



CBAI E-Newsletter, sponsored by SHAZAM

October 9, 2019

[NEWS](#)

[EDUCATION](#)

[ADVOCACY](#)

[SERVICES](#)

[FOUNDATION](#)

IN THE NEWS

NEWS FROM THE FRONT 10/03/19

The SAFE Act has passed the U.S. House, promising safe harbor for banks offering services to the cannabis and industrial hemp industries, but what are its prospects in the Senate? CBAI is offering videos of panel discussions on cannabis/industrial hemp and faster payments produced at convention, free for CBAI members. Governmental relations staff reports on summer meetings with the Chicago FED, State Treasurer's Office and Illinois Department of Agriculture. Plus, get notes on the latest political developments in Springfield and an invitation to join us for our next legislative roundtable, all in the latest edition of News From the Front.

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Vote for David Loundy for the Federal Home Loan Bank of Chicago Board of Directors

CBAI is pleased to endorse **David J. Loundy, chairman and CEO of Devon Bank, Chicago**, for the Federal Home Loan Bank of Chicago 2019 Member Director Election. Loundy was the first third-generation CBAI board member and is a current board member of the Community BancService Corporation. He is also a member of CBAI's Chicago Area Education Subcommittee. CBAI believes Loundy will effectively serve the interests of community-based financial institutions on the FHLB board. Ballots are expected to be mailed around September 23, and signed ballots must be received by mail at the FHLB by November 5, 2019.

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U.S. House Passes CBAI Advocated SAFE Banking Act

Last week the United States House of Representatives passed the SAFE Banking Act (H.R. 1595) by a strong bipartisan majority (321 to 103). Every Democrat in the Illinois U.S. House Delegation was joined by Republicans Rodney Davis (an early and welcomed cosponsor), Mike Bost and Adam Kinzinger in voting to pass the bill. CBAI strongly supports this effort and thanks the many Illinois community bankers who have advocated for a safe harbor for banks to voluntarily provide financial services to cannabis related business in states where it is legal.

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Regulators Raise Appraisal Threshold

On September 27, 2019, federal regulators issued a final rule raising the threshold for residential real estate transactions requiring an appraisal from \$250,000 to \$400,000, the first increase since 1994. The agencies estimate the rule will raise the number of exempt transactions from 56 percent to 72 percent. The final rule allows bankers to use a property evaluation in lieu of a full appraisal, expanding on a provision of the S. 2155 law focused on banks in rural markets. The agencies said the change will provide regulatory relief without posing a threat to the safety and soundness of financial institutions given price appreciation over the past quarter-century.

CBAI and ICBA have repeatedly advocated raising the appraisal threshold and will continue working with policymakers on this issue. Earlier this year, the associations urged increasing the threshold to \$500,000 and indexing it for inflation.

[Read Regulatory Release >>](#)

[See Comment Letter >>](#)

Agencies Ease Director Restrictions for Community Banks

Federal regulators finalized updates to rules restricting the ability of bank directors and other management officials to serve at more than one depository institution or holding company. As advocated by CBAI and ICBA, the updates provide relief for community banks that have \$10 billion or less in total assets.

Previous management interlock rules prohibit directors at institutions with more than \$2.5 billion in total assets from simultaneously serving at an unaffiliated depository organization with more than \$1.5 billion in total assets. The new rule raises both thresholds to \$10 billion. During the 2016 Economic Growth and Regulatory Paperwork Reduction Act review, ICBA advocated updating the thresholds to provide regulatory relief for community banks.

[Read More from Agencies >>](#)



Save the Date: Free Cannabis Banking Seminar

CBAI is partnering with the State Treasurer's Office to promote a cannabis banking seminar in Peoria on the afternoon of December 6th. Details are still being finalized, but speakers will include Illinois' new Cannabis Czar Toi Hutchinson, IDFPR Director of Banking Chasse Rehwinkel, CBAI SVP of Governmental Relations Jerry Peck, and leading experts from around the country. More details are coming. Please e-mail [Jessie Schmidt](#) if you would like to be put on a list to receive the latest information as soon as it becomes available.

