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# Banknotes


IZALE
FINANCIAL GROUP

## CBSC Partners with BOLI and Executive Benefits Advisor **IZALE Financial Group**

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BOLI & EXECUTIVE BENEFITS —

# Two Peas in a Pod

*Scott Richardson, President and Founder, IZALE Financial Group*

Could the spike in deposits have come at a worse time? Loan yields are down, loan demand has not kept pace with deposit growth, and returns on permissible investments are near historical lows. Yet the cost of retaining and rewarding all employees continues to grow. It puts incredible pressure on earnings. What's a bank to do?

Since the early 1980s, bank-owned life insurance or BOLI has been the go-to strategy for banks to offset the cost of executive and employee benefits. At the end of 2020, more than 3,200 banks reported owning $184.3 billion — more than 10% of bank capital — in cash surrender value. In Illinois, 234 banks owned $6.9 billion. Over $3 billion was purchased in the 4th quarter of 2020 alone. What makes BOLI work so well?

BOLI is an institutional life insurance policy insuring bank officers (and sometimes directors). Unlike the typical life insurance policy we buy as individuals, BOLI is engineered to provide the least amount of death benefit gain and maximum amount of growth in cash surrender value (CSV). The growth in CSV is recorded monthly as "other non-interest income," and is accrued without any provision for taxes. When held to "maturity" — in other words, the death of the insured — BOLI offers tax-equivalent yields nearing 4%. With increasing chatter from Washington, D.C., about raising the federal corporate tax rate, the equivalent yield will be even higher, if that happens.

While BOLI can be surrendered to the insurer at any time for its cash surrender value, doing so triggers recognition of the previously accrued earnings as ordinary income. In most cases, there is also a 10% Modified Endowment Contract or MEC excise tax on the gain over the initial purchase. BOLI works best if the bank holds the policy until maturity, when all proceeds should be income-tax-free. This makes BOLI a long-term, illiquid asset.

Despite the long-term holding period, the crediting rate on BOLI can adjust at least annually. The crediting rate history shows BOLI moves in the general direction of broader interest rates, albeit more slowly and with a lag. Unlike directly-held fixed-income investments, however, general account BOLI has no market-to-market risk — something to consider as interest rates begin to rise. If the current fixed-rate BOLI is not appealing enough, you should consider whether "indexed BOLI" is right for you. With Indexed BOLI, the crediting rate is not merely declared by the insurer — it measures the change to an external index like the S&P 500™, but with a minimum and a maximum crediting rate. It is critical to note that the CSV is

## "CBSC recently entered a strategic partnership with IZALE Financial Group, a premier provider of executive and director benefits plans, as its exclusive Preferred Partner for bank-owned life insurance (BOLI) and executive and director non-qualified benefit plans."

never exposed to the S&P500™ — CSV is still always backed by the insurer.

Recent changes to the tax code make BOLI more attractive. Buried in the 5,000-page appropriations bill that was signed by former President Trump in late December 2020 was a small but significant change to IRC Sections 7702 and 7702A. These code sections define life insurance and MECs, basically as a ratio of the death benefit to cash surrender value.

It will take a few months for insurers to revise their product portfolios to capture this change, however, BOLI carriers have already acted. Simply put, for policies issued after January 1, 2021, the death benefit required for a given BOLI purchase is 35%–55% lower than under the old code language. This means lower cost of insurance charges to drag down the yield on CSV, as well as the ability to structure a purchase with significantly lower reputation risk.

While nearly all BOLI has been a single-premium policy, these code changes could result in more competitive annual pay products becoming available to banks. This could eliminate the MEC excise penalty and provide for more liquidity.

Regulators have long-required banks to follow interagency guidance on purchasing and monitoring BOLI. This includes a thorough pre-purchase analysis as well as an annual risk assessment. It includes vendor due diligence, which is why it's important to partner with a provider that can provide technical and compliance support, such as IZALE Financial Group. The Community BancService Corporation, Inc. (CBSC), the business services subsidiary of CBAI, recently entered a strategic partnership with IZALE Financial Group, a premier provider of executive and director benefits plans, as its exclusive Preferred Partner for bank-owned life insurance (BOLI) and executive and director non-qualified benefit plans.

The interagency guidance also requires a bank to quantify the ability to buy BOLI by measuring the cost of employee benefits. This is where some confusion comes into play. Often BOLI is co-presented with an executive or director benefit and it is mistakenly viewed as one and the same. Offering a benefit and buying BOLI are two distinct decisions that can certainly work together but are nonetheless distinct. Even if your bank does not purchase BOLI, it may still be prudent to offer supplemental benefits to key people.

One of the first steps to evaluating whether supplemental executive benefits are appropriate is to do a Retirement Income Analysis or RIA. The RIA takes a snapshot of current benefits, (401(k), profit sharing, pension, social security, etc.) projects them to retirement age and calculates the percentage of final income that could be replaced by current benefits. The projected replacement ratio can then be compared to a targeted replacement ratio, thereby offering a rational and defensible starting point for quantifying a benefit amount.

Once your bank has targeted a benefit amount, it should then compare the three common approaches to delivering a benefit:

**(i)** Supplemental executive retirement plan or SERP — This is a mere promise by the bank to pay a benefit at a future date. Accounting rules require the bank to incur current annual expenses that build a liability for the expected benefit on the balance sheet. No specific asset is required; the bank will generally make payments from cash on hand. The bank receives a tax deduction when benefits are paid, and the executive recognizes the benefit as ordinary income when received. Early vesting provides an opportunity to recognize the benefit for FICA purposes, perhaps eliminating the self-employment tax exposure in retirement.

**(ii)** Restricted executive bonus agreement or REBA— This uses a life insurance policy owned by the executive (this is not BOLI!). Premiums are designed to accrue enough cash value on a tax-deferred basis so that at the designated date or age the executive can structure income-tax-free distributions to supplement income. The premiums are current tax-deductible expenses to the bank and reported as current ordinary income by the executive, and there is generally no accrual for any post-retirement obligation. Compared to a SERP, a REBA can offer savings to the bank of 20%–30% while providing the executive with greater benefit security.

**(iii)** Split-dollar loan arrangement or SDL — Like the REBA, SDL uses a life insurance policy owned by the executive. Instead of treating the premiums as a current expense to the bank and income to the executive, they are expected to be repaid in full by the policy cash

**+ QUOTE**

"We believe now is an excellent time for bankers to consider adding more BOLI to their balance sheet," said Doug Parrott, CBSC vice chairman and president and CEO of State Bank of Toulon. "The favorable tax-equivalent yields available through BOLI can be used to offset the ever-increasing employee benefit costs." He cautioned, "Banks that fail to properly implement and monitor a BOLI policy face serious risks of regulatory scrutiny and incurring a tax liability that can impair bank earnings and capital and disappoint retiring bank executives."

value or death benefits and are therefore treated for income tax purposes as a loan. Federal Reserve guidance permits this without Reg O treatment, provided certain conditions exist. (Note: because of the Sarbanes-Oxley Act, SDL is generally unavailable to SEC-filers.)

Each benefit type offers its own advantages. For example, REBA and SDL may not be viable if there are underwriting concerns for the executive. The SERP provides the bank with greater control as the tradeoff to absorbing the largest expense of the three. After careful consideration and modeling, the bank should choose the one or ones — yes, you can do different things for different executives — that best match the bank's objectives.

+ QUOTE

CBSC President Mike Kelley said, "Our due-diligence confirmed that during the past several years, many bankers had engaged IZALE to conduct BOLI and benefit plan reviews. Those reviews revealed design and administration flaws that had been overlooked." He concluded, "IZALE proved to CBSC leadership during our own plan review that they are among the best executive benefit and BOLI plan advisors in the country."

BOLI is a compelling tool that a bank can use to improve earnings. Whether you already own BOLI or it has been a while since you have considered it, market forces present strong reasons for a fresh look. Supplemental benefit plans for key people are also tools that help you attract, retain, and reward the key people driving shareholder value. Even if you have had a SERP for years, it should be reviewed, and other structures considered that might be more powerful for both the bank and the executive/director. ■

*IZALE Founder and CEO Scott Richardson helped develop the interagency guidance for BOLI, and the IZALE team has designed and implemented over 1,100 benefit plans. Drawing on his service as a director of an Illinois community bank, Richardson stresses the importance of a consultative approach that provides rational and defensible analyses that lead to customary and reasonable solutions.*

*To receive a complimentary Retirement Income Analysis, to get a second opinion on your BOLI or to see how additional BOLI can help your bank, or to learn more about the different ways to structure executive benefits, contact IZALE Financial Group today.*

*IZALE is the BOLI and Executive Benefits Preferred Service Provider of Community BancService Corporation (CBSC), a for-profit subsidiary of CBAI. Inquiries about IZALE and its services should be directed to Phil Aderton at phil@izalefg.com, 630/561-9071.*

# RIDING THE *Liquidity Waves*

*Dale Sheller,
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Before the COVID-19 pandemic took hold on the world and the United States, many community bankers watched the slow fall of their on-balance sheet liquidity. Throughout the last decade of economic expansion, the loan demand of many community banks consistently outpaced deposit growth. At the beginning of 2020, bankers' expectations for the year were for more of the same: a combination of steady loan growth and an expanding net interest margin. The pandemic completely changed those expectations.

***The First Wave***

The first liquidity wave in the banking system started gaining momentum in early March, as the pandemic sparked fear and panic in the financial markets. The Federal Reserve lowered its benchmark rate by 50bps in early March, only to outdo themselves a couple of weeks later during an emergency meeting with a 100bps cut. Two key things happened in March that started the liquidity wave. First, dollars flowed into the banking system seeking the safety of the FDIC deposit insurance, and second, larger corporations boosted their cash positions and overall balance sheets by drawing on their lines of credit.

The wave grew larger in early April as billions in stimulus checks were sent out and the personal savings rate reached an all-time high. Furthermore, the Paycheck Protection Program (PPP) loan program rolled out as part of the CARES Act, which added more liquidity as the initial $349 billion in PPP funds were lent out in under two weeks. While many businesses spent their PPP loan funds over the next two-to-three months, billions of the loan proceeds sat idle in business operating accounts.

***The Impending Second Wave***

Where do liquidity levels in the banking system liquidity go from here? Will upcoming loan demand gobble them up or will there be plenty left over? Outside of additional second draw PPP loans, loan demand remains lower than pre-pandemic levels. Recent PPP loan forgiveness has reduced overall loan portfolios, and the additional $2 trillion stimulus package includes larger direct stimulus payments, which should further add to overall liquidity levels.

***Balance Sheet Considerations***

When will loan demand return to a more normal level as seen before the pandemic? One guess is as good as any, but we do know that during a historically low-rate environment, stockpiling cash or short-term liquidity isn't a conservative long-term solution. Net interest margins compressed significantly over the last year. We need to take a hard look at our short-term liquidity position and ask ourselves if our cash position is too high. Are we waiting too long for loan demand to come back or for deposits to surge out of the bank? In today's environment, it is challenging to predict your liquidity position outside of a few months given all the external factors that can influence it.

