments, financial institutions must ensure that their onboarding and account opening are streamlined and customer-centric. Simplifying account opening procedures, reducing paperwork (thus eliminating redundant requests for customer information) and leveraging digital technology can create a frictionless onboarding experience that encourages customers to initiate and maintain banking relationships. This should be streamlined for existing customers where KYC and other data attributes are already available within the bank — while focusing on ease and simplicity for the broader, net-new customer experience.

This pillar of success lies in creating a frictionless and easy customer experience, facilitated by using digital tools and associated processes. With data-driven segmentation, strategic focus and investment in key relationships, and the enabling power of technology, financial institutions can drive deposit growth and build lasting customer relationships.

For example, implementing digital account opening technologies allows customers to easily submit required documentation digitally, leading to reduced time and effort needed for onboarding on the bank's side. By leveraging this sort of technology, optimizing processes and fostering a culture of innovation, banks can drive organizational transformation and facilitate the adoption of TM solutions that increase deposit growth.

Conclusion

The power of data-driven strategies in treasury management cannot be understated when it comes to driving deposit growth. By utilizing data segmentation, targeting operating accounts and strategically sizing opportunities, financial institutions can unlock substantial deposit growth and retention potential.

An effective execution strategy — backed by robust technology tools and change management practices — ensures the realization of value and the achievement of KPIs. By bridging the white space in TM and deposits, banks can position themselves as leaders in the commercial banking space and foster long-term customer relationships while expanding their deposit base.

Jordan has nearly 20 years of experience consulting in the banking industry. Jordan currently leads West Monroe's team of approximately 250 employees in Southern California. Prior to taking on this role, Jordan led West Monroe's national Treasury Management practice as well as the Midwest Financial Services delivery teams in Chicago and Dallas. Jordan joined West Monroe in 2012.

Jordan's tenure at West Monroe has been marked by projects for the top 25 U.S. banks, major regional banks and large credit unions. He was the lead on a project in which he and the West Monroe team identified and quantified an immediate opportunity of $124 million in incremental annual revenue for the bank. They also outlined a five-year roadmap for the bank to achieve $228 million in incremental annual revenue. He earned a bachelor's degree from Georgetown University.

BANK KUDOS

KEYBANK

Women of the World Receives $120,000 Grant from KeyBank in Support of Employee Partnership Program

KeyBank has awarded a $120,000 grant to Women of the World (WoW), a non-profit organization focused on overcoming employment barriers for forcibly displaced women residing in Utah. The grant will allow WoW to expand its Employee Partnership Program (EPP) by adding a social worker to the team, as well as expanding its office space and programming.

"Sustainable employment is a massive step toward independence," said Drew Yergensen, President of KeyBank Utah. "This program works with Utah employers to help secure jobs with benefits and the potential to move up the career ladder. Women in this program are overcoming personal trauma, language barriers and technological hurdles, and I'm beyond proud that our community can offer a hand up."

KeyBank Provides $46 Million of Financing for Affordable Housing Community in Utah

KeyBank Community Development Lending and Investment provided a $8.6 million equity bridge loan and $13.1 million in 4% federal Low-Income Housing Tax Credit (LIHTC) equity for the acquisition and rehabilitation of an affordable housing community in Layton, Utah. The project also received permanent financing from KeyBank Real Estate Capital (KBREC), which secured a $24.2 million Freddie Mac tax-exempt loan (TEL).

Skyline View Apartments is a three-property, 112-unit affordable housing community available to low-income families earning no more than 50% and 60% of the area median income (AMI) and is subsidized by a Section 8 Housing Assistant Payment (HAP) Contract.

"The preservation of the Skyline View Apartments will help to address the substantial need for affordable housing in Utah," said Robert Likes, President of KeyBank Community Development Lending and Investment (CDLI). "KeyBank is invested in the expansion of its community impact, and we continue to provide more capital to low-income communities throughout the country."

ALTABANK

To support growth in Washington County and Southwest Utah, Altabank has created a new operating region. The Red Rocks Region encompasses Washington and Iron Counties and is key to Altabank's ongoing growth in Southern Utah.

