ARKANSAS COMMUNITY BANKER

Fall 2023

One Vision, One Mission. Community Banks.

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Lake Poinsett State Park
Harrisburg, Arkansas

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ARKANSAS COMMUNITY BANKERS ASSOCIATION

Education – We've got you covered

BY CHRIS PADGETT

In 2023, ACB's education offerings trained hundreds of Arkansas bankers. We conducted live, in-person training events for CFO's, BSA and Compliance officers, and Bank Management and Directors - where members could learn and connect with experts in a face-to-face setting.

ACB members also have access to over 150 live (in addition to recorded) webcasts that allows for real-time interactions and engagement for those unable to attend events in person or those that are looking for more immediate training needs. In September, we live streamed our two-day, in-person compliance conference so bankers that could not travel could have access to our biggest training event of the year. Bankers live streaming the event could share the conference link with as many bankers in their institution as they desired. Providing huge value to their employees and their training budget.

Chris Padgett is the ACB Executive Director.
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ACB works with the Barett School of Banking which offers live streaming and in-person training events in Ag lending, Human Resources, Commercial Lending and more. We also partner with The Center for Financial Training as well as ICBA Education, which offers everything you may need from a bank employee training perspective – Instructor lead courses, guided self-study courses, diplomas and certificates, and college credit transfers, just to name a small portion of their offerings.

But we aren't done. After hearing from our bankers, we are extremely excited about offering our first ever in-person IT conference, February 21, 2024, in Little Rock, AR. We have speakers from AR, TN, MO and Washington, D.C., with presentations on AI in banking, cyber security, regulatory challenges for community banks, fintech engagement and more.

We work hard to provide the best training available to the ACB membership, and we thank you for trusting us for your educational needs. We will continue to offer the most up to date, affordable education in the most flexible and accessible ways possible. Because an educated banking community helps the communities we serve.

Warm regards,

ACB ARKANSAS COMMUNITY BANKERS™

One Vision. One Mission, Community Banks.

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Fall 2023

Inside

Specialty Interests

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Protecting against HELOC fraud scams

BY TRAVELERS
AN ACB *Preferred Services Provider*

Home Equity Line of Credit (HELOC) scams continue to be a costly and challenging issue for financial institutions. Wire transfer fraud can easily reach millions of dollars, and with advancements in technology, such as online databases for county clerk records, online banking and online title searching, data commonly used by financial institutions to verify customer identity for wire transactions is routinely and easily compromised.

Several financial institutions have fallen victim to losses arising out of wire transfer and check forgery schemes targeting HELOC accounts and have taken action to mitigate the risk of future loss experience. Institutions that place a high value on their customer service and customer confidence in the institution's security against wire transfer fraud have implemented risk mitigation upgrades to their operations to help solidify customer confidence. According to Travelers, the following steps are initiatives that can help to avoid, or at least significantly reduce, losses arising out of HELOC fraud scams:

- Place greater emphasis on getting full account numbers from callers;
- Phrase verification questions so that the caller is providing the information, rather than simply confirming what the financial institution has on file;
- Remove items from the list of authentication options (such as mother's maiden name and date of birth) that have become "public information" through social media websites and venues;
- Train employees who field calls to verify authentication items in a specific order and not skip to other items if the caller cannot verify the requested information;
- Train personnel with an updated full fraud-awareness module to help employees identify warning signs of fraud;
- Encourage customers to set up PIN numbers if the automated phone system allows it;
- Update customer account files with driver's license numbers, if not copies of the entire driver's license (or other government-issued ID if there is no driver's license);
- Utilize a mandatory callback procedure for all customer-not-present wire transfer requests;
- Use a password to authenticate customers rather than commonly compromised information and only allow in-person modification of passwords and key account information;
- Consider requiring full balance transfers (or transfers up to a certain percentage of the available funds) to be made in person while placing a reasonable monetary limit (or percentage limit) on customer-not-present wire transfer requests;
- Establish a reporting procedure which refers all suspicious wire transfer requests to a higher level of authority for confirmation/processing;
- Require a dual telephone confirmation procedure where the financial institution calls the home phone of the customer as well as an alternate number, such as a mobile phone or work phone;
- Establish an automatic two-day holding pattern anytime a request is made to initiate a wire transfer from a HELOC account to a foreign bank account within which time the financial institution ensures accurate verification and deters fraudsters seeking immediate processing;
- Verify change of address or phone number requests with a call to the customer's phone number on file;
- Customize specific and unique verification questions and procedures with an account holder/customer that can only be modified in-person.
- Consider performing a verification call back when a purported customer calls the bank to set up on-line banking for the first time.

Technology has made it easier than ever for bad actors to obtain data that is commonly used by financial institutions to verify the identity of their customers. That's why financial institutions must utilize robust authentication procedures to protect their customers – and themselves – from wire transfer fraud. This includes greater awareness, updated and vigilant policies, procedures and training, and implementing imaginative and unique verification procedures to help reduce the risk of loss arising out of wire transfer fraud targeting HELOC accounts.

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7 Questions banks should ask a potential fintech partner

BY BHG
An ACB Associate Member

Collaborations between financial services technology firms (fintechs) and financial institutions are occurring more frequently than ever. Many financial companies see fintechs as an affordable, nimble solution to their technology gaps. Others partner with fintechs for assistance with compliance and regulatory governance. The fastest-growing fintech segment enables financial institutions to diversify their customer bases, expand revenue, and even increase deposits via banking-as-a-service agreements.

It is easy to recognize the contribution a fintech can make to your organization. However, it is more challenging to find the right fintech partner for your business. Ideas for how to do that is the goal of this article. We will discuss what steps you should take before entering a fintech relationship, efficient ways to conduct due diligence, and ensuring the compatibility of your fintech partnership before and during the relationship.

What to know before committing

Can the fintech you are considering produce consistent value over time? Can you demonstrate that the relationship is being appropriately managed amid increased regulatory scrutiny of third-party risk management? These are just a few of the things you will need to know before a partnership can begin.