In 2021, the margin compression fight has shifted more heavily towards maintaining asset yields as most community bankers have cut their cost of liabilities back down to historic lows. If quality loan demand comes back soon, everyone will be ready. However, if deposit growth continues to outpace loan growth, we need to stay fully invested within the bond portfolio. The recent steepening of the yield curve has made bond yields a little more attractive. Yes, we get it, recent bond yields are lower than the good ole days, but remember to compare current bond yields to what holding cash earns (usually around eight-to-10 basis points). The yields on our short-term cash liquidity move in sympathy with the Fed, and it is highly unlikely the Fed will be moving their benchmark rate anytime soon. Since the Fed cut rates back to zero last March and the first liquidity wave began, it has remained costly to sit in too much cash liquidity. The banking environment continues to change at a rapid pace, and it can be a daunting task to keep up; however, staying fully deployed should continue to remain at or near the top of senior management objectives. ■

*Dale Sheller is senior vice president in the Financial Strategies Group at The Baker Group. He joined the firm in 2015 after spending six years as a bank examiner with the Federal Deposit Insurance Corporation. Sheller holds a bachelor's degree in finance and a master's degree in business administration from Oklahoma State University, Stillwater. He works with clients on interest rate risk management, liquidity risk management, and regulatory issues. Contact: 800/937-2257, dsheller@GoBaker.com.*

# THE 2021 CYBER INSURANCE Market Recalibration

*Patti Tobin, Producer, Financial Practices Division,*
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The cyber insurance market hit an inflection point in late 2019. Carriers became pressured due to the increasing frequency and severity of claims and the more stringent regulatory environment from all levels. 2020 began with the first real signs of a hardening market as larger, more sophisticated risks in specific industry sectors became subject to greater underwriting scrutiny and ultimately increased premiums. That trend continued and accelerated into the latter half of 2020, and we expect it to become even more challenging in 2021.

## THE THREAT LANDSCAPE

Most cyber insurance professionals will agree that the hardening market is primarily being driven by ransomware attacks. We have seen a disturbing trend, as hackers became more calculating in their target, amount of ransom expected, and use of sophisticated variants to execute their attacks. Today's ransomware attacks often target managed security service providers (MSSPs) that frequently act as the outsourced IT vendor to hundreds, if not thousands, of other companies. By attacking them, hackers can impact all the MSSP's clients in one efficient cyberattack.

Unlike ransomware attacks in previous years, today's cybercriminals have drastically increased their extortion demands by routinely demanding six-figure sums to release data. Failure to meet the demands often results in threats to release the victim's most sensitive data to the public, as the newest ransomware variants work to not only freeze data but also to exfiltrate data. This often creates legal liability for the victim company, including mandating notification to affected individuals and regulators, on top of what often results in significant downtime, unforeseen extra expenses and lost business. In fact, a recent study by Coveware revealed that the average downtime due to a ransomware attack is 19 days. That extended downtime often leads to lost business costs that are exponentially greater than the extortion demand itself.

What makes matters worse is that these attacks are disproportionately impacting small and medium-sized enterprises that are often least able to defend and mitigate the attack. While the lack of protection in the face of these attacks is a grave concern, it is heightened by the fact that the losses for these organizations are often uninsured, as only 10% of them purchase stand-alone cyber insurance policies, according to Gallagher Drive data.

Another leading claim cost driver can be attributed to social engineering schemes that lead to funds transfer fraud. These most often manifest via business email compromise and invoice fraud. The FBI validated this trend when they released their Internet Crime Report in 2020, which indicated that victims sustained $1.7 billion in losses due to business email compromise in 2019.

## COVID-19 AND INCREASED CYBER RISK FOR REMOTE WORKERS

The sudden onset of COVID-19 forced many employers to pivot to remote working environments, with little time to secure them. Almost immediately, cyber intelligence sources revealed multiple phishing campaigns aimed at remote workers. Compounding these cybersecurity threats was the fact that many workers operated in an inherently risky ecosystem consisting of personally owned devices, public WiFi, web conferencing platforms, and remote desktop protocol that may not have been securely configured. In fact, the insurance carrier Coalition's 2020 claims study revealed that exploiting the remote workforce was the leading cause of ransomware claims during the pandemic. We expect the remote workforce to continue operating well into 2021 and beyond, making this an additional frontier for chief information security officers to secure.

### NATION-STATE THREATS AND SYSTEMIC CYBER RISK

In December, a far-reaching hacking campaign was revealed by top U.S. government officials that have been attributed to nation-state actors. Targets included the U.S. Departments of Defense, Homeland Security, State, Treasury, Energy and Commerce, as well as several others. The attack extended into the private sector and may impact several thousand organizations. Initial investigation indicated hackers were able to exploit flaws in a widely-used software program that provided a back door for access to any company that performed routine updates of the software product. While we will not know the full extent of the attack for several months, the reaction of the cyber insurance market was swift. Within days of the attack, we saw at least one major cyber insurer add exclusionary language specific to the use of this software to be imposed upon renewal.

### INCREASING REGULATORY RISK

Following the trend in recent years, regulators on a variety of levels continue to focus on the privacy rights of individuals while flexing their regulatory powers by imposing new data collection and protection requirements and ultimately levying fines and negotiating settlements for noncompliance. While most regulation has not had a direct material impact on cyber insurance rates to date, we do expect it to become a more significant factor as we see clear evidence of more aggressive enforcement trends.

***"Unlike ransomware attacks in previous years, today's cybercriminals have drastically increased their extortion demands by routinely demanding six-figure sums to release data."***

In 2020, we saw the second-largest Health Insurance Portability and Accountability Act (HIPPA) settlement ever, amounting to $6.8 million. The Department of Health and Human Services' Office of Civil Rights agreed to a settlement with a HIPAA-covered entity that they allege did not detect a data breach for nine months that impacted 10.4 million individuals.

In late 2020, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) issued an advisory stating that making ransom payments to cybercriminals that are subject to OFAC sanction may violate OFAC regulations and result in civil penalties. While these compliance requirements were in existence for several years, the advisory specifically clarified that they apply to companies involved in providing cyber insurance, digital forensics investigations, incident response firms, and financial services companies that facilitate the processing of ransom payments.

Several states, including Illinois, have either enacted or amended the privacy laws related to the collection, use and retention of biometric data. There has been a significant uptick in litigation related to biometrics, including a recent $650 million settlement involving a class of Illinois residents. We are closely watching the proposed National Biometric Information Privacy Act of 2020, which could significantly expand biometric regulatory requirements across the United States.

### CYBER INSURANCE COST DRIVERS ON THE RISE

The cyber market has responded to increased claim frequency and severity with pricing momentum that trended upwards throughout most of 2020. Because the average cost of a data breach is $5.85 million for financial services, we project a 15% beginning range of increase in many instances. We also expect 2021 cyber underwriting to evolve from a narrow focus of revenue, number of employees, data records and class to loss modeling tools, and continual system scanning. There is also the likelihood of constricting capacity, which may drive pricing. Insurers may be tempted to impose sub-limits and coinsurance specific to ransomware attacks. The market will also incentivize insureds willing to entertain higher self-insured retentions, whereas the previous trend has been a $25,000 beginning threshold. This will drive cyber risk management as never before. Don't overlook the insurers' complimentary vendor services, which may include breach coach, incident response, compliance, technical IT security services, forensics, etc.

As we look ahead, it is clear cyber insurance has undergone a paradigm shift in the way risk is underwritten and ultimately transferred. Cyber risk will continue to evolve, and markets will react accordingly and quickly modify terms, conditions and capacity. The buyer will need to be mindful of these dynamics as they navigate what promises to be a challenging year for everyone in risk management. ■

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# The Baker Group Is Here to Help


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As American financial institutions—along with the rest of the world—face unprecedented times, The Baker Group is ready with tools and services to help ***maximize the performance*** of your institution.

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# BUILDING UP THE THREE LINES OF DEFENSE IN YOUR CMS

*Michael Berman, Founder & CEO, Ncontracts*

When it comes to compliance, there is a good reason for three lines of defense. They ensure that a bank's lending compliance management system (CMS) is effectively guarding the bank against unnecessary risk.

### The First Line of Defense: Employees

The first line of defense is the business. From the back office to the front line, employees must be trained on and be responsible for carrying out the bank's compliance policies and procedures. Employees need to know their roles and responsibilities, follow risk and compliance processes, apply internal controls and recognize risk.

Banks with a culture of compliance have the most effective first lines of defense. A good culture of compliance is defined by:

- Leadership that visibly and proactively supports compliance efforts
- Compliance function empowered with sufficient authority
- Shared information and open communication
- Adequate resources
- Independent audits
- Regular and transparent reporting

### Where Does the First Line Fall Short?

The first line of defense is most likely to fail when there isn't adequate training. Compliance training isn't just a quick check-the-box activity, especially when it comes to areas where enforcement actions are most common, such as BSA, deceptive advertising practices and fair lending.

Training must be robust to be effective. The bank needs to review audit results (see the Third Line of Defense) to uncover weaknesses in the first line and repeat and improve training as needed.

Why does training fall short? In many cases, there are mixed signals from the top. If management or the board are saying compliance training is necessary but aren't doing anything to ensure employees have the time or resources they need to train effectively, training won't accomplish its goals. If management is telling lenders to follow compliance training (wink, wink, nudge, nudge) but really only care about making as many loans as possible — or, worse, if management incentivizes lending staff to break rules — the first line of defense will fail. It goes back to that culture of compliance.

This also applies to vendors acting on behalf of the bank. If there isn't sufficient vendor management and oversight to ensure a culture of compliance, a non-compliant third-party vendor can easily cause a fair lending or other compliance violation.

### The Second Line of Defense: Compliance and Risk Management

The second line of defense is made up of the bank's compliance and risk-related functions. These areas are responsible for creating and executing the policies, procedures and systems that oversee and guide the first line of defense.

Risk management is responsible for assessing the risk of all business activities — including their lending compliance risk. If a business activity doesn't fall within the bank's risk tolerance, internal controls need to be added or adjusted — or the activity may need to be discontinued. For instance, many banks exited the mortgage market when increasingly complex mortgage regulations made the risk of doing business too high to be worth the potential award.

This is where data is extremely valuable. It helps measure risk in an easily quantifiable way. For example, fair lending analytics can uncover potential fair lending compliance issues stemming from flawed policies or procedures, inconsistent waivers, or human error. Knowing there is risk allows your bank to investigate its source and remediate it.

Risk management also identifies high-risk areas that require increased scrutiny in the form of testing and monitoring to ensure the first line is working as intended to comply with rules and regulations.

Compliance is responsible for identifying applicable laws and regulations, interpreting them, and then developing and enforcing policies and procedures to support them through the compliance management system. It should work hand-in-hand with risk management to ensure risk assessments are thorough and up-to-date.

Risk management and compliance are also responsible, in most banks, for fostering relations between the first and third line of defense and providing some reporting to the board and senior management.

While different banks will divvy up these responsibilities in different ways and to different areas, the bottom line is that risk management and compliance play an essential role in ensuring effective lending compliance.

### The Third Line of Defense: Audit

The third line of defense is the external and internal auditors who independently evaluate lending compliance risks and controls. They are also responsible for reporting on risk to the board, senior management and other stakeholders. A good audit program allows a bank one last chance to uncover internal flaws that are hindering lending compliance.

The third line of defense includes ensuring that findings are addressed promptly and consistently. Auditing provides no value if you don't do anything with the information. Being able to visualize and remediate problems is an essential step in assuring that risks are appropriately mitigated, and the organization is ready for external regulatory exams and reviews. It makes sure that a bank identifies and corrects problems itself, rather than waiting for an examiner to uncover an issue.

The third line should focus its efforts on the areas where risk exposure is the greatest. For instance, auditors may take an extra close look at Home Mortgage Disclosure Act (HMDA) data accuracy if regulatory agencies issue additional consent orders in that area.

### Two Out of Three Is Bad

With apologies to Meat Loaf and his 1977 power ballad, having just two of the three lines of defense isn't good.

If only one line of defense is working well, it can present risks to the other lines, as well as the bank. Three strong lines of defense support a compliance management system that proactively manages and mitigates compliance risk.