ICBA Updates S. 2155 Implementation Matrix

ICBA recently updated its comprehensive matrix on the implementation of S. 2155 provisions affecting community banks. The guide, which provides a status report on all relevant provisions of the regulatory relief law, includes finalized rules on the Community Bank Leverage Ratio and appraisals.

[Access Matrix >>](#)

Senate Committee Advances Ag Spending Bill

The Senate Appropriations Committee's agriculture subcommittee approved a \$151.7 billion appropriations bill to support federal agriculture and nutrition programs in fiscal 2020. The bill provides slightly less than the \$24.3 billion in discretionary spending provided by the House bill, which authorizes \$2.75 billion in guaranteed farm real estate loans and roughly \$2 billion in guaranteed farm operating loans. The Senate bill authorizes \$950 million in guaranteed business and industry loans and approximately \$3 billion in guaranteed and direct community facility loans.

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OCC Issues Final Rule Amending Stress Testing Rule for National Banks and Federal Savings Associations

The Office of the Comptroller of the Currency (OCC) issued a final rule amending the OCC's stress testing rule at 12 CFR 46 (which implements the stress testing requirements of section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act), consistent with section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule revises the minimum threshold for national banks and federal savings associations to conduct stress tests from \$10 billion to \$250 billion; revises the frequency by which certain national banks and federal savings associations are required to conduct stress tests; reduces the number of required stress testing scenarios from three to two; and makes certain additional technical changes to the stress testing requirements. The final rule is effective as of November 24, 2019.

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OCC Releases Bank Supervision Operating Plan for Fiscal Year 2020

The Office of the Comptroller of the Currency (OCC) recently released its bank supervision operating plan for fiscal year (FY) 2020. The plan provides the foundation for policy initiatives and for supervisory strategies as applied to individual national banks, federal savings associations, federal branches, federal agencies, and technology service providers. OCC staff members use this plan to guide their supervisory priorities, planning, and resource allocations.

Supervisory strategies for FY 2020 focus on cybersecurity and operational resiliency; Bank Secrecy Act/anti-money laundering (BSA/AML) compliance management; commercial and retail credit underwriting practices and oversight and control functions; impact of changing interest rate outlooks on bank activities and risk exposures; preparedness for the current expected credit losses (CECL) account standard; preparation for the potential phase-out of the London Interbank Offering Rate (LIBOR); and technological innovation and implementation.

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FHLB Banks to Begin Transition from LIBOR

The Federal Housing Finance Agency instructed the Federal Home Loan Banks to begin transitioning away from the London Interbank Offered Rate, or LIBOR. Effective Dec. 31, 2019, the FHLBanks are required to stop purchasing investments in assets tied to LIBOR with a contractual maturity beyond Dec. 31, 2021. ICBA serves on the Fed's Alternative Reference Rates Committee, which is implementing the transition from LIBOR, and encourages community banks to begin preparing for the transition.

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CBAI and ICBA Support Capital Plan for Fannie and Freddie

Last week the Federal Housing Finance Agency and Treasury Department announced an agreement to begin recapitalizing Fannie Mae and Freddie Mac. CBAI, ICBA and community banks across the nation strongly support the plan to allow the government-sponsored enterprises to retain a combined \$45 billion in earnings as a crucial step in winding down their conservatorship and ending the net-worth sweep of their earnings into government coffers. These actions address the requirements of the Housing and Economic Recovery Act to protect taxpayers and increase stability in the housing market.

[Read ICBA Release >>](#)

[See Joint Agreement >>](#)

Video Recordings of the Faster Payments and Cannabis/Industrial Hemp Banking Panel Discussions Available to CBAI Members

This year's CBAI convention included panel discussions on regulatory concerns for banking cannabis and industrial hemp and issues surrounding the development of the new faster payments system. Both panels featured leading experts from both the state and federal level. The videos of "Cannabis Banking Questions and Concerns" and "The Pace of Faster Payments Accelerates!" sessions are now available on the CBAI website. Visit the [Members Only section](#) and use your CBAI Members Only login information.