Ultimately, choosing the right fintech will come down to the quality of your institution's due diligence. Done well, due diligence can save your business time, money, and resources. It can also help focus your analysis by ensuring a potential partner can meet such criteria as:

- Financially and operationally capable of providing the desired services
- Adds organizational value while maintaining proper controls
- Enhances your organization's brand and reputation

The due diligence journey

The discovery process starts with internal decision-makers and how they respond to the foundational questions, which are designed to help shed light on the pros and cons of a potential partnership:

1. What benefit(s) will we achieve by partnering with the third-party fintech?
2. What are the estimated savings and/or revenues we can expect over 1-5 years?
3. How much will it cost to establish and maintain the partnership over 1-5 years?
4. What kind of risk management program does the fintech partner possess?
5. Can our infrastructure and staffing handle the activity generated by the partnership?
6. Is the fintech's risk culture and business approach compatible with ours?
7. Does the fintech have a good business reputation, based on online research and discussions with current business partners?

A company can deepen the effectiveness of due diligence by tapping into or creating additional resources. For example, your company's existing third-party risk management team should help evaluate a potential fintech partner. A cross-disciplinary team could be assigned to other essential tasks, such as identifying critical risks and creating a partnership implementation plan.

Even federal banking agencies can be a due diligence resource. In 2021, Conducting Due Diligence of Financial Technology Companies: A Guide for Community Banks was published. Despite being targeted at smaller banks, the content generally applies to any business considering a strategic fintech partnership. The content put forward these six key topics to consider during a due diligence evaluation.

1. Business Experience & Qualifications • Company overview • List of client references • Ownership information	2. Financial Condition • Financial statements & auditors' opinions • Annual reports • Market information on competitors	3. Legal and Regulatory Compliance • Organizational documents & business licenses • Outgoing legal & regulatory issues
4. Risk Management & Controls • Policies, procedures, other documentation • Self-assessments • Key risk indicator reports	5. Information Security • Information security control assessments • Incident management & response policies • Incident reports	6. Operational Resilience • Business continuity, disaster recovery, incident response plans • Service-level agreements • Outsourcing policies

Source: *Conducting Due Diligence of Financial Technology Companies: A Guide for Community Banks, available at https://www.federalreserve.gov/publications/files/conducting-due-diligence-on-financial-technology-firms-202108.pdf*

Trust but verify

Although a fintech partner may perform duties or provide services on an institution's behalf, it is the institution's responsibility to properly oversee that relationship. That is a fundamental tenet of third- party risk management. Partnering with a fintech could raise or lower your company's existing risk profile due to changes in credit, market, liquidity, reputational, operational, regulatory, and compliance risks. Proper due diligence of a fintech partner considers how the relationship could alter your risk profile. Your organization should trust but verify the information provided to you. Critical areas to analyze and confirm: established business relationships, financial performance, compliance program performance, reputation and litigation research, risk controls, and technologies used.

One crucial aspect of due diligence that should not be overlooked is the need for ongoing analysis once a fintech is integrated into your organization. No matter what service the fintech provides, your institution is responsible for confirming that the fintech meets its contractual and service-level responsibilities throughout the life of the relationship. Failure to identify and address inherent and developing third-party vendor risks could reduce a company's revenue stream, cost the organization valuable time and resources, jeopardize the safety of customers' personal identifiable information (PII), damage the organization's public reputation, and increase regulatory scrutiny.

Concluding thoughts

The recent failure of several high-profile fintech partnerships suggests a lack of effective due diligence at some juncture in their relationships. The guidelines and information presented here are designed to help your institution avoid the same fate. Common sense dictates that any type of new business relationship, fintech or otherwise, should be fully vetted and understood before it begins. The due diligence journey is endless, but you do not have to go it alone. Turn to those who are ready to help you along the way.

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Managing Liquidity Risk and the Importance of Bank Contingency Funding Plans

BY CARL WHITE

U.S. banking supervisors are asking the nation's bankers to evaluate the liquidity risk inherent in their banks' current operations and to have contingency funding plans in place and ready to execute in the event of liquidity shortfalls.[1] That guidance is spelled out in an updated interagency policy statement issued in July.

The original policy statement on funding and liquidity risk management was issued in March 2010, and outlined the process insured depository institutions and bank holding companies should follow to appropriately identify, measure, monitor and control their funding and liquidity risks. The 2010 guidance stressed the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets, and a formal, well-developed contingency funding plan as primary tools for measuring and managing funding and liquidity risks. Processes and systems used should be commensurate with a bank's complexity, risk profile and scope of operations, the guidance noted.

The importance of funding and liquidity risk management was vividly demonstrated earlier this year, when three banks—Silicon Valley Bank, Signature Bank and First Republic Bank—failed and another bank, Silvergate Bank, voluntarily liquidated itself. While many factors contributed to these failures, funding and liquidity issues dominated.

To boost liquidity in the banking system, the Fed in mid-March launched the Bank Term Funding Program (BTFP), a short-term lending facility for banks, savings banks and credit unions designed to ease the liquidity impact of underwater securities held on bank balance sheets. Banks were encouraged to use the BTFP as well as the discount window to meet any short-term liquidity shortfalls, such as a decline in deposits.

Contingency Funding

In July's updated guidance, the agencies point to the events of the first half of 2023, noting that banks need to be aware that depositor behavior and broader market conditions can change over time, and at unanticipated speed. Banks should have at the ready actionable contingency funding plans for a wide range of possible stress scenarios, such as funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds, and contingent liability events.

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Moreover, banks need to know the operational steps required to access funding from contingency sources such as the Federal Reserve System's discount window and BTFP, and the Federal Home Loan Bank System's advances. These steps include verifying contact details and understanding the types of collateral accepted for pledging. Once established, these contingency borrowing lines should be regularly tested by bank staff for functioning.

Discount Window Readiness

The Fed's discount window is singled out in the interagency update as an important tool for banks to use to manage their liquidity risk, and they are encouraged to incorporate the discount window into contingency funding plans. As with other types of contingency funding, banks should be operationally ready to use the discount window rather than waiting until it's needed. To be ready, banks need to establish borrowing arrangements and understand the pledging process for various collateral types; the agencies also noted that pre-pledging collateral is possible and can speed up the process of obtaining discount window loans. Regular testing of discount window readiness with small value transactions is encouraged.

No Stigma in Establishing Diverse Funding Strategy

Federal and state banking regulatory agencies have actively encouraged bank management to establish discount window or BTFP access and have made clear that institutions will not be criticized for establishing these lines of credit. Yet, I continue to hear concerns from some bankers about the possible stigma associated with using these programs. Consistent with the interagency guidance, our bank examiners will not criticize an institution for establishing a diverse funding strategy to meet liquidity needs in stressful situations that might arise.