A bank must always be looking forward and at the present when it comes to lending compliance. The three lines of defense make that possible. ■

*Michael Berman is the founder and CEO of Ncontracts, a CBSC Preferred Provider and a leading provider of risk management solutions. His extensive background in legal and regulatory matters has afforded him unique insights into solving operational risk management challenges and drives Ncontracts' mission to efficiently and effectively manage operational risk.*


# Burning Las Vegas

CBAI IS EXCITED TO ANNOUNCE THE SATURDAY NIGHT ENTERTAINMENT AT ITS 47TH ANNUAL CONVENTION & EXPO, "WE'RE PUTTING THE BAND BACK TOGETHER," SCHEDULED FOR SEPTEMBER 23–25, 2021, AT THE MARRIOTT MARQUIS IN CHICAGO.

## BURNING LAS VEGAS

A lot can change in 20 years, and events are bigger business than ever. Back then in Nashville, nobody but Burning Las Vegas was pioneering their BLV brand with a choreographed, high-energy, multi-vocal front line. Nowadays, it almost seems like an industry standard.

But here's something that hasn't changed: Burning Las Vegas does it better.


Better, because although they can name drop all the celebrities and society calendar landmarks you want, they know that right now, if you're reading this, it's only your event that matters.

Better, because they deliver a concert-level experience out of an event-level package. They provide superior sound and stage production technology, with the command, proficiency and emotional commitment of a concert-level performance. Burning Las Vegas elevates the moment higher and sustains it longer, because they engage the moment authentically, seeing where it needs to go, and knowing how to take it there. No gimmicks, no novelty hats ... Burning Las Vegas doesn't imitate, they emulate.

It's simple to say, much harder to achieve: Burning Las Vegas does it better. The band has shared the stage with superstar R&B artist Al Green at the prestigious Swan Ball in Nashville.

Burning Las Vegas members have played with headlining artists such as Brian McKnight, Judah and the Lion, Delbert McClinton, Tiffany, Kelly Clarkson, Trisha Yearwood, Kacey Musgraves, Jo Dee Messina, James Burton and Joe Diffie, among others.

They have performed at venues ranging from the Alamo Dome in San Antonio, the rooftop of the Peabody Hotel in Memphis, the Mandarin Oriental Hotel in Miami to the Nissan Stadium in Nashville. Corporate clients include Dell, Avaya, Hewlett Packard, and Carmike Cinemas to name a few. Burning Las Vegas has been a repeat performer for galas and balls for American Heart Association, Susan G. Komen Foundation, American Lung Association, Red Cross, etc., making them one of America's premier party dance bands.

### REGISTER NOW FOR EARLY BIRD PRICING

*CBAI needs you because "We're Putting the Band Back Together!" in 2021. So, grab your fedora, fill up your gas tank and head to Chicago. You don't want to miss CBAI's 47th Annual Convention & Expo! Early-bird registration is open until June 30. For more information or to register, call Tracy McQuinn at 217/529-2265 or visit www.cbai.com today.* ■

# Looking Back Over the COVID-19 Year and Forward to the Recovery: *The Community Bank Experience*

*David Schroeder, SVP Federal Governmental Relations, CBAI*

As we marked the first anniversary of the COVID-19 pandemic, we looked back on how the virus crisis has impacted the operations of community banks and their ability to serve individuals and small businesses in their community. We asked our members to tell us what they did during the pandemic that worked well, what could have worked better, what they are most interested in getting back to doing and how the operations of their community banks have permanently changed. Their answers prove once again that community bankers are nimble in their response to a crisis and will continue to do what they do best, particularly in times of stress — professionally provide essential financial services with genuine empathy.

***Please describe the most important thing that your bank did, and that has worked the best, in enabling you to positively respond to the pandemic's challenges?***

Participating in the Small Business Administration's Paycheck Protection Program (PPP) was an unqualified success for CBAI members and community banks nationwide. They were there to support their small business customers and their accomplishments have been clearly recognized by the entire financial services industry, members of Congress, the administration and bank regulators.

This high level of performance in delivering banking services during the pandemic was the result of, as one member said, his bank's unwavering support and care for their employees, in addition to customers, during these challenging and uncertain times. **Doug Parrott of State Bank of Toulon** said, "We made the decision to keep paying our employees, with support from the board, throughout the pandemic, and it enabled our employees to know we were protecting them no matter the case." **Jeff Bonnett of Havana National Bank** said, "[We] put a high priority on safety for our staff and customers." Adding, "It has been a challenge, to say the least, but we are proud of how our staff handled this pandemic." **Mike Estes of The Fisher National Bank** said that they took an expanded approach and "worked with employees and [their] families who tested positive."

This concern and support for employees did not go unnoticed. **Alan Stremlau of Illini State Bank, Tonica**, said he was impressed with the "resiliency of the staff to stay positive and work together through the ups and downs and challenges." Others remarked about how they had great employees with positive attitudes, how they all worked together to keep up morale, and how that was appreciated.

The importance of communication with both customers and staff was stressed by several bankers. **Jim Mensching of Itasca Bank & Trust Co.** highlighted the importance of communications by saying, "It built trust with the staff and allowed them to understand why decisions were made. There wasn't any roadmap to navigate the crisis and keeping the staff informed allowed them to understand that we were doing our best with the knowledge available." **Rich Eckert of Beardstown Savings, s.b.**, echoed these thoughts by saying, "We have communicated top to bottom and been flexible the entire time." **Pat McShane of American Metro Bank, Chicago**, added, "Open communications with regulatory authorities [allowed his bank] to obtain valuable guidance in responding to the critical needs of our customers." Another banker commented about the importance of communications to their customers on their website and social media, particularly at the beginning of the pandemic when things were changing constantly.

The importance of flexibility and adaptability was clearly recognized, especially during the spring's isolation restrictions with bank staff working from home or in shifts. This was highlighted by **Mary Jo Homan of Chester National Bank** when she said, "We quickly made adjustments to customer traffic areas and allowed more complex transactions through the drive-up, which enabled continued customer service. Our employees were 100% on board with what needed to be done to keep customers and themselves safe." Another banker said they improved remote working capabilities across many areas of their bank.

Adapting to the new environment for **Chris Gavin of Midwest Bank, Monmouth**, involved "embracing new technology which allowed us to be flexible and continue to serve our customers. Also, we did a lot of extra things for our employees to try to lighten things up and make our work environment less stressful."

***What is the one thing that your bank didn't do, or could have done better, to improve how you responded to the pandemic?***

Many of the bankers reflected positively about what they did and were proud of their accomplishments. **John McCormick of Eureka Savings Bank, LaSalle**, said they "tried to maintain consistency, but that was very difficult because of the ever-changing landscape." One banker said they handled everything to the letter, and they wouldn't have changed much, if anything, while another said they were comfortable that they have done their best.

Many of the responses centered around operational capabilities they did not have available, which would have allowed them to better handle the challenges of the pandemic. **Travis Clem from SouthernTrust Bank, Marion**, said, "Early on, we did not have digital signature capability. If we had it in place at the onset, our response would have been greatly improved." Several bankers said they could have made a work from home option available sooner and others thought that it could have been accomplished more efficiently. Another banker said their online and mobile delivery channels were good, but not for everyone, and that they are still looking for ways to serve customers better through the drive-thru and ATM.

Communication was mentioned as an area needing some improvement. One banker opined that they could have done a better job informing their customers about hours and operations and that they did not have ideal e-mail or electronic options, including Facebook and their website. Another remarked about how they could have more frequently and fully informed customers about how to access regular banking services remotely through online and mobile portals.

***What about the operations of your bank will be most happy to return to doing as things return to normal?***

Needless to say, everyone who responded to the survey was anxious to return to normal and pivot away from the need for extraordinary health safety precautions. Beyond that, one member mused, "I'm not sure what 'normal' will look like, but it will be different."

Stremlau expressed the consensus of the bankers by saying that he will be very happy "not wearing masks virtually all of the time." The bankers were looking forward to easing other restrictions to allow more meaningful interaction with their customers, employees at all locations, vendors and prospective customers. They will also be happy to return to in-person board meetings. McShane is eager for "more in-person and less virtual meetings." Homan said jokingly, "Food in the kitchen! Seriously, this has been missed!"

***When things return to normal, what is the one thing about your bank's operations that you will not go back to doing the same way it was being done before?***

Community bankers looked at some of the changes they made during the pandemic as permanent and beneficial to the safe and efficient operation of their banks. Bonnett and others said they will continue to make hand sanitizers available. Homan said their protective shields will likely stay noting, "They look professional, so we will probably keep them." Another banker will be reevaluating the office layout to decrease employee density and customer concentrations.

Many of the bankers viewed the pandemic as accelerating the pace of change. **McCormick** said, "[The pandemic] will hasten the decline in lobby traffic for routine transactions. We knew that was coming, but this sped it up by a few years." Echoing that comment was one banker who said they were going to reevaluate lobby hours and perhaps only have their drive-thru open on Saturdays, with appointments only for inside visits. The bankers will be considering the impact of all these operational changes on their overhead and staffing requirements, and in employing their resources.

Several bankers said the technology upgrades they made were overdue and are permanent, including electronic loan documents and e-signature. Many others will be incorporating virtual meeting options into staff, branch and board meetings. In addition, work-from-home flexibility will become a regular part of their staffing structure. **Tom Walsh of Northwest Bank of Rockford** expanded on that thought by saying, "We will offer a work from home option for a number of our non-customer facing employees. Previously, we did not offer that as an option, but since we have been successfully operating with a portion of our staff working remotely, we will continue to make that option available."

While the pandemic confronted community bankers with unprecedented challenges, they rose to meet them and succeeded by using incredible ingenuity and persistence. They communicated well internally and benefited from the advice, and commiseration at times, of other community bankers. They also relied on CBAI and their close circle of professional advisors to deliver timely information to help them make better decisions. As Illinois tackles reopening and continues to adjust to a new normal, community banks will adapt and provide the safest and fullest access possible to financial services for the benefit of their customers and communities. ■


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Peru Federal Savings Bank utilizes Regency's corporate apparel program.

# Community Bankers Cite the Benefits of **Automating Corporate Apparel Program**

*Mike Kelley, President, Community BancService Corporation*

Community bankers have long understood the importance of branding through the use of corporate apparel. For employees, it fosters identification with the bank's values and mission. Additionally, it establishes a dress code that is both professional and comfortable. Customers tend to associate corporate apparel with well-run and well-established businesses. A consistent appearance of all employees reinforces a feeling of reliability. In short, corporate apparel improves the bank's image among both employees and the public.

Implementing and managing a corporate apparel program can be a daunting task. Distributing product catalogs, managing clothing inventory, double-checking orders, collecting checks, and processing and delivering employee orders can be time-consuming. As a result, some banks place orders once or twice a year or use one clothing company with a limited inventory. Others have taken a more expansive approach in terms of incorporating corporate apparel into its daily life and culture facilitated by the creation of an online company store.

## Reduces Burden, Saves Time and Money

One example is **Peru Federal Savings Bank**, a $172 million-asset community bank that primarily serves the deposit and residential mortgage needs of customers in the LaSalle-Peru area. "Ten years ago, the bank developed and implemented a uniform dress policy that today is popular with staff and recognized by our customers," said **Eric Heagy**, president and CEO. He added, "To provide a coordinated look, each day staff wears the same color shirt, blouse or sweater. For example, we wear white on Mondays, grey on Tuesdays and navy on Wednesdays. The colors are consistent with our logo."