Evan Thomas has been named the Region Manager for the Red Rocks Region. Thomas joined Altabank in early 2023 after spending close to 10 years with State Bank of Southern Utah. He has a combined 25+ years of business banking and other professional experience in Southern Utah. Thomas is well-known in the community and has a track record of working closely with customers to build and manage their businesses.

Other leaders in the region include Keli Peetz, newly promoted to Region Operations Manager, and Kandice Hansen, a long-time Southwest Utah banker who manages the St. George River Road branch.

KeyBank Opens New Branch and Distributes Grant in West Valley City

KeyBank celebrated its new full-service branch in West Valley City, Utah, October 20-21, with a celebration that included a ribbon-cutting ceremony, family-friendly activities with prize giveaways and a $10,000 donation to local nonprofit Comunidades Unidas. KeyBank's new branch is located at 2807 S. 5600 W. in West Valley City.

"KeyBank is excited at the opportunity this new branch provides for us to become an integral part of the West Valley City community," said Drew Yergensen, KeyBank's Utah Market President and Commercial Banking Team Leader. "West Valley City is the second largest city in the state and continues to be a business, recreation and entertainment hub. This new location highlights Key's continued investment in Utah. We are excited to work more closely with our neighbors, clients and community partners."

KeyBank Partners with ROC USA to Expand Affordable Housing and Homeownership in Manufactured Home Communities

KeyBank and ROC USA jointly announce that KeyBank Foundation, the bank's charitable foundation, is providing a three-year, $150,000 grant to ROC USA, LLC, a nonprofit social venture with a mission to support homeowners in Manufactured (Mobile) Home Communities (MHCs) to achieve affordable and environmentally sustainable self-governing cooperatives. The grant is targeted to help the expansion of affordable resident owned MHCs in KeyBank's markets in Utah, Ohio and Eastern Pennsylvania.

NELNET BANK

Nelnet Bank Celebrates Conclusion of De Novo Period

Nelnet Bank (Member FDIC and Equal Housing Lender) launched in 2020 as the first industrial bank to begin operating in over 12 years. Over the past three years, Nelnet Bank has grown to 60 employees and at the end of their de novo period, they are celebrating the exciting evolution of their products and services.

Some incredible achievements that mark the end of Nelnet Bank's de novo period include reaching $1 billion in assets, the addition of a private student loan product, and the implementation of the "Learn to Dream Program," which provides student scholarships through partner colleges to first-generation and low-to-moderate-income students. Additionally, Nelnet Bank established a special-purpose credit program with 8B Education Investments, offering loans to African students seeking to further their education in the United States. Last but not least, the bank launched a home improvement loan product in partnership with Buildertrend.

The conclusion of Nelnet Bank's de novo period is a momentous occasion that serves as a testament to the vision and hard work invested in bringing Nelnet Bank into existence. As the de novo period concludes, the celebration also marks an opportunity to look toward the future with continued innovation, growth and positive contributions to the communities that Nelnet Bank serves.

TAB BANK

Noah Cisneros from TAB Bank was recently named to Utah Business's 20 in their 20s list, which honors and recognizes the up-and-coming talent from Utah's business and economic community. Cisneros serves as TAB's Marketing Manager and is responsible for the planning and execution of marketing plans and initiatives for TAB's large portfolio of large-ticket commercial finance clients. In addition, Cisneros works closely on the Bank's many digital marketing campaigns, as well as driving TAB's deposit gathering marketing strategy, including the Bank's High Yield Savings account.

TAB Bank Celebrates 25 Years of Unlocking Dreams with Bold Financial Solutions That Lift and Empower

TAB Bank celebrated its 25th anniversary of providing financial solutions for businesses, families and individuals nationwide, uniquely designed to serve the needs of the underserved.