Note

[1] These supervisors consist of the Federal Reserve System, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency, the National Credit Union Administration, and state supervisors as represented by the Conference of State Bank Supervisors.


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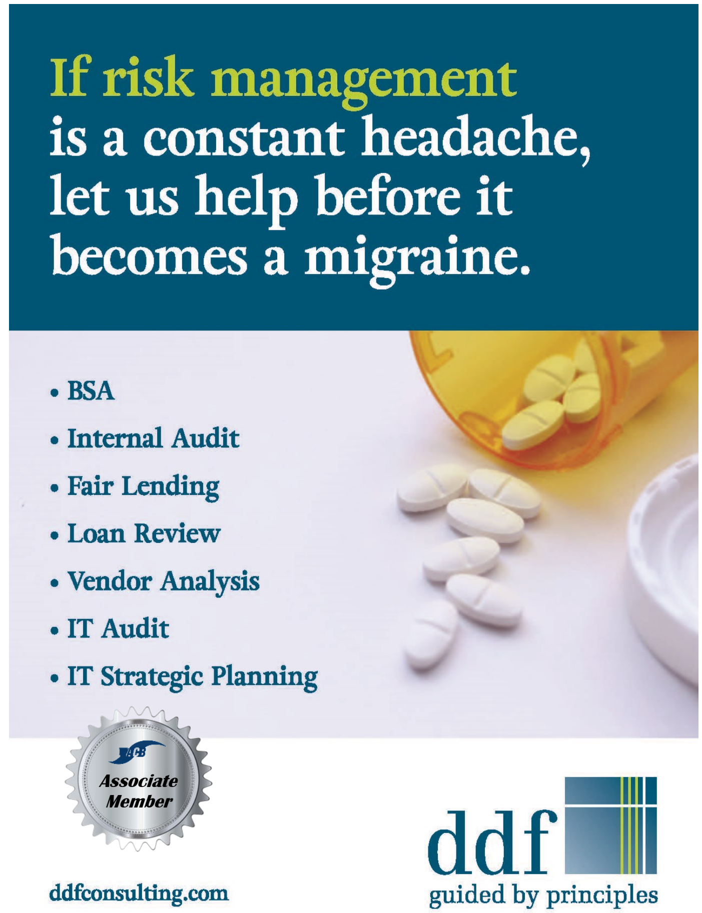
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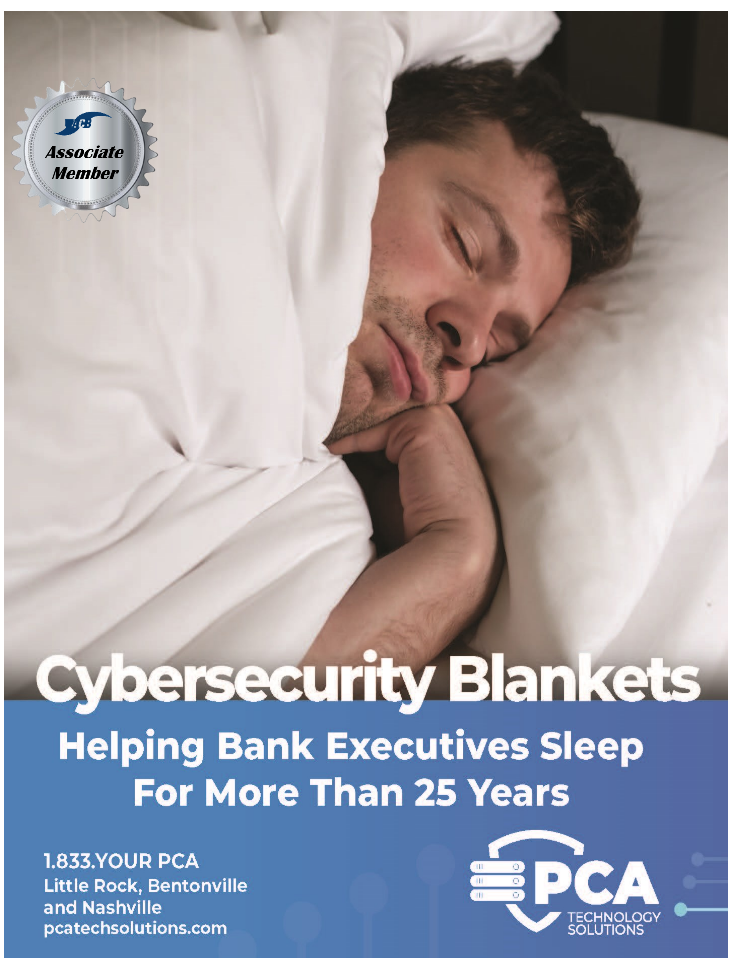
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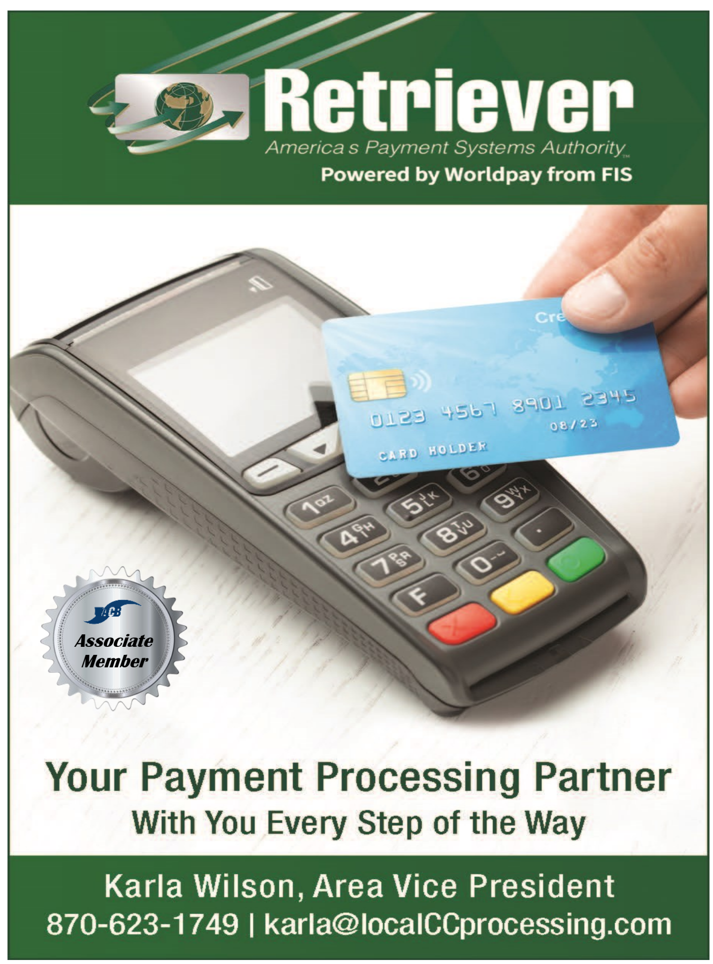
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Time out for trivia