Heagy explained that his bank had been buying office supplies through the CBSC-Regency program for a couple of years. "While discussing PPE supplies, **John Bybee** explained how Regency could establish an on-line company store and automate our corporate apparel program. With John's help, we were able to build the company store in just a few weeks. We selected the apparel, colors and pricing and launched the site late last year."

All new employees receive a five-day supply of corporate logoed clothing. Annually, employees are issued a $200 gift card that can be used to purchase additional corporate wear. Employees simply enter the card number during checkout. If the purchase exceeds the card limit, employees have the option to use a personal payment card for the difference. "The program has become so popular among staff, they asked us to add logoed non-work clothing. John had it up and running in about two days." Heagy concluded, "Regency made it easy to automate our corporate apparel program. It is a much more efficient process, and it eliminated the management burden for bank supervisors."

### Streamlines Operation and Expands Clothing Options

Like many community banks, one person was responsible for placing orders for corporate apparel at **State Street Bank**, a $225 million-asset bank headquartered in Quincy. Twice a year, the bank would select items from two to three different companies, collect and process orders, and then distribute the clothing. The bank's director of marketing, **Ericka Snider**, said, "We were looking to streamline the process."

Snider explained that while Land's End offered an online ordering platform, its clothes didn't always fit well, and they charged more per item than Regency. "Employees wanted an option that offered multiple brands and styles," said Snider.

During a CBAI event, Snider saw a demonstration of Regency's platform and in November 2020, decided to move forward with the project. She said they built the site in three weeks. "Building a wardrobe can be a daunting task. John Bybee helped immensely, providing us with a list of the most popular items purchased by banks." Snider chose the colors to ensure they matched the bank's logo and expanded the wardrobe to include long and short-sleeved polo shirts, cardigans and sweaters.

Snider explained that twice annually, the bank provides staff with a coupon that can be used to purchase logoed clothing. Employees can use a personal payment card to purchase items greater than the coupon limit.

Snider concluded, "The Regency system is much more efficient. It saves us time and money. John is great to work with. He is very accessible, which is another big plus." ■

*Regency is the CBSC Preferred Provider for corporate apparel, print and promotional items, and office supplies. For more information contact John Bybee at Regency via email at jbybee@regency360.com, or telephone at 217/653-4028.*

# Fintech Firms Should Play a Role at Your Community Bank

*Greg Ohlendorf, President/CEO, First Community Bank and Trust, Beecher*

The headlines read "Fintech Will Make Community Baking Obsolete," "Fintech Disruptors Will Change Banking Forever" and "Fintech Charters Are the Wave of the Future."

I guess it's time to throw in the proverbial towel. Game over. We should all just give up.

If you believe the hype, that would be your natural conclusion, but I'm not buying, and neither should you. Fintech firms may think they will take over the world, but we've heard those threats before from many other competitors.

Whatever your position is, you can't afford to overlook fintech, and I'm going to propose that you do precisely the opposite and embrace it. Now it would be naive to ignore that some fintech firms are trying to change the landscape of financial services and will do anything it takes to drive customers away from your bank to their platform. But many other fintechs are looking to actively partner with community banks to make your bank better, faster and more relevant than it's ever been.

That's where The Venture Center in Little Rock, Arkansas, comes in with their partnership with the Independent Community Bankers of America's (ICBA) ThinkTECH Accelerator program, now in its 3.0 iteration. The program's goal is to find a wide variety of fintech firms that offer products and services that will improve community banks.

"Fintech partnerships are a critical aspect of community bank innovation and are the genesis behind the ICBA ThinkTECH Accelerator program, which helps facilitate community bank-fintech partnerships that produce measurable results to meet banks' business objectives and create high-tech, high-touch customer experiences," said Charles Potts, senior vice president and chief innovation officer at ICBA.

The timing of this couldn't be better. The core software vendors that power community banks have become less responsive as they have become larger and larger. Their time to market with innovative products and services can often be measured in years rather than months. Community banks need to find alternative ways to stay in the game.

The accelerator program is one of those ways. First Community Bank and Trust, Beecher, (FCBT) participated in the 2.0

**FINTECH AND YOUR FUTURE**

*Greg Ohlendorf will be presenting "Fintech and Your Future" at the* ***CDD Spring Meeting on May 18*** *in Springfield.*

*Visit www.cbai.com for more information.*

"WHATEVER YOUR POSITION IS, YOU CAN'T AFFORD TO OVERLOOK FINTECH, AND I'M GOING TO PROPOSE THAT YOU DO PRECISELY THE OPPOSITE AND EMBRACE IT."

version in January 2020, having no idea what to expect. After completing the day and a half session, First Community Bank and Trust CIO Karen Burgess said, "The accelerator program was one of the most exciting days I've had in banking in a long time. To get to see new and advancing technologies, presented by their founding entrepreneurs in a one-on-one setting, was amazing."

Since meeting those first 10 companies, and ultimately many of the ones from the 1.0 cohort, the 2020 FIS Accelerator, and now the 3.0 ThinkTECH version from January 2021, FCBT has spun up eight new fintech relationships. They cover products and services as diverse as cybersecurity, co-browsing technologies, financial literacy, digital marketing, workflow improvement, CRM embedded in a marketing database, network and vulnerability assessments and secure file transfers.

Most required very little core integration, so the bank could get the majority of these offerings up and running without a huge time commitment from IT staff. Additionally, several were more cost-effective than the incumbent product they replaced, helping our bank lower its operating costs.

One perfect example of an excellent fintech solution is the services provided to our bank by Adlumin, an Accelerator 1.0 graduate. Adlumin works in the area of network security and assessments. FCBT was using a big-name company for this but could only afford to monitor a handful of critical servers due to the cost. With Adlumin, all the bank's services are monitored in real-time, 24 hours a day, seven days a week. If anything is amiss, they provide updates on the issues that need correcting. They offer recommendations on our network configuration and provide a scorecard of our performance over time to track our progress. Their solution was looked on very favorably at the bank's last IT exam, which is a bonus.

So how can your bank get involved? My first suggestion would be to participate in the ThinkTECH Accelerator program. It's free to ICBA members and only requires a day or so of time for you and your staff. This year's 3.0 version was virtual, so we "met" the 10 companies online. We spent 20 to 25 minutes with each and then filled out a review form for The Venture Center following the presentations. If we were interested in a particular company, we could set up follow-up meetings later. Think of it as a cross between speed dating and Shark Tank!

Daniel Schutte, managing director, Accelerator Programs for The Venture Center, said, "Bankers tell me that the program helps them think 12 to 16 months into the future by learning what is new in the marketplace, which helps set their future strategies."

Trust me, you won't need all of the 10 companies' offerings, but I'll bet that one, two, or maybe three will be pretty attention-grabbing. FCBT is already under contract with two of this year's program participants.

Even if none of the products are things you need today, just being exposed to the process is invaluable. The access to the founders after the accelerator has been excellent. These companies genuinely want to learn about community banking and how they can help your bank. They are interested in your ideas and your suggestions to enhance their offerings. How novel!

Now understand that there are certainly some risks associated with working with young fintech companies. You have to do your due diligence to see if their products and services are viable. Our bank focused on several key questions.

1) How are they handling your data? What type of security assessments have they performed? Are they SOC2 compliant?

2) How many customers are "live" on their systems? How many are community banks? Can you get real user referrals?

3) What are the terms of their contract? Can you live with them? How can your bank de-risk the transaction if the product doesn't ultimately meet your needs?

4) What other companies offer the same services? Which are more feature-rich? Do you have any integration issues to deal with?

5) What is the roadmap for product enhancements? Will those enhancements get done when you need them?

6) Are they profitable or at least cash flow positive? How much venture capital have they raised, and from what sources? Will they need more money to operate soon?

That may seem overwhelming at first, but we all have vendor management programs up and running, so this isn't much of a stretch from what we've been doing for years.

Working with fintechs can help your bank grow and stay independent, which is essential for the communities you serve. You owe it to yourself to put a toe in the fintech pond to see what products and services may be there to help your bank. You'll be glad you did. ■

*Greg Ohlendorf, president and CEO, First Community Bank and Trust, Beecher, serves on the ICBA's ThinkTECH Selection Committee.*

## *Community Banks Are Committed to* ***Helping the Local Environment***

# Flourish

*Rebeca Romero Rainey, ICBA President & CEO, Washington, D.C.*

The more things change, the more they remain the same. As we wrap up Community Banking Month, I can't help but reflect on that statement and the changes of this past year. While we have been challenged far beyond our wildest dreams, community banks have stayed the course in keeping the focus on our communities. We have ensured that when the ground beneath us shifted, we remained firmly rooted in our foundation as pillars of our communities, committed to helping the local environment flourish.

Yet, what it means to "go local" has shifted. We now are buying online from local retailers, ordering delivery or takeout from neighborhood restaurants, and corresponding more digitally. What once upon a time was an initiative centered on physical proximity has now become a movement toward a greater sense of community. This newfound focus on commitment to the common good aligns with the very essence of community banking.

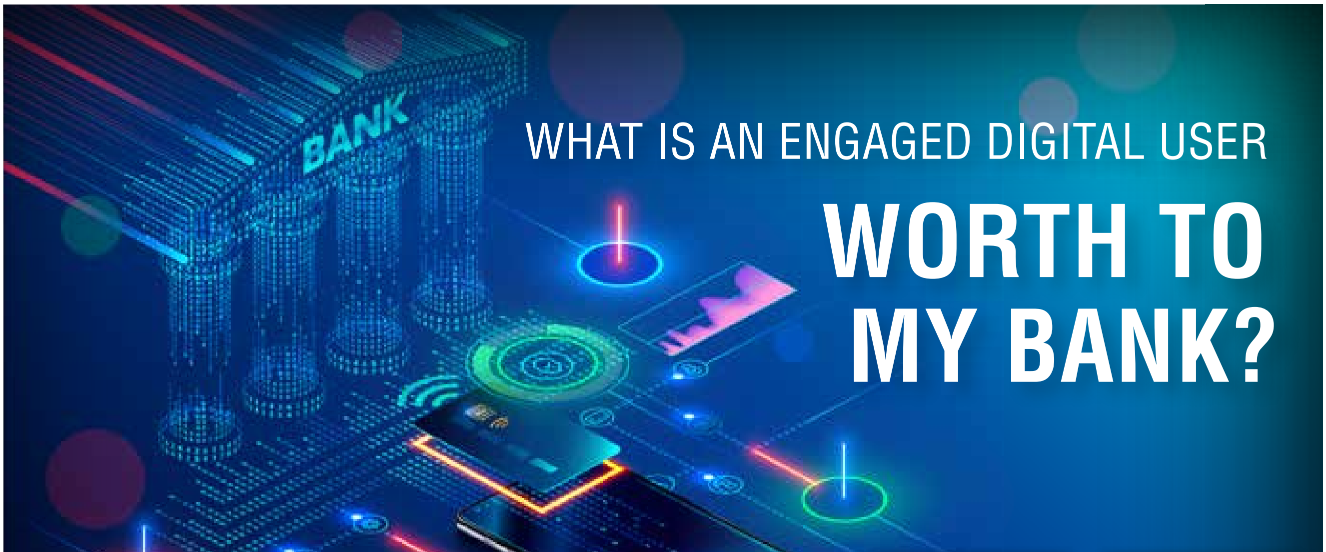
While the delivery channel may look different, the underlying concept of going local means that the money spent is reinvested in the community. By focusing on our communities, we are creating a brighter future for them, bridging the gap so that businesses thrive, jobs remain and the community prospers. Going local means that capital remains local, providing resources for the better of everyone.