U.S. BANK

U.S. Bank Reaches the Hispanic Community in SLC Using the Power of Film

In the months since debuting at the Tribeca Film Festival, the film *Translators* has received critical acclaim for spotlighting the struggles many first-generation Latinos face when navigating everyday life. The film, which was sponsored by U.S. Bank as part of U.S. Bank Access Commitment,® the bank's long-term approach to help close the wealth gaps for underserved communities, tells this story through the lens of three children of immigrants who carry the burden of expediting their youth by having to handle complex adult conversations with their parents.

Noticing the success of bank-sponsored screenings in other markets, Juan Carlos Becerra, Branch Manager at the U.S. Bank Rose Park location in Salt Lake City, felt it important to bring the film to SLC, which has a large and rapidly growing Hispanic population and a considerable number of Spanish-speaking customers at his branch. On Sept. 27, 2023, Becerra and team rented out the Megaplex Luxury Theatres at Gateway near downtown Salt Lake City and invited colleagues, Hispanic customers and noncustomers and local nonprofits to the event, with more than 110 attendees showing up for the screening.

"After seeing the film, we knew it was important for the Hispanic community in SLC to know they're not the only ones going through these experiences," Becerra said. "A lot of first- and second-generation Hispanics come here for a better opportunity. It's important to acknowledge the work they are putting in to succeed in those opportunities, for themselves and the generations after them."

ZIONS BANK

Zions Bank Marks 150-Year Milestone

Commemorating its 150th anniversary in 2023, Zions Bank hosted community celebrations at each of its 121 branches in October. Earlier in the year, the bank dispatched a fleet of Zions Bank Jeeps across its tristate footprint and rolled out celebratory drone shows at sporting, music and community events in honor of the milestone.

"Over the course of Zions Bank's 150 years in business, we have remained true to our founding, creating value for depositors, the community and shareholders," says Zions Bank President and CEO Scott Anderson, who has served in his position since 1997.

During Utah's formative years, Zions Bank played a pivotal role in its economic growth and stability. Financial assistance from Zions Bank helped launch railroad, mining and power companies that developed the Intermountain West, including Bingham Copper Company (Kennecott Copper); Salt Lake and Los Angeles Railroad Company (Union Pacific); Big Cottonwood Power Company (Rocky Mountain Power); and Salt Lake Gas Company (Dominion Energy).

In 2023, Zions Bank reaffirmed its commitment to cultivating a landscape of opportunity and growth on our Main Streets and neighborhood lanes by outlining "Five Commitments to Create Value" for the next 150 years.

Bankers on the Move

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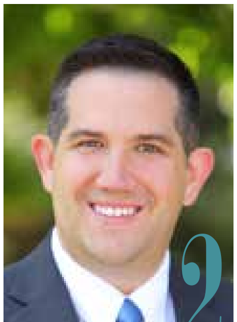

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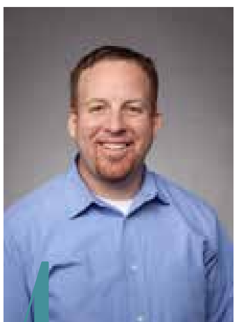

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BRIGHTON BANK

(1) **John Briggs** has been appointed Vice President and Branch Manager at Brighton Bank, overseeing operations at the Cottonwood Heights Office and serving as the Small Business Administration (SBA) and Commercial Loan Officer. With an impressive 21 years of experience in Commercial and Real Estate Banking, John brings a wealth of knowledge and a proven track record of success to the team.

(2) **Russ Fullmer** is joining Brighton Bank as Senior Vice President and Chief Credit Officer. Ross brings 15 years of extensive banking experience to this critical role, in which he will play a pivotal part in credit administration, contributing his expertise to ensure the bank's prudent lending practices and the maintenance of a robust loan portfolio.

STATE BANK OF SOUTHERN UTAH

(3) **Kevin Larson** joined State Bank of Southern Utah in October as a Commercial Lender in their River Road location. Kevin brings several years of finance experience and is a great addition to State Bank's Washington County lending team.

TAB BANK

(4) **Austin Strong** was recently appointed Chief Strategy Officer for TAB Bank. Strong will be based at TAB's headquarters in Ogden and will further define and implement TAB's strategic vision, identify growth and investment opportunities and align with fintech partners to further drive TAB's innovation in banking.