Q's and A's to enlighten portfolio management

BY JIM REBER

If you're a sports fan (and I know you are), and you're also of a vintage that has recall back several decades, you may have heard of Todd Donaho. Donaho was the self-proclaimed "commissioner of sports trivia" as the host of *Time Out For Trivia*, a popular live call-in show that ran on the USA Network on weekday evenings from 1985 to 1990. The commish would fire off questions in rapid-fire succession to phone-in contestants, who hoped to win prizes ranging from telephones to grills. Players would compete at their own peril, as Donaho would often ask "boneheads" who guessed incorrectly to "take a hike." Nonetheless it was a winning formula, and by cable TV standards *TOFT* had high ratings.

What does this have to do with community banking? Hang with me as I pose a series of my own questions relating to community banks, which I hope you will view as more helpful than trivial. Even better: Your author supplies the answers, so there's no risk of nationally-broadcast humiliation. As Donaho himself would exhort, "Who's playing *Time Out For Trivia*?"

Question: If you buy a callable bond, are you long or short a call option?

Answer: You are short. Mechanically, you have simultaneously bought a bond and sold an option. The issuer has done the opposite and owns the right to take the bond away from you at designated dates in the future. Most callables have periodic call features (e.g., quarterly) but some are callable one time only. The aggregate value of the series of options translates into the additional yield over and above a non-callable "bullet."

Question: Why is Average Life always longer than Effective Duration for a given bond?

Answer: Average Life is the weighted average period of time to receive your principal, whereas Effective Duration is the weighted average period of time to receive principal *and* interest. Average Life is more relevant for amortizing securities such as mortgage-backed securities (MBS). Since interest is received periodically (as well as early and late) in the life of a bond, the weighted average time period is less than for principal alone. Average Life is more useful for calculating portfolio cash flows and liquidity; Effective Duration is a standard for measuring price volatility.

Question: If you sell the guaranteed portion of an SBA 7(a) loan, what are the total proceeds?

Jim Reber is president and CEO of ICBA Securities, an ICBA subsidiary and ACB Preferred Services Provider. You may connect with Jim at (800) 422-6442 or jreber@icbasecurities.com.

Answer: There are two sources, and a third element that bears mentioning. First, the proceeds include the principal plus the premium paid by the buyer. If the guaranteed portion is $250,000 and the bid is 108.00 (which isn't unusual), the total is $270,000 of which $20,000 is gain, and booked on sale date (not settlement date). Additionally, SBA mandates that the seller retains 1% of the interest flow from future payments as servicing income. Finally, the entire amount of the unguaranteed portion, principal and interest, is retained by the original lender.

Question: Why does the inflation gauge consumer price index (CPI) usually come in higher than the Fed's preferred measuring stick personal consumption expenditures (PCE)?

Answer: It's a two-pronged answer. First, the basket of goods for both indices (which is very deep—more than 80,000 items) changes over time as new products enter the market, some disappear, and others' popularity rise and fall. PCE is quicker to adjust the basket to reflect what you and I actually consume. Which brings us to the second prong: Informed consumers will prefer cheaper goods to more expensive ones, given suitable substitutes. Since PCE mirrors more quickly what our new basket of goods actually holds, it tends to be several tenths of a percent lower than CPI.

Question: Why do straight pass-through MBS use the prepayment model conditional prepayment rate (CPR), while their first cousin, collateralized mortgage obligations (CMO) use the model known the Public Securities Administration (PSA), when estimating how a given security will perform?

Answer: At one point in the distant past, examiners decided that PSA was more accurate in predicting how a cohort of mortgages would prepay, so that became the standard. PSA is in fact derived from CPR and is an attempt at refining prepayment estimates based on the age of mortgages in a pool. These standards (set in the 1980s at the dawning of the mortgage derivative market, and in *TOFT*'s heyday) have been relaxed, even though CPR/PSA information is still calculated and available for all manner of mortgage securities. Best practices can still call for documenting and modeling how a pool would perform using both methodologies.

So there you have our trip down cable TV lane, compliments of the venerable USA Network. As the commissioner of sports trivia himself would sign off, "Feeling tremendous, I might add." And if you're so inclined, you can view some classic episodes of *TOFT* on YouTube.

A Key Trait of a High-Performing Bank - a Culture of Awareness

BY JASON CORDER

We regret that an error appeared in this article in the Summer issue. We are re-printing the article with corrections. We apologize for any confusion this may have caused and have taken steps to ensure that such errors do not occur in future publications. Thank you for your understanding.

If you ever read automobile reviews in websites or magazines like *Car and Driver* or *Motor Trend,* you probably know that there are different factors that make a sports car an "outstanding car."

Some of these things are obvious and measurable, such as horsepower, torque, acceleration times, and stopping performance. There are other traits that are not as obvious on paper and can be harder to measure. Things such as how a car handles, the optimal level of driver feedback, and the comfort of a car are difficult to measure but are very important to what makes a car an outstanding car. In the same way, most high-performing banks have several identifiable traits that are easy to recognize by looking at performance ratios and measurements. These traits, shown on a report like the *Uniform Bank Performance Report* (UBPR), include a strong Net Interest Margin, indicating that a bank's interest incomes and interest expenses are effectively managed. Another indicator typically present at a high-performing bank is a low "Net Losses to Average Total Loans and Leases" ratio which, along with low past due ratios, speaks to management's effectiveness in overseeing credit risk. Another trait one sees in a high-performing bank is a lower-than-peer Efficiency Ratio, which shows that management has established a good balance between net interest income and noninterest income against overhead expenses.