If you do not have a CBAI Members Only login, please contact Stacy Workman at stacyw@cbai.com or call her directly at 217/560-3096.

Bowman: Community Banks Have Emerged Stronger

The community banking sector has emerged from the decade following the Wall Street financial crisis stronger and more resilient, Federal Reserve Governor Michelle Bowman said. Speaking at a research conference at the St. Louis Fed, Bowman said acquisition data show that many small, locally focused community banks are performing well — challenging the notion that small scale and limited geographic reach are disadvantages. Bowman, who last month was confirmed for a full term in the Fed's ICBA-advocated community banking seat, also discussed tiered regulations, credit union acquisitions of community banks, and the ongoing dearth in de novo bank formation.

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Survey: Deposit Growth, Cybersecurity Risk are Top Community Bank Concerns

Core deposit growth is the greatest challenge facing the 571 community bankers surveyed by the Federal Reserve, Conference of State Bank Supervisors, and Federal Deposit Insurance Corporation in a poll released last week. Cybersecurity presents the greatest risk, with nearly 71% of survey respondents calling it "very important" and 26% characterizing it as important. Credit risk ranks second, with 84% saying it is important or very important. Community bankers were much less concerned about the cost or effect of regulation than in past years. About 16% of respondents ranked regulation as the greatest challenge, down from 60% in 2016. Although 43% said they expected the regulatory burden to increase in the next year, only 4% cited regulation as a cost most likely to influence future profitability.

[Read Article >>](#)

[See Survey Report >>](#)



Participate in CBAI's 2020 Annual Foundation Essay Scholarship Program

The 2020 Annual Foundation for Community Banking Essay Scholarship Program is now available. This program allows your bank to sponsor local high school seniors in the Foundation's essay contest, which annually awards \$21,000 in scholarship funds to top high school seniors statewide. There is no cost for your bank to participate! Each year, the Foundation awards a \$1,000 scholarship to a student in 11 of CBAI's 12 groups along with \$500 to a second person in each group, which ensures geographical uniformity of winners. One student will win \$1,000 a year for up to four years of higher education. And, as in previous years, the high school of the overall winner will receive \$500.

Don't miss this rewarding public relations opportunity! High-school seniors are always looking for ways to make college more affordable. Plan now to participate in the CBAI Foundation for Community Banking Scholarship Program and make 2020 our biggest year yet! Return form today via fax to 217-585-8738 or e-mail bobbiew@cba.com to receive your information kit on the 2020 Annual CBAI Foundation for Community Banking Scholarship Program.

[Download Scholarship Program Form >>](#)

October is National Cybersecurity Awareness Month

Now in its 16th year, National Cybersecurity Awareness Month is hosted every October by the Department of Homeland Security and the National Cyber Security Alliance. Multiple agencies and organizations collaborate to raise awareness about cybersecurity and stress the collective effort needed to stop cyber intrusions and online thefts and scams. Ensure your bank has the resources needed to stay safer and more secure online. Several websites are available to help you learn how to protect your bank and customers.

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CBAI LEGAL: UCC-1 "Incorporation by Reference" to Security Agreement is O.K.

In September, a federal Court of Appeals ruled that the listing of secured assets covered by a recorded financing statement need not be found within the four corners of the UCC-1, but rather may be incorporated by reference to another document where the collateral assets are identified. In the recent court case, the "other document" was the security agreement between the bank and the borrower.

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It's Renewal Time for CBAI's Community Bankers for Compliance Program

Now more than ever the community bank is faced with a bewildering array of ever-changing regulations. While all banks strive to be in compliance, the regulatory requirements can seem to be overwhelming. Most community banks do not have the time or money to build elaborate compliance systems. In response to these facts, CBAI teamed up with Young & Associates of Kent, Ohio, to offer the Community Bankers for Compliance (CBC) program. Now beginning its thirty-first year, this program provides you a cost-effective approach to obtaining up-to-date information concerning bank regulations and practical techniques for maintaining an effective compliance program.