***"Unlike our credit union counterparts, we pay taxes, and those tax dollars are spent at home to ensure our communities grow."***

Community banks are the heartbeat of these efforts. We've always placed an extraordinary focus on our local activism, but in today's environment, it means more than ever before. Think of the hundreds of thousands of small business owners who turned to their community banks this past year to keep their doors open. Or the millions of Americans who have had peace of mind because their community bank was in their corner through the economic impacts of COVID-19. Or the thousands of local philanthropic organizations that have relied upon community bank support to respond to the needs of our communities.

Because when we say "go local," we're all in. Unlike our credit union counterparts, we pay taxes, and those tax dollars are spent at home to ensure our communities grow. We support local nonprofits, food banks and other charitable efforts to aid community development. So, as we look to all that has shifted in the past year, let's take a moment to celebrate what has remained the same: our commitment to our communities. Because community investment is the basis of a healthy economy and is the purest form of economic development, and community banks are here for it. ■

*Rebeca Romero Rainey is president and CEO at ICBA. Connect with her at rebeca.romerorainey@icba.org.*




# WHAT IS AN ENGAGED DIGITAL USER WORTH TO MY BANK?

*Charlie Kelly, Partner, and Brian Hink, Senior Director, Remedy Consulting*

*Charlie Kelly* *Brian Hink*

Bankers provide digital tools to their customers, but many community bank CEOs and even most "digital experts" from large financial technology organizations struggle to answer two questions related to their digital users:

"What incremental revenue does an engaged digital user bring me?" and "What does an engaged digital user cost me?"

If you want to determine a return on investment (ROI) for each active digital user you recruit, it may help to have a better understanding of the two sides of the equation — how to quantify the revenue and the cost of each digital user.

Throughout this piece, we will try to get bankers thinking about the questions to ask when deciding what a digital user is worth to your bottom line.

A recent McKinsey study suggests that the number of "channels" a customer uses from your financial institution to access their money has a direct correlation to both the number of products they purchase and the revenue per customer. The number of products purchased increased from five, on average, for the less engaged customer, up to nine products for the most engaged customer. The revenue per customer the study used was $100 per customer for a single channel (less engaged) customer, and $210 per customer for a client that used three or more channels. So, $110 is the difference in incremental value for an engaged customer versus a non-engaged customer.

We have seen other studies that suggest the incremental value of the digital customer is somewhere between $75–$200 per customer. Oddly, we have yet to find an expert to show us how they calculate the value of the engaged digital customer. The reason that they may not want to commit to the secret sauce behind their estimates is that there are so many variables in this equation. The two most obvious might be:

- Using the concept that more channels equal more products purchased, which additional products can you anticipate the engaged digital client will purchase?
- Can the average community bank CEO estimate the value of the additional products?

Let's look at some revenue drivers a bank could use to calculate the value of a digital user. For the purpose of this argument, let's ignore loans and use just the value of a deposit account for an active digital user. When we build a model for a client, we start with three revenue and one expense reduction driver:

**Interest Revenue on primary account:**
When building ROI models for our clients, we start with $9,000 as an average balance, with 25 basis point (bps) as a conservative estimate of the spread between investments/loans and what a client might pay on account balances. This comes out to $1.88/month.

**Fee revenue on a primary account:**
Use $6 per month per account as an average, which varies significantly depending upon a bank's fee policy.

**Debit card interchange revenue:**
Average transactions used per user = 15 per month, $.30 per transaction after blending personal identification number (PIN) and signature interchange revenue, which is $4.50/month.

**Savings for eStatement users:**
An active digital user will offset some account expense that a paper user would not, so we plug our model with $1.90/month savings in postage, labor, statement composition, etc.

A bank might be better off using their own customer transaction and revenue estimates rather than mine since the "expert" opinions on the monthly value of each vary significantly. These are meant to be gross numbers; they do not net out expenses such as the incentives you are paying your team to bring in new business.

But, if we use these numbers, we come to an estimated $13 per user per month for the deposit relationship. If you multiply that number times four incremental products for an engaged user, you are at $52 per month in gross revenue. Most loan products generate more income than a deposit account, so you can see where an incremental value of $75–$200 might be coming from.

This is not a perfect science by any means, but perhaps a framework you can use to plug in your own assumptions while validating how much a digital strategy means when growing your bank.

Now, let us look at the direct cost side of the equation. Your vendor invoices will give you the direct vendor costs-per-user you currently pay but consider using incremental costs only, meaning that every user these days will require a core account, ecommerce and a mobile application. Those are must-haves that you pay for regardless, so you might ignore them when thinking about digital power users. Now look at tools like direct deposit, eStatements, bill payment and mobile capture. The use of these tools is what separates a truly active digital primary account user from a laggard. You can consider them incremental, as they drive more cost with each power user and are likely not used by someone who just parks a laggard account with your bank.

Divide the price you pay each month for these incremental tools by the number of active primary checking account holders, and you will come up with a cost-per-primary-account holder per month. For simplicity's sake, you could use checking accounts with an active direct deposit as your divisor.

If your direct, incremental cost-per-user is $4 per active user, and your potential monthly income from selling those products exceeds that number, then you have a decent way to figure out your return on investment, at least in helping you decide whether to purchase and install additional technology that may draw users to your bank.

After running this analysis quite a few times, perhaps the best advice I can provide is to build yourself a model with both the revenue and expense assumptions that your team is comfortable with and use that as a baseline to make decisions. This type of model can help you decide which tools to invest in, and once you dig out all the numbers you need for the analysis, it can also help you develop a baseline for your internal digital guru to use to decide how you want to grow the user base going forward. It can become a great strategy planning tool. Do everything you can to negotiate your technology expense, and it will improve your ratios.

The evidence strongly suggests that large banks are well ahead of their community bank counterparts when it comes to active digital users. Since larger banks have more customer data to analyze, that suggests that they see a strong ROI in investing in digital tools. We have seen the same assumptions at Remedy Consulting when analyzing data across multiple community banks.

If you are looking for help to analyze your data, please reach out. ■

*Charlie Kelly is a partner at Remedy Consulting and host of BankTalk Podcast. Brian Hink is a senior director at Remedy Consulting and manages vendor negotiation and bank strategy practices. Remedy Consulting helps financial institutions (FI) thrive through best-in-class fintech consulting services specializing in system selections, core contract negotiations, outsourcing/in-house advisory, bank mergers and acquisitions, and FI strategic planning. As a trusted advisor to banks and credit unions, Remedy Consulting has executed more than 600 system selection and vendor negotiations since 2016. Clients receive cost reduction on their vendor contracts and increased efficiency with Remedy's Price Repository™. To learn more about Remedy Consulting, visit www.remedyconsult.net.*

## *Balancing the Costs and Rewards of*

# Cannabis Banking

*Tony Repanich, President and Chief Operating Officer, Shield Compliance*

Since launching its legal adult-use recreational cannabis program in January of last year, Illinois has surpassed $1 billion in sales and is on track to become a $2.5 billion market. Observing the steady sales growth during the early months of the coronavirus outbreak, the state's top cannabis regulator went so far as to declare the industry "recession-proof" and "pandemic-proof." In addition to a complex regulatory landscape, the ongoing conflict between state and federal law on cannabis has left much of this industry unbanked. The good news is that a playbook exists that can help banks set up cannabis banking programs and manage them efficiently, and many pioneering bankers in Illinois and across the country have demonstrated that it is possible to provide banking services to this industry and pass compliance exams.

Here, I'll share a few key points of that playbook that can help community bankers balance the costs and rewards of cannabis banking while maintaining an effective and competitive program.

**Point 1: Make sure the bank is grounded in the business reasons for getting into cannabis banking**. This is a complex industry to bank, and it comes with a high degree of work and cost. In an emerging cannabis market like Illinois, we see new deposit growth as one of the biggest opportunities for banking this industry. While this may be a less pressing need in the short term, there is a long-term value from gathering those deposits. Also, because there is an imbalance in the supply of banking services for cannabis companies in Illinois, banks can earn non-interest income in the form of service charges or pass-through hard dollar expenses to the customer that you might ordinarily have to absorb. Banks can use this income to help offset costs while adding to the bottom line. Lastly, there may eventually be an earning asset opportunity for banks to consider. Because the cash flows that would repay these loans are not yet seasoned, it is probably too soon for most banks to be looking at the cannabis industry as part of an earning asset strategy. Eventually, we think lending will become another growth opportunity for banks serving the industry.


**Point 2: Understand the costs your bank will incur by taking on a cannabis banking program.** As banks consider serving cannabis-related businesses (CRBs), it is important to think about the costs associated with the compliance activity required for this line of business. There are four primary buckets where banks will likely incur costs:

1. A BSA/AML consultant can help you develop the policies and procedures associated with the program, and perhaps most importantly, develop your risk assessment.

2. To build the scale and efficiency that you will need for the longer-term market conditions you will face, you're going to need to invest in compliance technology. More and more, we are seeing that regulators are expecting banks to have automated systems in place and are not just using brute force labor to manage compliance.

3. While technology helps reduce the number of people you need to staff the program, you will still need analysts who can evaluate CRB activity, review potential risks and make judgmental decisions based on the information provided by the compliance platform. We typically find that, depending on the complexity of the customer, an additional full-time equivalent (FTE) can support 35–50 CRB relationships from a compliance oversight structure.

4. The last bucket relates to customer acquisition. We often see banks, especially those without a dedicated specialty banking group, leverage resources from the treasury and cash management group to lead business development and manage customer relationships in this new line of business. These bankers are generally accustomed to selling complex products and services and are used to working across the branch footprint rather than being tied to a single branch.

**Point 3: Have a cost structure that allows you to remain competitive long term.** As a nascent industry, banks should anticipate ongoing market changes that could impact their cannabis banking programs' competitiveness. Specifically, there is a lot of interest in how federal policy changes toward cannabis will impact banks. While the passage of a policy, such as the SAFE Banking Act, would likely not change the compliance and due diligence required for this industry, it would be an important step toward removing the regulatory uncertainty in the market today. This would be enough for many more financial institutions to step into the industry and take on the additional work required to manage CRB banking risk. Here in Illinois, the issuance of licenses was significantly delayed because of the pandemic, but we know there is a wave of new businesses, operators and locations coming online, all of which will need access to depository services. This delay may have helped some community bankers by giving them more time to build out their cannabis banking programs, but now it is time to gear up and be ready as more of these businesses come online this summer and during the rest of the year.

We know for sure that there will be more financial institutions entering this market at some point in the future, and increased competition typically comes with more competitive terms for the customer. For community bankers thinking about the economics of a cannabis banking program, it is important to consider the expenses associated with the compliance activity while making sure you are implementing an operational cost structure that allows you to stay ahead of the curve when the business changes and more competition enters the market. ■

*As president and chief operating officer of Shield Compliance, Tony Repanich leads day-to-day operations and is the company's principal product architect. Having served as a senior executive at a Washington state-based community bank for more than 20 years, Repanich has in-depth knowledge of the banking industry and the regulatory and compliance requirements for high-risk industries. Today, he brings that knowledge to financial institutions serving and considering serving the legal cannabis industry.*

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## CDD SPOTLIGHT

# QUESTIONNAIRE

**Ryan Heiser**

*CDD Group Director & Community President & CEO, The Fisher National Bank, Mahomet*

### What do you find most challenging about your job?

Relationships. I think balancing individual relationships is a challenging part of my job. I see a lot of different personality types. Co-workers, clients, vendors, examiners and community leaders are people I come in contact with daily. Each person is different, and each relationship is different. Their needs and the way they communicate is so uniquely different.