There are other traits present in a high-performing bank that are not as straightforward. These traits are more subjective, a little more "touchy-feely." Traits such as providing an excellent customer experience and engaging in beneficial community involvement can lead to strong financial performance, but these traits have more to do with a bank's culture rather than financial data. In our firm, which works with over 150 banks in thirty states, we've noted that high-performing banks nearly always have a "culture of awareness." Awareness is defined as "knowledge and understanding that something is happening or exists." This concept of awareness can be applied at every level of a bank, whether it is knowing which customers are the most profitable and least profitable and responding appropriately, awareness of changes in the local market that might impact a bank's customer base, or an understanding of trends in bank technology that may require a bank to make strategic shifts to accommodate those changes. Establishing a culture of awareness is especially important in the areas of security and risk identification/risk management. Each of these areas are interrelated, and security awareness can be considered a component of risk management. Developing an enterprise-wide culture of awareness in these areas can result in an engaged Board of Directors, knowledgeable bank personnel, and connected customers.

Jason Corder is a Senior Vice President with Sawyers & Jacobs LLC, a consulting firm focused on serving financial institutions. Sawyers & Jacobs is an ACB Associate Member. Jason may be reached at 901-828-1942 or jcorder@sawyersjacobs.com.

Security awareness has been necessary since the dawn of banking. However, security risks are constantly changing, and the prolific and evolving threats from cybersecurity should continue to be a primary focus of bank management. The Federal Deposit Insurance Corporation (FDIC) noted in its *2022 Risk Review* that the operational risk from cyber threats and illicit activities is a "key risk to banks." The FDIC stated that "Operational risk in banking is one of the most critical risks to banks. Cyber attacks continue to evolve, become more sophisticated, and multiply as bad actors discover creative ways to exploit technological and operational vulnerabilities." Having a culture of awareness is a vital step in addressing information security and cybersecurity risks. Bank networks, systems, and levels of access should be configured in such a way that cybersecurity-related risks are minimized. Having a robust security awareness program works in a complementary way with technical controls and can supercharge a bank's ability to effectively prevent and respond to information security and cybersecurity threats.

A robust security awareness program typically has a few defining characteristics. The most important aspect of a security awareness program is a top-down emphasis from the Board of Directors and senior management. This means that management understands and prioritizes security. This results in adequate resources and training for those directly responsible for a bank's security and for bank personnel as a whole. Bank personnel will see that ongoing training and testing programs are prioritized activities rather than simply "check the box" activities. Outside expertise will be engaged as needed to conduct training and testing. Those occasions when employees' awareness is lacking (i.e., failing phishing tests or not shredding sensitive customer information) will be seen as opportunities for effective education rather than "name and shame" events. Employees can then be a part of the bank's frontline defenses in the same way that they are for customer service. Additionally, employees that are knowledgeable about security can be more effective in training a bank's customers on how to use bank products safely and securely.

At a broader level, having a culture of awareness concerning risk

Continued on Page 20

management is essential in a high-performing financial institution. Our firm facilitates risk assessments for enterprise risk, information security, cybersecurity, business continuity, digital banking, vendor management, and several other areas, and the purpose of these risk assessments is **awareness.** What assets (e.g., systems, information) does the bank have? What are the threats to those assets? What is the likelihood of those threats occurring? What is the magnitude of impact should threats occur? What are the mitigating controls to reduce the risk from those threats? What is the residual, or remaining, risk after considering the bank's controls?

Lastly, what is the bank's risk response? Knowing the answers to these questions and verifying that measured risk levels align with the Board of Directors' **clearly defined** and **clearly communicated** risk appetite results in an awareness of what actions need to be taken to maintain acceptable levels of risk. Such risks might be threats such as ransomware attacks or unauthorized access to bank systems, but it could also be risk to the Bank's reputation because the bank's online banking system is clunky or experiences frequent downtime. A culture of awareness results in the correct people being **promptly informed** when a risk is elevated and in **corrective action** to bring the risk back to acceptable levels.

One final thought: if you have a high-performing (and expensive) sports car, you will want a competent mechanic who specializes in keeping your make and model of car at a level of optimum performance. In the same way, having the right partner to provide expertise in reviewing the quality of the bank's oversight for the bank's systems, security, risk management, and awareness is incredibly important for maintaining the bank's level of high performance. As you work to identify that important strategic partner, consider factors other than price. For example, the vendor providing your IT audit should be someone you rely on to assess the state of your bank and make recommendations that help to make the bank better. While reasonable pricing is important, like engaging your bank's legal counsel this is not an area where it's wise to simply put the work out for bid and choose the low-cost provider; instead, bank-specific expertise, firm reputation, and experience should weigh heavily in your decision. And, ultimately, this helps the bank to have a stronger culture of awareness, which can lead to a higher-performing bank and a smoother ride across an increasingly competitive and uncertain landscape!

____

1 https://www.merriam-webster.com/dictionary/awareness

2 https://www.fdic.gov/analysis/risk-review/2022-risk-review/2022-risk-review-section-3.pdf

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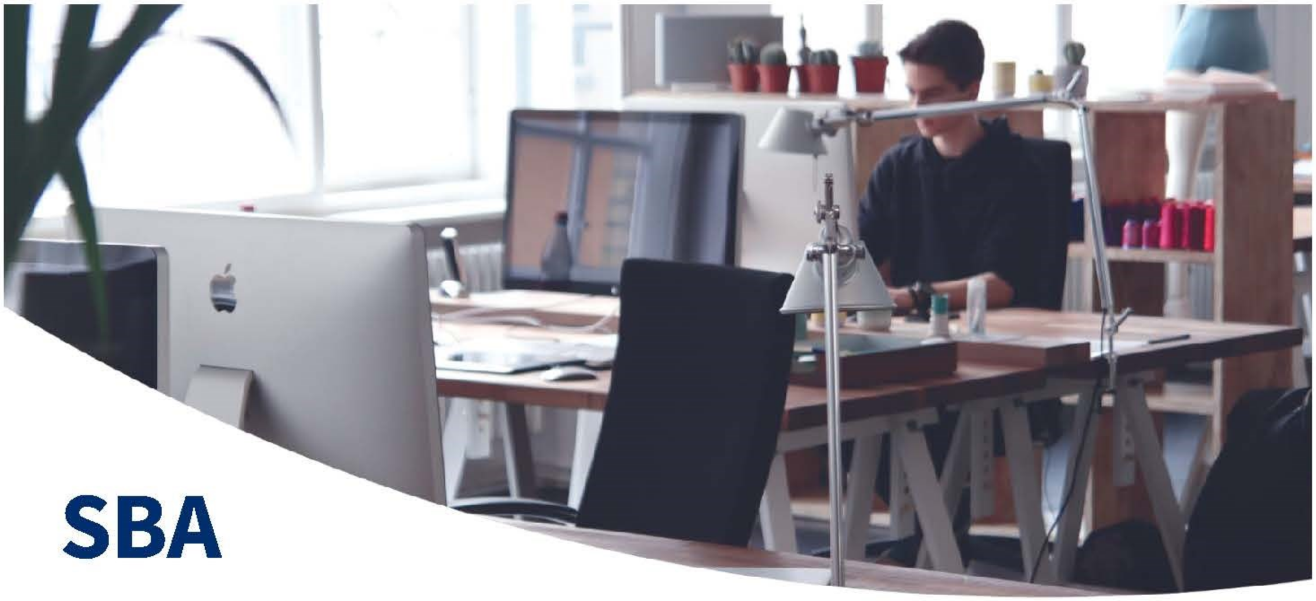