TAB Bank added **Laura Schulte** *(not pictured)* and **Martha McGuire** *(not pictured)* to its Board of Directors. Schulte and McGuire come to TAB's Board with a wealth of large bank expertise in capital markets, deposit expansion strategy, M&A, commercial lending and more. They will assist in shaping the direction and strategic vision of the bank. ■

Crowe

WELCOME OUR NEW ASSOCIATE MEMBER!

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BY BANDING TOGETHER, COMMUNITY BANKS CAN PARTICIPATE IN BIGGER LOANS

BY JAY KENNEY, SVP & Southwest Regional Manager, PCBB

Sometimes, bigger loans are out of reach for community banks. To get around that obstacle, community banks can join with other financial institutions to cosponsor bigger loans. Loan participations are one way for community banks to break into the bigger corporate loan market, and they have been gaining traction.

The corporate loan market has been a dynamic place for the last few years, falling in 2020 during the business slump that accompanied the pandemic, then soaring in 2021 to make up for delayed lending needs. In a typical year, borrowers have taken out an average $1.1T in revolving credit facilities, term loans and other vehicles.

Commercial real estate activity is also on the decline. In May, the Mortgage Bankers Association forecasted a 20% drop in commercial and multi-family lending, a result of rising interest rates and falling property values.

That still leaves a lot of large businesses looking for financing, and for them, an important issue may be the shrinking availability of lenders. Many large banks aren't looking to expand their commercial lending portfolios, which presents an opportunity for community banks. The caveat is that it's not an easy one to exploit.

Constraints on Community Bank Lending

The amounts big commercial borrowers seek are often well beyond the ability of community banks to extend. These banks may have limits on their lending capability, often because of regulations or their own policies. Community banks must be careful about concentrating too much of their portfolios in a few very large loans.

The answer is for community banks to join with other like-minded banks in a participation or syndication, with each institution carrying a portion of the debt that fits within its own constraints. In that way, banks that have typically been unable to participate in the large corporate loan market may now have a way in. The companies seeking financing may also be more inclined to work with community banks at a time when finding willing lenders among larger banks has become difficult.

In one recent case, a borrower seeking to refinance a $10MM loan on an office building specifically stated it did not want to deal with multiple lenders. But when it was unable to land a deal, it ultimately secured a loan by working with two community banks.

Participation or Syndication

For banks that want to increase their return on assets and diversify their portfolios with larger business clients, one of the first questions is which model to use: a participation or syndication. While they are similar, they do have some unique characteristics.

- **Participation:** Several banks can partner in a participation agreement, but all the work goes through the lead lender, who works directly with the borrower. The participants buy shares of the loan from the lead lender, so borrowers may not know who the other participants are. If the loan defaults, only the lead lender can deal with the borrower. There are a number of ways to join a loan participation. PCBB offers a loan participation product for buying and selling loan participations.
- **Syndication:** Two or more banks can join together in a loan syndication and make a loan to a borrower. The syndication agreement sets out the relationship rules for the lenders, and an administrator services the loan. The borrower would work with each syndicate lender for the portion of funding that the lender supplied, and any decisions regarding the loan are made through the administrator.

Which form a bank chooses depends on its own situation, needs and policies. It may also be subject to opportunities and what terms borrowers will accept. Not all borrowers are keen on taking out a loan that has multiple banks as sponsors, but according to CCIM Institute, a community real estate education organization, "with properly drafted agreements, there is very little practical difference in the customers' borrowing experience under either format."

New opportunities in the large commercial loan market can be attractive to community banks due to the possibility of expanding their geographic reach, gaining new clientele, and reducing concentration risk. To get over the hurdle of loan size, community banks may need to consider loan syndications or participations to secure these larger business customers and potentially gain their loyalty and future business. ■

To continue this discussion or for more information, please contact PCBB SVP & Southwest Regional Manager Jay Kenney at jkenney@pcbb.com or visit www.pcbb.com.

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. Recognized by American Banker as one of the "Best Banks to Work For" in 2022.

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