### What do you find most rewarding about your job?

Relationships. Relationships are the most challenging yet the most rewarding, as well. It feels good helping co-workers complete their goals or helping them reach their full potential. It's very rewarding to help customers achieve their dreams. It's a great feeling knowing the people in your community and feeling like you may have had some small impact on their life.

### What quote most inspires you and why?

Let me start by saying I am a huge Chicago Bears fan. But Vince Lombardi said, "It's not whether you get knocked down, it's whether you get back up." He is talking about perseverance and perseverance is defined as steadfastness in doing something despite difficulty or delay in achieving success. I feel like we all have challenges in our life, and we have to find ways to get back up.

### How did you get involved with CBAI?

My first experience with CBAI was in the late '90s. Like many of my peers, I started as a teller and I completed the essential teller series offered by CBAI. After completion, I soon attended the CBAI Community Bankers School. During my time in school, I developed a real passion for community banking and forged some life-long relationships.

### What is something most people don't know about you?

Well, the first thing that comes to mind is, I am an avid outdoorsman. I love mountain biking, kayaking, backpacking, rafting, tailgating or sitting on the beach. Basically, I enjoy any outdoor activity that gets me out of the office. But the real secret goes back to high school. I was a cheerleader for about four weeks before I got in trouble and was kicked off the squad.

### What are the biggest challenges your community bank faces today and what are you doing to combat these challenges?

Some people think banking is boring. Those people ask me why I love being a banker. The answer is simple — I love helping people and I love being challenged. We face many challenges in banking from regulation to relationship building to IT threats. But my biggest challenge at this moment is talent acquisition. We are building a new bank and a new staff in a new market.

### What is your favorite initiative that your bank has implemented to support your community?

I don't know of one thing that really sticks out, but we have armed our community presidents with local decision-making and a branch-specific marketing budget. Each facility pumps a ton of money into the respective communities we serve. Like most community banks, we support local festivals, recreation programs, chamber events, civil organizations, school clubs and community projects. It's enough to warm my heart.

### If you weren't in banking, what would you be doing, and why?

I would most likely be a self-employed contractor. I come from a long line of truck drivers and carpenters. I guess you can say I have a bit of a self-guided entrepreneurial spirit and I know my way around a building project. ■

# Spotlight on Directors

When we think of a community, we often picture a similar group of individuals with like-minded wants, needs and goals. But in actuality, a community bank serves a very diverse group of individuals of different ages, backgrounds, life experiences and banking needs. To understand and meet the needs of all customers, a bank board must also be diverse. A board that provides ideas and perspectives based on a varied representation of backgrounds, expertise and gender is beneficial to both the customers and the bank itself. This article focuses on just a few stories of the incredible female directors serving on our member bank boards and highlights the important attributes, contributions and impacts they bring to the boardroom.

*(L to R) Stevens, Roethemeyer and Burcham*

## Community Trust Bank, Irvington

For Community Trust Bank, Irvington, it is easy to see that community banking is a family affair. In the late 1800s, S.P. Cooper Exchange Bank was operating in Richview, Illinois. After Cooper's passing, the bank was renamed The Farmers' & Merchants Bank in 1912. When the bank was purchased in 1913, the stockholders reorganized and applied for a state charter, which resulted in Richview State Bank. The board elected to move the bank to Irvington in 1966, renaming it Community Trust Bank, a name that remains today.

One of the original investors of the bank in 1913 was Alfred Pitchford. Fast forward more than a hundred years later and Pitchford's family is still at the helm. President/CEO **Sheila Burcham** is a fifth-generation community banker, following in the footsteps of her great, great grandfather, Alfred, her great grandfather Raymond, her grandfather Lester and her mother, **Nancy Roethemeyer**. Burcham started at the bank at 15 years of age nearly 40 years ago. In 1999, she took over for **Don Middleton** as CEO following his retirement.

Female directors have been a part of the bank's tradition for decades. Roethemeyer joined the board in 1974 and served for 45 years. "For us, it's about diversity. We have always had that, since 1974, and I think our bank is stronger for it. The female viewpoint of business and home provides a different way of thinking and our bank values this important perspective," said Burcham.

Roethemeyer worked at the bank for a short amount of time, but was a farmer by trade, giving her a multi-faceted background, which made her uniquely qualified for a board position. "My mom brought great experience to the board," said Burcham. "After my father passed away in 1974, she was a single parent, but she kept farming with my uncle. Her strength is agriculture, and our bank has a predominant ag focus today."

The tradition didn't end there. In 2006, the passing of a director in the medical profession left an opening on the bank board. Wanting to replace him with another individual from the medical field, the board found a great fit in Burcham's sister, **Amy Stevens**, a physician's assistant. Stevens holds a Bachelor of Arts in psychology from Washington University, St. Louis, and a Bachelor of Medical Sciences, graduating Summa Cum Laude, from Saint Louis University. After working in family practice for more than 15 years in the Nashville, Illinois, facility of SSM Health, Stevens opened her own business. Cognitive Stimulation Therapy of Southern Illinois utilizes unique one-on-one therapies for those experiencing dementia up to those with the onset of Alzheimer's. She also uses her medical experience working two days a week with the Illinois Department of Corrections, while still spending two days a week treating patients.

With an accomplished career as a medical professional and as a business owner, Stevens was a logical addition to the board who has proved to be a valuable asset. "Amy is highly intelligent and very business-minded. She is eight years younger than I am, so she brings a new generation of thinking to the board. She has younger kids, so she is always out in the community, which enables her to make connections with our customers. She is also very tech-savvy and is always thinking of new ideas. Her fresh perspective keeps us on the cutting edge."

For a few years, all three women served on the board together. Burcham admitted it was a unique experience. "With different mindsets, it made for interesting dynamics, but it was fun," she said.

Luckily, the family tradition will not end with Burcham, as a sixth-generation community banker has also joined the family business. Following in her mother's footsteps, Burcham's daughter started at the bank at 15, as well. Today **Danielle Stambaugh** is vice president of operations and became board secretary last year.

"My grandfather used to say, when you lose your local community bank, the town loses a lot. We have seen that too many times over the years. For us, it's truly in our blood," said Burcham. "We are trying to make decisions to ensure we are around for the next 40 years. Things change and competition is tight, but we want to do whatever we can to make sure we are around for our community. And I think the community sees that with how long our family has been around. We want to make our customers just like our family. That is what we do."

Robertson

### Farmers National Bank of Griggsville

**Mina Robertson** recently celebrated an impressive milestone of 50 years in community banking. Surprisingly, her career in banking came completely by chance. Robertson was working at an insurance agency in Pittsfield, a neighboring town, when she made a routine stop that changed her course. "I stopped at the gas station to fill up my car and the bank cashier happened to be there and asked me if I would like a job at the bank," Robertson remembers. One of her friends was working there, so she decided to take a chance. Before she knew it, she was the bookkeeper at Farmers National Bank of Griggsville (FNBG).

From there, Robertson came to serve in nearly every position at the bank, from teller to cashier to loan officer and eventually, as president. Robertson credits her mentor, **Fred Butler,** with helping her gain the knowledge she needed to rise through the ranks. "I had a very good teacher. Whenever we weren't busy in bookkeeping, he would teach me about the different areas of the bank." Twenty years after what started as a mundane trip to the gas station, she became the bank president, a position she held for the next 21 years.

When Roberson joined the bank board as president in 1991, she was the only female director. In fact, she was the first woman who had ever served on the FNBG board. "When I joined the board, it was pretty much all men working at the bank. Now the majority of the staff is women, so I feel that it is important to have a female voice on the board," Robertson said.

Robertson has remained on the bank board following her retirement as president in 2012. Obviously, a lot has changed in banking since she began her career at FNBG in 1970. "When I started working at the bank, everything was done manually. Everything was posted by hand and balanced by hand every day. A loan was the size of an envelope with three copies. Today, it's many more pages."

Although Robertson feels like technology has been the biggest change over the years, she has also noticed a change in relationships. "When I started, you knew the customer, their grandparents, aunts and uncles. Now, everything can be done online, and people don't come into the bank if they don't have to anymore," she said. Robertson misses the customer interaction and feels as though the pandemic has helped to intensify this change.

Robertson continues to see challenges as the bank and board navigate the community banking landscape. "Some of our challenges include continuing to be a locally-owned hometown bank, managing competition, finding good employees willing to live in our rural area, and being able to handle the large borrowers we see today."

Despite its challenges, Robertson still likes being a director on the board. "I enjoy keeping up with the bank and the communication with the officers. I'm still learning all the time."

Serving 50 years in the community banking profession is truly a remarkable accomplishment. "I've been asked how I stayed 50 years. The answer is, I don't know. I just kept coming to work every day. Over the years I enjoyed taking on more responsibilities and they apparently trusted me with more responsibility. I always liked going to work. I thank my parents for my work ethic."

**Doug Smith**, the current president at Farmers National Bank in Griggsville, is happy Robertson has continued working with the bank for so many years. "Mina's service to FNBG has been an inspiration to the directors and staff. Discipline and hard work are important to Mina and have been the key ingredients to her success with our institution. Mina was both the first female president and director, and she has set the record for total years of service by an employee and director combined. It has been an honor to serve with her as an employee and board member," said Smith.

Hilst

### Bank of Springfield

**Sandra Hilst**, the owner of multiple La-Z-Boy furniture stores, is enjoying a long and impressive career in the furniture business, but her career path has taken a definite turn from where she began.

"I started as a first-grade teacher in Indiana. It was the only thing I thought I would ever do. I adored doing it," said Hilst.

Her husband, Larry, was involved with two La-Z-Boy stores in Illinois but ran his own business in Indiana. In time, he decided to leave the company and work for La-Z-Boy full time. They moved to Springfield and he opened La-Z-Boy Furniture Gallery next door to Bank of Springfield.

In October of 1982, Hilst had just had a baby and already had a toddler at home, so she chose not to return to teaching after their move to Illinois. Her husband was having a hard time finding salespeople, so he asked her to step in as a salesperson in the store just for the first three weeks of the Springfield Grand Opening. She agreed. "I had no experience, but I had a good attitude. I quickly found out that I loved it!" Hilst was a natural salesperson and thrived in the role. Needless to say, the three-week assistance became permanent.

Her husband trained her in management, as well. After he passed from Lou Gehrig's Disease in 1995, Hilst moved into the leadership role. By that time, she was managing four La-Z-Boy stores, in Champaign, Decatur, Springfield and Bloomington. Other stores were eventually opened in Peoria and Evansville, Indiana.

"Being in the furniture business is something I never intended to do, but I've done it for 38 years. Now my son is taking over the business and I can focus on what I love most. Selling is my favorite. This business has been very good to us."

Hilst never expected to get into the banking industry, either, but one day her neighbor at Bank of Springfield came knocking. "In 2014, Mick McGlassen, who was president of BOS at the time, approached me about joining the bank board. We had always done our banking there, for both business and personal. I don't have a banking background, but he assured me that they weren't looking for someone in banking. They were looking for someone with a different outlook. It has been wonderful to work with them." With her experience in business and retail, Hilst was a great fit.

"Sande's story is amazing, coming from a teaching background to learning the furniture business in a short amount of time," said **Tom Marantz**, president/CEO at Bank of Springfield. "She is a very good businesswoman. She understands the different markets and has helped us expand into other markets, too. She also understands the problems that businesses face."

"She is very customer service oriented, and she has helped our bank get to the best level of customer service," Marantz continued. "With her business, she is on the frontline of the economy, so she can tell us what's going on with the economy at a given time."

"The first two years on the board especially I learned so much about community banking," said Hilst. "And I'm still learning. I learn something new at every meeting. The banking business is very different from what I do. With the furniture business, there are some changes, but banking changes all the time. The board is constantly faced with figuring out how to handle all the changes."