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Arkansas District Office

Are you there for your customers 100 Percent?

BY BRENT MELTON

Below is a potential real-life example of how a bad property description can affect your customers during their time of need. And how Community banks can help and more importantly - protect their valued customers each and every time they process a property loan.

An elderly farming couple went to their trusted local community bank to borrow $100,000 in order to purchase additional real estate that adjoined their existing family farm. The couple used their existing farm of 125 ac plus their family home – the home they one day hoped to leave to their children, as collateral. However, in the following weeks, one rainy Friday night, tragedy struck and the couple passed away before closing on the additional property. The couple had three children that inherited the property and now the debt. Within weeks of the parents' death one of the siblings also passed away leaving their three adult children as additional heirs.

Heart broken by the untimely loss of their parents; the children and grandchildren decided to sell the property as they felt they could no longer enjoy the farm without their parents present and to be able to satisfy the newly acquired debt. They started the process but soon learned that they really knew nothing about the property lines on the land they grew up on. They reached out to their parent's banker and soon had what they thought was their parents' property description, however a short time later issues started to mount. You see the neighbor, who also owned a large amount of farm land, was now claiming that he knew the property lines and claimed he had verbal agreements with their father as to where one property started and the neighboring property stopped. On top of that, they were told by the neighbor, that he never granted an access easement across his property to the house they grew up in. You see the banker took a closer look with the help of a surveyor and found numerous issues within the property description. The additional cost of the surveyor services, along with numerous other issues, proved more than the heirs were prepared for and they turned the entire process over to a lawyer, who with the help of the parents' banker attempted to straighten out the dispute. As the clock ticked, days turned into weeks, which then turned into months, and before the heirs knew it a year had passed by due to the difficulty in getting everyone together due to their personal schedules. During this year delay in the process, squatters moved into the house without their knowledge and the property was vandalized. The heirs had not changed the insurance to non-owner occupant therefore their insurance company did not pay off. Due to the extensive damage, the heirs had to pay $30,000 to a local contractor to attempt to get the house back to a marketable state. The icing on the cake was when they were back ready to finally sell the property – the market in the local area crashed and the value of the property depreciated. The heirs decided to cut their losses and sell the property at 70 percent of its original value.

Brent Melton is CEO and co-founder of Vizaline, LLC, a company specializing in converting property descriptions into pictures. Vizaline is an ACB Associate Member. You may connect with Brent at brent@vizaline.com.

This story is presented as a follow up to our summer article regarding RISK REDUCTION of PROPERTY DESCRIPTIONS. You may not have experienced all of the situations presented above all at one time, but there is a good chance that you have experienced at least one of them during your time in banking. If you caught our summer article you learned that there is a new trend in protecting assets by auditing the property descriptions that are part of your loan package. It is not a survey nor does it cost as much as a survey, but it does check all of the boxes, it is fast and it determines if a survey is warranted.

WHY – to not only protect the bank, but to protect the banks most valuable asset – the banks CUSTOMERS, all while keeping cost in mind. You see, had the bank in the story had a way to audit the property description of the purchase of the farm for the parents – none of the issues that the heirs experienced would have ever occurred. They would have had a high degree in confidence in the following areas within 48 hours of submission:

- They would have known the exact size and shape of the farm,
- They would have known if it was located in the right place,
- They would have known the polygons that made up the property closed,
- They would have known they had an access easement,
- They would have had a visualization (satellite image with the polygons approximate located on the image,
- They would have had piece of mind,
- They would not have been delayed in the sale,
- They would not have been vandalized,
- They most likely would not have lost value in the property due to a downturn in the local economy.

If you are the banker in this story or think that you could one day, be the banker in this story, I would like to encourage you to take the time and learn how this new trend in lending (Property Description Auditing) could help you and your bank protect not only the bank from a potential RISK – but also protect your CUSTOMERS. Over 20,000 audits have been conducted to date with a Property Description error discovery rate of 17 - 20 percent.

If you would like to learn more, Brent's contact information is listed above.


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Eundra Boles
Eundra Boles is the Vice President of Information Technology Services of Celerit Solutions Corporation. Eundra has over twenty-five years of expertise in keeping financial infrastructures up-to-date, safe and secure. He leads a team of seasoned technicians, providing around-the-clock protection to keep your network safe from the new and sophisticated cyber-threats faced today, while looking to the future for the next surfacing risk.
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• Have an open dialogue with our bank partners to prioritize their needs, not tied down to user groups
Solid History & Strategic Growth
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• President & CEO's father founded Systematics in 1968
• Recognized as the 2nd Best Place to Work in FinTech by American Banker in 2021
• Bank partners located from coast to coast
Product Features
• Vertically integrated solution that includes core processing, general ledger, teller system, digital banking for consumer & commercial, item processing, document images, robust reporting and much more
• Allows for better access to information, more simple business processes and a more secure product
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Total Hours: 43

Exam at week's end:
*Home Study Problem **Case Study

Year Two

Asset/Liability Management
Bank Performance Mgmt***
Banking Industry Update
Commercial Lending***
Economic Environ. of Banking* **
Investment Portfolio Management
Emotional Intelligence***
Strategic Planning

Total Hours: 43

Exam at week's end:
*Home Study Problem
**Case Study

Year Three

Balance Sheet Management
Loan Portfolio Management
Risk Management
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FLOURISH

Cryptocurrency: a solution without a problem - "As a financial services industry, we can't fall victim to shiny object syndrome."