Again this year, CBAI is offering a basic program membership and an enhancement option to the CBC program, which are highlighted on the CBC renewal brochure insert. You may choose to register for the basic CBC program, or you may choose to add on the enhancement option. If you have any questions regarding these options, please don't hesitate to contact Jennifer Nika at CBAI at 800/736-2224 or by e-mail at jennifern@cba.com.

[Renewal Form >>](#)

[CBC Program Brochure >>](#)

CBAI to Hold the 13th Annual Women in Community Banking Conference

Scheduled November 5 & 6 at Northfield Inn and Conference Center in Springfield, the "Women in Community Banking Conference" begins with an evening social on Tuesday, November 5, and a full-day conference is scheduled for Wednesday, November 6. The conference is designed for all levels of female community bankers who are looking to develop their skills and grow within the banking profession. It features invaluable peer-networking opportunities, a wide variety of roundtable topics on the hottest issues in community banking, and expert speakers on leadership, personal development, overcoming adversity, decision-making, communication, personal safety and more. You will leave this conference motivated, energized and inspired in both your professional and personal journeys!

[Register Today >>](#)

Save the Date for CBAI's 46th Annual Convention & Exposition in Indianapolis!

Mark your calendar today for **CBAI's 46th Annual Convention and Expo, scheduled for September 24-26, 2020, at the JW Marriott, Indianapolis, IN.** More information will be available soon! Highlights from the 45th Annual Convention and Expo held in Springfield are on the website now, including pictures of all main events.

[See CBAI's 45th Annual Convention Highlights >>](#)



[VIEW CBAI's EVENTS CALENDAR HERE](#)

NEWS FROM SERVICES

The Baker Group: Baker Market Update

Reports this week from senior Chinese officials point to a narrowing list of trade topics that China's negotiating delegation are willing to discuss. That development has cast doubt on the prospect that the two nations will be able to come to an agreement on a broad, wide-ranging trade deal. It's not only basketballs that are up in the air.

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LEARN HOW TO PROTECT YOUR ORGANIZATION FROM CYBER THREATS

October is National Cybersecurity Awareness Month and we're dedicating every **SHAZAM Blog** post to helping solve the mysteries of cybersecurity. Read how to protect your organization and yourself from cyber threats and identify best practices for securing data. Learn why it's important to develop processes to prevent unauthorized access to sensitive information and how to educate employees on their responsibility for protecting sensitive information. [Subscribe now.](#)

Ncontracts: Vendor Employees Gone Wild: Structuring Vendor Contracts to Guard Against Rogue Insiders & Cyber Threats

Earlier this year, Capital One announced that a former Amazon Web Services employee hacked into one of its databases and accessed the data of 100 million Americans and 6 million Canadians, which includes names, addresses, zip codes/postal codes, phone numbers, email addresses, birthdates, income, credit scores and payment history. Capital One expects the breach will cost the bank between \$100 and \$150 million, including customer notifications, credit monitoring and legal costs.

This situation raises important concerns about third-party vendors' employees. Employees of critical vendors have access to financial institutions' sensitive data and the systems that protect them. They play an important role in safeguarding data and are just as capable of causing a data breach as a financial institution's own employees. It's not just about behaving ethically—though that's a big part of it. It's also avoiding phishing and social engineering schemes that could introduce malware, ransomware and other threats.

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CBIS: Cannabis Banking Inquiries Continue from Community Bank Leaders

The SAFE Banking Act passed the House September 25, but now awaits its fate with the Senate. This act has the potential to change the cash-only nature of the cannabis business by granting producers, distributors and retailers access to financial services and allowing banks to do business with marijuana enterprises without fear of federal prosecution. The SAFE Act would further prohibit federal banking regulators from charging bankers with money-laundering or other financial crimes for working with marijuana-related businesses.

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