"It's a benefit for a bank board to have a diverse group of board members, comprised of both men and women of different business backgrounds, to offer each person's own unique contributions to the bank business at hand. Such collaboration between men and women should produce a much wider perspective and insight on issues that come before the board," said Hilst.

Marantz feels that Hilst has also been a good example for **Jennifer Marantz**, vice president, communications director, a recent addition to the bank's board. "She is a class act," Marantz contends. "She represents us very well in the community. Sande is an extremely positive person and always has a smile on her face. She is a very special individual, and you couldn't ask for a better businesswoman."

*Black*

## Princeville State Bank

Although **Lesa Black** only has a few years of board service under her belt at Princeville State Bank (PSB), she is already making an impact. Black brings a well-rounded financial services background to the board. She has been involved in community banking for 37 years, not only as a banker, but also as a banking consultant.

"Lesa Black plays an impressive role on our bank board, as she offers a different perspective, stimulates robust dialogue, and provides a broad knowledge concerning the needs of community banks. As we focus more on our customers and less on compliance, Lesa strikes a balance of both that helps to support Princeville State Bank as we wade through the complex regulations facing community banks while focusing on the needs of customers and the communities we serve," said **Lori Nevells**, senior vice president/chief compliance officer at PSB.

Black has served in nearly every area of a community-bank operation, most recently as an officer in the internal audit, compliance, and BSA areas for PSB. Black began her banking career at Citizens National Bank, Albion, and also worked for First State Bank, Mendota. During her audit-consulting career, she worked for Jeffrey A. Rice Audit Consulting and Lindgren, Callihan, VanOsdol & Co., Ltd. (now Wipfli, LLP). In July of 2013, Black joined the staff of Community BancService Corporation, Inc. (CBSC) as vice president of member services. Black concentrates her efforts in the northern portion of the state, with the exception of the Chicago metro area. She is responsible for meeting with Illinois community bankers to ascertain their needs and present association solutions that will help them compete more effectively. She joined the PSB board on June 22, 2017.

"Lesa Black inspires me," Nevells continued. "I believe Lesa's career has contributed to the success of our bank. Employees here feel a personal connection to Lesa, as her interpersonal skills are second to none. She has such a keen understanding of the banking sector with her audit and compliance background and is a true advocate for community banks."

"Having gender diversity is likely to improve the overall performance of any well-managed bank. I believe that many of my women colleagues would be a valuable asset as a director of a private company or bank. I also believe that if you want to build relationships, expand your networks and grow your bank, you should consider adding a woman as a director to your bank," said Nevells.

These are just a few of the stories of the female directors serving on community bank boards for our member banks. Although their stories are unique, with different backgrounds, expertise and paths, these impressive women share a common bond with the significant impact and perspectives they have shared with their respective community bank boards. ■

*We believe that CBAI can help build a community of women to become the next generations of leaders and we encourage our female members to get involved with the association through educational opportunities, the Career Development Division and service on CBAI boards and committees. If you would like to become more involved, please contact Valerie Johnston at valeriej@cbai.com.*


# 2021 Ag Lenders' CONFERENCE

CBAI's annual Ag Lenders' Conference, held virtually on February 2, helped participants develop the skills and tools to better understand the issues affecting the bank's farm and agribusiness customers and to meet their credit needs. There were awesome discussions between the bankers and the speakers throughout the day. The on-demand recorded session is still available for purchase and allows your bank to train your ag lenders on their own time with unlimited views from unlimited computers for up to six months. Please contact Melinda at CBAI (800/736-2224 or via email at melindam@cbai.com) for more details.

Topics covered in this one-day conference focused on a variety of issues facing agricultural lenders including the sessions "Weather Outlook & Forecasting for 2021," with Eric Snodgrass, principle of atmospheric science, Nutrien Ag Solutions, Champaign, IL; "Navigating Pandemic Economics" and "Ag Credit Analysis & Communications" with Dr. David Kohl, professor emeritus of agricultural and applied economics, Virginia Tech, Blacksburg, VA; "When Stress is More than a Season" with Adrienne DeSutter, ag mental health specialist with Sow Hope Grow Hope in New Windsor, IL; and "Perfect Storm Brewing in Farm Transition" with Steven Bohr, co-owner of Farm Financial Strategies, Lisbon, IA. ■

**EXCLUSIVE SPONSOR:** Federal Home Loan Bank of Chicago, Chicago, Illinois

CBAI thanks the members of our Ag Lenders' Subcommittee for their expertise and assistance in developing and promoting this year's Ag Lenders' Conference.

**AG LENDERS' SUBCOMMITTEE**:

**Doug Smith**, President (Committee Chair)
Farmers National Bank of Griggsville

**Jennifer Beard**, President
Farmers State Bank, Elmwood

**Doug Blunier,** Senior Vice President
State Bank of Toulon

**Quint Harmon**, Executive Vice President
Pioneer State Bank, Earlville

**Jeremy Hoke**, Assistant Vice President
Scott State Bank, Bethany

**Kerry Hoops**, Senior Vice President
German-American State Bank, German Valley

**Alan Hoskins**, Executive Vice President
Legence Bank, Eldorado

**Tom Schnelt**, Vice President/Commercial & Ag Lender
Jersey State Bank, Jerseyville

# Compliance Institute

## LENDING

Thirteen community bankers came together on March 30 & 31 in the SHAZAM Education Center at the CBAI Headquarters for the 2021 CBAI Compliance Lending Institute. The socially distanced institute was well received, and it was great to have our bankers back in person. This institute was led by **Bill Elliott** from **Young & Associates, Inc.**, in Kent, Ohio. Those in attendance are listed below. ■

**Jarrod Capps**, First Federal Savings Bank of Mascoutah, Lebanon

**Hutson N. Coventry**, Crossroads Bank, Teutopolis

**Zach Ovington**, Casey State Bank

**Kayla Petersen**, Beardstown Savings, s.b.

**Sara Philpott**, Flanagan State Bank

**Austin Pletsch**, Gerber State Bank, Argenta

**James Randle**, Litchfield National Bank

**Jennifer Radtke**, Peru Federal Savings Bank

**Jessica Schopp**, State Bank of Graymont, Pontiac

**Julie Scott**, Teutopolis State Bank

**Stephanie Shanks**, Scott State Bank, Bethany

**Jenna Van Ostran**, Bank of Hillsboro, N.A.

**Aaron Woodcock**, First National Bank of Raymond, Pawnee


**Daniel R. "Dan" Weisman,** 89, passed away peacefully on April 13, 2021, on what would have been his 64th wedding anniversary with his love, Judy, who passed away a month earlier. Daniel Ruel Weisman was born May 9, 1931, in Springfield, IL, to Esther and Jack Weisman.

Dan was a proud graduate of Springfield High School and Milliken University, Decatur. Following college, he enlisted and served in the US Army and returned to Springfield in 1955 to begin his professional life in the insurance industry. It was during this time that he met Julia "Judy" Gard of Fancy Prairie. They were married on April 13, 1957, and began their life together, raising two daughters, becoming active in the community and Temple Israel, and nurturing friendships that lasted their entire lives. Until their final days together, Dan played the piano every afternoon for Judy, who responded with applause and cheers.

Dan was highly respected in his roles as senior vice president at Horace Mann for Life Insurance Operations, Springfield, IL; senior management at Connecticut Mutual, Springfield, IL; and vice president of marketing at Connecticut Mutual, Hartford, CT. He also served on the board of directors for **Security Bank, s.b., Springfield.**

A dedicated community leader, Dan's earliest volunteering was with the Big Brothers program which led to other youth and job mentoring opportunities. He later served on the Springfield Board of Education and enjoyed leadership positions in the Springfield Rotary Club. A highlight for Dan was serving as a volunteer at the Abraham Lincoln Presidential Library and Museum.

Dan is survived by his dear sister, Eileen Paris of Springfield; daughters Lorie "Leah," son-in-law, Eric Brunner, and precious granddaughter, Anna, of Philadelphia, PA; daughter Sally Weisman of Hartford, CT; brothers and sisters-in-laws Jim, Betty, Elynor, Chub, Elaine, and Chuck; cherished nieces and nephews; and adored loved ones, Sarah, Michelle, and Adam (Lisa) White of Connecticut. ■

## MAY 2021

**3** **Group 10 Meeting —** Annabriar Golf Course, Waterloo
**Senior Lender Forum Group V —** DoubleTree by Hilton, Lisle

**4** **Group 12 Meeting —** Franklin County Country Club, West Frankfort
**3rd Quarterly Compliance Meeting —** Live E-Classroom Seminar
**Senior Lender Forum Group II —** Shazam Education Center, Springfield
**Advanced Commercial Loan Documentation**

**5** **Group 11 Meeting —** Effingham Country Club
**3rd Quarterly Compliance Meeting —** Live E-Classroom Seminar
**Cybersecurity Threats, Trends & Proactive Strategies for Financial Institutions —** Shazam Education Center, Springfield
**Senior Lender Forum Group I —** Shazam Education Center, Springfield

**6** **Cybersecurity Threats, Trends & Proactive Strategies for Financial Institutions —** DoubleTree by Hilton Lisle
**Senior Lender Forum Group III —** Shazam Education Center, Springfield
**Loan Stress Testing for the Credit Analyst**

**7** **CFO Forum Group II —** Shazam Education Center, Springfield
**Branch Manager Group B —** Grizzly Jack's Grand Bear Resort, Utica
**HR Group C —** Grizzly Jack's Grand Bear Resort, Utica
**Senior Lender Forum Group IV —** Shazam Education Center, Springfield

**10** **Group 9 Meeting —** Jacksonville Country Club

**11** **Group 7 Meeting —** Crestwicke Country Club, Bloomington
**ACH for Beginners: Essentials, Common Issues, Acronyms & Timeframes** — Shazam Education Center, Springfield
**5 Steps to Simplify Reg E Claims**

**12** **Group 5 Meeting —** Soangetaha Country Club, Galesburg
**Your Borrower is Threatening Bankruptcy, Now What?**

**13** **CBAI's Executive Leadership Academy —** Live E-Classroom Seminar via Zoom
**HR Dos & Don'ts in a Virtual World**

**14** **CEO Forum Group V —** DoubleTree by Hilton Lisle

**17** **CFO Forum Group I —** Shazam Education Center, Springfield

**18** **Surviving a TRID Compliance Exam**

**18–19** **Reg Z University —** Shazam Education Center, Springfield

**19** **2021 Professional Selling Skills: Understanding Buyer Behavior & the Buyer Mindset —** Live E-Classroom Seminar via Zoom

**20** **Call Report Seminar —** Shazam Education Center, Springfield
**CEO Forum Group II —** Drury Hotel, Mt. Vernon
**Residential Construction-Only & Construction-to-Permanent Lending: Compliance & FAQs**
**Residential Appraisal Reviews from Start-to-Finish**

**24** **Credit Risk Training Program for Community Banks**–Session II — Shazam Education Center, Springfield

**25** **Credit Risk Training Program for Community Banks**–Session IV — Shazam Education Center, Springfield
**Marketing in 2021: Virtual Relationships & the New Customer**

**26** **CBAI's Community Bank Marketing Conference —** Northfield Center, Springfield
**The Virtual World of Collections**

**27** **CEO Forum Group IV —** Grizzly Jack's Grand Bear Resort, Utica
**Handling W-9s, W-8BENs & IRS Mistakes**
**Protecting the SBA Guaranty Start to Finish**