REBECA ROMERO RAINEY

ICBA President and CEO.
rebeca.romerorainey@icba.org

ACB is the ICBA Arkansas state affiliate.

In today's environment, we hear a lot of hype about different technologies. That buzz leads to oversaturation, which can leave us questioning, "Am I missing something?" when we don't feed into the frenzy.

When it comes to cryptocurrency, this is certainly the case. I'm frequently asked in interviews about ICBA's thoughts on cryptocurrency, inclusive of stablecoins and central bank digital currency (CBDC), and I typically respond by asking, "What problem are we trying to solve with it?" That will often leave the interviewer stumbling for a response because the answer is truly unclear.

While we have heard a wide range of rationale, those concepts don't seem founded in need as much as in justification. Here are three that easily spring to mind:

1. The claim that it will provide support for global payments is particularly baffling. With a currently unregulated entity, global collaboration and compliance standardization will be essential to ensure that transactions remain safe, secure and legitimate. In short, it'll take a mountain of global collaboration to make that possibility realistic.
2. The thought that cryptocurrency will enable faster payments is equally troubling. Instant payments platforms are already available in the U.S.—you can't get much faster than that.
3. The concept of a payments system that's completely anonymous and frictionless is another point of contention. That anonymity easily can lead (and has led) to illicit payments, so it may not be what it's cracked up to be.

Whether it's nonbank payment providers like PayPal, states that want to issue their own stablecoins, CBDC or a piece of legislation trying to create a regulatory framework, this is a space to keep a handle on. Know that ICBA is observing and advocating on your behalf.

As a financial services industry, we can't fall victim to shiny object syndrome; we need to keep peeling back the onion to determine what we are solving for, and from ICBA's perspective, how that can be done in a way that works with and for community banks.

With emerging technology, knowledge is power, which is why we're offering ongoing opportunities to stay in the know on cryptocurrency's evolution. We encourage you to remain up to speed on developments, whether through digital asset courses with Community Banker University (CBU) or our payment team's online analysis. We will keep providing information that helps you know how cryptocurrency is living up to the hype—or, more than likely, not.

On a personal note, I wanted to thank all of you for being part of this collective community bank journey; we couldn't do it without you. Have a wonderful Thanksgiving holiday, and please take time to celebrate all you do for your communities. I know they are, as are we, grateful for you.

Independent Community Bankers of America®

Where I'll be this month
I'll be spending time in our new Atlanta office and kicking off a round of meetings with executives from core service providers, continuing to advocate for community bank needs in this space.

Congratulations to ACB's leadership bankers!

Elected as President is **John Beller**, Bank of Cave City; Vice President is **Kyle Baltz**, RiverBank Pocahontas; Treasurer is **Ed Wilkinson**, Farmers Bank, Greenwood; and Secretary is **Marty Sellars**, FNBC Bank, Ash Flat.

Newly elected Directors are: **Rebekah Bernacki**, First Financial Bank, El Dorado; **Landi Mkhize**, Chambers Bank, Danville; **Michelle Reesor**, First Community Bank, Batesville; and **David Scruggs**, Today's Bank, Fayetteville.

Current Directors re-elected for an additional term are: **Casey Cullipher**, RiverWind Bank, Searcy; **Jim Gowen, Jr.**, Merchants and Planters Bank, Newport; **Craig Manatt**, Peoples Bank, Sheridan; and **Gary Oltmann**, Southern Bancorp Bank, Stuttgart.

Re-elected to serve as the ACB *Preferred Services Provider* Representative is **Byron Earnheart**, Barret School of Banking, Memphis, TN.

Officers (L-R): John Beller; Kyle Baltz; Ed Wilkinson; Marty Sellars

New Directors (L-R): Rebekah Bernacki; Landi Mkhize; Michelle Reesor; David Scruggs

Re-elected Directors (L-R): Casey Cullipher; Jim Gowen, Jr.; Craig Manatt; Gary Oltmann; Byron Earnheart

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President & CEO,
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Through Arkansas Capital's 2ND LOOK LOAN ANALYSIS, we provide your difficult-to-fund small business customers an independent and comprehensive review of their new money or restructuring requests.

WHY ALLOW US TO TAKE A 2ND LOOK?

An independent second look based on the SBA and USDA eligibility requirements may identify creditworthy small businesses that would not otherwise be able to access the desired credit.

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How to Budget in Uncertain Times

BY PHILIP K. SMITH and CHARLES PLUNKETT

During the Coronavirus outbreak, we received a question from a Board Chair that essentially asked the question, what good is the budget? The Board Chair's comment was that the budget had obviously been developed well in advance of Coronavirus concerns and, therefore, all of the anticipated revenue structures from traditional lending and investment activities are clearly not going to unfold the way it was expected. Similarly, the overall expense structure may have changed significantly. We think this is a good topic to reexamine in light of the uncertain environment that has followed Coronavirus. So, is the budget worthless?

In this Bank's situation, and in many of the situations of our clients, the budget is often of vital importance because executive compensation may be tied to benchmarks in the budget. If you are a senior loan officer trying to ensure that total loan production in a particular targeted area exceeds budget by a certain percentage in order to achieve your incentive compensation goals, has that now, in essence, become a disincentive because you realize there is no way you are going to meet that this year? Should we, alternatively, simply modify the budget to meet the current conditions? How do we address unknown situations in the future?

We generally do not favor modifying the budget. It is what it is. Even if the environment changes substantially, it is important then to be able to measure the extent of the change in the environment compared to what your expectations originally were as reflected in your budget. You might find it helpful to see the level of variance in loan production of key officers or in key loan categories. You might want to see where additional expenses increased or, perhaps even more importantly, the areas where you were able to save some operational expenses which produce a recognition of new areas of greater efficiency within your organization once things returned to normal.

Philip Smith is Chairman & CEO of Gerrish Smith Tuck, Consultants and Attorneys an ACB Associate Member. You may connect with Philip at (901) 767-0900 or psmith@gerrish.com.

Furthermore, in light of the concerns of your officers, or based on some other element of your compensation structure, it may make sense to make a one-time exception to your incentive compensation plan that recognizes the uniqueness of rapidly rising rates or the necessity to shrink the overall asset size of the organization due to capital constraints. Management might still be entitled to some type of incentive compensation at the end of the year or at least the right to earn additional compensation through their hard work and dedication during the realignment. The Board may find it necessary that payment is deferred a year until the bank can assure itself of its financial stability.

Charles Plunkett is an attorney with Gerrish Smith Tuck, an ACB Associate Member. You may connect with Charles at (901) 767-0900 or cplunkett@gerrish.com.

If an officer or other employee receives compensation based on performance, there is a delicate balance of determining how to properly incentivize cutting back on production or realigning targets to new lines of business with encouraging continued performance. During this period, the Board must emphasize the importance of maintaining the viability of the organization into the future.

As many of our clients found following the initial Coronavirus outbreak, and will likely recognize following the current period of uncertainty, the bottom-line is that there are still good uses for your budget in unique times, as long as the Board recognizes that holding management accountable to the old performance metrics that were established in a different time and place may not be an appropriate "measuring stick" for the current operating environment.

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Deepen relationships with customers and stay top of mind with always-on, multichannel loan offers at their fingertips. Be in front of your customers consistently by providing:

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> **60% of loan shoppers will commit to a loan within a week of a credit bureau inquiry.** [2]

[1] Vericast 2022 Financial Services TrendWatch
[2] Vericast client data

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The great digital strategy reset

BY CHARLES POTTS

Digital first. How many times have community banks heard that refrain over the past few years? It's been a repetitive beat in an ongoing banking evolution, and with it comes ever-increasing pressures on the technology stack.

In today's landscape, we're facing a need to balance budgetary requirements with rapidly advancing technological demands. It can make the next right strategic steps uncertain for your community bank. Where do you draw the line on investment versus revenue?

To answer that question, start by evaluating where your community bank is now. Identify your strengths and where pitfalls may lie. In today's environment in particular, ask yourself:

Where are the gaps with my current customers?
Start with good data analytics to gain a line of sight into customer behaviors. Companies like ThinkTECH alum and data analytics provider KlariVis can help establish what's going on in your bank and with your customers to help prioritize next steps.

What am I doing to evaluate my deposit strategy in this deposit-gathering market?
Did your gap analysis reveal deposit leakage? If so, how can you address it? You can apply that knowledge to your current base as well as new targets. Solutions from companies like ThinkTECH cohort participant Micronotes can help you execute on loan, deposit and retention opportunities using data.

Do I have the right tools in place to protect my bank?
With the emphasis on digital solutions, are you also ensuring you have adequate safeguards? Put solutions in place that support risk mitigation around digital development. ThinkTECH participants like Fraud.net can help with proactive fraud mitigation.

Charles Potts is Executive Vice President and Chief Innovation Officer at ICBA. ACB is the ICBA state affiliate. Charles can be reached at charles.potts@icba.org

While these questions just scratch the surface of digital considerations for community banks, they offer a framework to begin evaluating what matters most to your institution. Given all you have experienced this year, and no matter where you are on your digital journey, it's totally appropriate to reevaluate your strategies and refine them for the next phase of digital evolution.

The solutions ICBA has curated through the ThinkTECH program have been chosen with that in mind. Our goal is to serve as your trusted advisor throughout your digital transformation. So, as you look toward 2024, reach out to us to work through these and other key questions. We want to ensure you have the right partners in place to lead your march toward the future of banking.

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The *Arkansas Community Banker* is published quarterly and read by over 2,500 community bank directors, CEO's, presidents and other key management personnel in every community bank and thrift in Arkansas. Other reader groups include ACB Associate Members and *Preferred Solutions Providers*, as well as governmental and regulatory officials at the state and national levels. Each issue of the *Arkansas Community Banker* is filled with leading edge information that has a bearing on Arkansas' banking and financial services industry environment. The electronic format allows readers to archive issues of *the Arkansas Community Banker* for training purposes as well as future reference.

The Thriving HSA Opportunity for Banks

And How to Stay Ahead of the Competition

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The rapid growth of the Health Savings Account (HSA) market is difficult to ignore. Total HSA assets saw a **25% year-over-year increase** in 2020 and are projected to **exceed $100 billion** in 2022. This presents a unique opportunity for banks looking to differentiate and grow their footprint, without diverting their limited resources to build or administer an HSA offering.

Industry momentum shows no sign of slowing

No other savings vehicle can match the HSA's triple-tax advantages for long-term healthcare and retirement needs. As healthcare costs continue to rise, employers are increasingly offering HSAs to balance employee wellness and the bottom line. This trend underscores the potential for banks beyond just retail business.

63MM AMERICANS ARE COVERED BY APPROXIMATELY 30 MILLION HSAs

54% OF ALL HSAs HAVE BEEN OPENED IN THE LAST 3 YEARS

62% OF ALL ELIGIBLE EMPLOYEES HAVE ACCESS TO HSAs THROUGH THEIR EMPLOYER-SPONSORED PLAN

$2,728 AVERAGE HSA ACCOUNT BALANCE INCREASED 51% IN THE PAST 5 YEARS

Optimized HSA experience drives maximum returns

Like any financial account, simply providing access to HSAs is not enough. Modern HSA providers, such as Lively, pair proprietary technology with user-centric design, all backed by dedicated support and personalized education. The result is significantly higher engagement and contributions compared to the rest of the industry.

$5,704 AVERAGE LIVELY HSA ACCOUNT BALANCE IS MORE THAN DOUBLE THE INDUSTRY AVERAGE

57% LIVELY HSA 2020 CONTRIBUTIONS WERE CARRIED INTO 2021, COMPARED TO 28% INDUSTRY AVERAGE

+37% LIVELY ACCOUNT HOLDERS CONTRIBUTE MORE TO THEIR HSAs THAN THE INDUSTRY AVERAGE

73 AVERAGE LIVELY NPS INDICATES HIGH LEVEL OF ACCOUNT HOLDER SATISFACTION WITH THEIR HSAs

Find out how Lively's turnkey HSA solutions can enhance your bank's offerings.

Sources: [1] Devenir Research. "2020 Year-End HSA Market Statistics & Trends." March 2021. [2] Devenir Research. "2020 Devenir & HSA Council Demographic Survey." June 2021.