## JUNE 2021

**1** **Marketing Group A —** Shazam Education Center, Springfield

**2** **Asset/Liability Management: Investments, Liquidity and Interest-Rate Risk** — Shazam Education Center, Springfield
**Marketing Group B —** Shazam Education Center, Springfield
**Handling Subpoenas, Summonses, Garnishments & Levies**

**3** **Operations/Technology Group A —** Shazam Education Center, Springfield
**Operations/Technology Group E —** Grizzly Jack's Grand Bear Resort, Utica
**Marketing Group C —** CBAI West Conference Room, Springfield
**Treasury Management: How to "Power Up" Deposits & Fee Income**

**4** **CEO Forum Group VI —** Shazam Education Center, Springfield
**Operations/Technology Group B —** DoubleTree by Hilton, Lisle

**7** **Group 3 Meeting —** Lake Carroll Golf Course, Lanark

**8** **Troubled Debt Restructuring in the COVID Economy**

**9** **CBAI Spring 2021 HR Survival Guide —** Live E-Classroom Seminar via Zoom

**10** **Operations/Technology Group D —** Drury Hotel, Mt. Vernon
**Supporting Documentation for the ALLL**

**14** **Group 8 Meeting —** Mattoon Country Club

**15** **Group 4 Meeting —** Pontiac Elks Country Club
**Operations/Technology Group C —** CBAI West Conference Room, Springfield
**Advanced Financial Statement Analysis**
**FinCEN SAR Advisory Update & Handling Increasing Fraud**

**15–16** **IRA Institute —** Shazam Education Center, Springfield

**17** **Wire Transfer Compliance: Domestic & International**

**21** **Group 6 Meeting —** Spring Lake Country Club, Quincy

**22** **Call Report Preparation: Schedule RC-R, Regulatory Capital**

**23** **Legacy Planning: Not a Necessary Evil, But an Opportunity to Do Good** — Shazam Education, Center, Springfield

**24** **Managing Mortgage Delinquency**

**28–29** **CBAI Community Bank Directors' College Session II** — Shazam Education Center, Springfield

**29** **e-Everything: Compliance in an Online Environment**

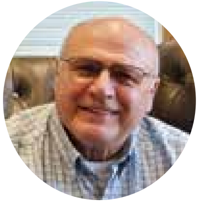
**30** **2021 Professional Selling Skills: Managing Buyer Objections & Gaining Commitment Through a Professional Close** — Live E-Classroom Seminar via Zoom

*CBAI Webinar*

# Member News

Robertson

**Mina Robertson, Farmers National Bank of Griggsville,** recently celebrated 50 years in community banking. She was recognized with a handsome eagle award from CBAI to commemorate the milestone. Robertson most recently served as president of the bank until 2012 and continues to serve on the board of directors.



Ince

**Lyle S. Ince,** executive vice president, **Community State Bank, Galva**, celebrated his 50th year in banking on March 1, 2021, spending the past 24 years with Community State Bank as both an executive and member of its board of directors. **Kevin Yepsen**, chairman of CSB Financial Holdings, Inc., noted that Ince has been "an integral part of the growth and success of Community State Bank" during its 41-year history. He was recognized with a 50 Years in Banking Award from CBAI.

**Lois Fewkes,** vice president and mortgage lending officer, retired from **Citizens National Bank of Albion**, after 45 years of service.

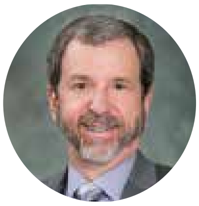
(L to R) Kingry, Stoudt, Duffell, and Hepner

**Ottawa Savings Bank** is celebrating its 150th anniversary in 2021. **Craig Hepner, CEO, Mark Kingry, CFO, Mark Stoudt, COO/CLO, and Laurie Duffell, VP,** were presented with a plaque by Lesa Black, CBSC vice president of member services, to commemorate the bank's milestone.

The board of directors of **Flora Bank & Trust** recently announced the promotion of **Michael E. Gill** to vice president. Gill has been with the bank for 11 years and serves as IT officer, loan officer, security officer, and loan compliance manager. Gill is a 2018 graduate of the Community Bankers School and a member of CBAI's Career Development Division.

The board of directors of **BankORION** and its parent company, **Orion Bancorporation, Inc.,** announced **Daniel J. Wahlheim's** retirement from the board of directors in September 2020. Wahlheim had served on the board since 2002. The shareholders elected **Kevin P. Koellner** to the board. Koellner is involved in commercial real estate development, the commercial construction business, and has been a strong supporter of BankORION for many years.

CBAI member **First Women's Bank, Chicago**, (in organization) has added tennis legend **Billie Jean King** as an investor and strategic advisor on gender equity. First Women's Bank is one of only a small number of de novo banks scheduled to open this year and is Chicago's first bank startup in more than a decade.



Tedrick

**Tim Tedrick**, principal at **Wipfli LLP,** will be retiring at the end of May 2021. Tedrick has been a long-time supporter of CBAI and a frequent presenter at schools, seminars and webinars. He started his banking career in 1972 when as a high school student, he took a part-time job at The First National Bank in Winnebago. In 1984, Doug Fitzgerald, partner at Lindgren, Callihan, Van Osdol LLP (LCV) recruited him to help build the banking services offered by LCV. Tedrick was largely responsible for the tremendous growth in services such as regulatory compliance, BSA, internal audit, information technology and more. In October 2010, after LCV merged with Wipfli LLP, Tedrick took over leadership of the firm-wide regulatory compliance practice. Fitzgerald, retired Wipfli LLP partner, said the following: "Over the years, I was lucky to work with many incredibly talented and loyal associates, but none stood out quite like Tim Tedrick. His intellect allows him to absorb so much about the banking world generally, but even more about regulatory compliance. As smart as Tim is, however, it is his ability to deliver the compliance message in an understandable, yet exact way that makes his value to our client base so very significant. He was the springboard that drove the growth in our firm's banking practice, of that I am certain. Above all he was a very loyal, great friend and the industry will lose a compliance giant when he retires!"

**Manish Nathwani,** senior vice president of product development at **SHAZAM, Inc.,** was recently elected to serve as chair on the 2021 U.S. Payments Forum steering committee. He formerly served two terms as steering committee secretary.

**Shield Compliance,** a comprehensive compliance management platform for banking cannabis-related businesses, recently announced the appointment of **Doug Fieldhouse** to its board of directors. In this role, Fieldhouse will advise Shield Compliance as it continues to build out its cannabis banking compliance platform to serve a growing number of financial institutions providing banking services to legal cannabis businesses across the U.S. Fieldhouse is the founder and president of F4 Investments.

**Quad City Bank & Trust (QCBT)** recently announced that **Kevin Wellman,** vice president, private banking officer, will oversee the bank's private banking division. Wellman brings more than 28 years of financial and banking expertise with experience that spans retail, credit management, operations, lending and small business banking development. He has been with QCBT since 2009. ■

# Welcome New Members

**Washington Savings Bank, Effingham**
David Doedtman, President/CEO

# Foundation Report

(May 2021)

### Contributors to the Foundation's 25th Anniversary Campaign

- **Tompkins State Bank, Avon**
- **Patty Clarke, First National Bank of Raymond**
- **Shawn Davis, CNB Bank & Trust, N.A., Carlinville**
- **Flora Bank & Trust**
- **Golden Rule Coins, Geneva, IL** (In honor of tellers who are also students putting themselves through college.)
- **IZALE Financial Group, Elgin, IL**
- **Merchants and Manufacturers Bank, Joliet**
- **Lisa and David Lippert, CBAI, Springfield** (attained Gold level of sponsorship)
- **Prairie Community Bank, Marengo** (attained Silver level of sponsorship)
- **Nancy Mueller, Scott State Bank, Bethany**
- **First National Bank of Raymond**
- **Bank of Springfield**
- **Warren Henderson Knox Bankers Association, Stronghurst, IL**
- **PeopleFirst Bank, Joliet,** made a contribution toward its $2,500 pledge.

Board and committee members of the CBAI corporate family donating travel expenses to the Foundation are: **Jeff Bonnett, Havana National Bank; Will Coolley, Longview Capital Corporation, Newman; Chris Gavin, Midwest Bank, Monmouth; Dan Graham, Flora Bank and Trust; Chad Martin, Goodfield State Bank; Alan Stremlau, Illini State Bank, Tonica; and Dianna Torman, Prairie Community Bank, Marengo.**

- **Mike Radliff, FNB Community Bank, Vandalia,** made a "dress down" donation at the Special Events Committee Meeting.

- **The Foundation received $175 from CBSC and CBAI board members** as a result of the "dress-down" board meeting in February.

McIntosh and Lounsberry

# Staff News

**Linda McIntosh**, CBAI administrative assistant, recently celebrated her 20th year of service to the association. She was presented with a recognition pin from **CBAI President Kraig Lounsberry.**

# Effect of Service Members Relief Laws on Secondary Obligors

*Jerry Cavanaugh, CBAI General Counsel, Springfield, IL*

Suppose that an Illinois bank has a borrower who enlists in the Armed Forces, or who was already in the National Guard Reserves and is activated for either military duty or an emergency disaster relief and recovery project following floods, tornadoes, or any other natural or man-made catastrophe. It is well known that the federal Servicemembers Civil Relief Act ("federal law") and the Illinois Service Member Civil Relief Act ("Illinois law") grant special deferment and suspensions of contractual obligations to service members on active duty, but what if a loan to the activated service member has a guarantor or comaker ("second person")? Can the lender enforce a corresponding payment obligation on the second person who is ***not*** on active-duty military service?

Often, state laws are enacted that essentially duplicate federal laws. This is not the case with regard to the federal law and Illinois law on this topic. There are provisions in the federal law that are not in the Illinois law, and vice versa. Therefore, Illinois banks must be familiar with both. The Illinois law does not address the liability of a second person when the primary obligor is on active-duty status, but the federal law does.

However, the best answer that I can offer to the question above about whether a bank could enforce a payment obligation against a second person when the primary obligor is on active duty is "maybe." The federal law leaves it to the discretion of the judge, stating specifically that when a judgment or payment obligation of the service member is subject to a stay, postponement or suspension, "the court ***may*** likewise grant such a stay, postponement, or suspension to a surety, guarantor, endorser, accommodation maker, comaker or other person who may be primarily or secondarily liable." No standards are set forth in the federal law that would provide help in predicting what would influence the judge's discretion either way, but because the statute identifies several different categories of second persons, from a guarantor to a comaker "or other person who may be primarily or secondarily liable," the judge may base her/his decision on the type of relationship involved and the ability of the second person to fulfill her/his payment obligation without undue hardship.

Some of you may have heard about loan interest rate ceilings for service members. Those are found in the Illinois law rather than the federal law. The Illinois law references Section 4.05 of Illinois' Interest Act, which caps "interest or finance charges" at 6% for credit obligations not only of the service member, but also of the service member's spouse for the duration of the service member's active duty, provided that the credit was extended prior to the start of the service member's active duty. The Interest Act further specifies that any interest or finance charge in violation of the 6% ceiling is forgiven.

While your bank should be familiar with the obligations and restrictions of both the federal law and the Illinois law, it is not the bank's responsibility to inform or notify its customers of active-duty service member benefits; rather, the federal law makes clear that such notification of rights is the responsibility of the agency or department of government that is activating the service member. ■

*Legal Link is a free CBAI member benefit. For answers to your general, banking-related legal questions, contact CBAI General Counsel Jerry Cavanaugh at 800/736-2224 (IL only), 217/529-2265] or jerryc@cbai.com or CBAI Paralegal Levette Shade at levettes@cbai.com.*

Banknotes

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